REXITER

# Global Emerging Markets

## Monthly commentary

*February, 2010*

### Market review

Markets lacked direction during February as investors continued to weigh up the consequences of potential sovereign default risks emerging in Europe and a slowing Chinese economy against a backdrop of generally better than expected 4Q2009 corporate earnings. After an initial sell off earlier in the month (down 4.5% during the first week of the month), the MSCI Global Emerging Markets index finished February slightly up (+0.35%). The dollar was the key negative driver in February, rising 1.1% on higher risk aversion. This overwhelmed the normal positive impulse to emerging market equities from the 3.5% advance in commodity prices, an 8.6% jump in oil prices and lower EMBI spreads, down 13bp.

From a country basis, Brazil (+4.54%), Thailand (+4.34%) and Mexico (+4.25%) outperformed driven by good 4Q earnings and higher commodities prices. Turkey (-12.39%), Russia (-5.24%) and Indonesia (-3.66%) underperformed due to political uncertainties in Turkey and profit taking in Russia following the strong market performance in January.

Outperforming sectors in January were Healthcare (+3.9%), Materials (+3.2%) and Consumer Staples (+2.7%). Information technology (-3.1%) and Utilities (-2.5%) underperformed.

### Market outlook

While a repeat of a brilliant 2009 is unlikely, we think that the current extraordinarily favourable monetary backdrop bodes well for the prospects of financial assets in 2010 as we do not expect the pressures for restored fiscal discipline to dissipate any time soon. To the extent that overburdened governments, not just in Europe but also in the US and Japan, can use the current atmosphere of tentative stability to chip away at the long-term weaknesses in their balance sheets, investors should remain free to seek out shares in the many good earnings stories that have emerged during recent profit reports.

Supported by the continuations of the aforementioned favourable economic backdrop, we also expect financial markets to be more bottom up driven in 2010 as financial conditions along with earnings visibility have improved since 2008/09. As it does, the broad, market-directional themes that have been driving the markets in 2009 will likely need to be replaced by, above all, an emphasis on relative value and asset selection – in other words, to rely a little less on beta and focus on alpha.

### Strategy

The strategy is overweight Russia, Mexico, Turkey and Thailand funded by under weights in Brazil, Malaysia and South Africa.

The strategy is overweight the Materials and Consumer Discretionary sectors. We are underweight Consumer Staples and the Energy sectors.

In keeping with our core philosophy, we are seeking to maintain a fully invested, fully diversified exposure to the asset class. This does not mean we are looking to take risk out of the strategy, rather that we are trying to diversify that risk by country and sector.