

# Global Emerging Markets

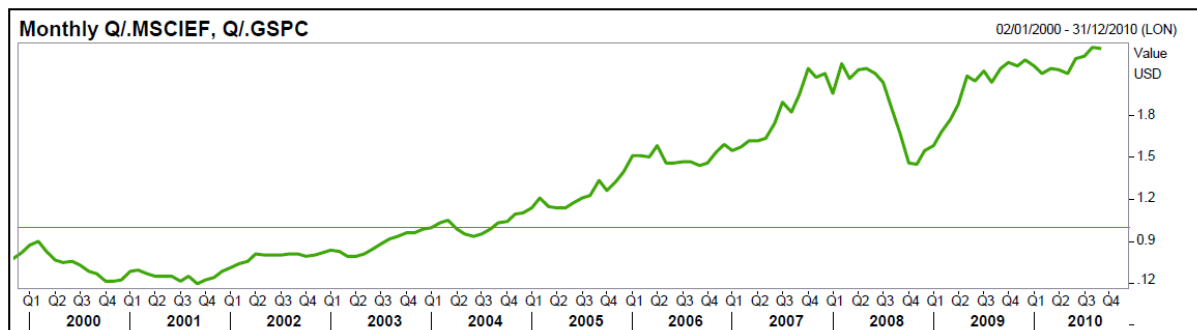
## Monthly commentary

August, 2010

### Market review

Directionless markets in the summer doldrums. With some exceptions – notably Thailand (+9.4%) and Chile (+7.3%) – most emerging markets drifted gently lower during August. None of the moves were especially significant and only Mexico fell by more than 5%, given its trade links with the US economy – worries about a double dip in the US were prevalent during August. Emerging markets in aggregate fell by 1.9% over the month. Perhaps of more significance than the absolute figure was the fact that this return represented the third consecutive month that the emerging markets benchmark beat the S&P. Optimists (such as us) would suggest this is the renewal of the secular trend outperformance by emerging equities that was disrupted by the market dislocation of 2008.

The chart below shows the relative performance of the MSCI Emerging Index vs. S&P 500. Emerging markets are outperforming the S&P500 when the line is rising and vice versa.



Source: Reuters

### Market outlook

We suggested last month that whilst we remain positive on the medium term outlook for emerging stocks we must acknowledge that these markets are trading towards the top of their 12 month trading range and a period of consolidation would not be unexpected. This remains our view. We do not expect a final break-out until markets become convinced that a double-dip has either been endured or avoided. Markets remain extremely sensitive to data that confirms the existence or avoidance of the double-dip scenario. Within emerging markets, economic growth and corporate profitability remain strong. Monetary policy response to strong growth in the emerging world has been well anticipated and implemented – authorities have begun to gradually tighten to maintain progress to inflation targets. How Messrs Bernanke and Trichet et al would like to be dealing with this set of policy circumstances!



## Strategy

The strategy is overweight Russia, Mexico, Turkey and Thailand funded by under weights in Brazil, China and South Africa. We are looking for opportunities to increase India to an overweight position – probably funded from Taiwan. We are also turning more positive on Brazil as elections near and some major market overhangs can be lifted.

The strategy is overweight the consumer discretionary sector. We are underweight consumer staples, utilities and telecoms.

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.