

EMERGING MARKETS**BRAZIL: 3.0 STARS – ATTRACTIVE**

- Manufacturing PMI came in at 50.9 in Sep 18, down from 51.1 in Aug 18
- Services PMI came in at 46.4 in Sep 18, down from 46.8 in Aug 18
- Retail sales rose 4.1% y-o-y in Aug 18, up from a -1.0% y-o-y rise in Jul 18
- Industrial production rose 2.0% y-o-y in Aug 18, down from a revised 4.2% y-o-y increase in Jul 18
- IPCA inflation rose 4.5% y-o-y in Sep 18, up from a 4.3% y-o-y rise in Aug 18

RUSSIA: 3.5 STARS – VERY ATTRACTIVE

- Manufacturing PMI came in at 50.0 in Sep 18, up from 48.9 in Aug 18
- Services PMI came in at 54.7 in Sep 18, up from 53.3 in Aug 18
- Industrial production rose 2.1% y-o-y in Sep 18, down from a prior 2.7% y-o-y rise in Aug 18
- CPI rose 3.4% y-o-y in Sep 18, up from a 3.1% y-o-y gain in Aug 18
- Unemployment rate came in at 4.5% in Sep 18, down from a 4.6% y-o-y gain in Aug 18
- Real retail sales rose 2.2% y-o-y in Sep 18, down from a revised 2.8% rise in Aug 18
- Consumer confidence came in at -14 in 3Q 18, down from -8 in 2Q 18

MARKET OUTLOOK

Brazilian corporations on aggregate (as gauged by the Bovespa Index) saw earnings estimates being revised downwards by -2.7% for the month of October 2018 and upwards by 1.2% for the same month in 2019 (as of 24 October 2018). Year-to-date, total revisions for 2018's and 2019's earnings estimates were up 8.8% and 14.9% respectively. Bovespa index's upgrade in earnings estimates was largely driven by Banco do Brasil, a Brazilian state-owned bank, and Brasil Bolsa Balcao (B3), Brazil's only securities, commodities and futures exchange. Banco do Brasil saw a 9.4% earnings upgrade for the month while B3, saw a 3.8% earnings upgrade in the same period. Over in Russia, companies (as gauged by the constituents of the RTSI\$ Index) saw their earnings estimates for 2018 and 2019 upgraded by 1.3% (as of 24 October 2018) for both years for the month of October. On a year-to-date basis, 2018's and 2019's earnings estimates have been revised upwards by 14.1% and 11.4% respectively. The energy sector, which comprised more than 50% of the weightings in RTSI\$ Index, saw the highest earnings revisions despite a fall in crude oil prices. In particular, oil and gas giants Surgutneftegas, Novatek and Tatneft saw earnings revised 7.0%, 5.6% and 5.3% respectively in the month of October.

In terms of recently-released economic data for Brazil, most leading data deteriorated and pointed to a slowdown in growth momentum. The manufacturing PMI fell back to 50.9 this month while the services PMI continues to contract as it came in at 46.4. Similar to the previous month, both sectors are experiencing higher input cost due to a weaker Real despite some reprieve from the result of the first round election. Moreover, Brazil's industrial production fell behind analysts' expectations of 2.8% having risen only 2.0% year-on-year in August. Despite recovering from May's truckers strike, industrial activities remain below levels seen prior to the strike. On the contrary, retail sales rose 4.1% year-on-year in August, almost triple of analyst's expectations and reflecting broad-based gains in most commercial retail sector. October's IPCA inflation rose 4.5% year-on-year, below analyst's expectations, and remained relatively subdued as compared to historical values. Overall, Brazil's growth momentum is slowing amid the election and might persist in the final quarter. However, we believe that a commitment by the in-coming president to improve the country's finances and a dissolution of political uncertainty will provide some upside to growth. Over in Russia, most data continue to suggest that domestic economic fundamentals remain robust, however, inflationary pressures are slowly building. The manufacturing sector (reflected by the manufacturing PMI) recovered from its four months contraction and came in at 50.0, while the service sector (reflected by the service PMI) came in at 54.7, maintaining its four months back-to-back ascension. The labour market has also tightened as unemployment rate continued to make new all-time low while real wages rose 7.2% year-on-year in September, beating expectations of a 6.5% year-on-year growth. On the other hand, CPI in September, exacerbated by a weaker Ruble, accelerated faster than expected which reduced real disposable income and hurt consumer confidence. Consequently, it also slowed the year-on-year growth in real retail sales. Overall, we opine that the Russian economy will expand at a steady pace for the remainder of 2018 as supported by oil prices. However, rising inflation worsened by a weaker Ruble and the upcoming VAT tax hike may weigh on growth momentum in the final quarter.

Over the month of October, Brazilian equities rallied on the back of positive sentiments from election results. The Bovespa Index rose 17.7% in SGD price terms (7.5% in local currency terms) as of 24 October 2018. The Bovespa Index is now trading at 12.9X and 10.4X 2018's and 2019's estimated earnings as compared to its fair PE ratio of 11.5X. With that, **we maintain a 3.0 Stars "Attractive" for Brazil at the current juncture.** As for Russia, the RTSI\$ Index fluctuated due to supply-related developments in the oil market. It recorded a -6.4% change in SGD price terms (-6.6% in local currency terms) as of 24 October 2018, with the RTSI\$ Index consequently trading at 5.3X and 5.3X 2018's and 2019's estimated earnings, as compared to its fair PE ratio of 7.0X. With that, **we believe that a star rating of 3.5 Stars "Attractive" continues to be warranted for Russia.**