

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

- Manufacturing PMI came in at 52.6 in Dec 18, down from 52.7 in Nov 18
- Services PMI came in at 51.9 in Dec 18, up from 51.3 in Nov 18
- Retail sales rose 4.4% y-o-y in Nov 18, up from 1.9% y-o-y rise in Oct 18
- Industrial production rose -0.9% y-o-y in Nov 18, down from a downward revised 0.8% y-o-y increase in Oct 18
- IPCA inflation rose 3.8% y-o-y in Jan 18, down from a 3.9% y-o-y rise in Dec 18
- FGV consumer confidence came in at 96.6 in Jan 18, up from a downward revised 93.0 in Dec 18

RUSSIA: 3.5 STARS – VERY ATTRACTIVE

- Manufacturing PMI came in at 51.7 in Dec 18, up from 52.6 in Nov 18
- Services PMI came in at 54.4 in Dec 18, down from 55.6 in Nov 18
- Industrial production rose 2.0% y-o-y in Dec 18, down from a prior 2.4% y-o-y rise in Nov 18
- CPI rose 4.2% y-o-y in Dec 18, up from a 3.8% y-o-y gain in Nov 18
- Unemployment rate came in at 4.8% in Dec 18, unchanged since Nov 18
- Real retail sales rose 2.3% y-o-y in Dec 18, up from a upward revised 3.0% rise in Nov 18

MARKET OUTLOOK

Brazilian corporations on aggregate (as gauged by the Bovespa Index) saw earnings estimates being revised downwards by -4.5% and -1.4% for January in 2019 and 2020 respectively (as of 28 January 2019). Over the month of January, most sectors saw earnings downgrade except for Real Estate and Consumer Staples. The latter saw a 1.6% upwards revision of earnings. On the other hand, the Industrials sector had their earnings downgraded by -16.1% on an aggregate level. Over in Russia, companies (as gauged by the constituents of the RTSI\$ Index) saw their earnings estimates for January 2019 and 2020 upgraded by 0.5% and 2.4% respectively (as of 28 January 2019). Most sectors saw earnings upgrade with the exception of the Consumer Discretionary sector. Russia's Consumer Staples sector led earnings growth in the month of January as earnings estimates were upgraded by 6.2%. Conversely, the Consumer Discretionary sector saw a marginal earnings downgrade of -0.4% in the same period. The Russian energy sector had earnings upgraded by 2.2% amid rising oil prices.

In terms of recently-released economic data for Brazil, key indicators continue to improve and pointed to a recovery in growth momentum. The manufacturing PMI recorded a level of 52.6 in December 2018, marginally down from prior month's 52.7, while remaining close to 2018's high of 53.4. Service sector, which has been a pillar of strength of the Brazilian economy, extended its recovery since exiting contractionary territory in September 2018. The reading recorded a level of 51.9 in December 2018. Exceeding consensus forecast and prior month's data, retail sales reading in December point to a continuous robust recovery in domestic consumption. However, industrial production figures in December slipped as compared to prior month due to weaker global demand. Overall, we expect Brazil's economic growth momentum to pick up in 2019 amid a recovery in domestic consumption, investment growth and an accommodative monetary policy regime. The recent speech delivered by newly crowned president, Jair Bolsonaro, at the World Economic Forum 2019 also highlighted the commitment that the administration has towards pension reforms, privatisation of state-owned enterprise and boosting trade.

Over in Russia, most data contracted for the month of December 2018, while inflationary pressures continue to build. In terms of leading indicators, both the manufacturing and service sector (reflected by the manufacturing PMI and services PMI respectively) contracted in December. Manufacturing PMI came in at 51.7 while services PMI recorded a reading of 54.4, both down from prior month, albeit remaining in expansionary territory. On the industrial front, data continue to reflect a slowdown in growth as industrial production rose 2.0% year-on-year in December, down from prior month's 2.4%. On the consumption front, data also continue to reflect signs of weakness as year-on-year real wages once again fell, for three consecutive months. We expect rising inflation from January's tax hike, lower oil prices and waning global demand to act as headwinds to Russia's growth momentum at least in the first half of 2019.

Over the month of January, Brazilian equities was up 13.0% in SGD price terms (11.1% in local currency terms) as of 28 January 2019. The Bovespa Index is now trading at 12.3X and 10.9X 2019's and 2020's estimated earnings as compared to its fair PE ratio of 11.5X. **We maintain a 3.0 Stars "Attractive" for Brazil at the current juncture.** As for Russia, the RTSI\$ Index rose due to a recovery oil prices in January. It recorded a 10.5% gain in SGD price terms (5.8% in local currency terms) as of 28 January 2019, with the RTSI\$ Index consequently trading at 5.7X and 5.4X for both 2019's and 2020'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.**