STANDARD &POOR'S

Market *Alert*

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Emerging Markets - Are the Opportunities Worth the Risks?

While U.S. stocks have made healthy gains since last year's crushing losses - the S&P 500 is up 27.6% year-to-date from its low in 2008 and has rebounded 49.4% off its March 2009 low), a more dramatic story of recovery and growth has been taking place outside the United States, in the economies and stock markets of the developing world - particularly in countries such as China, Brazil, and India.[1]

These so-called "emerging markets" have outpaced both U.S. stocks and the stocks of developed international countries by a country mile thus far this year (see chart below), and market strategists agree emerging market stocks represent one of the best opportunities to tap into the global economic recovery.

Recent Performance
Emerging Markets, U. S. Stocks & the Developed World

(As of August 31, 2009)[2]

	YTD	1-Year	5-Year
MSCI Emerging Market Index	51.1%	-9.7%	17.0%
S&P 500 Index	15.0%	-18.3%	0.5%
MSCI EAFE Index (developed countries)	24.8%	-14.5%	6.3%

As impressive as their outperformance has been, emerging market equities have long been considered among the most volatile of asset classes. As an example, between October 31, 2007, and March 9, 2009, the stocks of China and India fell 70.1% and 64.8% respectively.[2] Clearly the opportunity presented by emerging markets is a double-edged proposition. The question for each investor to assess is: Do the opportunities outweigh the risks?

Emerging Markets - The Big Picture

Emerging markets are developing countries that are experiencing rapid economic growth and whose populations are experiencing a significant (and rapid) increase in income and living standards.

Today, emerging markets make up about one-fifth of the world's market capitalization outside of the United States. Index provider Morgan Stanley Capital International's Emerging Markets Index tracks 22 countries, just seven of which - China, Brazil, South Korea, Taiwan, South Africa, India, and Russia - claim nearly 80% of the market capitalization of the index.

Historically, emerging market stocks (as well as stocks from developed international markets) have been used as portfolio diversifiers due to their low correlation to U.S. stocks over long investing periods. Correlation is a measure of the sensitivity of returns between different types of investments. For diversification purposes, lower correlations are preferred. The table below shows these regional correlations for the past two decades.

Regional Differences in Correlation[3]

(January 1998 through August 31, 2009)

United States	S&P 500 1.00
Developed World	MSCI EAFE 0.57
Emerging Markets	MSCI EM 0.09

The Current and Future Opportunity

Convergent factors affecting emerging markets place them in a favorable light today, and also bode well for the long-term.

Vast portions of the populations of developing nations are migrating out of poverty into the emerging global middle class. These new consumers are creating domestic demand for products at a time when export demand has weakened. This momentum could surely help drive future economic growth.

In a broader context, as global trade expands and world economies become more interdependent, more and more of the world's business will be conducted outside of the United States. This will create an ever-expanding pool of stock opportunities for investors who choose to diversify overseas.

How to Invest

The best way for individuals to efficiently invest in emerging markets is through a mutual fund or exchange-traded fund. Such funds invest in a range of markets around the world or in a specific country or region. It is important to reiterate that emerging markets in general tend to be volatile and are therefore considered among the riskiest of investments. Potential investors are advised to reduce their exposure to risk through diversification among many different markets, and to maintain a long-term view.

[1]*Investors in international and emerging market securities are sometimes subject to higher taxation and higher currency risk, as well as less liquidity compared with investors in domestic securities. Past performance does not guarantee future results. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.*

[2]*Sources: Standard & Poor's, Morgan Stanley Capital International (MSCI), Barclays Capital, Federal Reserve. Based on monthly total returns. Foreign and foreign-developed stocks represented by the MSCI EAFE Index. Emerging markets represented by the MSCI Emerging Markets Index. U.S. Stocks represented by the S&P 500 Index. (Prior to November 2008, the Barclays indexes were compiled by Lehman Brothers.) It is not possible to invest in an index. Past performance is not a guarantee of future results.*

[3]*Sources: Morgan Stanley Capital International; Standard & Poor's. Based on 36-month returns.*