

# DEVELOPING MARKETS INSIGHT

5<sup>th</sup> July 2017

## Market review

Emerging markets equities just about managed to stay positive in June, with a return of 1%. It was a range-bound month, trading within a band of 1.6%. The 22 trading days were split equally between gains and losses. This marks the sixth consecutive month of advances, leaving the year to date at +18.4%.

Asia was the best region, improving 1.7%, led by Taiwan's 4.1% jump, as technology companies, especially LED screen fabricators, rallied. China enjoyed a sixth consecutive positive month (+2.3%) helped by continued southern flows trading out of Shanghai and Shenzhen into Hong Kong. India was slightly down, losing 0.8%, held back by weakness in oil and gas companies, reacting to crude oil's 4.7% retreat. The worst Asian market was the Philippines, down 1.2%.

Latin America was calm, showing a modest accretion of 0.7%. Mexico was the main mover, adding 4.1%, predominantly from the peso appreciation of 3.2%. The currency has recovered 17.4% from its January low. The Central Bank effected its fourth interest rate rise this year, hiking to 7%, whilst hinting that this might be the peak. The offer to take OHL Mexico private by its parent company was also beneficial. Brazil continues to struggle, losing 1.7%. Political scandal refuses to depart. In addition, the acquisition of The Body Shop by Natura (-22.4%) was not well received.

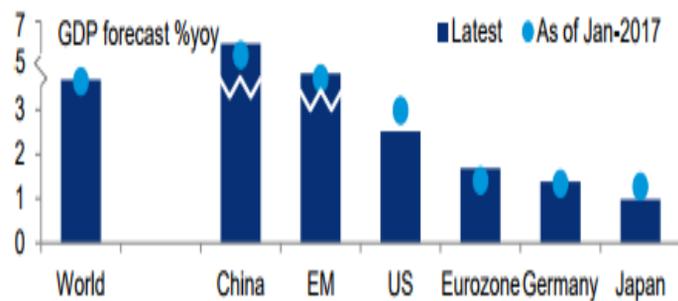
EMEA was the weakest region, shedding 2.3%. Russia gave back 3.8%, with the rouble plunging 4.4%. It was hit by prolonged EU sanctions and the prospect of similar US actions, albeit delayed by House/Senate partisanship. It is the only market to be in the red for this year (-14.2%). South Africa was close behind, diminishing 3.8%. The ruling ANC party is beset by scandal and corruption concerns. Greece was the best market, expanding 5.6%, as the EUR/USD continued to appreciate.

In June, Technology was the best sector, up 4.1%, boosted by Samsung Electronics hitting new all-time highs. The stock has doubled in value since early 2016. Energy was the worst sector, down 3%, depressed by weakness in crude oil.

## Global growth momentum

The global economy entered 2017 with the best growth momentum in several years. Earlier this year, the global manufacturing Purchasing Managers' Index (PMI) reached its highest level since 2011. Strengthening was broad-based across emerging and developed markets, with PMIs reaching multi-year highs. In emerging markets, we saw a recovery in the industrial sector, led by China, with continued strength in consumption.

## Global growth outlook little changed since start of year



Source: Deutsche Bank Research

There is some recent evidence of a softening in global growth momentum. PMIs have turned down modestly, and macro surprise indicators have fallen quite sharply in the US and are off recent highs more broadly. The fall in the US is at least partly due to over excitement in the immediate aftermath of the presidential election last November and perhaps a more sober assessment now of President Trump's capabilities.

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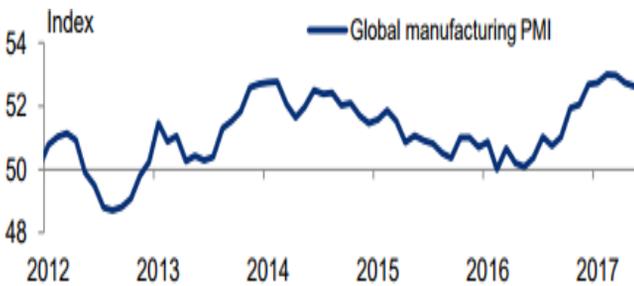
## Data surprises have turned lower, especially in the US



Source: Citi, Bloomberg Finance LP, Deutsche Bank Research

Whilst off its highs, growth momentum is still decent and, given that there seems little appetite anywhere in the developed world to quickly return interest rates to more normal levels, we expect only a gradual deceleration.

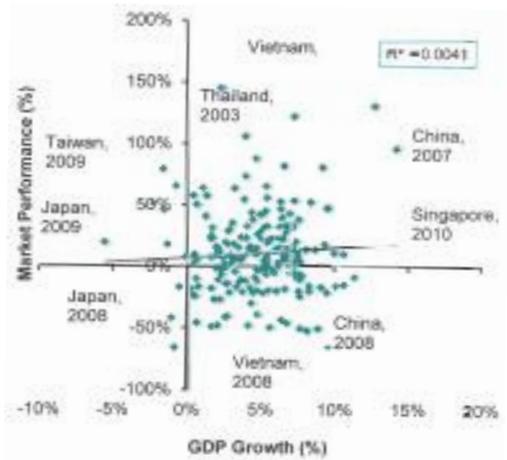
## Growth momentum off highs but still solid (e.g. manufacturing PMI)



Source: Haver Analytics, Markit, Deutsche Bank Research

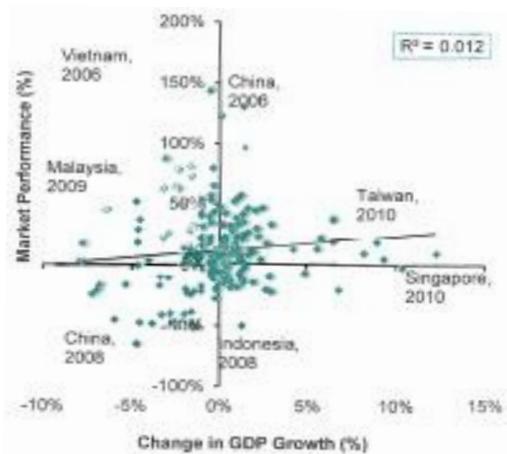
Finally, we should remember that although GDP growth is useful for assessing the direction of an economy and the size of the opportunity set for corporates, it does not have any relation to market performance.

## GDP growth and equity market performance – Asia, since 2000



Source: Bloomberg, Bernstein analysis

## Change in GDP growth and equity market performance – Asia, since 2000



Source: Bloomberg, Bernstein analysis

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