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BLACKFRIARS
ASSET MANAGEMENT

DEVELOPING MARKETS INSIGHT

3rd May 2017

Market review

April continued the positive trend that has prevailed thus far in 2017. The MSCI GEM equities benchmark advanced 2.2%, leaving the gain for the first third of the year at 13.9%. The month's twenty trading days were equally split between positive and negative movements.

EMEA was the best region, improving 4.4%, led by an 11.5% surge in Poland. There were similar moves in Turkey (+11.4%) and Greece (+11.3%). One reason was relief at the result of the first round of the French Presidential election, and the view that Emmanuel Macron will win the second round, thereby preserving the euro currency status quo. Turkey also saw President Erdogan win a referendum for increased and prolonged executive powers. Russia declined slightly (-0.2%) as crude oil continued to retreat (Brent blend -2.1%).

Asia had a good month, improving 2.1%, with all eight constituent countries on the rise. The leader was the Philippines, jumping 5.7%. The country had, thus far, missed out on the Asian rally in bourses and currencies. This isolation was reversed, also helped by a plan to increase tax on fuel and cars to fund a US$160bn infrastructure plan. China was steady, with an accretion of 2.7%. Its largest member, Tencent, was up 9.2%, as sales of mobile games continue to impress analysts.

Latin America was flat. Mexico was the only market to gain, edging up 0.9%. There was a little relief that President Trump is slowing the pace of NAFTA re-negotiations. Brazil was unchanged. Strength in consumer stocks, after the 1% interest rate cut, was balanced by weakness in mining and steel companies. Iron ore has lost 25% in the last two months.

In April, the Technology sector was the best, up 4.4%, helped by strength in Samsung (+6.4%). The worst was Materials, down 1%, hit by mining and steel weakness.

Pakistan

Pakistan is scheduled for re-inclusion in the MSCI Emerging Markets benchmark index from 1st June this year. The market was demoted to stand-alone status in December 2008 following its decision to put a 'floor' under the market during the financial crisis. It was quickly included in the Frontier benchmark (May 2009) but it has been a long wait since then to regain emerging market status. Pakistan's weight within the overall emerging market benchmark is likely to be small, <0.2%, with only seven stocks mooted for inclusion.

There have definitely been improvements since 2008 in terms of institutional development and electoral transition but the ongoing 'Panama gate' issue surrounding President Sharif demonstrates the potential for further disruption and there are concerns about economic populism ahead of the 2018 elections.

The general security situation is much improved though relations with neighbours India and Afghanistan remain volatile. The China Pakistan Economic Corridor (CPEC) has brought much needed infrastructure investment to the country, yet ownership remains with the Chinese.

After a 15% spike last December, the market has drifted slowly down this year and although the currency still looks a little expensive, market valuations do not.

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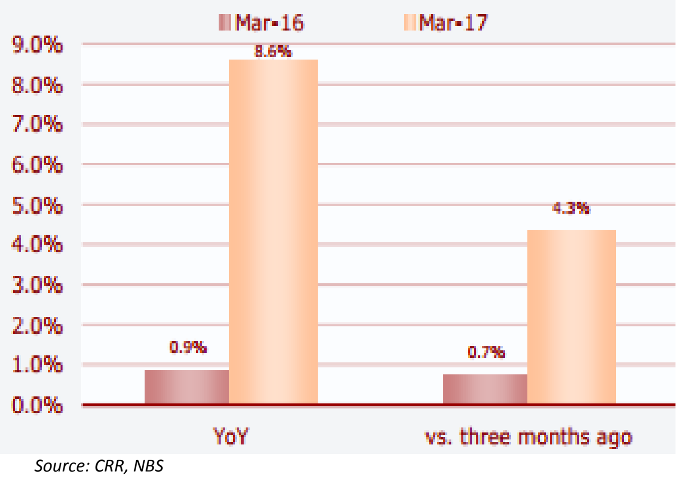
China property

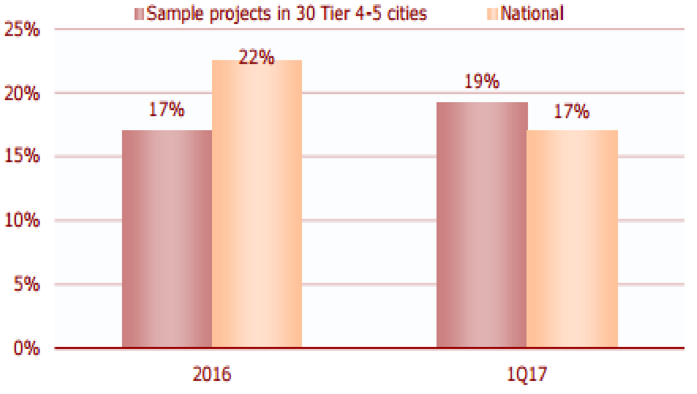
Following the stimulus package launched in late 2015, the Chinese property market enjoyed a boom last year. However, the Chinese authorities are keen not to repeat earlier mistakes and, at the local-government level, authorities have been active in controlling property bubbles in response to political pressure to keep housing prices in check. This is mainly focused on Tier 1 and 2 large coastal cities. In contrast, as noted in an interesting piece out this week from the China Reality team at CLSA, activity in the lower tier cities remains robust.

Tier 4-5 property price growth, March 2016 and March 2017



Source: CRR, NBS

Y-o-y property sales, Tier 4-5 city projects vs. national



Source: CRR, NBS

China has more than 1,800 Tier 4-5, or county level, cities. They account for approximately 40% of the total sales and construction of China's national property market. So the robust activity seen in these smaller cities should help compensate for the slowdown in the Tier 1 and 2 markets, thereby allowing China's overall GDP growth to remain on track.

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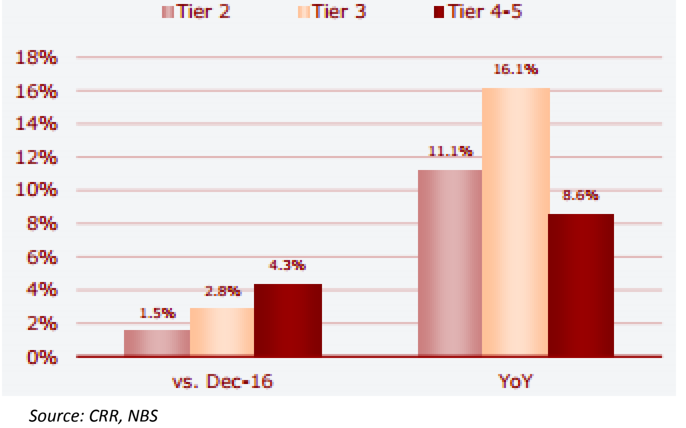
Property price growth in March 2017 at sample projects in Tier 2-5 cities



Source: CRR, NBS