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Markets can be defined by stage of development

Developed markets

Countries with large financial markets, stable governments, robust legal systems, strong regulatory agencies, and reliable financial reporting that can help mitigate the risks associated with foreign investing.

Emerging markets

Countries with fast-growing financial markets where transparency and market regulations are increasing; they include a large share of state-owned companies and a less-diversified set of industries than developed markets.

Frontier markets

Countries with markets featuring low trading volumes, highly concentrated industries, political and social risks, limitations on foreign ownership, and a large share of state-owned companies.

Criteria used to define markets

There are many ways to classify the countries of the world. Investors generally consider a country's financial markets in terms of:

- Market size
- Ease of trading
- Reliability of prices
- Liquidity
- Ease of capital flows
- Enforceability of contracts
- Government regulations
- Political environment

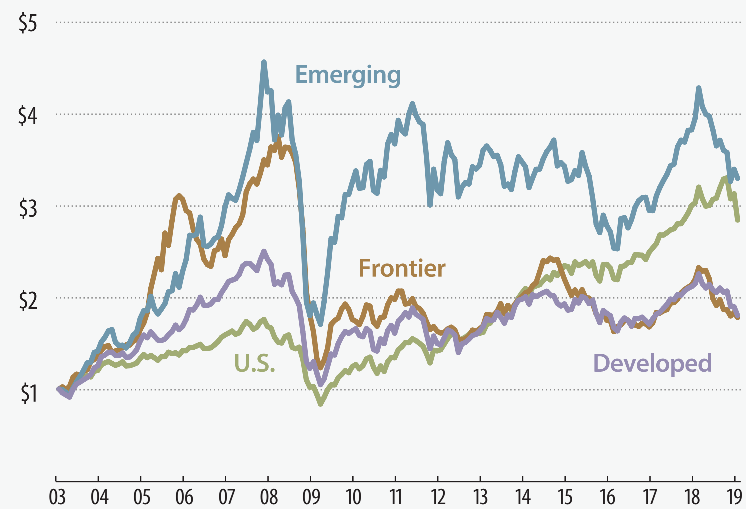
How are Developed, Emerging, and Frontier Markets different?

Key takeaways

- Understanding the types of international markets can help investors begin to invest better in these markets
- Investments outside the U.S. may provide opportunities that arise from fast-growing economies and markets
- Investing internationally can help diversify a portfolio by adding assets that have risk-and-return patterns different from U.S. investments
- International investments carry risks that investors need to consider

International investments provide the potential for higher returns

Growth of a dollar in the world's equity markets (Jan. 2003 – Jan. 2019)



Developed markets are represented by the MSCI EAFE Index; Emerging markets are represented by the MSCI Emerging Market Index; Frontier markets are represented by the MSCI Frontier Markets Index; the U.S. market is represented by the S&P 500 Index. Index returns do not represent investment performance or the results of actual trading. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

Source: Bloomberg, Wells Fargo Investment Institute. As of January 1, 2019.

Foreign securities can plan a role in your investment strategy

Investor objective	Example
Income	Foreign developed-market companies currently pay yields comparable to U.S. companies[1]
Growth-oriented	Favorable demographics and improving government policies have improved investment opportunities in emerging markets
Long-term appreciation	Investors with a long time horizon may want to "get in on the ground floor" of the frontier growth story that has seen significant appreciation in asset prices in recent years

[1] Outside the U.S., the attitude toward dividends is different. Companies in the U.S. generally pay dividends quarterly and are less likely to cut their dividends. Foreign companies normally pay dividends semiannually or annually. Dividends are only one consideration when investing and high dividend yields tend to be unsustainable. Dividends are not guaranteed and are subject to change or elimination.

Source: Wells Fargo Investment Institute

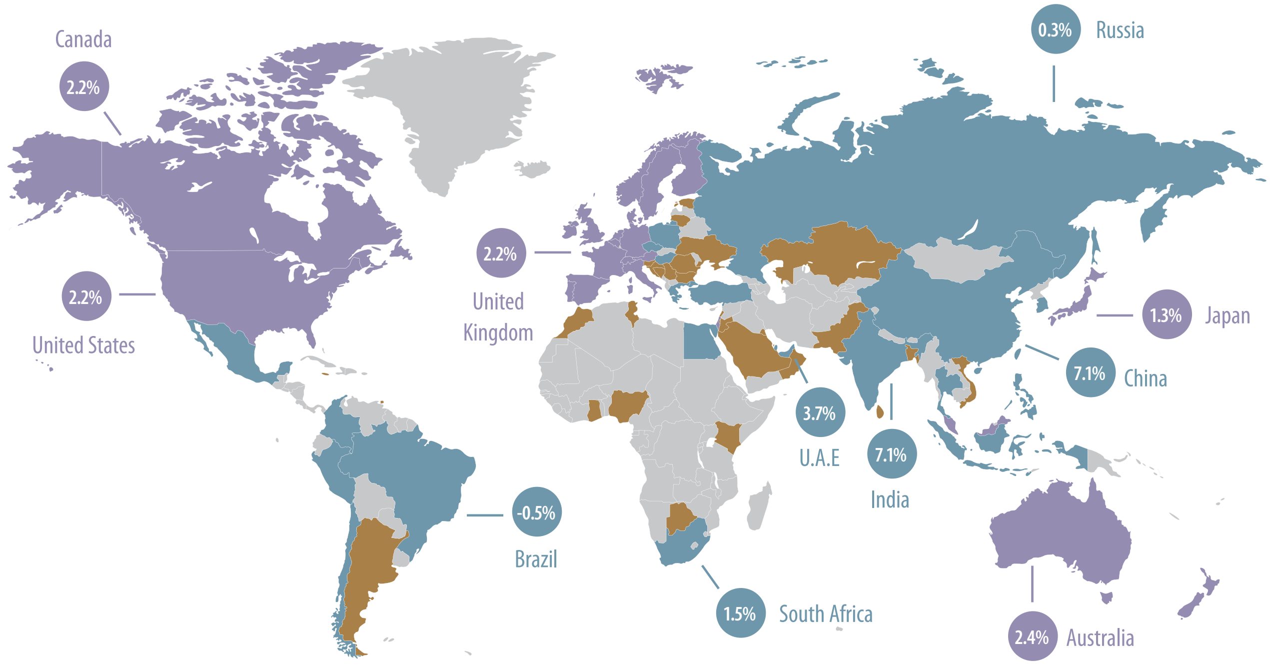
A global view of developed, emerging, and frontier markets

Out of 195 countries, MSCI Inc. considers 76 investible and divides the investment universe into three categories: developed, emerging and frontier. A country might have an emerging stock market and a developed bond market due to the maturity and size of these markets. Countries may move from one classification to another as they evolve.

This image highlights average 5-year gross domestic product growth (GDP) rates from 2013–2017 for different countries. Because GDP measures a nation's total output, it can provide a snapshot of a country's economic condition. GDP growth in developed countries has, on average, been lower in recent years; other countries have experienced greater growth.

Global growth by region

Five-year average annual GDP growth rate, 2013–2017



Source: International Monetary Fund (IMF), World Economic Outlook Database. As of October 2018.

	Developed equity markets	Emerging equity markets	Frontier equity markets
North America	Canada, United States	Mexico	
South America		Brazil, Chile, Columbia, Peru	Argentina
Middle East and Africa	Israel	Egypt, Qatar, South Africa, United Arab Emirates	Bahrain, Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Jordan, Kenya, Kuwait, Lebanon, Mali, Mauritius, Morocco, Niger, Nigeria, Oman, Senegal, Togo, Tunisia
Europe	Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom	Czech Republic, Greece, Hungary, Poland, Russia, Turkey	Croatia, Estonia, Lithuania, Romania, Serbia, Slovenia
Asia and Pacific	Australia, Hong Kong, Japan, New Zealand, Singapore	China, India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Taiwan, Thailand	Bangladesh, Kazakhstan, Sri Lanka, Vietnam

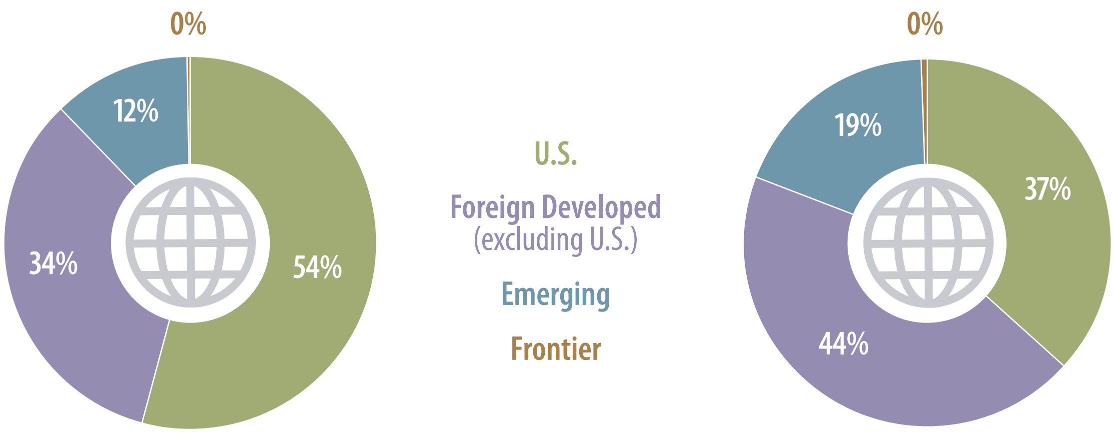
Source: MSCI Inc. As of December 31, 2018.

Why invest internationally?

Foreign markets offer potential opportunities for investors

Global equity market value

Global bond market value



Source: MSCI; Bank for International Settlement. Global equity market value as of December 31, 2018, Global bond market value as of June 30, 2018.

Opportunities

Diversification: Because international investment returns can move in a different direction than U.S. market returns, investing internationally could help mitigate some of the risks associated with a U.S.-based portfolio. With a portfolio that includes domestic and foreign stocks, investors could potentially reduce the risk of losing money if U.S. markets decline.

Just like the adage about not putting all of your eggs in one basket, investing overseas may spread your portfolio's risk. By diversifying internationally, investors are not invested in one type of security in a single region or subject to the performance of one asset class.

Growth: Investing internationally also allows investors to pursue potential investment opportunities that arise from fast-growing economies and markets whose currencies are appreciating against the dollar. Financial involvement in other markets also means looking into the currencies of different nations. By diversifying the currencies invested in, the investor may be hedging against potential dips in the U.S. dollar.

Risks

Political: Many parts of the world are undergoing immense changes, including the Middle East, parts of Asia, and Latin America. Some countries within these regions are not only new to capitalism, they are also new to democracy and the rights of workers as well as investors.

Information: Foreign countries have different standards on the flow of company information that is important to investors. Accounting standards differ, and disclosure rules may not provide the transparency that U.S. investors are used to. When investing in a country or region where the dissemination of information is curtailed by a political, military, or cultural leader, investors may want to proceed with caution.

Currency/liquidity: Different parts of the globe experience trouble with their currencies as a result of events investors can't foresee or control. Investing overseas requires closely following news and trends from various regions and keeping a keen eye on potential currency fluctuations. Investors may have to pay premium prices to buy a foreign security and may have difficulty finding a buyer when they want to sell.

Other characteristics

Developed equity markets	Emerging equity markets	Frontier equity markets
▶ Strong multi-national companies	▶ Increasing urbanization	▶ Developing political and legal systems
▶ Educated workforce	▶ Young and growing populations	▶ Young and growing populations
▶ Technological and innovation leadership	▶ Improving infastructures	▶ Low labor and production costs
▶ Robust financial markets	▶ Diversifying economies	▶ Rich in natural resources
▶ High income per capita	▶ Low levels of government debt	▶ Rapid adoption of new technologies

Consider going global

Some amount of home-country bias is appropriate for U.S.-based investors whose financial goals and liabilities are denominated in the dollar. Rapid global economic and financial development during the past three decades has added billions of emerging- and frontier-market middle-class consumers, who are likely to spend at a faster pace than consumers in more-mature economies. We believe these markets could add significant return potential and, along with international developed markets, may be an important source of portfolio diversification.

Your source for economic and market research and advice

Wells Fargo Investment Institute (WFII) is dedicated to delivering consistent research, guidance, and investment advice. Featuring some of the best talent and thinking in the investment industry, WFII unites manager research, alternative investment, and investment strategy teams to help investors manage risk and pursue their financial goals.

To help with your investment planning or to discuss the points in this report, please talk to your investment professional.

Risk considerations

In addition to the risks discussed, investing in emerging and frontier markets have heightened risks. Frontier economies tend to be smaller, and their markets for trading securities less developed than emerging economies such as Brazil, Russia, India, and China. In addition, compared to more established markets, the legal, financial accounting, and regulatory infrastructure of frontier markets may be weaker or less developed, and political stability may be more of a concern. Frontier markets may have less investor participation, fewer large global companies, and limited international trade compared to established and emerging economies.

Index definitions

An index is unmanaged and unavailable for direct investment.

MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure equity market performance across 21 developed market countries, excluding the U.S. and Canada.

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

MSCI Frontier Markets Index is a free-float-adjusted market-capitalization-weighted index designed to measure equity market performance of the world's least developed capital 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. Returns assume reinvestment of dividends and capital gain distributions.