Issued: February 2018

MARKET COMMENTARY

Ashmore

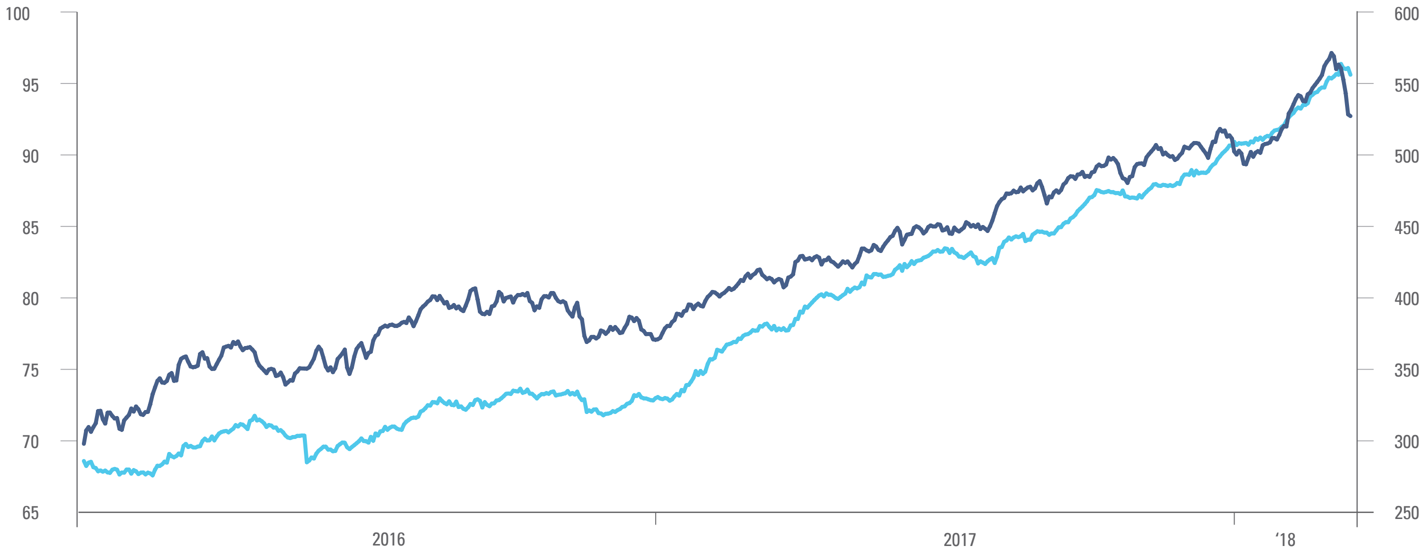
Second Chance Saloon

By Fernando Assad & Edward Evans

Emerging Markets equity investors have once again over reacted to Developed Market events.

Since 26 January the MSCI Emerging Markets index has fallen 8.6%. Over the same period, developed markets based on the MSCI World index have fallen 9.0%. This is the sharpest correction since the Emerging Markets cycle low in early 2016 and has prompted investor concerns over the outlook for markets. We believe the recent pull back presents another attractive entry point for investing in emerging markets equity. Fundamentals, valuations and market factors all continue to point to a bright outlook.

Fig 1: **Emerging Markets performance and earnings**



Source: Ashmore. Data from Bloomberg as at 8 February 2018.
MSCI Emerging Markets Net TR index return and earnings per share.

- The recent market correction has been felt across global equity markets. It originated in the US and looks to have been triggered by, or at least exacerbated by, technical factors. Importantly, it has not been in response to deterioration in the global macro economy.
- Strong Emerging Markets fundamentals are unchanged. Economic growth prospects are almost uniformly favourable. Trade accounts are in most cases in balance, currencies are competitive and inflationary pressure generally modest. Emerging Markets should also continue to benefit from robust global growth which is buoying global trade volumes and commodity demand.
- A strong economic growth backdrop, in combination with better corporate capital discipline, continues to drive Emerging Markets earnings and earnings expectations higher. The remaining 2017 earnings continue to meet and generally beat improved expectations. Current earnings expectations for 2018 are around 15%*. Importantly, they are broad based with uniformly positive expectations across all significant countries and industry groups.

We believe the current strong fundamental backdrop only serves to reinforce the attractiveness of the current investment opportunity

Continued overleaf

Ashmore

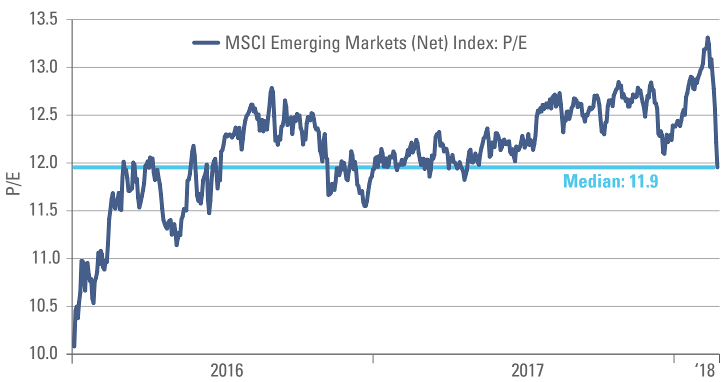
Fig 2: **Consensus net income growth expected for 2018**

ΔNI 18 (%)			China	India	Indonesia	Malaysia	Philippines	S Korea	Taiwan	Thailand	Pakistan	Czech	Egypt	Greece	Hungary	Poland	Qatar	Russia	S Africa	Turkey	UAE	Brazil	Chile	Colombia	Mexico	Peru
		15	14	25	14	7	13	16	9	10	29	-12	23	78	1	1	10	15	23	12	4	21	15	49	6	26
Cons. Discretionary	Auto & Comp	37	29	37	12	287		54	41											15						
	Cons Durables & App	15	20	32				4	14							31			19	19						
	Consumer Services	22	28			26	15	3		18				19							-23	8				
	Media	26		7	13	17		-52								13			47						32	
	Retailing	35	48		8			153		15				11					18			25	13		21	
Cons. Staples	Food & Staples Retail	1	10					-8	-63	18								33	21	16		29	4		3	
	Food Bev & Tobacco	16	23	16	12	12		7	-29	29									42	40		52	14		-7	
	House & Personal Prod	19	11	21	11			25														8			17	
Energy	Energy	17	17	27	14	39		5	-15	-0	18				-3	-12	3	16	-15	-9		62	11	72		
Financials	Banks	9	7	25	15	9	21	2	8	24	46	-3	21	288	0	15	5	17	9	9	-1	11	9	16	13	10
	Div Financials	17	15	52			12	4	8				-30					2	43	16	-13	22		31	-5	
	Insurance	17	19	34				15	1							11	166		20			3				
Health Care	Health Care Equip & Srvs	19	15			35		41		12									40			6				
	Pharma, Biotech	24	20	30	10			32							22				20			15				
Industrials	Capital Goods	7	7	21	12	-23	11	-0	22	25							17		24	10		-10			47	
	Comm & Prof Srvs	20	21					19																		
	Transportation	13	9	10	3	1	34	-17	17	17										81	9	45	76		12	
IT	Semiconductors	22	13					33	16																	
	Software & Services	24	30	5				39								0						2				
	Tech Hardware & Equip	17	43					15	17	14																
Materials	Materials	14	17	49	24	8		11	-0	5	6			63		-2		7	23	-5		8	109	59	13	38
Real Estate	Real Estate	21	26		6	-3	16		74	14									3	4	10	64			-25	
Telecomms	Telecomm Srvs	11	11	-13	13	6	-3	7	2	21		-2	78	31		191	24	8	18	37	3	34	106		3	
Utilities	Utilities	18	27	24	38	3	6	68		-2		-23				-12	-3	12								

Source: Ashmore as at 5 February 2018. *Emerging Markets equity aggregated net income in US dollar terms (not weighted by index weight). Provided for indicative purposes only.

- Investors are being asked to pay only reasonable valuations for this strong economic and earnings growth outlook. The MSCI Emerging Markets index trades on 11.9x price-to-earnings ratio. The MSCI World index is 15.4x.

Fig 3: **MSCI Emerging Markets index valuation**



Source: Ashmore. Data from Bloomberg as at 8 February 2018.

- Finally, as our Head of Research Jan Dehn has highlighted in the past, spikes in developed world volatility have historically always been excellent entry points into Emerging Markets. We agree with Jan's statement that risk events in developed markets tend to become pretexts for delaying allocations to or even outright selling Emerging Markets. Empirically, however, this behaviour is quite irrational (see *'Gee Vix!' Weekly Research, 30 May 2017*, Vix spiked 10 points in June – it is a good time to allocate to Emerging Markets).
- Notably, the above point has been true across differing environments of economic and earnings strength.

Contact

Head office

Ashmore Investment Management Limited
61 Aldwych, London
WC2B 4AE

T: +44 (0)20 3077 6000

@AshmoreEM

www.ashmoregroup.com

Bogota
T: +57 1 316 2070

Dubai
T: +971 440 195 86

Jakarta
T: +6221 2953 9000

Mumbai
T: +91 22 6608 0000

New York
T: +1 212 661 0061

Riyadh
T: +966 11 483 9100

Singapore
T: +65 6580 8288

Tokyo
T: +81 03 6860 3777

Other locations
Lima
Shanghai

Bloomberg page
Ashmore <GO>

Fund prices
www.ashmoregroup.com
Bloomberg
FT.com
Reuters
S&P
Lipper