



Global Emerging Markets

Monthly commentary

November, 2009

Market review

Global Emerging Markets continue to benefit from the extension of the “risk trade”. In November, the MSCI Emerging Market index rose by 4.3%, outperforming the MSCI AC World index (+3.9%). MSCI Latam led the charge rising by 8.3% over the month, while Asia and EMEA lagged rising by “just” 3.1% and 2.9% respectively. Year to date, Latin America is up 95.1% and this is the fourth successive month that the region outperformed GEMs.

Over the past month, global and regional equities shrugged off disappointing US labour market data, evidence of a flattening in the pace of Chinese economic growth, and the threat of default by Dubai World. The market appetite for riskier assets, based, above all, on the weak US dollar (down 2.5% on a trade-weighted basis in November), remains intact and inflows continue to provide support for equities. High-beta Mexico (+10%) and Brazil (+8.2%) were the best performing countries. The regional laggards were Turkey (-6.6%) and Korea (+0.8%), followed by China (+2.5%).

Outperformers in November were Materials (+8.1%) and, after earlier periods of underperformance, Healthcare (+7.7%). Telecoms (+2.9%) and Industrials (+1.8%) underperformed. Year to date, Energy and Materials are up 123 and 125%.

Market outlook

The credit crisis that triggered the collapse of global financial markets and sent most developed economies into a tailspin, now seems strangely distant after a record rally in the same financial markets that were teetering on the edge of self destruction only a year ago. As we approach the end of 2009, we can now “safely” say that emerging markets survived ‘the big ugly experiment’: a combination of a severe financial shock, the deepest developed consumer recession since WWII, the lagged impact of anti-inflation policies and a sharp drop in commodity prices. The main conclusion of the experiment is that the domestic inflation/monetary cycles were more dominant than external demand. At this time, we continue to remain positive on emerging market equities as the factors supporting the powerful recovery from the October 2008 lows remain in place. These conditions are: compression in excessive risk premiums, strong economic and earnings recovery, and overshoot as risk-free rates remain historically low. 2010 will likely be the transition year to whatever economic environment awaits investors for the next decade. With valuations in global credit and even equity markets no longer reflecting the risk of systemic failure, we believe (and hope) that expected fundamentals should again become the drivers of financial markets’ performance for the coming year.

Strategy

The strategy is overweight Russia, Mexico and Thailand, funded by underweights in Brazil, China 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.