Emerging Markets (4.5 stars – Very Attractive)

Why we like it:

1. Relatively Stronger Long-Term Economic Growth Trajectory
   - Healthier demographics, on-going trends of urbanisation and domestic consumption should drive long-term sustainable growth
   - Emerging markets will likely post higher economic growth rates compared to their developed market counterparts, which should imply higher rates of earnings growth and stronger market returns
   - Previously extremely reliant on exports for economic growth, emerging countries have been refocusing their economies towards sustainable domestic consumption (e.g. China and India)
2. Attractive Valuations And High Potential Upside
   - The MSCI Emerging Markets Index trades at estimated PE ratios of 12.2X and 10.9X for 2018 and 2019 respectively (as of 24 September 2018); as compared to its fair PE of 13.5X
   - Relatively attractive when compared to their developed market peers

Why we don't like it:

1. Not Entirely Decoupled From The West
   - While emerging markets have displayed increased resilience and have become more insulated against negative developments in the developed markets, they are still not immune to developments in the West and are susceptible to the global trade environment and the fate of global commodity markets
   - Trade-reliant markets may be affected by tariffs implemented by an increasingly protectionist US
2. Susceptible to capital flows
   - As we have witnessed in recent months, capital outflows can be a key source of volatility for emerging market assets, making them vulnerable to swings in global investor sentiment
3. Government Intervention
   - Emerging market governments have shown themselves to be unafraid of interfering with free market operations to implement various policies and achieve their desired outcome
   - Interference by governments have led to decreased profitability and asset sales in various sectors and specific names
4. Geopolitical Risks Linger
   - The region still remains susceptible to geopolitical risk, as evidenced by events in Eastern Europe or in Northeast Asia; political woes in South America and tensions in the Middle East also serve as a reminder that geopolitical risks for emerging markets tend to be higher than their developed market peers

ASIA EXCLUDING JAPAN (4.5 STARS – VERY ATTRACTIVE)

Why we like it:

1. Attractive Valuations
   - Corporate earnings have stabilised and improved since late-2016, although earnings expectations for 2018 have moderated lower but still expected to be in positive territory
   - The MSCI Asia ex-Japan index trades at estimated PE ratios of 12.8X and 11.5X for 2018 and 2019 respectively, below its fair PE ratio of 14.5X (as of 24 September 2018)
2. Global Economic Expansion To Benefit Asian Markets
   - Although forecasts have been revised lower, we are still expecting positive growth for the region with the developed markets like Europe and Japan remaining supported.
   - Export-oriented economies are poised to benefit from a healthy trade environment, particularly those from North Asia and other open-economies such as Singapore
3. High Potential Upside
   - The high upside potential is a function of the region's heavily weighted underlying markets such as China, which continues to trade at relatively attractive valuations
   - Relatively attractive when compared to their developed market peers

Why we don't like it:

1. Not Entirely Decoupled From The West
   - While Asia has displayed increased resilience and become more insulated against negative developments in the developed markets, they are still not immune to developments in the West and are susceptible to the global trade environment and low commodity price environment
   - Trade-reliant markets may be affected by tariffs implemented by an increasingly protectionist US
2. Susceptible to capital flows
   - Asian markets, particularly the emerging economies, are still susceptible to the trend in capital flows as witnessed during the exodus of foreign capital in 2013, which resulted in falling values of financial assets.
   - Susceptibility to foreign capital outflows is a key source of asset price volatility for Asian assets