Equity Strategy Perspectives:

Consensus views on Emerging Markets

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What's in this report?

This is a follow-up report to what we sent in May 2018 titled "Global Market Views". Given the amount of headwinds Emerging Markets have been facing recently including currency depreciation, trade wars and political turmoil, our focus on this report is to give a **snapshot of the varied expert views** being expressed on the outlook for Emerging Market equities.

It provides you with a time efficient way of staying up to date with the different perspectives being expressed by global analysts who follow these markets.

Key takeaways

- **Positive view :** Analysts believe that key Emerging market fundamentals are still strong and once the heat of the currency depreciation passes they would bounce back. EM equities are marked as a winning horse to ride on.

- **A relatively 'safer' haven :** America is too expensive and Europe is troublesome. Investors have already priced in weaknesses and risks in to Emerging market stocks, so the most likely way forward for them is 'up'.

- **India is receiving conflicting views, while China is attracting more positive attention :** A key economy within the Asian Emerging markets, India seems to be in a 'hot-cold' spot with analysts offering varied views, which are not all in line with each other. China on the other hand is seen getting more consensus on a positive vibe.

Summary of expert views on EM equity

	Date	View	Comment
Credit Suisse	Sep 27th	Positive	With the S&P 500 pursuing a record bull run America is far too expensive for investors. This is good news for EM equity.
JP Morgan	Aug 22nd Sep 27th	Positive	U.S. is not immune to the impact of trade wars. Sooner or later they would too. With investors having already priced in the risks of EM's in their stocks, they are the 'safer havens'
UBS	Sep 28th	Positive	Not all EM's have weak fundamentals. Those with strong fundamentals will perform well. EM's will rise by 5% by the end of 2018.
Credit Suisse & Brooks Macdonald Asset Management	Sep 27th	Relatively Positive	Compared to European stocks they would still bet on EM's.
Goldman Sachs	Sep 17th Sep 24th	Selectively positive	Among EM assets they see that equity is best positioned for a bounce-back. However, does not feel Indian equities is a good investment
Deutsche Bank	Aug 22nd	Negative	Too many issues will keep the pressure on EMs for much longer
Citi Group	Sep 26th	Relatively Positive	Risks are already priced in to EM stocks. Given the upcoming seasonally strong period many markets will rebound and create opportunities
Morgan Stanley	Aug 23rd	Overweight on India	A pick up in the business cycle and earnings up tick is expected to act positively on India. Consumer discretionary and capital goods stocks are recommended.

**Detailed views from slide 8 onward*

What's been happening in emerging markets recently?

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While the U.S. isn't being pointed out at, for everything that the emerging markets are facing right now, they've thrown a stone or two (intentionally or unintentionally) to the murky puddle.

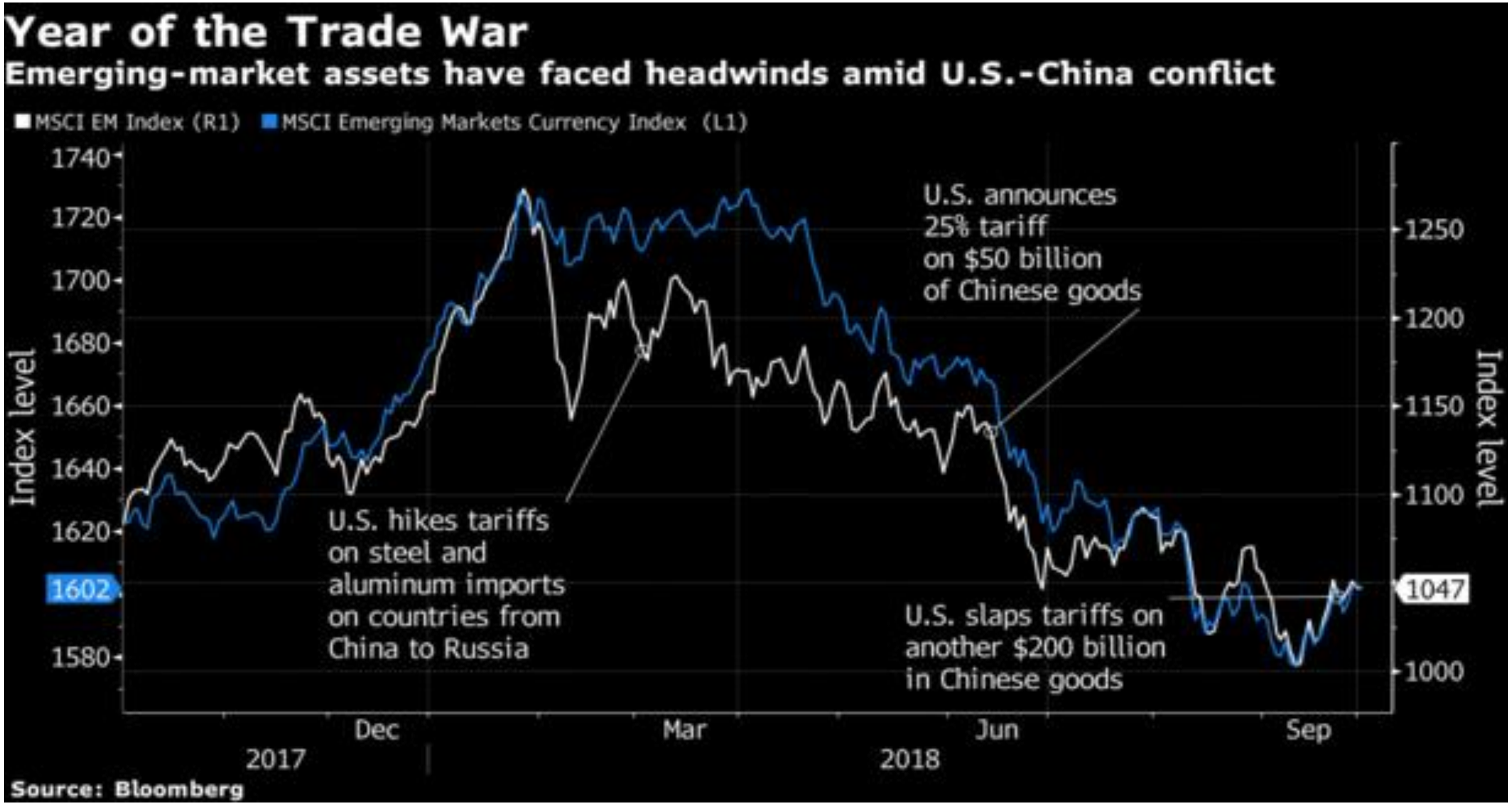
- U.S Federal reserve tightening is a key factor making EMs less attractive to investors and exerting pressure on fund flows.

- On-going U.S.-China 'tit-for-tat' trade war since the beginning of 2018. Even with the new trade deal between U.S., Canada and Mexico coming into play, U.S. and China are not expected to come along until next year

- Tumbling Turkish Lira due to political turmoil, large current account deficit, end of global monetary stimulus and recent frictions with the U.S. Many others including Argentina are facing currency depreciation.

- To add to all of this, rising oil prices is fueling further fears for emerging markets

Snapshot of the trade war

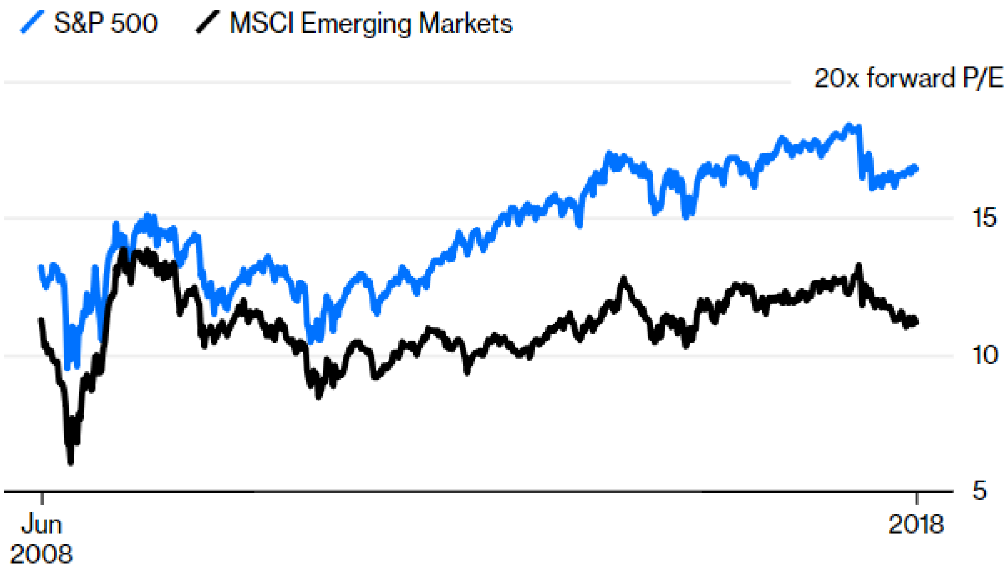


[Bloomberg, October 2nd]

Analyst views in more detail

The key is valuations - America is too expensive

"The key is valuations. According to **Credit Suisse** the premium of developed markets over their emerging counterparts is at a historical peak. This year, the S&P 500 Index has pursued its record bull run, outperforming the benchmark MSCI Emerging Markets Index by almost 18 percentage points. Many on Wall Street worry that the American market is too expensive"



Source: Bloomberg

[Bloomberg, September 27th](#)

It's a small world after all…….

- Analysts, including **J.P Morgan** believe that sooner or later U.S will feel the heat of the trade wars too. Emerging markets might turn out to be the "safer" haven.

"So if you believe the decoupling of U.S. and emerging markets can't last, The time for the rotation may be now"

Bloomberg, September 27th

Only a handful of EM's show weak fundamentals

"The key emerging market countries with weak fundamentals this year are limited to Turkey, Brazil and South Africa. It's not clear at all that there are weaknesses in countries like India and Indonesia. Once the pressure from the U.S. Dollar subsides the funds will flows back in.

Chinese economy will pick up and that's 30% of the MSCI EM index.

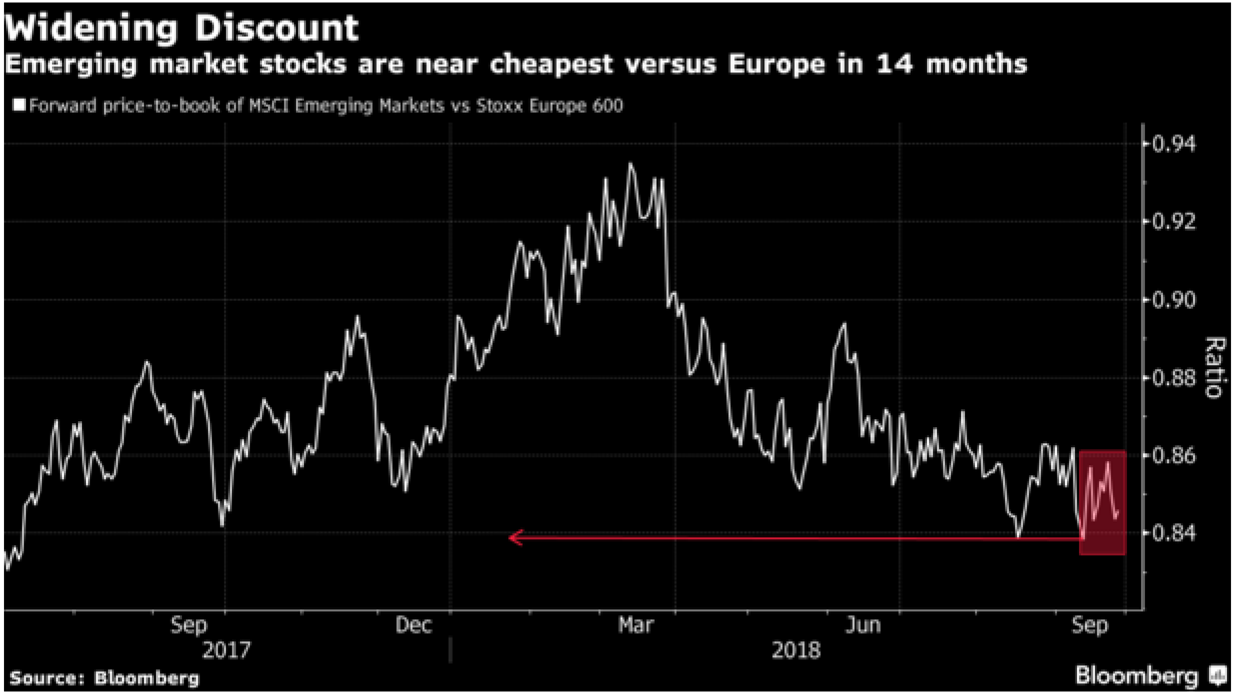
Sees EM's rising by 5% by the end of the year"

Extracted from Bloomberg's interview with Geoff Dennis, Head of global emerging markets equity strategy at UBS, September 28th

There are greater troubles elsewhere

➢ Fund managers at **Credit Suisse and Brooks Macdonald Asset Management** said they would rather take the risk of plunging into an emerging-market crisis than buy European equities.

Bloomberg, September 27th



Equity is the preferred asset class within EM's

"Recent price action has likely helped buoy sentiment for EM assets, but we have noticed a marked change over the past two weeks in investors' focus on EM - from downside risks to valuation and 'opportunities'.

We **still prefer equity as the best-positioned asset class for a 'bounce-back'** and find Brazil, Chile, Peru, Korea, and China offer a good combination of dislocation and supportive macro growth dynamics"

Goldman Sachs - Reuters, September 24th

Too many headwinds, says Deutsche Bank

"Deutsche Bank noted that over the past 15 years, there have been a handful of 100-day periods where emerging markets underperform the SPDR S&P 500 ETF Trust SPY, by at least 20%. In such periods of 'extreme' performance divergence, the firm noted, there was a reliable trend toward mean reversion, meaning a move back to the historical average

Time to buy, then? Not so fast.

Despite the tendency for relative performance to mean-revert, EM remains under pressure amid a multitude of headwinds—rising U.S. rates and strong U.S. dollar, trade tensions, slowing EM growth indicators, and rising country-specific risks, said Deutsche Bank strategist Chin Okoro"

[Deutsche Bank- Market Watch, August 22nd]

But investors have priced them in, says JP Morgan

"Clearly, the risks over trade, China credit, potential U.S. recession, EM politics and the global liquidity reduction hurting EM are material, but we believe investors now expect the bad news on many of these fronts and the entry point into EM is more attractive. We believe one should add risk to the group again."

JP Morgan - Market Watch, August 22nd

And Citi Group nods in agreement

"While we have not downgraded our concerns over the impact of future trade disputes, valuations and fundamentals now suggest a worsening outlook is priced into many non-US markets. As key political elections pass in coming months, and **markets enter a seasonally strong period, this could result in a very widespread rebound in many markets, including those with poor fundamentals."**

Chief Investment Strategies, Citi Group – September 26th

For and Against India

India, which has been experiencing a heavily depreciating currency is attracting a vast amount of attention, both positive and negative.

For: “A cyclical pick-up in the business cycle coupled with rising earnings expectations drives the optimism of the brokerage, which maintains its ‘Overweight’ rating on India. India is at a very different stage of the business cycle compared to its peers in Asia. Consumer discretionary and capital goods stocks are recommended”

Morgan Stanley, BloombergQuint – August 23rd

Against: “The risk reward for Indian equities is less favorable. The key reasons for our less optimistic view include, among others, stretched valuations, multiple macro headwinds in the near term and election event risk.”

Goldman Sachs, BloomberQuint – September 17th

Goldman Sachs says India's world-beating stock market run is over

Valuations have gotten stretched and **history points to negative absolute and relative returns** when multiples get so far above average.

[Goldman Sachs, BloomberQuint – September 17th](#)