REXITER

Global Emerging Markets

Monthly commentary

November, 2011

Market review

Like the ten thousand men of the Grand old Duke of York, markets marched up the hill in October only to be marched back down again in November. The MSCI EM fell 6.7% as hopes for a swift resolution to Greece's debt problems morphed into worries about Italy's larger debt overhang. In addition, economic indicators have been showing a slowing trend in growth across the world, stoking fears of a new global recession.

Within EM, Asia was hit hardest falling -8.5% with Latin America down -6.2% and EMEA declining -1.8%. Only South Africa managed to eke out a positive gain in November – India was the worst performing market (-16%) as the country continues to grapple with slowing growth and above trend inflation. Egypt was weak (-10.4%) on continuing difficulties from the transition to democracy.

In this continued "risk on- risk off" mood predictably it was more defensive biased sectors generating the best returns (or lowest losses) in falling markets, with Staples (-1.5%), Telecoms (-1.7%) and Utilities (-3.9%). Materials (-9%), Financials (-9.8%) and Industrials (-10%) were the main sectoral laggards.

Market outlook

Market sentiment continues to be dominated by events in the Eurozone and China. On the Eurozone we continue to believe that policymakers will ultimately stabilise the situation and restore some market confidence to both their debt and currency. However the road to recovery, especially in Europe, is still littered with obstacles and European politicians seem to move at the pace of a snail compared with market's (unrealistic?) high speed expectation. The fragile improvement in sentiment is thus easily destroyed on an ill-timed statement or problematic debt auction. Early 2012 has a heavy debt auction calendar for several Euro area states, so the market will be paying very close attention to any lack of progress in finding a solution to the crisis.

The Chinese economy is now exhibiting signs of slowing, as the loose policies of the post Lehman era were tightened in 2010. The desired slowdown is now coming through and once again the authorities have begun to gently ease policy – it started with selective measures targeted at specific sectors and has now moved to a cut in reserve requirements, freeing up liquidity into the banking system. Our base case is that China is successful in engineering a soft landing for its economy, but with the weaker global growth backdrop, the chances of a policy error have increased.

On a longer term view (defined as 1 year plus) we continue to think there is plenty of upside – provided we are right that a) Europe will not see a catastrophic break-up of the Euro and b) economic growth in most emerging economies slows only marginally from 2011 into 2012. As a consequence, we have not yet changed the positive bias to the portfolio.

Strategy

The strategy is overweight Russia and Argentina, funded by under weights in South Africa, Taiwan and Mexico. With the exception of the bias in favour of Russia, these divergences reflect our long term strategic perspective. At the sector level the portfolio is overweight the Consumer Discretionary sector and Metals and Mining and underweight Banks and Wireless Telecoms. These biases reflect our positive short term stance on markets and our desire to tilt the strategy in favour of higher beta sectors and stocks.