EMERGING MARKETS

BRAZIL (3.0 STARS – ATTRACTIVE)

- Manufacturing PMI at 53.2 in Feb 18, up from 51.2 in Jan 18
- Services PMI rose to 52.7 in Feb 18, up from 50.0 in Jan 18
- Composite PMI rise to 53.1 in Feb 18, up from 50.7 in Jan 18
- Retail sales rose 3.2% y-o-y in Jan 18, slowing from an upward-revised 4.0% y-o-y rise in Dec 17
- Industrial production rose 5.7% y-o-y in Jan 18, down from an upward-revised 4.5% y-o-y increase in Dec 17
- IPCA inflation came in at 2.8% y-o-y in Feb 18 as compared to a 2.9% y-o-y increase in Jan 18

RUSSIA (3.5 STARS – ATTRACTIVE)

- Industrial production rose 1.5% y-o-y in Feb 18, down from 2.9% in Jan 18
- CPI came rose 2.2% y-o-y in Feb 18, similar to the print in Jan 18
- PPI came in at 5.7% y-o-y in Feb 18, rising from a 5.0% increase in Jan 18
- Retail sales rose 1.8% y-o-y in Feb 18, down from a 2.8% increase in Jan 18

MARKET OUTLOOK

Brazilian corporations (as gauged by the Bovespa index) enjoyed another month of earnings upgrades, as 2018's and 2019's estimates were upgraded 1.6% and 1.3% respectively (as of 26 March 2018). Year-to-date, total upgrades for 2018's and 2019's earnings were 9.5% and 6.4% respectively. The materials sector contributed strongly for this month's upgrades, with mining titan Vale seeing EPS upgrades as sell-side analysts are more confident of its deleveraging and cash return prospects. Index heavyweight and energy juggernaut Petrobras also contributed to the headline upgrades with a bump up in its earnings estimates. Earnings revisions among the consumer discretionary and consumer staples sectors were overall rather mixed this round, while the financials sector saw a slight upgrade on aggregate. In Eastern Europe, Russian companies (as gauged by the constituents of the RTSI$ Index) saw their earnings estimates for 2018 and 2019 lowered (by -1.4% and -1.5% respectively) over the month (as of 26 March 2018). This leaves year-to-date revisions for 2018's and 2019's earnings estimates at 7.3% and 6.7% respectively. The Russian financials sector as a whole saw earnings upgrades, with VTB and Sberbank driving the sector's changes in estimates for 2018. Sell-side analysts remain optimistic about prospects of these banks as asset quality is expected to continue improving. The situation was more mixed in the heavyweight energy sector, with Novatek seeing a slight bump up in its estimated EPS for the year while Surgutneftegas and Rosneft seeing downgrades to their respective EPS (the latter affected by higher debt loads). The iron and steel industry, which includes companies like Severstal, Novolipetsk, Magnitogorsk and MNC Norilsk, saw earnings upgrades over March.

In terms of recently-released economic data, industrial production in Brazil beat estimates in January, and is reflective of improving conditions within the country, with earlier months of data enjoying upward revisions as well. While retail sales data for January came in below expectations, the overall outlook for domestic consumption in Brazil remains bright. Leading indicators such as the manufacturing and services PMI rose strongly in February, suggesting improving confidence in both the manufacturing and non-manufacturing areas of the economy. Latest inflation data also suggests that inflationary pressures are more or less aligned with what economists are expecting. Despite Brazil's central bank declaring an end to any further rate cuts, we do not think that monetary policy will be tightened anytime soon, given disinflationary trends in the country. Monetary policy is still expected to remain accommodative, supporting the outlook for growth moving forward. Over in Russia, despite both retail sales and industrial production data coming in below consensus estimates, the overall outlook for domestic consumption and manufacturing remains supported given improving readings on leading indicators. While the manufacturing PMI came in below expectations, services actually rose above expectations in February, enabling the composite index to remain in expansionary territory. The consensus expects Russia's economy to grow by 1.85% in 2018, which we think is achievable barring any unforeseen adverse shocks or a complete collapse in energy-related commodity prices.

Global equity markets took a hit once again as trade tensions (from an increasingly protectionist US) sparked risk aversion among investors. Brazil's Bovespa index fell -1.1% in BRL terms (-4.1% in SGD terms) over the month, which leaves year-to-date returns of 10.4% as of 26 March 2018 (8.2% in SGD price terms). Consequently, the index trades at 12.8X and 11.2X 2018's and 2019's estimated earnings as compared to its fair PE ratio of 11.5X. At this juncture, **we maintain our star ratings of Brazil at 3.0 Stars "Attractive"**. Over in Russia, the Russian equity market also went through a similar encounter, with the RTSI$ Index falling -1.9% in RUB terms month-to-date (-2.6% in SGD price terms). We note that geopolitical risks remain for the Russian market, which is a factor that could hurt investor sentiment. Russian equities trade at 6.4X and 6.3X 2018's and 2019's estimated earnings, comparing favourably to its fair PE ratio of 7.0X. **We believe that a star rating of 3.5 Stars "Attractive" remains warranted for the market.**

RECOMMENDED FUND:
EASTSPRING INVESTMENTS GLOBAL EMERGING MARKETS FUND

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 stronger economic growth 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 12.6X and 11.4X for 2018 and 2019 respectively (as of 26 March 2018); as compared to its fair PE of 13.5X
   - The estimated upside by end-2019 is an estimated 8.9% gain (annualised), representing relatively substantial upside potential
   - Relatively attractive when compared to their developed market peers

3. Beneficiaries Of A Potential Pick-up In Global Trade
   - Synchronised global economic momentum supports the outlook for global trade, with commodity producers such as Brazil and Russia amongst those who should benefit

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 reliant emerging markets may be affected by protectionist policies implemented by populist Western governments

2. 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

3. 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 since late-2016, and are seeing broad-based recovery across the region year-to-date
   - The estimated upside by end-2019 is 9.7% (annualised) as of 26 March 2018, representing substantial upside potential
   - The MSCI Asia ex-Japan index trades at estimated PE ratios of 13.1X and 11.8X for 2018 and 2019 respectively, below its fair PE ratio of 14.5X (as of 26 March 2018)

2. Global Economic Expansion To Benefit Asian Markets
   - Economic momentum is likely to remain supported by recoveries in Europe and Japan while the US continues growing at a steady pace; and with developed markets remaining supported, global trade could potentially be boosted with positive spill-over effects for Asia
   - Asian exporters and export-oriented economies are poised to benefit from the current pickup in trade, 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 protectionist policies implemented by populist Western governments

2. Susceptible to capital flows
   - The region is 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.
   - While the region's capital flows have since stabilised, susceptibility to foreign capital outflows is a key source of asset price volatility for Asian assets