DEVELOPING MARKETS INSIGHT

4th April 2018

Market summary

March continued to see profit-taking, albeit it at a slower pace than February. The benchmark declined 1.9%, with 12 out of 22 days being in negative territory. All three regions were down, as well as 15/24 countries. Generally equity markets were hit by several concerns, namely possible slowing growth, accelerated interest rate rises and the prospect of trade tariff wars.

The worst region was EMEA, slipping 5%, held back by weakness in Greece, it fell 9.1%, as the bad loan provisioning for banks continues to be a concern. Turkey surrendered 7.5%, with a 4.1% depreciation of the lira. President Erdogan is making meddlesome comments about interfering with interest rates, whilst inflation remains stubborn at 10.2%. South Africa lost 6.5%, as it continues to digest the ousting of former President Zuma, and his subsequent indictment on corruption charges from the 1990s. The best market for the region, and the world was Egypt, rallying 12.6%, anticipating a clear victory for incumbent President Sisi in elections at the beginning of April.

Asia retreated 1.4%, with China, its dominant constituent, losing 3.3%. The market was hit by the imposition of USA tariffs, especially on auto parts. Clearly there are broader concerns about spiralling retaliation and diminished world trade. South Korea was the lead market, adding 2.5%, with 1.6% from won appreciation. The markets reacted favourably to the prospect of a better relationship with North Korea. The worst market was Indonesia, which gave back 7.1%. Household consumption is weakening, and the government is mooting price controls on gas, coal, road toll and cement prices.

Latin America was the most resilient region, only losing 1%. Peru led the way, improving 3.5%. It greeted the replacement of former President Pedro Pablo Kuczynski, with his vice-President, Martín Vizcarra, as a relief from the recent corruption noise. Mexico advanced 0.8%, more than accounted for by continued strength in the peso, up 3.3% for the month. It is hoping for NAFTA negotiations to be less draconian than feared. Brazil gave back 1.9%, positive M&A in the pulp sector was outweighed by weakness in the meat sector regarding tainted products.

In March, Technology was the best sector, improving 0.7%. Samsung Electronics defied the weakness in major USA technology companies, adding 6.7% on improving relations on the peninsula. Communications was the laggard sector, shedding 5.3%, hit by weakness in Naspers.

Peru Presidency

The bribery scandals that have torn through Brazil have found another victim over the Andes in Peru. Pedro Pablo Kuczynski resigned as President, damaged by allegations of bribery from Oderbrecht Construction. The Brazilian company has admitted handing out US$800m of bribes in Latin America, including US$29m in Peru. Kuczynski denies accepting money for infrastructure contracts when he was Minister of Finance in 2009. In spite of winning the Presidential election in 2016 by a very narrow margin, he did not have sufficient backing in Congress. Therefore he was unable to garner sufficient coalition support. He is replaced by the vice President, Martín Vizcarra, who the market views as a continuing steady pair of hands. Peru retains fantastic potential, as a typical developing market, blessed with extensive metal and maritime assets. It has repeatedly been let down by its political class.

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BLACKFRIARS ASSET MANAGEMENT

DEVELOPING MARKETS INSIGHT

13th March 2018

Pakistan

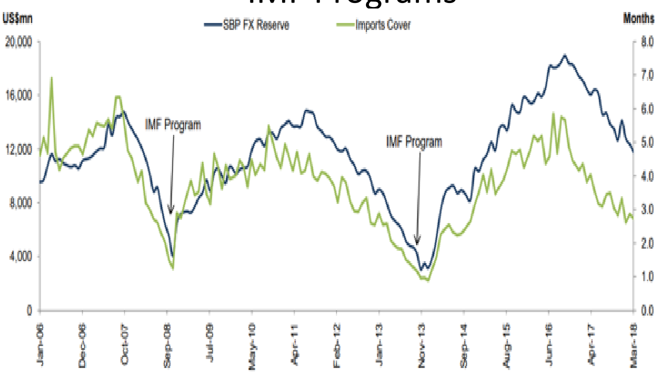
Having declined for most of last year, 2018 has seen the Pakistan market rise by ~20% in USD from its December lows.

MSCI Index Pakistan

Source: Bloomberg Finance L.P. 2018

However, Pakistan's external account is a concern at a time when Pakistan-US relations seem to have taken a turn for the worse. Pakistan's FX reserves are down 40% to US$11.8bn (2.6 months of import cover) since the peak in Oct 2016 and the current account deficit grew strongly last year to an estimated 4.5% of GDP.

Foreign Exchange Reserves Trend and IMF Programs



Source: State Bank of Pakistan, Topline Research

As such, it is likely we will see further devaluation of the currency - we have seen 5% moves in Dec 17 and last month - and interest rate hikes from the government coupled with likely entry in to an IMF programme post the 2H18 general elections. Some of these measures may be avoided if Pakistan can arrange external financing from friendly countries (for example China and Saudi Arabia).

Although a weaker currency and higher rates will be positive for certain sectors (Banks, Oil & Gas, Textiles) and the market is trading on a single digit forward price/earnings multiple, we believe the recent rally has largely discounted the good news given the uncertainties over the year ahead leaving Pakistan looking fair value to us currently.

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