2) Value spread is more nuanced through the EM non-financial universe.

The valuation spread is far more varied across the non-financial sectors (Figure 17). Energy is the most obvious example of a cheap EM sector relative to returns compared with DM, while Consumer Discretionary, IT and Telcos also look better value. In contrast both Healthcare and Consumer Staples look better in DM whilst Industrials and Materials are relatively even, although EM is a little cheaper in both cases.

Figure 17: EM versus DM by sector – P/BV (x) and RoE (%)

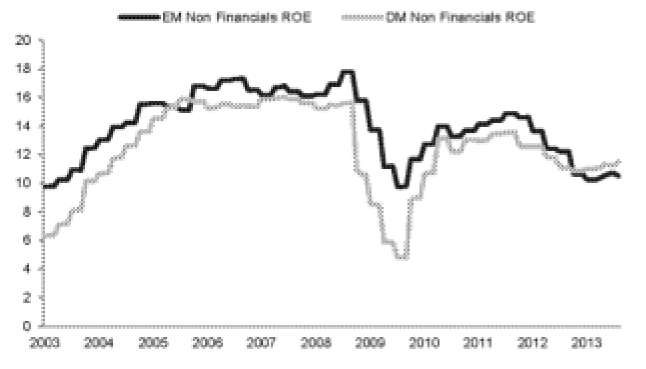
Sector	EM P/BV (x)	EM ROE (%)	DM P/BV (x)	DM ROE (%)
Financials	1.46	13.82	1.25	8.16
Energy	0.94	12.97	1.72	12.98
Materials	1.35	7.64	1.93	9.28
Consumer Discretionary	2.24	15.42	2.94	15.46
Consumer Staples	3.82	14.31	3.63	19.33
Industrials	1.47	7.33	2.55	13.51
Utilities	1.06	5.96	1.47	8.05
Telco	2.39	16.75	2.24	11.74
Information Technology	2.08	17.17	3.19	17.32
Healthcare	3.90	12.15	3.54	16.84
AGGREGATE	1.59	12.76	2.10	12.00

Source: Deutsche Bank, Bloomberg Finance LP

3) DM ROE in non-financials sector is now better than EM as aggregate margins have converged.

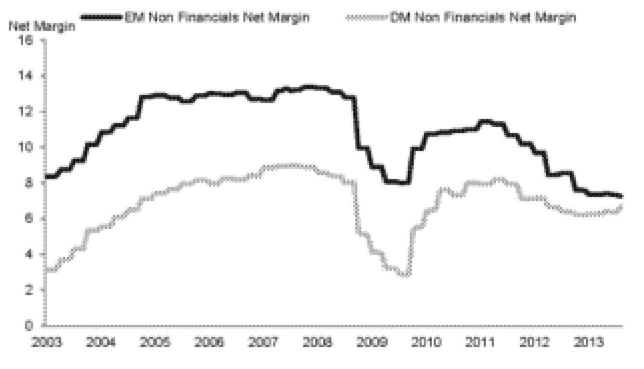
A straightforward side-by-side comparison of the DuPont decomposition of the non-financial sectors in DM and EM reveals that the marginal shift of ROE in favour of DM which has taken place over recent years (Figure 18) is mainly due to the almost continual convergence of margins with EM (Figure 19). Whilst leverage has made on increasing contribution to EM returns (Figure 20), it remains lower than in DM, whilst asset turnover has been volatile on a gently rising trend (Figure 21).

Figure 18: EM vs DM non-financials – ROE (%)



Source: Deutsche Bank, Bloomberg Finance LP

Figure 19: EM vs DM non-financials – Net margin (%)



Source: Deutsche Bank, Bloomberg Finance LP