EMERGING MARKETS (5.0 STARS – VERY ATTRACTIVE)

Why we like it:

1. Expected to have a stronger economic growth
   - Although the economic growth is expected to be lower in 2012, given the stronger economic fundamentals of emerging markets and room for monetary policy flexibility, we expect them to weather the anticipated slowdown in developed economies and post a strong subsequent recovery in 2013
   - Emerging markets will likely post stronger economic growth compared to their developed market counterparts, which should imply higher rates of earnings growth and stronger stock market returns for the region in the next 3 years
   - Although we started to see a downgrade in earnings estimates, global emerging markets are forecasted to hit new record highs by end of 2011. This should continue to drive up the equity markets in 2012
2. Attractive valuation
   - The Global Emerging Market trades at estimated PE of 9.7X and 8.8X for 2012 and 2013 respectively (as at 30 December 2011). It is far below its fair PE of 13.5X
   - After the poor performance in 2011, the PE ratio of Global Emerging Markets is attractive with major representatives such as Russia, Brazil, China and South Korea are all trading below their historical averages
3. Huge Potential Upside
   - The estimated upside by end-2013 is more than 60%, one of the highest among all of our covered markets

What we don't like it:

1. The outbreak of the European debt crisis might continue to hit market sentiment. When investors become more risk averse, the performance of the emerging market might be poor as it is considered one of the high risk assets
2. Currencies movement might be highly volatile due to swings in market sentiment. However, due to the strong fundamentals, emerging currencies should appreciate steadily against the USD
3. Since the emerging markets have a strong correlation with market risk appetite, we might see a new capital outflow out of the emerging markets. According to our experience in September, markets with higher valuations are especially risker and might face a strong sell-off when sentiment changes drastically