

Renaissance
Capital

**FRONTIER
AND EMERGING
MARKETS**

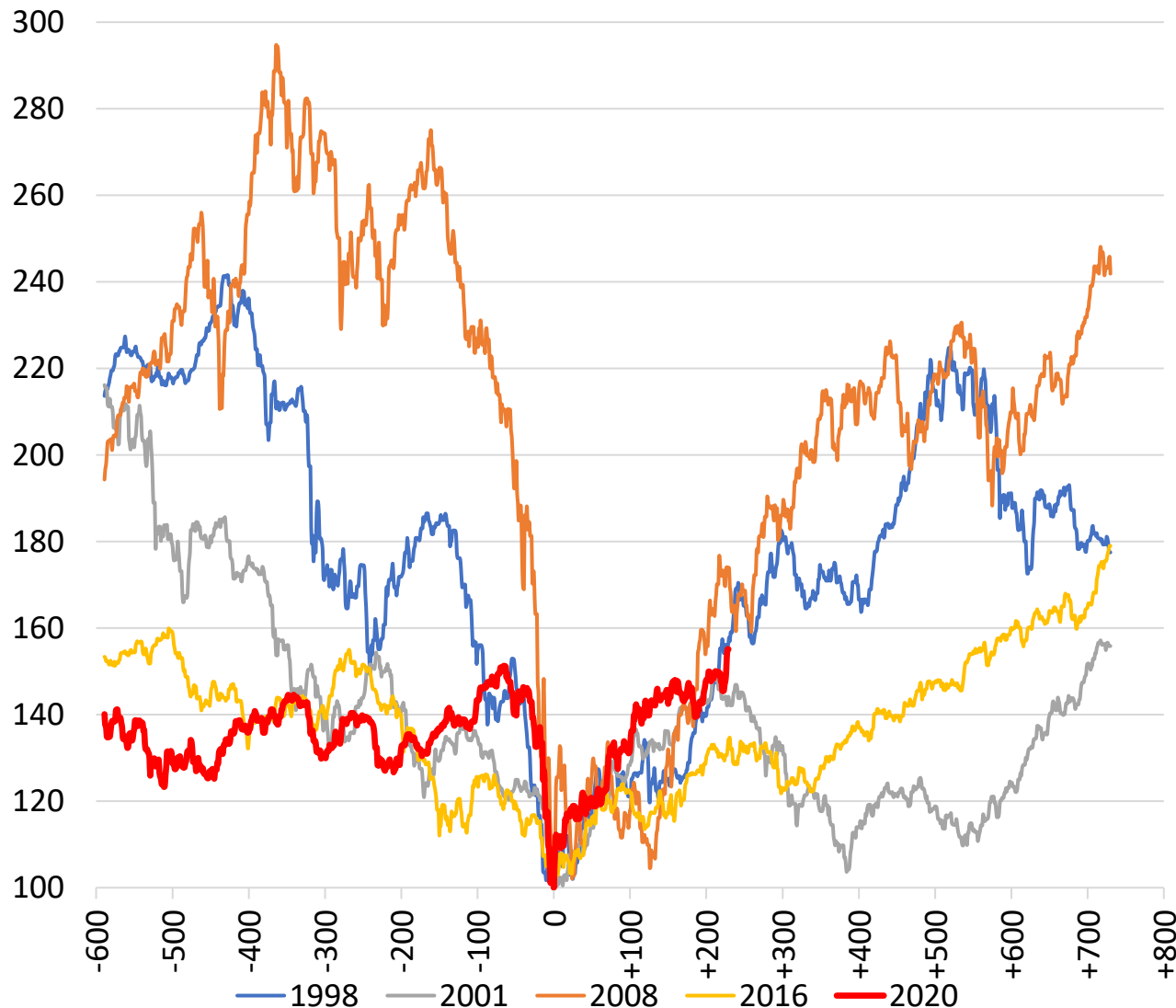
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MSCI EM REBOUND +55% IN 33 WKS – MID 34-74% RANGE

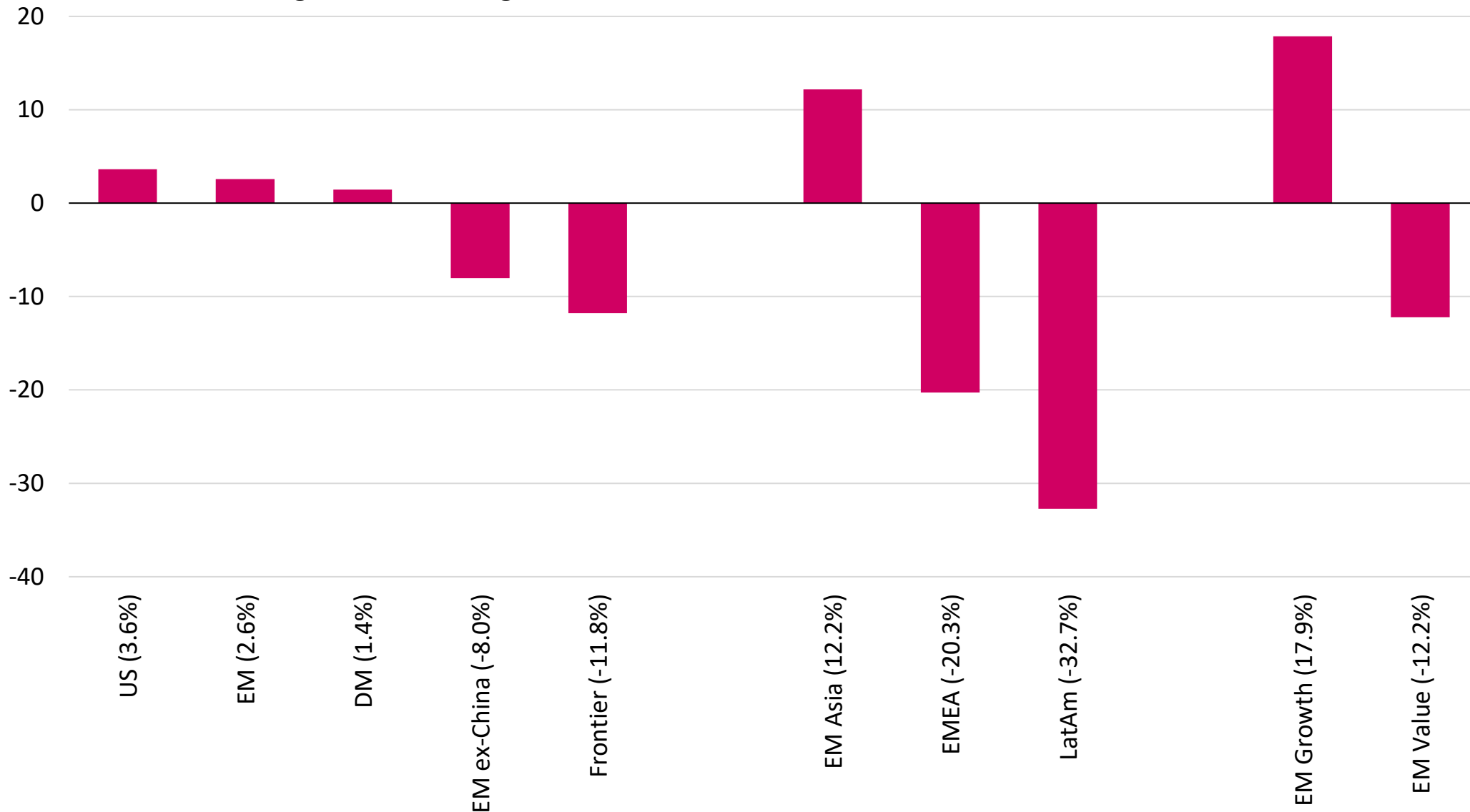
MSCI EM in \$ rebased to 0 at market low, 5 major EM crashes of 33%+



- 55% rally from the lows in 33 weeks is in line with the 52% average of the 4 previous rebounds (ranging from 34-74%)
- EM has already regained its previous highs; this took 6½y post-1997, 3¼y post-2000, 1½y post-2016, while the 2007 high is yet to be regained, over a decade since the peak
- EM is now 3% above its dollar 1Q peak (EM ex-China is still 8% below; FM 12% below, DM 1% above, US 4% above)

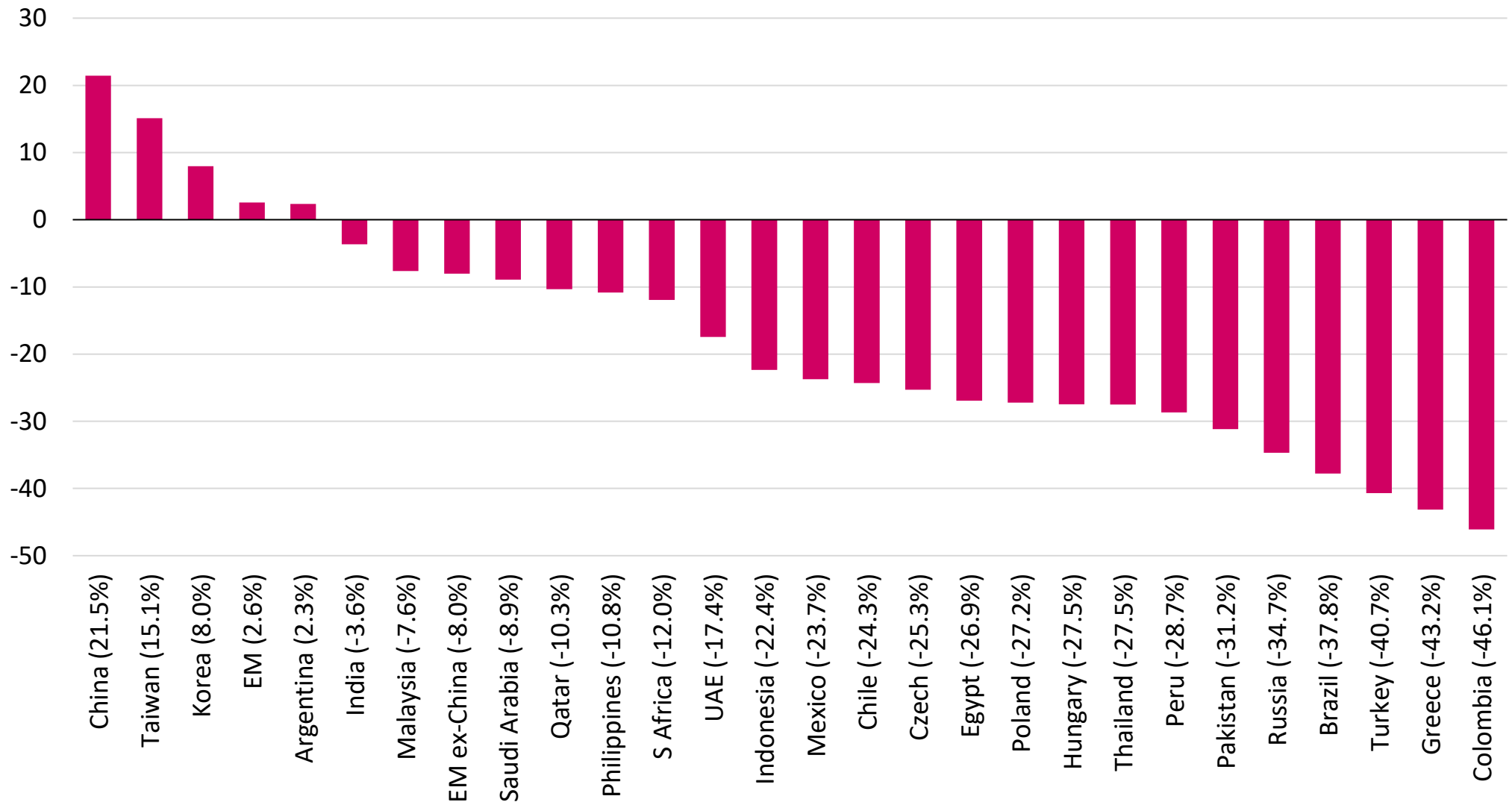
US, EM, DM HAVE ALL REGAINED 1Q \$ HIGHS

MSCI indices, % change vs 1Q 2020 high in \$



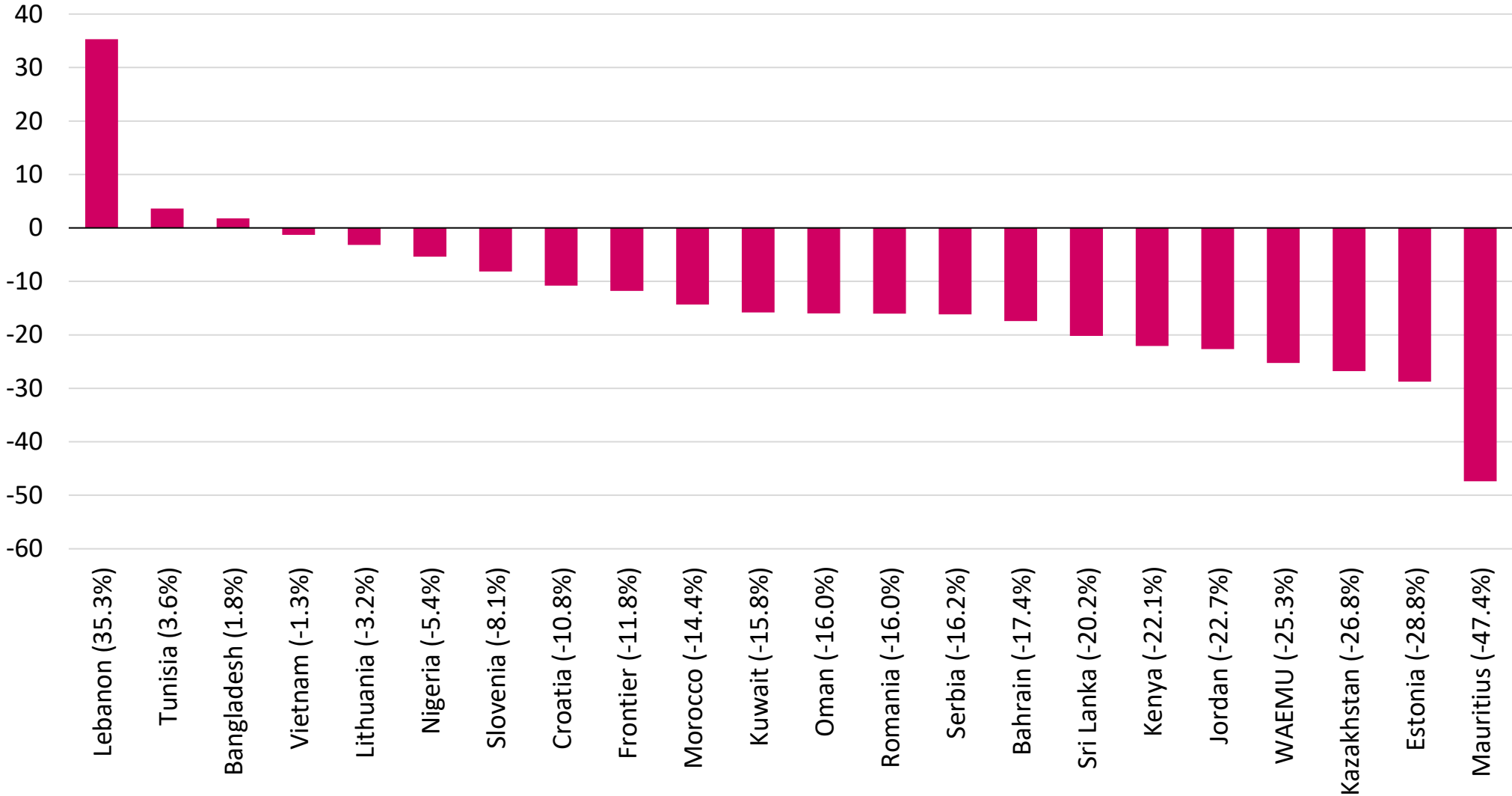
DRIVEN BY CHINA, TAIWAN AND KOREA IN EM

MSCI EM country indices, % change vs 1Q 2020 high in \$



FRONTIER

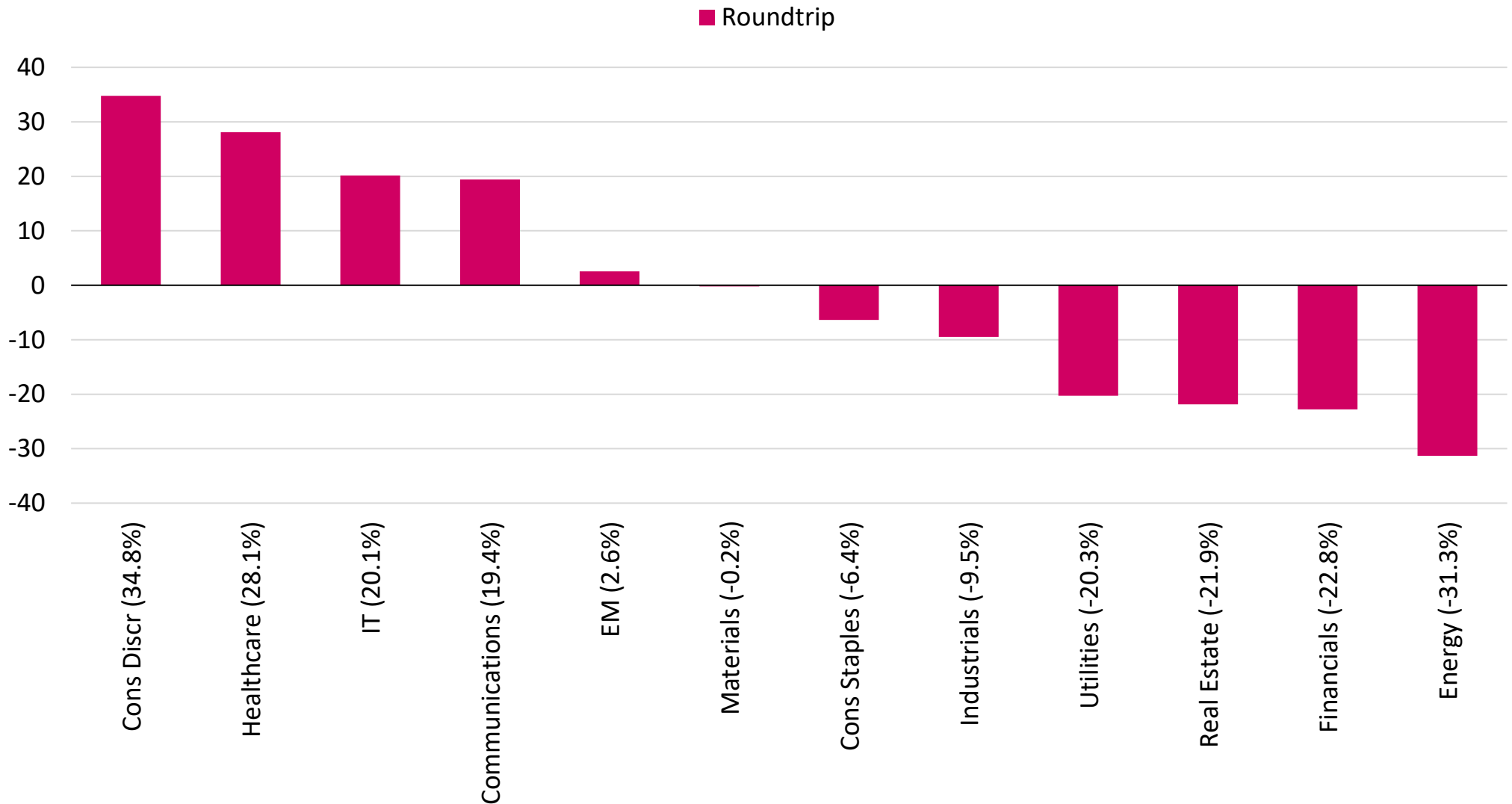
MSCI FM country indices, % change vs 1Q 2020 high in \$



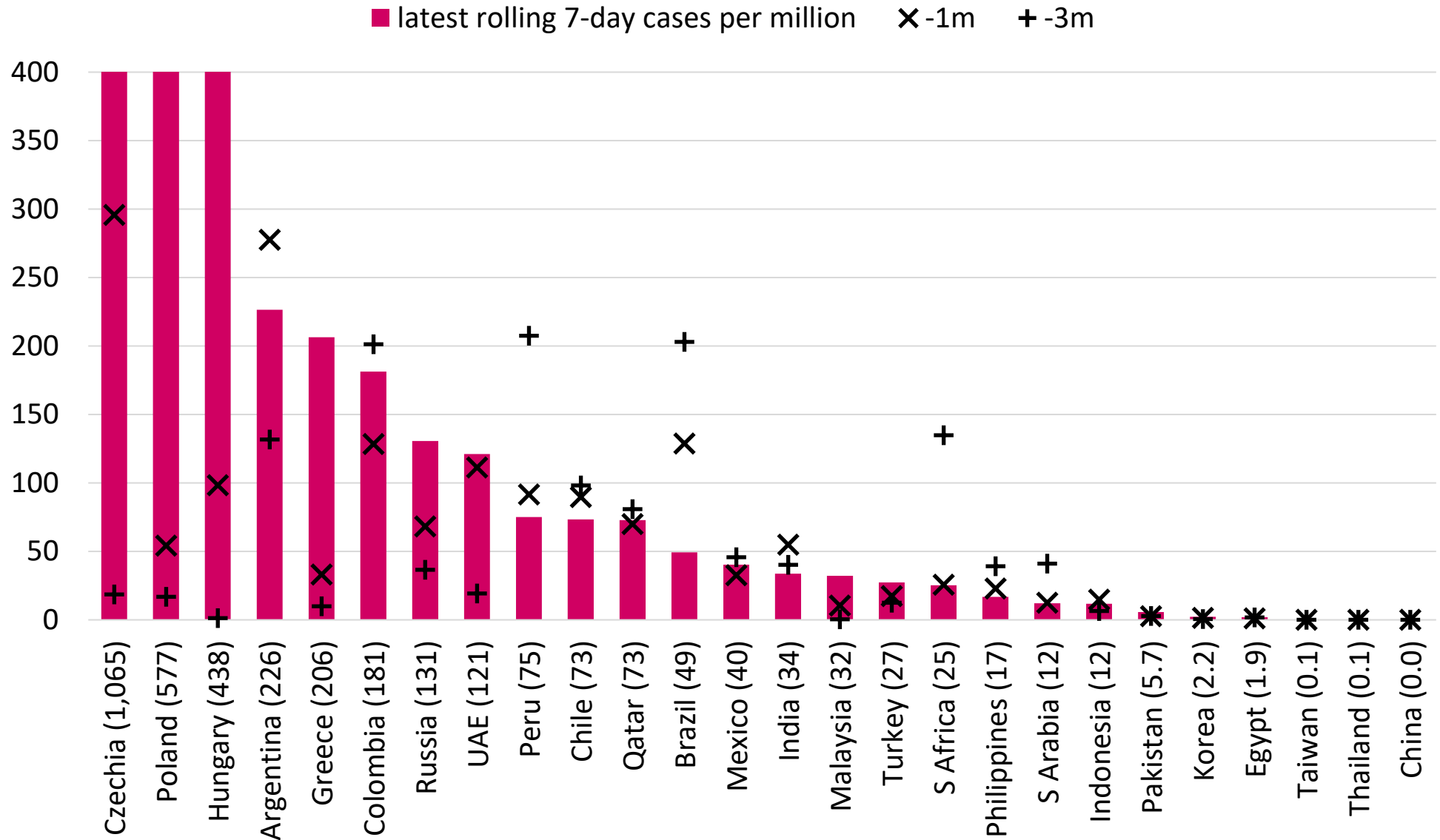
EM SECTORS – FINANCIALS

THE BIG LAGGARD

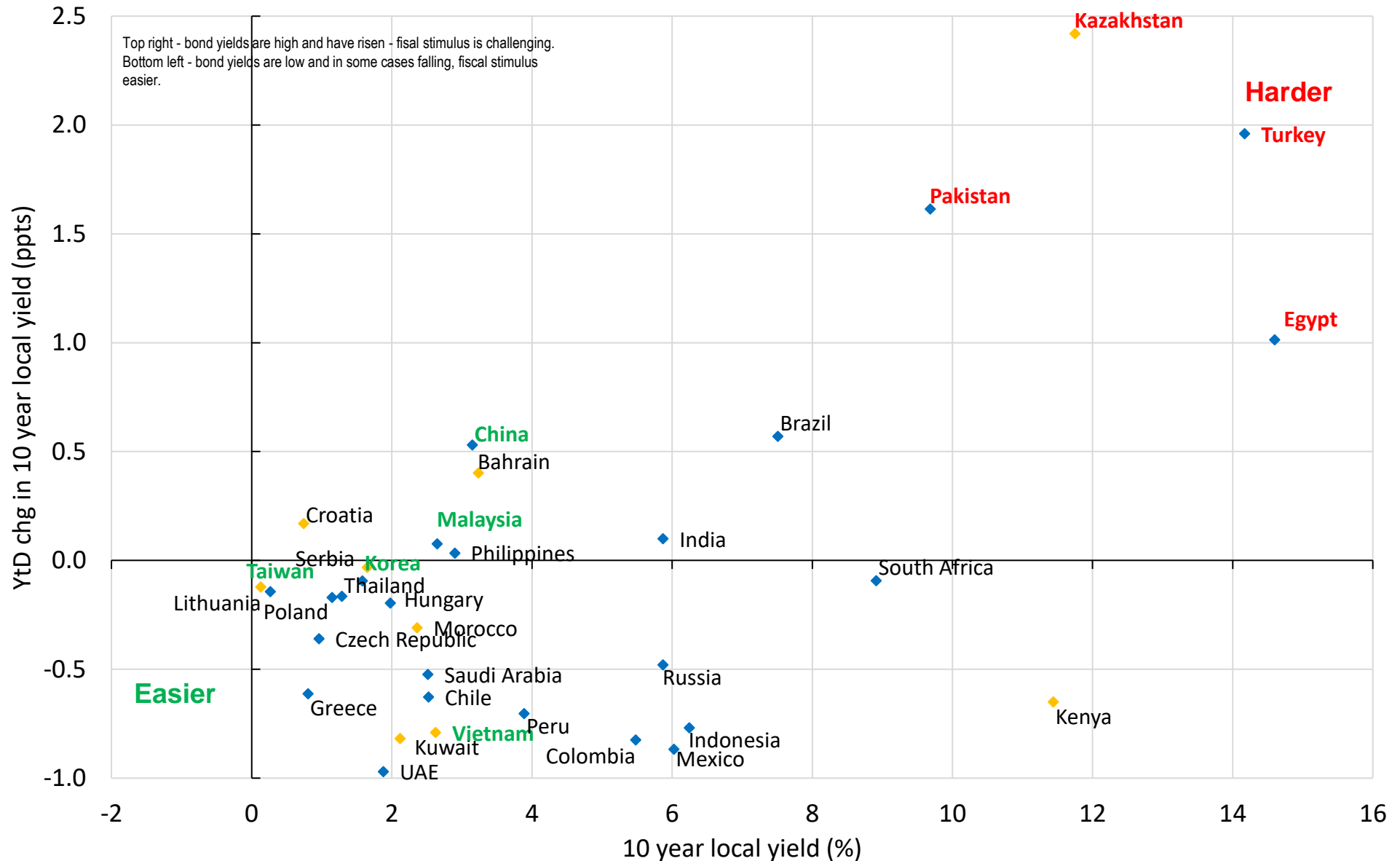
MSCI EM sector indices, % change vs 1Q 2020 high in \$



COVID - EAST ASIA SUCCESS WATCHING 2ND WAVE

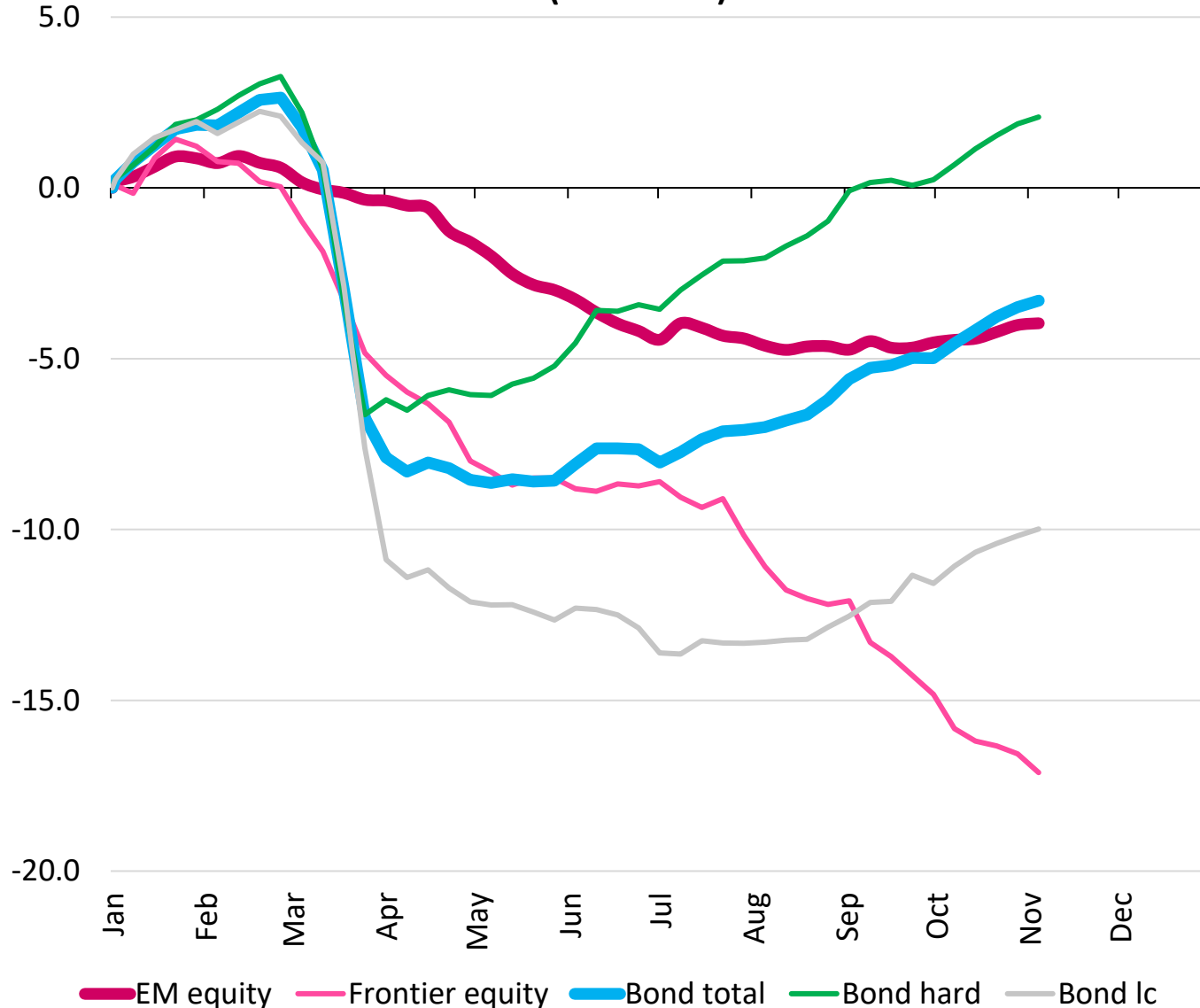


FISCAL CAPACITY HAS BEEN KEY



BOND FLOWS TURNED +VE IN JUNE; EQUITY IN MID-AUG

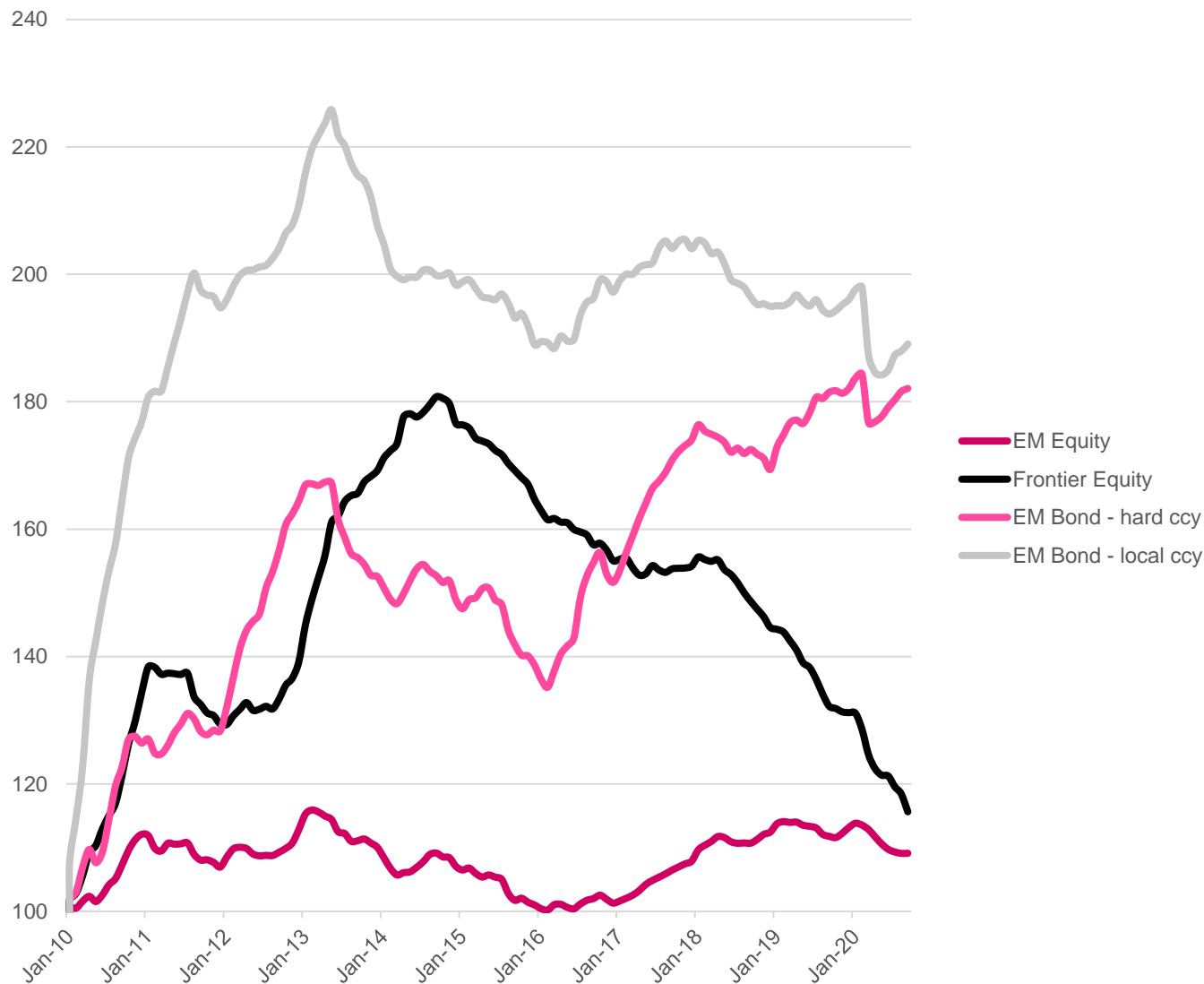
CUMULATIVE FLOWS YtD 2020 (% of AUM)



- Hard currency debt funds have been seeing inflows since April (9% of AUM), local currency has net inflows since July (4% of AUM) and equity since mid-August (1% of AUM)
- Equity funds have seen a long run outflows, but not in huge size (4.4% of AUM YtD)
- Frontier funds have been seeing outflows all year (18% of AUM from peak)

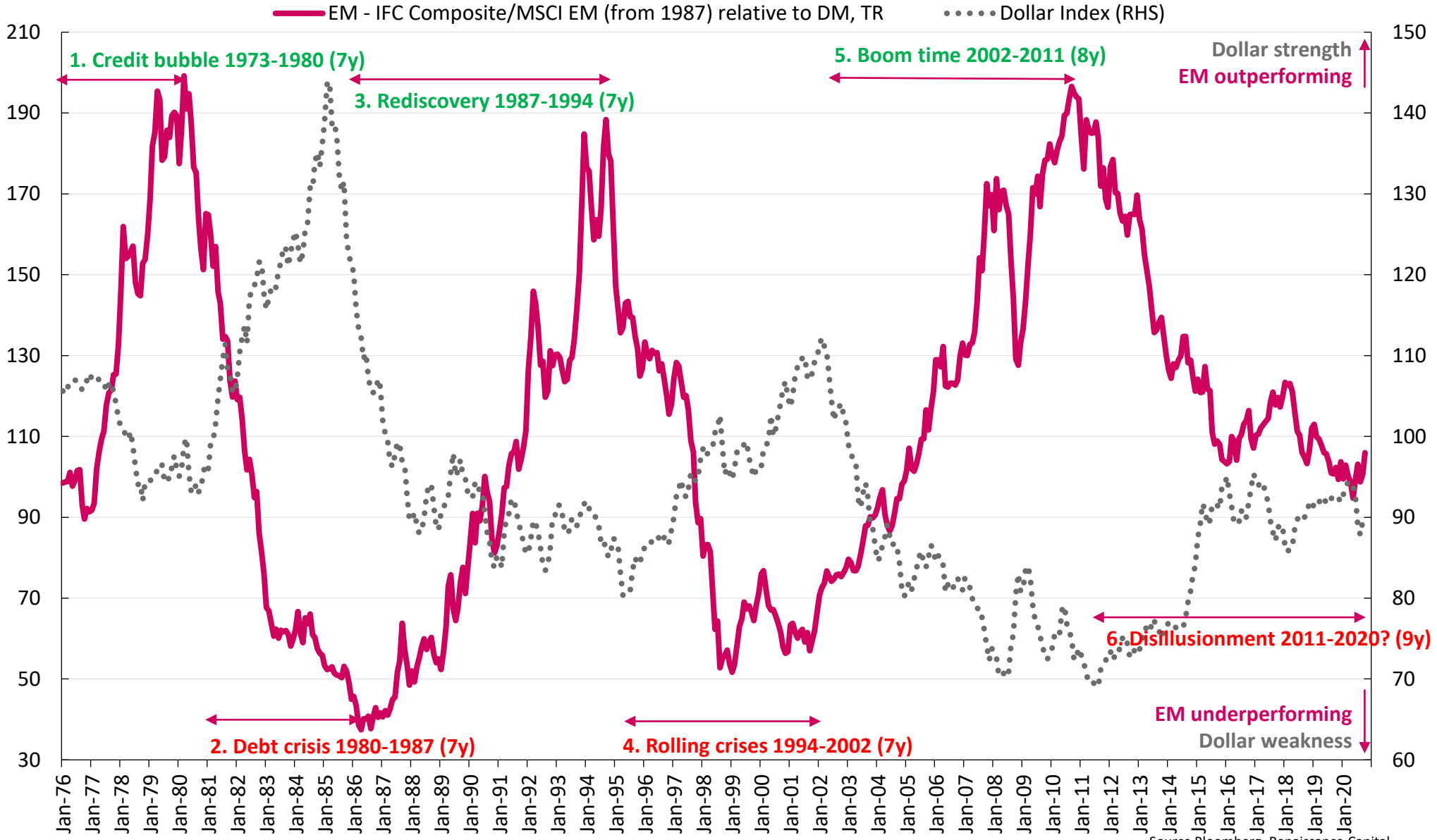
EM EQUITIES HAVE SEEN OUTFLOWS FOR 7 YEARS

CUMULATIVE FLOWS 2010-2020 (% of AUM)



- EM Equities have seen net outflows over the last seven years – EM equities is an under-owned asset class vs DM equities and vs EM bonds and DM equities
- Major outflows from Frontier funds as investors question the asset class

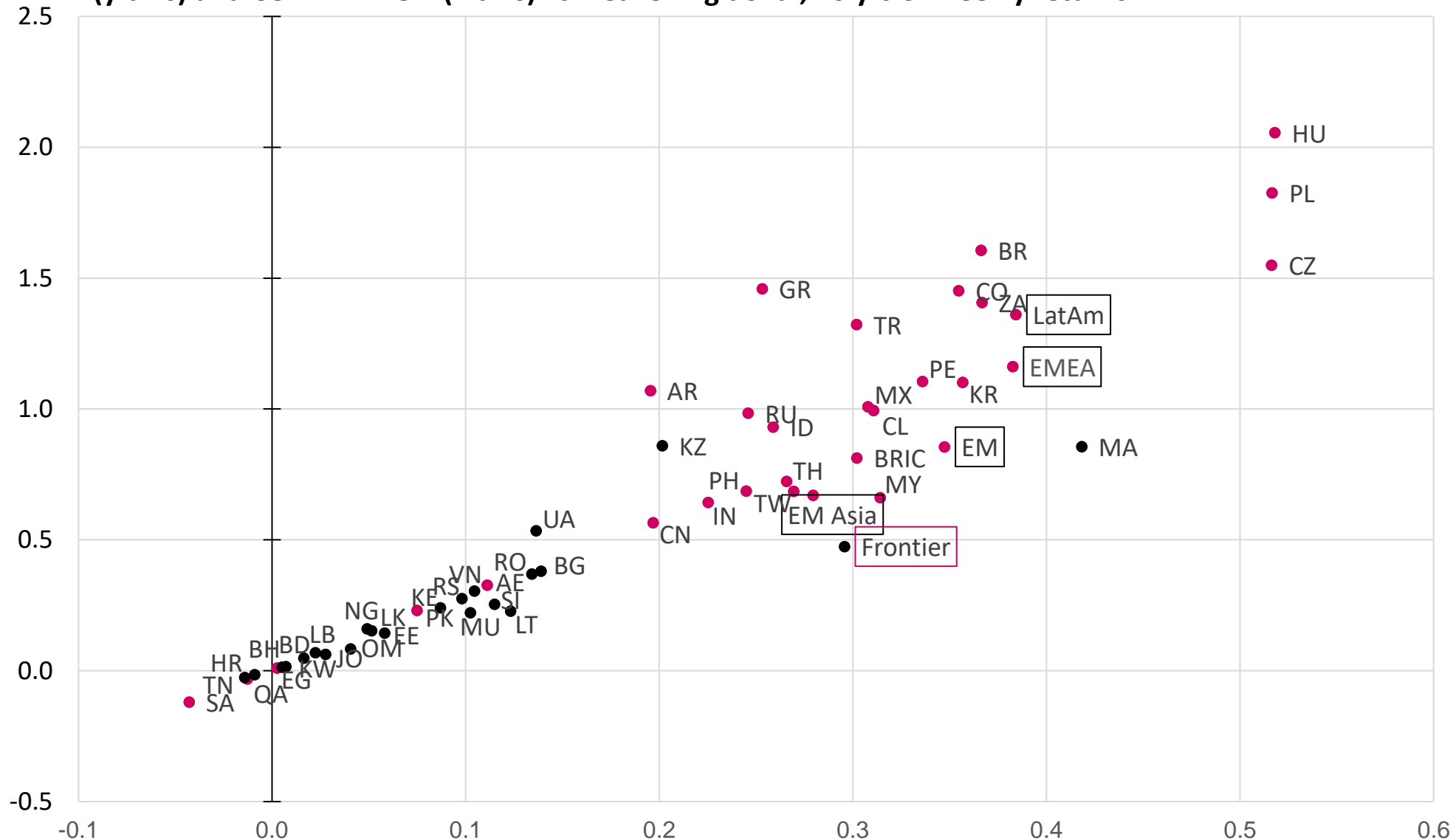
45 YRS OF EM EQUITIES VS \$



Source Bloomberg, Renaissance Capital

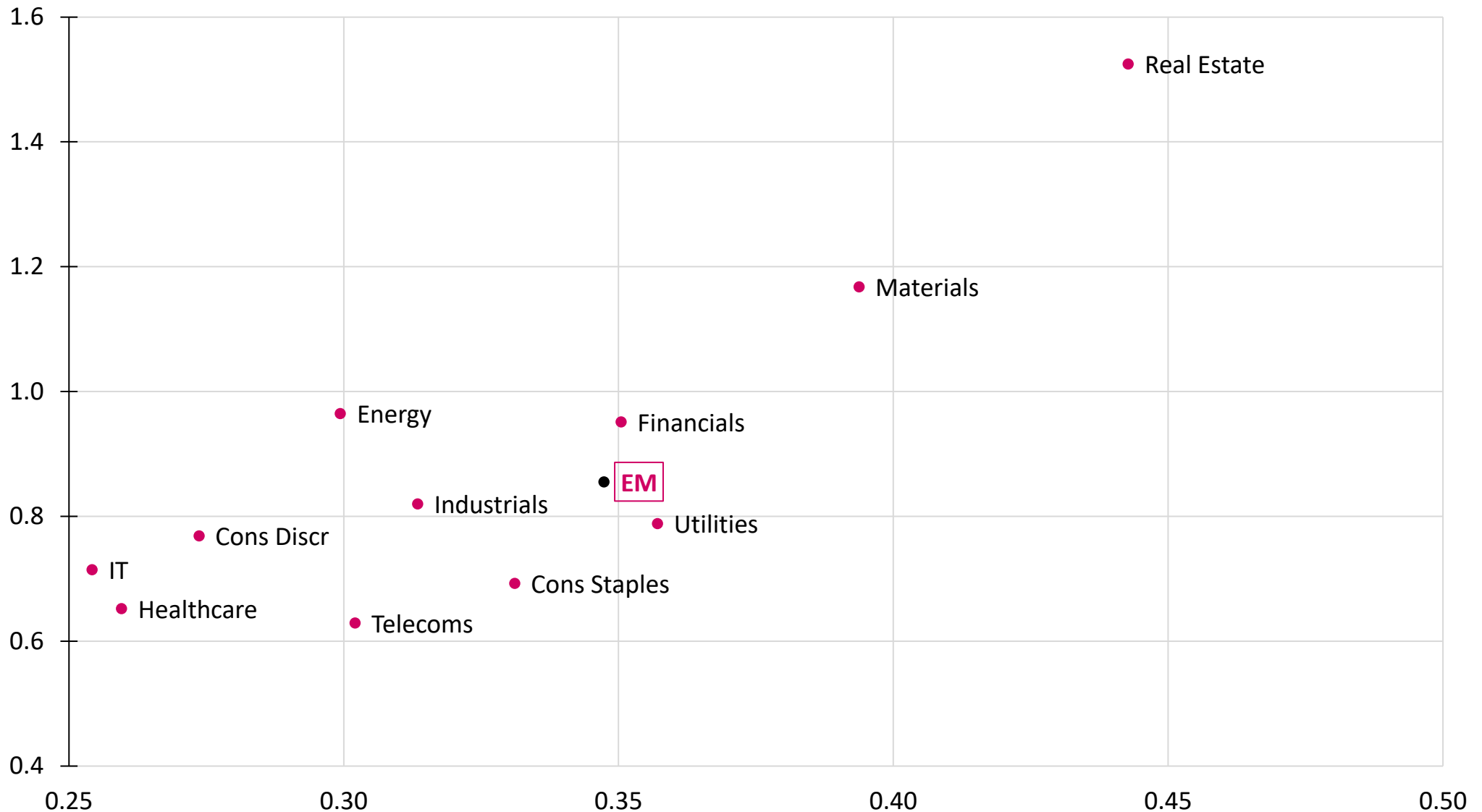
EM & FM WEAKER DOLLAR BENEFICIARIES

BETA (y-axis) and CORRELATION (x-axis) vs weakening dollar, 10 yrs of weekly returns



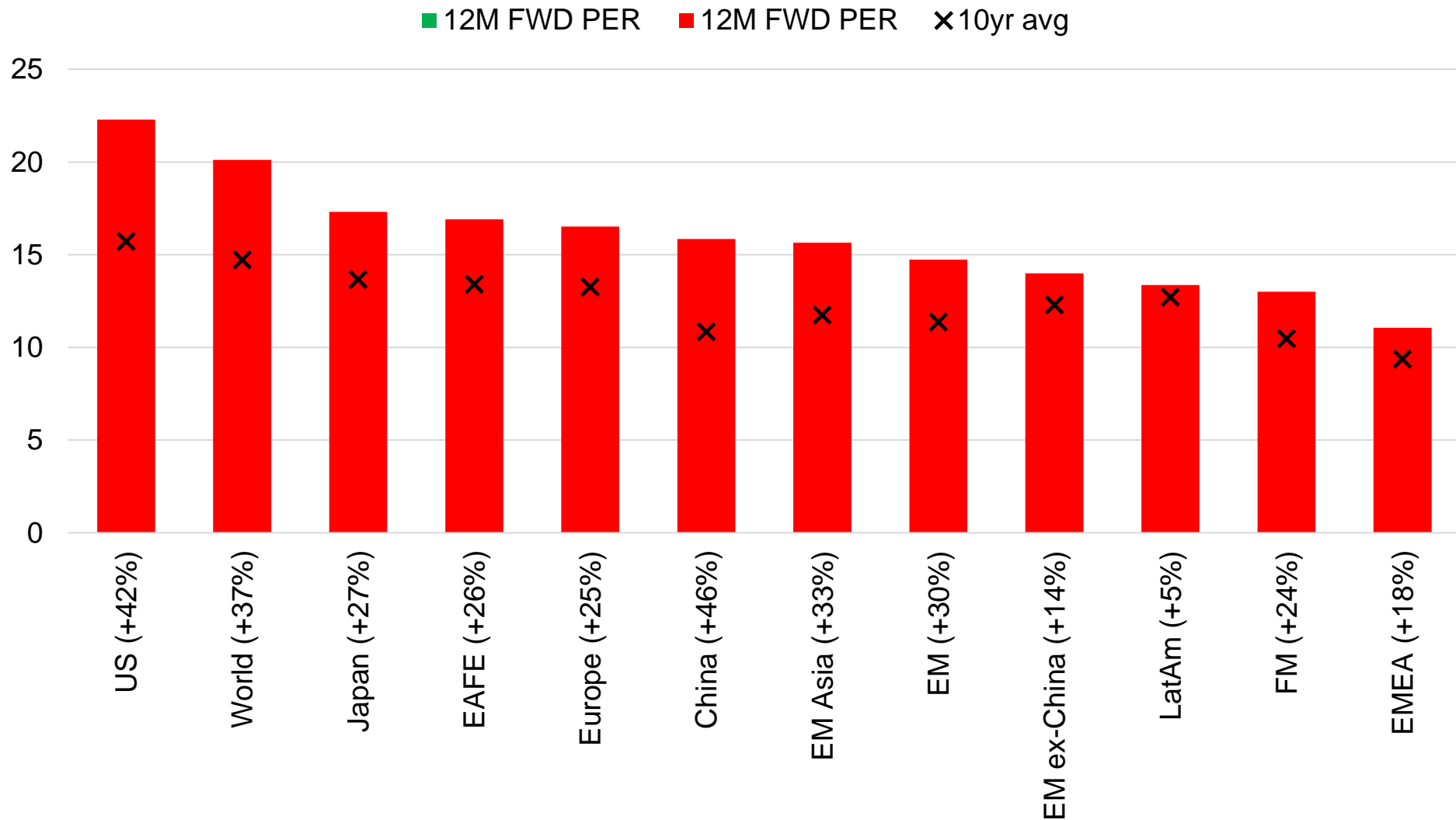
EM SECTOR WEAKER DOLLAR BENEFICIARIES

BETA (y-axis) and CORRELATION (x-axis) vs weakening dollar, 10 yrs of weekly returns



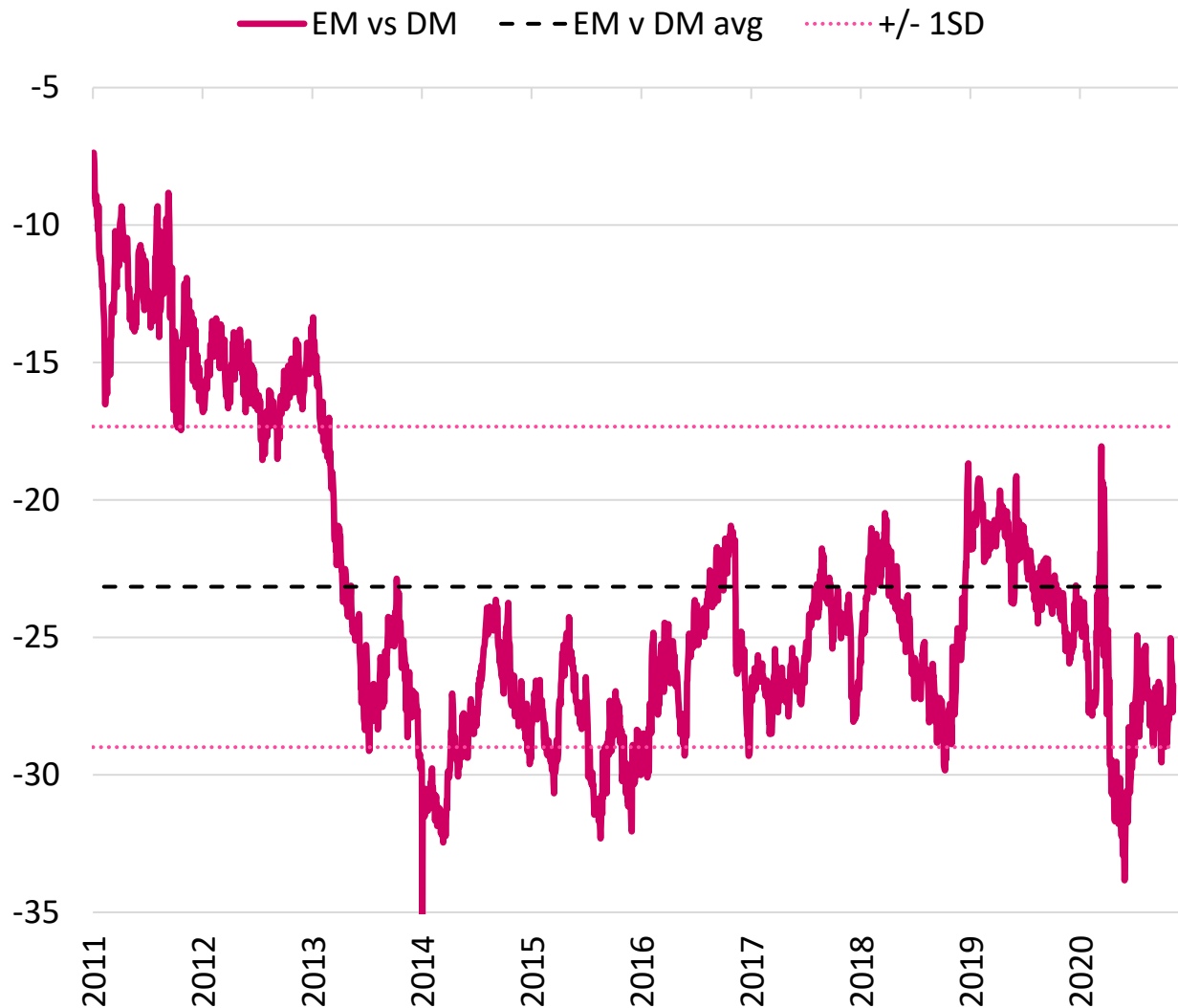
PER VS HISTORY

12M FWD PER vs 10 yr average – Latam, EM ex-China and EMEA have had the smallest re-ratings



MSCI EM 27% DISCOUNT TO DM

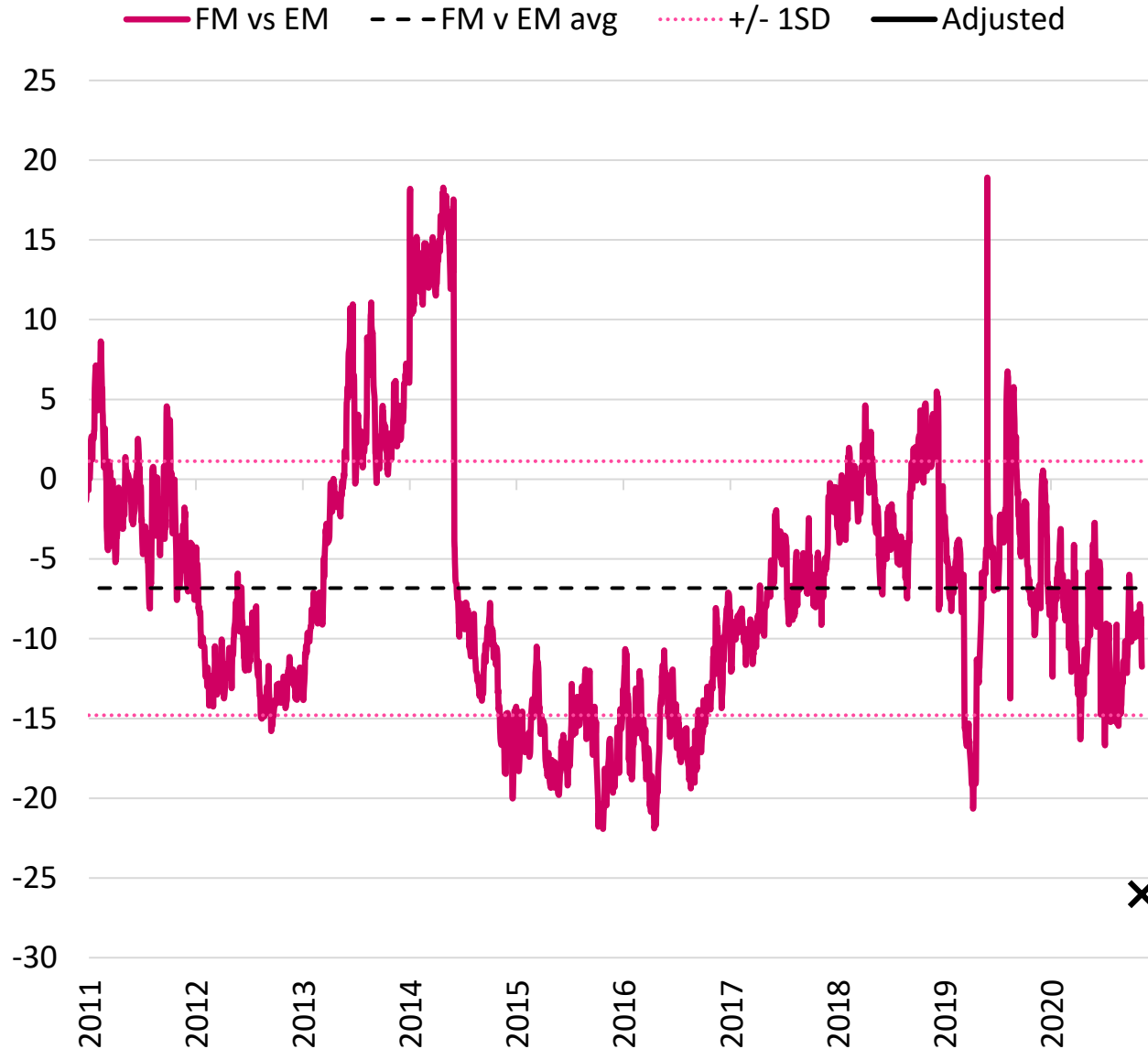
MSCI EM 12M FWD PER premium (discount) to DM (%) and 10yr avg, +/- 1SD



- MSCI EM trading at a 27% 12M FWD PER discount to MSCI World
- Vs a 10 yr average of 23%
- 0.6 Standard Deviations cheap

MSCI FM 12% DISCOUNT TO DM

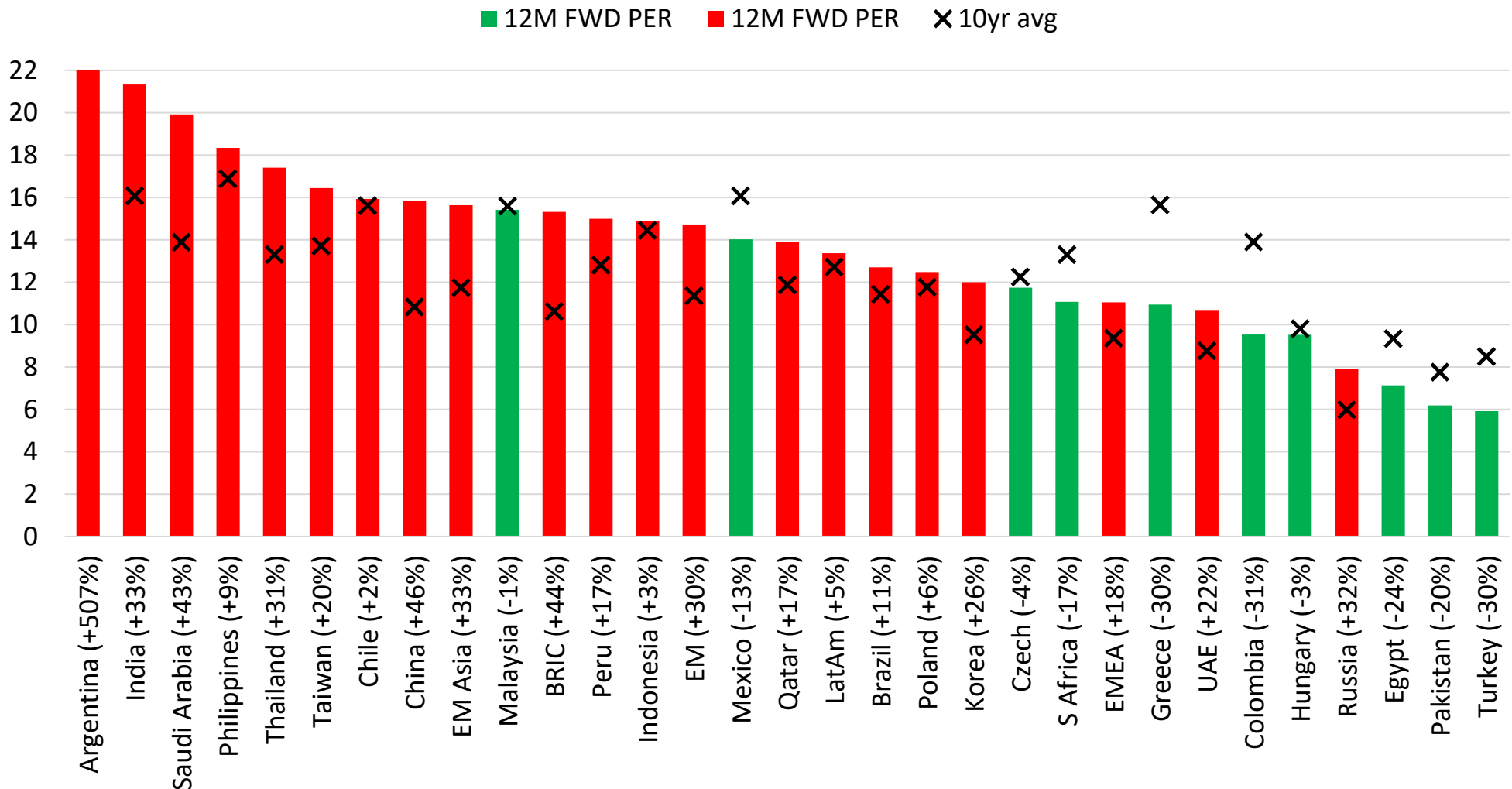
MSCI FM 12M FWD PER premium (discount) to EM (%) and 10yr avg, +/- 1SD



- MSCI FM trading at a 12% 12M FWD PER discount to MSCI EM
- Vs a 10 yr average of 7%
- 0.6 Standard Deviations cheap
- But when Kuwait exits MSCI FM at end-November, valuation resets from 13.0x to 10.9x
- And discount reaches 26%, a decade high

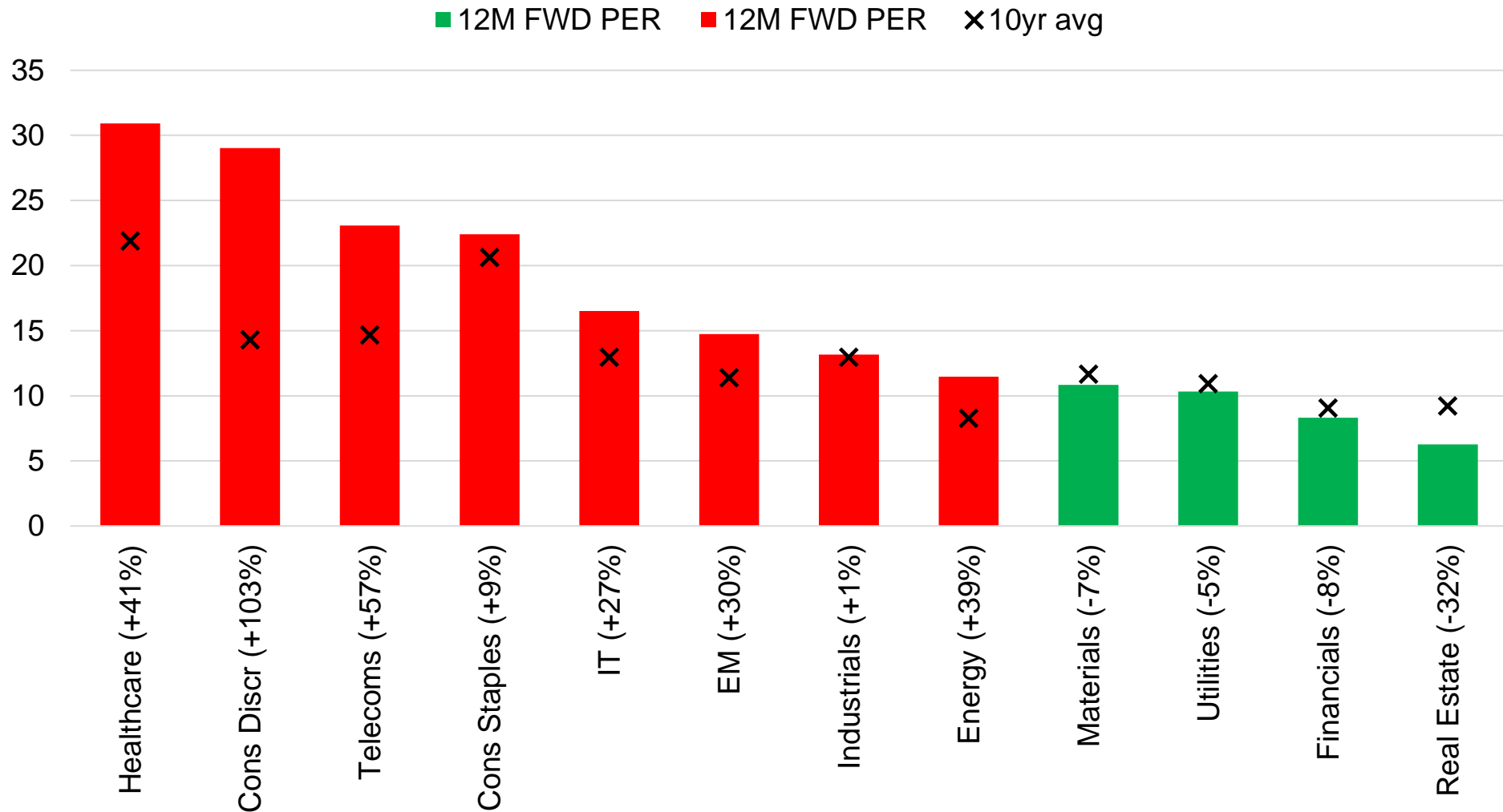
EM PER VS HISTORY

12M FWD PER vs 10 yr average (green – cheap vs 10 yr avg, red – expensive vs 10 yr avg)



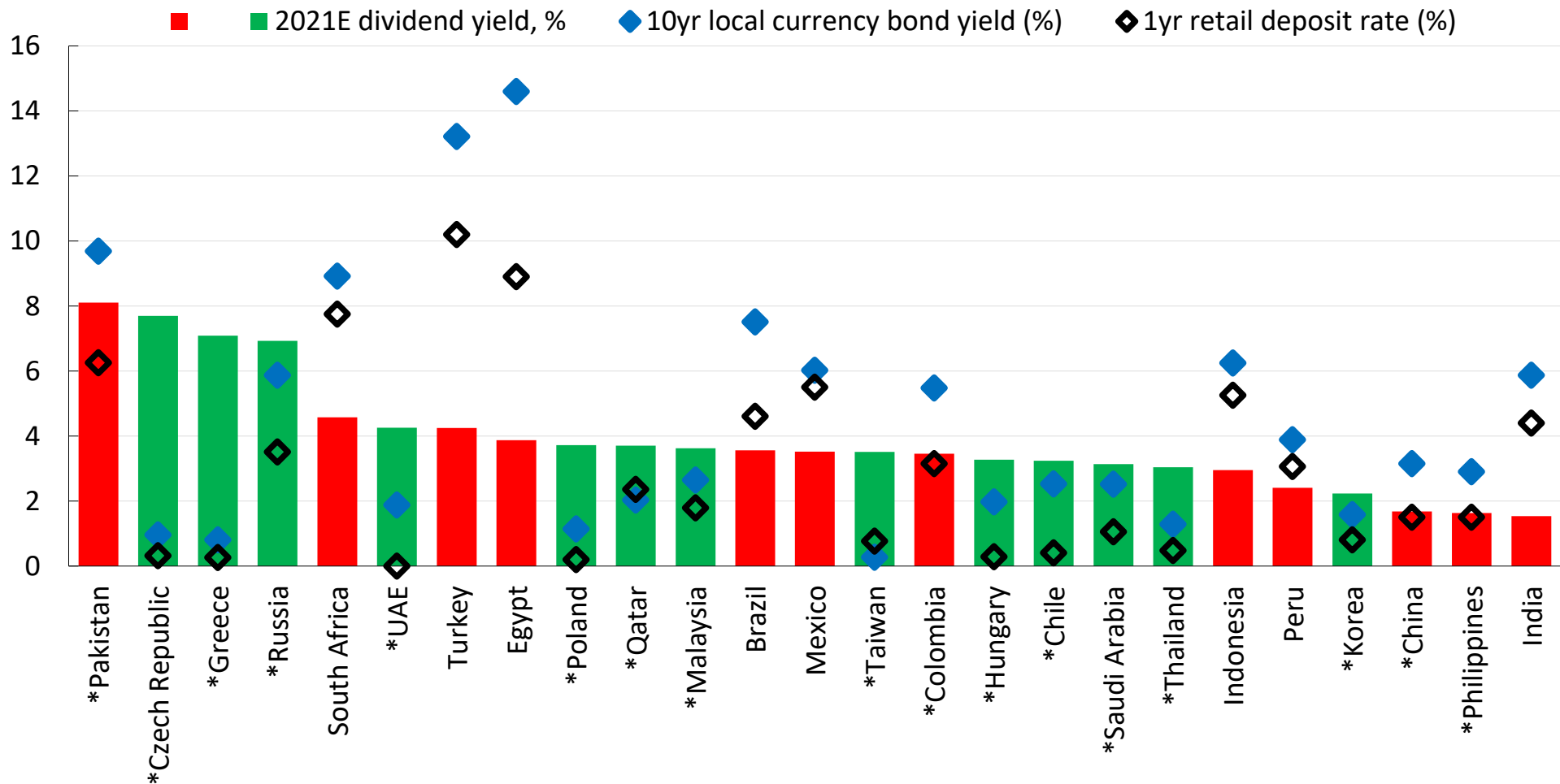
EM SECTOR PER VS HISTORY

12M FWD PER vs 10 yr average (green – cheap vs 10 yr avg, red – expensive vs 10 yr avg)



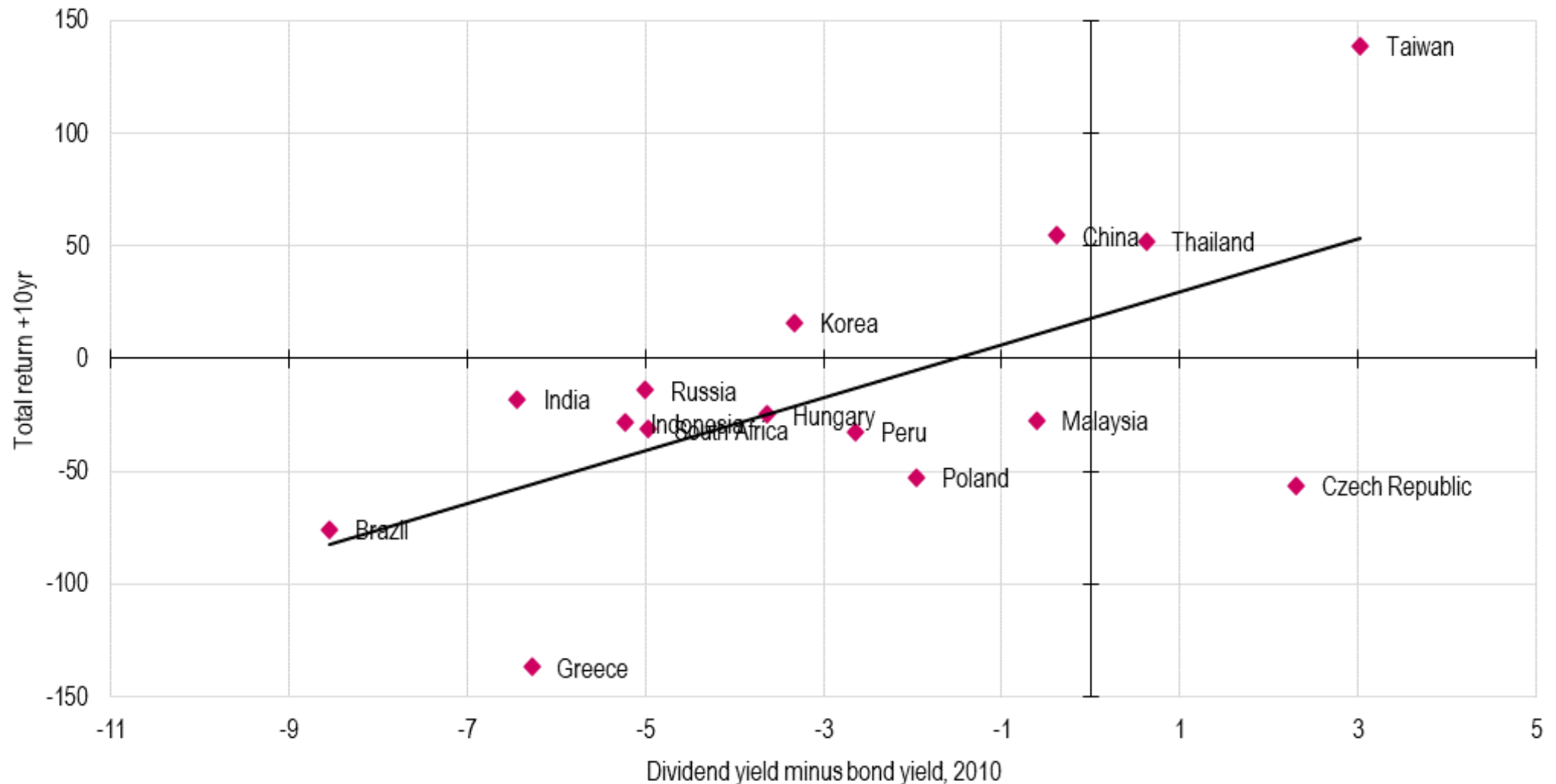
EM DIVIDEND YIELDS DRIVING FLOWS IN TO EQUITIES

Dividend yields are higher than bond yields in 14 EM countries, vs 7 in 2015 and 3 in 2010. 17 EM countries have dividend yield > 1yr deposit



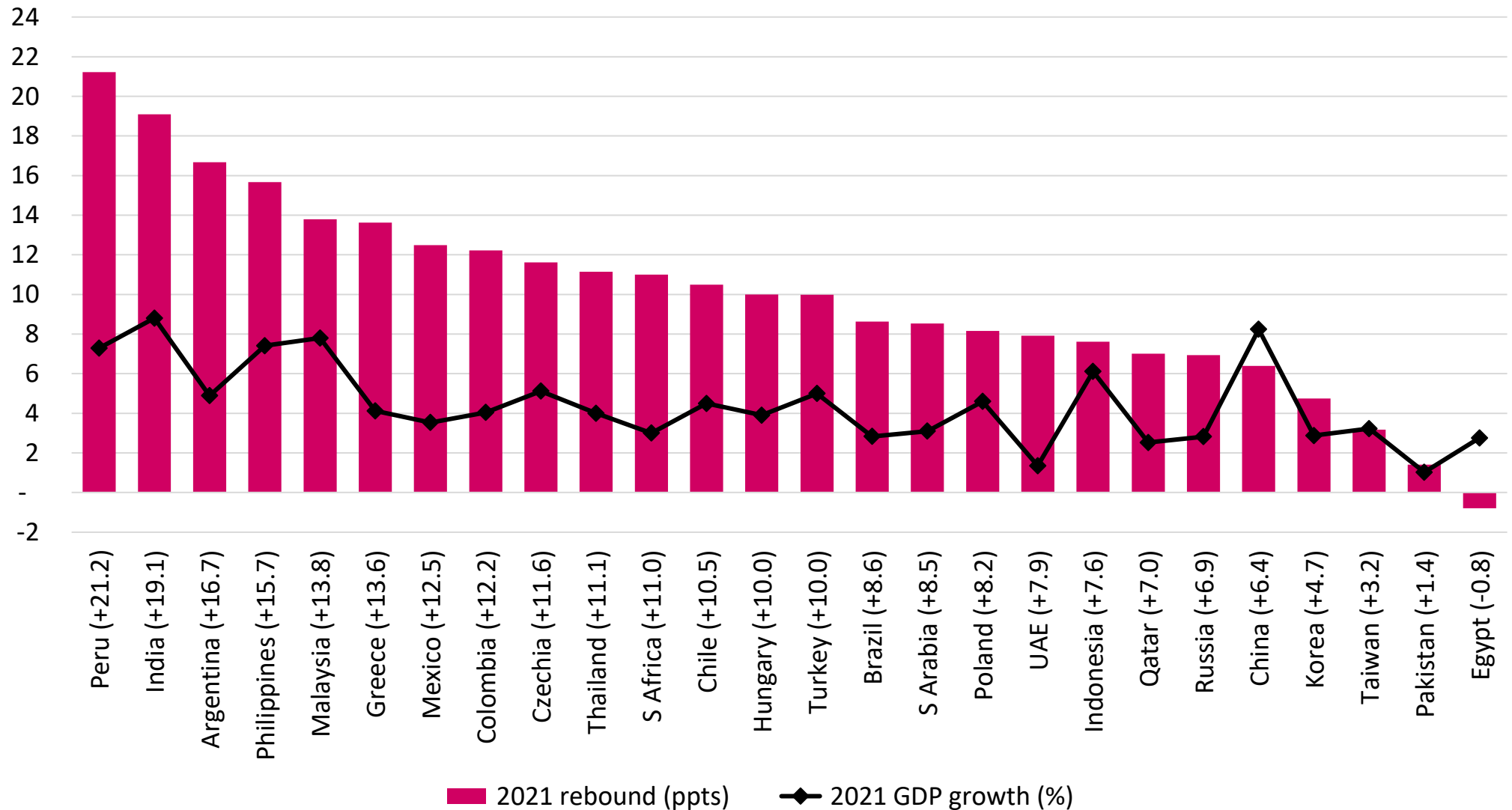
DIVIDEND YIELDS VS BOND YIELDS

10 yr returns better for countries with higher relative div yld.



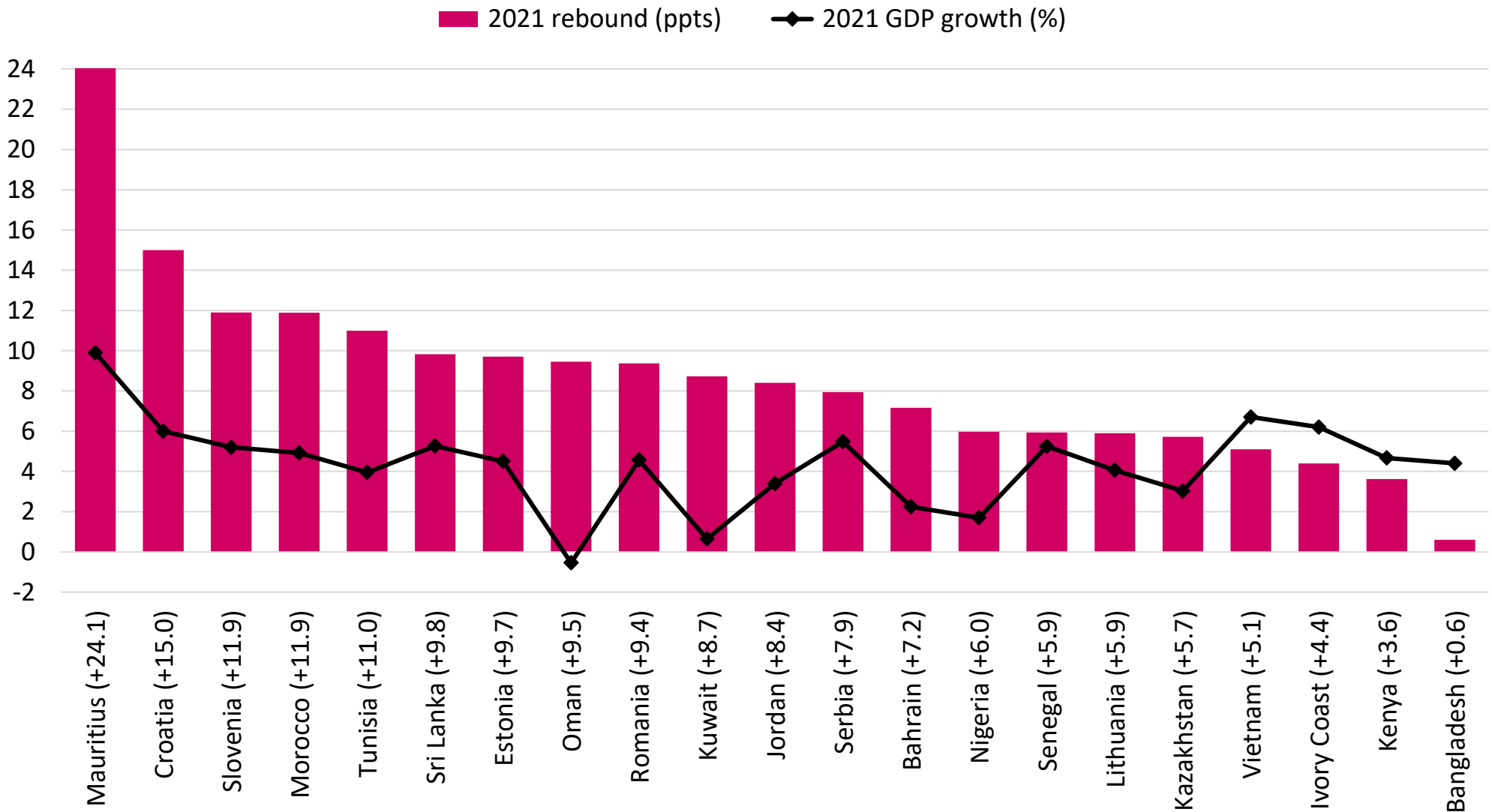
EM GDP REBOUNDS RANKED

IMF WEO October 2020: 2021 GDP growth rebound vs 2020



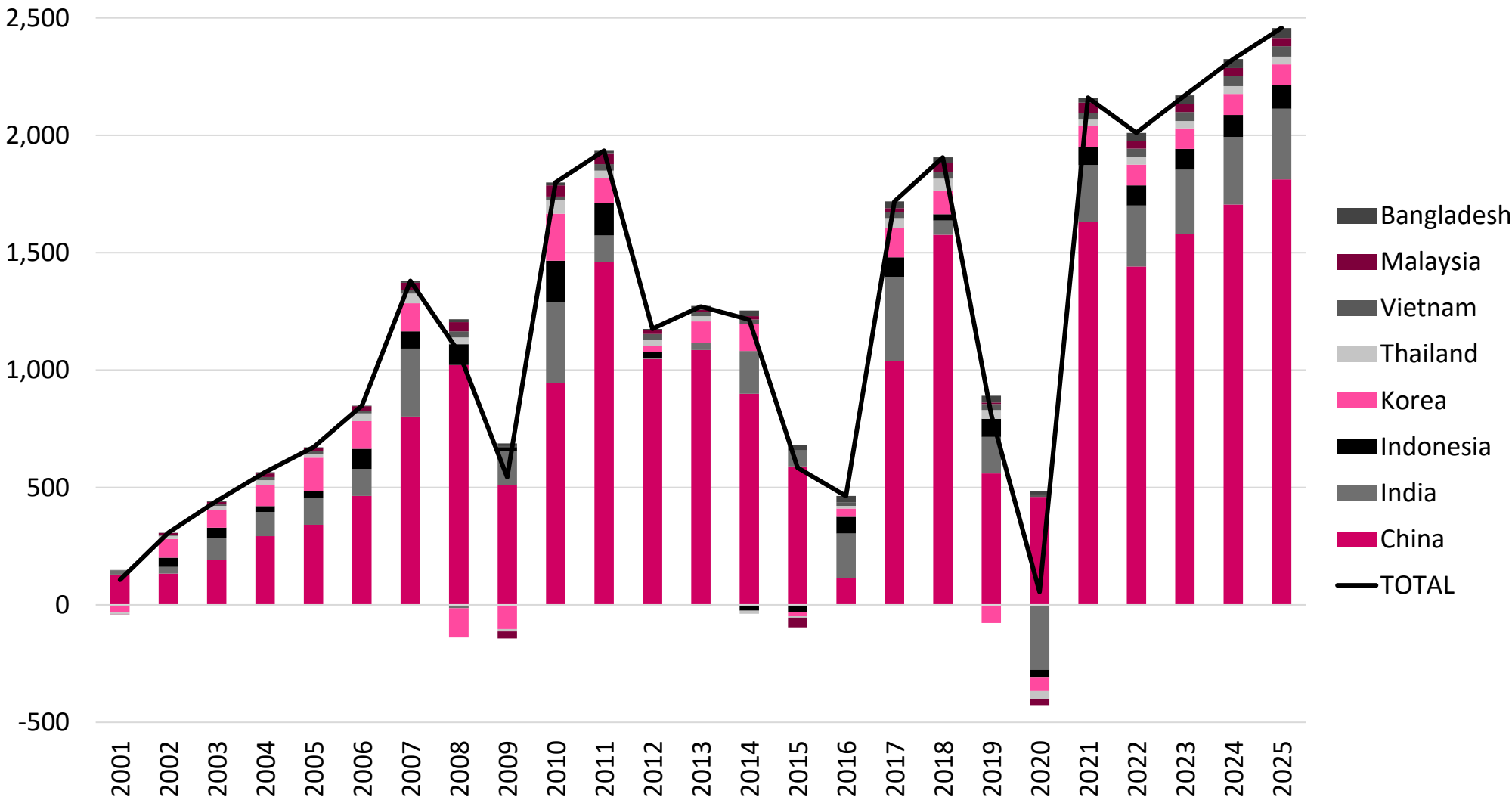
FM GDP REBOUNDS RANKED

IMF WEO October 2020: 2021 GDP growth rebound vs 2020



COMMODITY DEMAND

US\$ GDP growth for key EM Asia back well above 2007-12 levels



CONCLUSION

1. **Dollar weakness** and EM equity strength go hand-in-hand (historically on a 7-10yr cycle). A split Senate could be good for EM as it implies more emphasis on monetary stimulus (weak dollar, search for yield).
2. **Dividend yields exceed local bond yields** in over half of EM now, and term deposits in two-thirds of EM.
3. **Lacklustre flows to EM equity over the last decade** suggest potential for significant re-allocation to EM equities from international investors on the back of a normalization of trade rhetoric and weaker dollar.
4. **Weaker dollar** suggests investors may move up the risk curve rotating out of Asia towards cheaper currencies in Latin America and EMEA – financials could also perform better
5. **A stronger CNY suggests dollar GDP creation by China back to record levels**, supporting commodities
6. **Frontier equities look particularly cheap** once Kuwait transitions at the end of November

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