



## Global Emerging Markets

### Monthly commentary

February, 2011

#### Market review

Given the unrest in the Middle East and the consequent rise in the oil price, equity markets have been quite remarkably resilient: emerging markets fell by less than 1% in February and the S&P rose. As would be expected, performance by market showed a rather different picture; oil producing nations (Russia, Indonesia and Brazil) all gained whilst big energy importers such as India, Taiwan, Korea and Turkey all lost ground. Markets in the Middle East itself were much more badly hit. Kuwait, Qatar and UAE all experienced falls of more than 10% and the Saudi market fell nearly 20% despite clear support from state funds.

#### Market outlook

There seems to be a broad consensus in the market that recent developments in Africa and the Middle East will lead to a risk premium being built into oil prices for an extended period. There also seems to be a building consensus that both the US and European economies are going to maintain reasonable growth levels into the second half of the year. Either of these could be right, but it is unlikely that they both are – history would suggest that an oil price shock such as that seen recently will, if it is sustained, inevitably be followed by a global slowdown. Our feeling is that the oil price will only stay above \$100 for long if either Libya descends into a “hot war” involving severe damage to oil production facilities or if the current unrest in Saudi Arabia escalates rapidly. Either of these is possible but not, in our view, probable.

#### Strategy

The strategy is overweight Russia, India and Turkey, funded by under weights in South Africa and Taiwan. The strategy is overweight the consumer discretionary sector and underweight consumer staples and energy. Since the end of the month the energy exposure has been increased at the expense of domestic stocks in Russia.

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.