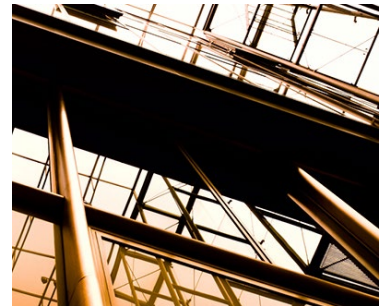


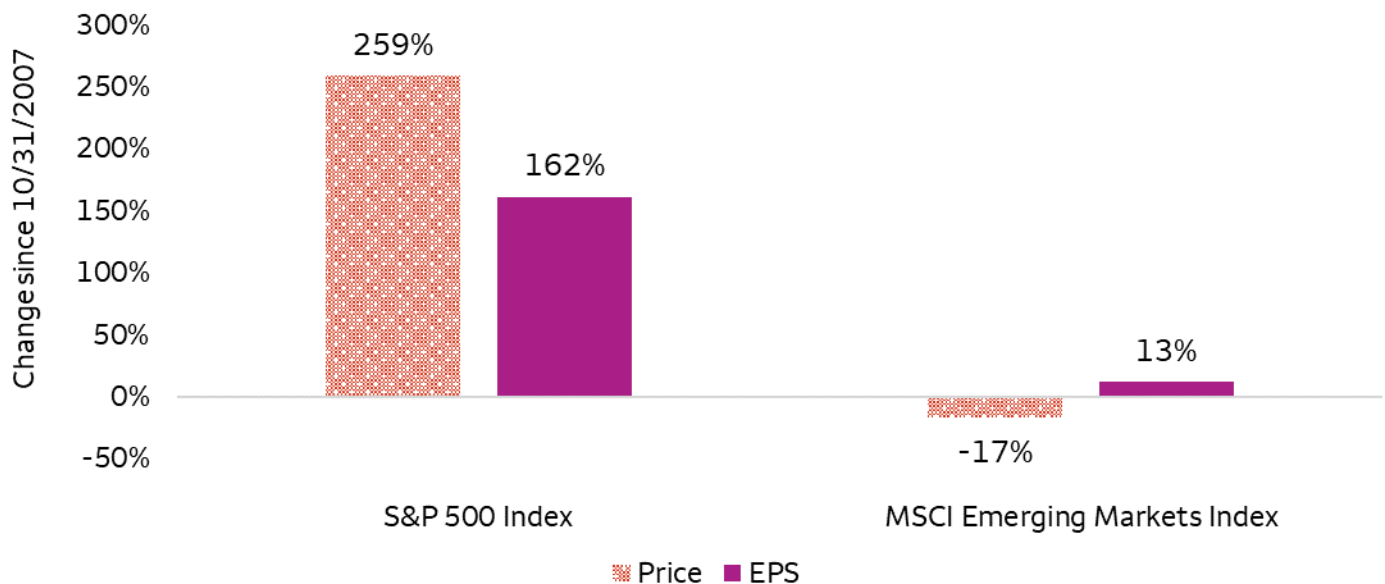
Chart of the Week



Weekly analysis of key themes in markets

June 3, 2025

A sustainable Emerging Markets rally? We are skeptical



Sources: Bloomberg and Wells Fargo Investment Institute. Monthly data: October 31, 2007 – April 30, 2025. EPS = trailing 12-month earnings per share. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Despite recent outperformance, long-term Emerging Markets (EM) Equities track record uninspiring

Amid the tariff noise and uncertainty, the EM Equities benchmark — the MSCI Emerging Markets Index — has outperformed the S&P 500 Index, gaining 8.2% year to date compared to 0.1% for the S&P 500 Index (as of May 28). Is this the start of sustained EM outperformance? We are skeptical.

As the chart above shows, EM earnings have barely budged since 2007, and index levels remain roughly 15% below their pre-global financial crisis highs. These figures stand in stark contrast to the S&P 500 Index, which has delivered impressive earnings growth and returns over the same period. Meanwhile, a study of volatility reveals that EM experienced nearly triple the number of bear markets — defined as drops of 20% or more — during this time.

What it may mean for investors

We believe the EM sentiment pendulum has swung too far positive and expect an investor reawakening to the structural issues that have historically restrained these markets. For investors whose allocation to EM Equities has crept above recommended portfolio weights, we believe the recent outperformance has provided an opportunity to trim exposure. Within equities, we favor reallocating to U.S. Large Cap, U.S. Mid Cap, or Developed Market ex-U.S. Equities.

Austin Pickle, CFA; Investment Strategy Analyst

Excerpted from Investment Strategy report (May 19)

Investment and Insurance Products: ➤ NOT FDIC Insured ➤ NO Bank Guarantee ➤ MAY Lose Value

Risk Considerations

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. **Foreign investing** has additional risks including those associated with currency fluctuation, political and economic instability, and different accounting standards. These risks are heightened in emerging markets. **Mid-cap stocks** are generally more volatile, subject to greater risks and are less liquid than large company stocks.

Definitions

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the U.S. stock market.

An index is unmanaged and not available for direct investment.

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