EMERGING MARKETS

BRAZIL: 3.5 STARS – ATTRACTIVE

- Manufacturing PMI stood at 49.6 in Mar 17, up from 46.9 in Feb 17
- Services PMI came in at 47.7 in Mar 17, up from 46.4 in Feb 17
- Composite PMI was recorded at 48.7 in Mar 17, up from 46.6 in Feb 17
- Retail sales fell by -3.2% y-o-y in Feb 17, down from an upward-revised -1.2% decline in Jan 17
- Industrial production fell -0.8% y-o-y in Feb 17 after a 1.4% increase in Jan 17
- IPCA inflation came in at 4.57% y-o-y in Mar 17, easing from a 4.76% y-o-y increase in Feb 17
- Selic rate at 11.25% as of 25 April 2017

RUSSIA: 4.0 STARS – VERY ATTRACTIVE

- Industrial production grew 0.8% y-o-y in Mar 17, up from a -2.7% contraction in Feb 17
- CPI came in at 4.3% y-o-y in Mar 17, down from the 4.6% increase in Feb 17
- PPI came in at 11.3% y-o-y in Mar 17, down from the 15.1% increase in Feb 17
- Retail sales fell -0.4% y-o-y in Mar 17, up from a -2.8% decline in Feb 17
- CBR rate at 9.75% as of 25 April 2017

MARKET OUTLOOK

In South America, the 2017 and 2018 earnings estimates of the Bovespa Index (as of 24 April 2017) dipped slightly over the month by -0.3% and -1.0% respectively. As of 24 April 2017, the earnings of Brazilian companies are expected to increase by 32.8% in 2017 before increasing by 11.5% in 2018. Divergent performances were witnessed from the materials sector as companies from the said sector could be found amongst those seeing the largest upward and downward earnings revisions over the month. Meanwhile, the 2017 estimated earnings of several energy companies fell amid a drop in crude oil prices over the month (-2.7% month-to-date as of 24 April 2017), with the exception of state-owned Petrobras which extended its upward revision in earnings from March as the company's earnings release in March (operating income of BRL 17.1 billion for 2016 up from BRL -12.4 billion in 2015) continued to buoy sentiments. Over in the heavily-weighted banking sector, the estimates of Banco Santander Brasil SA's 2017 EPS were revised upwards by 9.2% over the month, as the group recorded a 16.9% quarter-on-quarter and 14.3% year-on-year increase in profit attributable to shareholders in 1Q 2017. Little was changed with respect to the estimated earnings of the other banks in the index which saw an average 0.7% revision in earnings. Nonetheless, improvements in the country's macroeconomic environment continue to bode well for business confidence and companies' take-up rate for funding which should see the earnings of Brazilian banks supported.

Across the Atlantic in Russia, the estimated earnings of the RTSI$ Index were revised downwards over the month of April (as of 24 April 2017), with the estimated earnings for 2017 and 2018 revised lower by -1.7% and -2.8% respectively. As of 24 April 2017, the earnings of Russian companies are expected to rise 19.0% in 2017 before growing further by 10.3% in 2018. Over the month, companies from both the materials and utilities sectors saw divergent earnings revisions, with some of them seeing the largest earnings upgrades amongst companies in the RTSI$ Index and some others seeing the largest earnings downgrades over the month. Slight changes in the earnings estimates of the dominant financials sector were witnessed, with the exception of VTB Bank PJSC which saw its estimated 2017 EPS downgraded by -9.7% over the month. Excluding VTB Bank, the financials sector saw its estimated 2017 EPS revised upwards by an average of 0.8% over the month. The earnings revisions in the energy sector were more varied, with Tatneft PJSC seeing the largest earnings upgrade amid an announcement of increased crude oil production and new drilling activity year-on-year in 1Q 2017, while TMK PJSC saw the largest earnings downgrade amid the release of its 1Q 2017 numbers which revealed a -23.0% quarter-on-quarter and -31.8% year-on-year decline in its welded pipe shipments, one of its weakest-performing products for the quarter.

Latin America's largest economy has continued to gradually shift towards a turnaround, as a slowing in the decline of several economic indicators continued to be observed. February's industrial production had dipped slightly by -0.8% year-on-year after having expanded year-on-year for the first time since its recession in January. Meanwhile, March's Manufacturing PMI extended its improvement from February, recording its highest reading in 2 years at 49.6 and signalling well for manufacturing activity ahead. Additionally, March's services and composite PMIs, while still below the 50.0 neutral reading, have continued to inch closer towards the neutral mark as well, signalling improving sentiments over in the economy's services sector too. Retail sales, although volatile, had presented an overall upward trend rather than a downward one, as its falling inflation continued to support consumption. On 12 April 2017, Brazil's central bank continued with its current easing cycle and lowered the country's benchmark Selic rate by 100 basis points to 11.25%, as widely expected. According to a central bank survey of about 100 economists, forecasts as of 20 April 2017 are for the Selic rate to reach 8.50% by end 2017, signalling expectations of relatively aggressive monetary easing ahead and would be supportive for the economy's road to recovery should it materialise. Additionally, the continued stabilisation of the economy of Brazil's largest contributor of net exports, China, would likely continue to bode well for country's growth as well. The same central bank survey as of 20 April 2017 has also indicated that Brazil's GDP growth for 2017 is expected to turn positive at 0.43%.

On the last day of March 2017, the Federal Service of State Statistics released Russia's 4Q 2016 GDP numbers, revealing that the country had recorded a 0.3% year-on-year expansion, up from the prior quarter's -0.4% year-on-year contraction and was positive for the first time since 2015. Additionally, most economic indicators released over the month of April had continued to show improvement, signalling good economic progress. March's industrial production grew 0.8% year-on-year, up from its -2.7% contraction in February. While March's and February's manufacturing PMIs have moderated slightly, they have continued to stay above the neutral 50.0 reading since August 2016, with March's number coming in at 52.4. Meanwhile, the country's services PMI has also continued to trend above the neutral mark since February 2016, and came in at 56.6 in March 2017. Encouraging PMI readings have indicated continued expansion in both the manufacturing and services sectors, which bodes well for the recovering economy. Additionally, expectations are for the central bank to implement more rate cuts over the next few quarters given the steady downward trend in inflation and still high interest rates, which would further support the economy's growth. It is worth noting, however, that while Russian imports would likely be well-supported over the next few quarters amid a continued pick-up economic activity and a slowdown in the decline of domestic demand; the country's exports may see a smaller increase than imports due to a still gradual increase in oil prices and possible oil production cuts, thus possibly leading to a smaller trade surplus in the coming quarters. It remains likely that the country's economic growth would turn positive this year.

As of 24 April 2017, the Bovespa Index has fallen -0.9% month-to-date and currently trades at estimated PE ratios of 12.1X and 10.9X for 2017 and 2018 respectively as compared to its fair PE ratio of 11.5X. This represents a discount from its fair PE ratio when looking at the metric from a longer term perspective (2018 PE ratio). Continued signs of recovery as well as a stabilisation in commodity prices and China's economy have led us to be less pessimistic about the Brazilian economy which is still struggling at this juncture. As such, **we believe that a star rating of 3.5 Stars "Attractive" continues to be warranted for Brazil's equity market at this juncture.** On the other hand, Russian equities have posted a slight 0.3% gain month-to-date as of 24 April 2017 in USD terms and the RTSI$ index currently trades at estimated PE ratios of 6.2X and 5.6X for 2017 and 2018 respectively as compared to its fair PE ratio of 7.0X. In the near future, the market can still be expected to be easily impacted by geopolitical tensions as well as the overall direction of crude oil prices. While **we retain Russia's star ratings at 4.0 Stars "Very Attractive", we are keeping an eye on overall valuations should there be continued gains in stock prices without overall improving fundamentals**.

RECOMMENDED FUND:
EASTSPRING INVESTMENT GLOBAL EMERGING MARKETS FUND