



2024 is a year of known unknowns - that much is known. With an estimated 40-plus countries holding national elections, (equivalent to over 40% of the world's population), the path is clear, the destination however less so. This creates uncertainty, but that equates to both risk and opportunity, an attractive starting place for a selective bottom-up value investor.

While we are unapologetically bottom-up investors, we humbly note three relevant known-knowns that might help bring clarity to an otherwise unruly outlook:

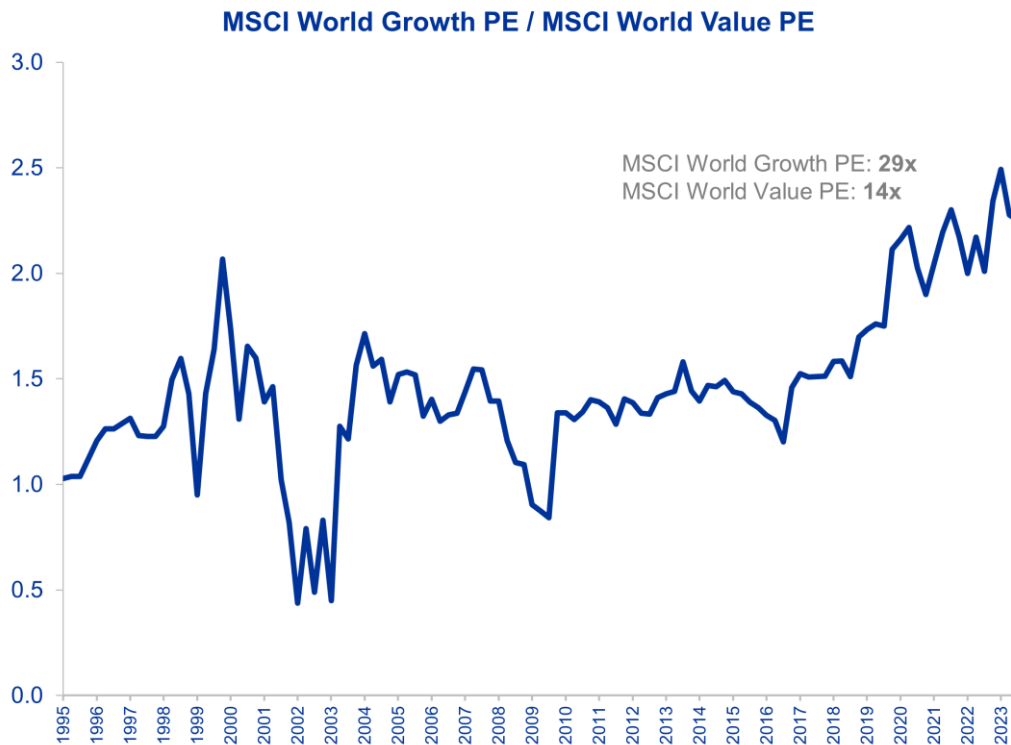
Embrace uncertainty

The first known is that on average markets perform better in the 12 months subsequent to an election than they do in the 12 months leading up to it. This is of course a broad generalisation, but is evidenced in studies analysing data going back over 200 years. This can seem counterintuitive given the policy treats often dangled by officials during an election year, but does reflect the extent that investors tend to overly conflate uncertainty with risk, and become detached from fundamental risk/return analysis. This form of cognitive dissonance can be the case even when a preferred market-friendly candidate is not elected. For example, the May 2023 election of Turkish President Erdoğan who by any objective standard has repeatedly squandered his country's economic potential with bad policy. Upon his re-election however, despite it being a deeply unfavoured outcome by investors, the market has been one of the best performers in the subsequent months since.

This is pertinent, as 2024 is going to be a major general election year across a number of key emerging markets – namely: Taiwan, Indonesia, India, Mexico and Russia. The extent that businesses are affected by an election within the economy that they operate will vary, however in nearly each case the election will be a factor driving market sentiment during the election period.

The power of value investing

The second known is that value is cheap, really cheap. This is a result of severe underperformance across most of the past decade, consequently bifurcating the market and dispersing valuation well beyond historic means. The dichotomy of opportunity and risk this has created is clear, when it will pivot and turn, less so. What we do know is that studies evidence that using a value approach has historically performed ahead of the market across a market cycle. This has been a consistent feature to capital markets, across both time and geography.



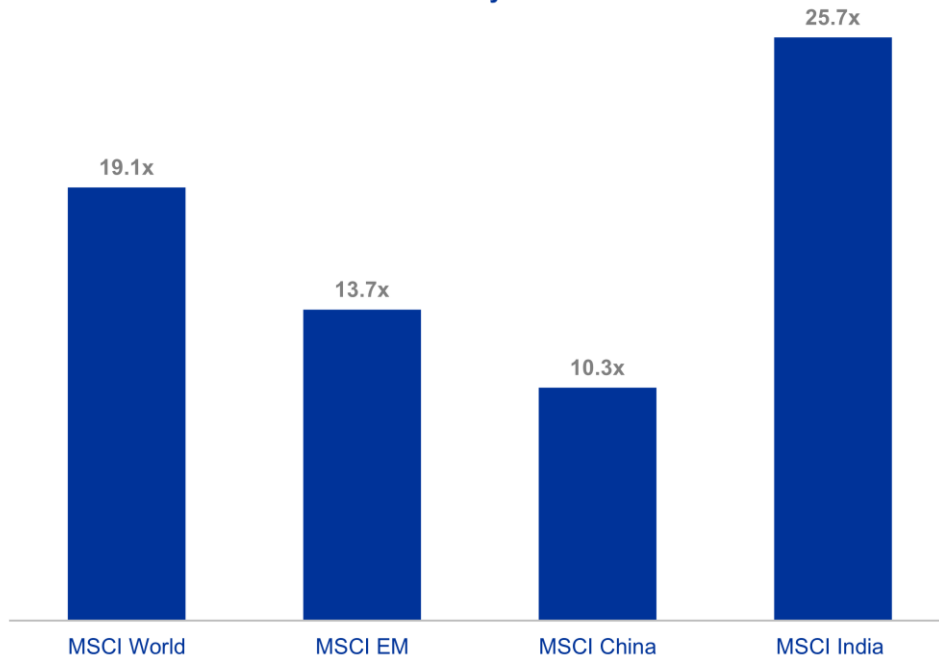
Source: Bloomberg. Date: as at 19th December 2023.

The counter argument is that this time is different – that value will not work through the cycle. Growth investors for example argue that growth companies can ‘grow’ into a lower multiple, and that technology has disrupted many traditional markets beyond recognition. There is truth to both these points. This however has also been a feature of past cycles – technological progress is nothing new, albeit with the rate-of-change arguably rising. The reason why value has historically performed ahead, is that investing should be about numbers over narrative. Indeed, while that likely means investing in less exciting businesses, and the strategy will likely lag during periods of excess exuberance, the outcome is that there is fundamental anchor to drive long-term investor returns through the market cycle.

The Emerging Market discount

The third known is that Emerging Markets are particularly cheap, be it compared to its own history or relative to developed markets. Beyond the headline here however, there are many moving parts – the key one being the barbell between high valuations in India, and low valuations in China.

2023 PE – by market



Source: Bloomberg. Date: as at 19th December 2023.

The variables at this point become far more complex, including both transitional and structural factors. Much of the weakness in China for example, has been grounded around legitimate geopolitical and economic concerns, and we share the markets hesitancy with becoming overexposed. Against that backdrop however, there are names that could multiply in value should China hold the course. India is the converse, with several core tailwinds blowing in its favour and some great businesses. The great investment opportunities however are far fewer, with the numbers simply not squaring for many firms valuation, a market feature likely aggravated by the dominance of retail investors within the market.

None of these three “knowns” means that the outcomes in 2024 are certain, far from it, they should however help stack the stakes in ones favour over time, especially if combined with a disciplined investment process. This should not be controversial, but it is all too easily forgotten in the feast-to-famine chaos of modern markets. 2024 may well therefore be a year where the market noise rises, but above the confusion, we continue to identify what we believe are some of the most deeply undervalued opportunities of any asset class.

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The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not necessarily a guide to future performance

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