

# DEVELOPING MARKETS INSIGHT

2<sup>nd</sup> May 2018

## Market summary

April was a relatively quiet month, with a modest decline of 0.4% for the MSCI GEM equities benchmark. The trading range was a restricted 3.7%. In the month, 9/21 trading days were negative and 13/24 countries were in the red.

The worst region was EMEA, slipping 2.4%, depressed by a 10.8% drop in Turkey. The market was surprised by President Erdogan calling a snap election for June, much earlier than the one previously scheduled in November 2019. He is hoping to capitalise on a divided opposition. Russia was also weak, shedding 7.4%, undermined by the rouble's 9.5% tumble. The market was hit by the imposition of further USA sanctions, particularly those on oligarch Oleg Deripaska. Greece was the region's, and indeed the world's, best market. It rallied 15.7%. There is optimism that it will be able to exit its debt restructuring programme in the third quarter. The banks led the rally.

Latin America saw divergent performance. Overall the region retreated 1.3%. Brazil was the only negative country, losing 4.0%. It was hit by Brazilian real depreciation of 4.9%. The market remains occupied by October's election, and the lack of improvement in the fiscal deficit. Colombia surged 10.2%, boosted by crude oil's 3.4% gain (Brent blend). It is now the best market for the year, up 15.5%. Mexico was mixed. The peso's 2.9% depreciation was outweighed by local market strength, leaving the return at +2.2%. The Presidential elections in July remain a source of uncertainty.

Asia managed a positive return, by the smallest margin of 0.1%. India was the best market, improving 4.1%, first quarter corporate earnings have been strong, especially in Information Technology. All the other markets lost ground. Indonesia was the worst market, losing 4.6%, in

a similar fashion to the Phillipines. There are concerns that the central banks are behind the curve in tightening rates. Taiwan was close behind, also down 4.6%. There was weakness in Apple component suppliers and assemblers, in anticipation of weak iphone sales. China was essentially flat.

Industrials was the best sector, up 2.6%, with gains in engineering. Health Care was the worst sector, down 3.8%, running into profit-taking.

## Improvement in Korea

The détente on the Korean peninsular is good news and covered in more depth in our Asian Insight [here](#). The image below caught my eye – not very scientific but striking nonetheless!



Perhaps more relevant in the short term are the continuing incremental moves we are seeing in South Korea in relation to corporate governance and shareholder returns. Following on from the impressive moves made at Samsung Electronics over the last year or so we have recently seen an announcement of a share buyback combined with a cancellation of both these shares and existing treasury shares by Hyundai Motor. The move is definitely not entirely altruistic – the activist hedge fund manager Elliot Advisors has recently announced a US\$1 billion stake in the group – but welcome notwithstanding.

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More recently still, SK Innovation announced a KRW1tn buy back equivalent to 5.6% of the common shares outstanding. The Hyundai and SK groups are among Korea's leading *chaebols* and these actions are symptomatic of a slowly changing attitude towards minority investors which can only help to reduce the market's discount compared to others in the region.

## Elections in Malaysia

Malaysia holds its 14<sup>th</sup> General Election on May 9<sup>th</sup> and the outcome is certainly not a foregone conclusion. The Barisan Nasional (BN) coalition (of which Prime Minister Najib's UMNO party is the largest member) has so far won every election it has contested, starting in 1978. However, for the last ten years the opposition has gradually been gaining ground. In 2008 BN lost more than a third of the parliamentary seats to Pakatan Rakyat, a loose alliance of the opposition parties. In 2013 BN won only 47% of the popular vote though managing to gain 60% of the 222 parliamentary seats.

Despite the revelations of the 1MDB scandal, including the receipt of US\$683 million in to his personal bank account, Mr Najib has resolutely clung to power. For this election, the de-facto leader of the opposition, Anwar Ibrahim, remains in prison on dubious charges. Additionally, the Prime Minister has undertaken another widespread gerrymandering exercise to alter constituency boundaries in favour of BN and even disqualified several key opposition candidates on Nomination Day.

Despite these headwinds the opposition parties still look to be closing in on Najib and BN. Dr. Mahathir, the former PM has joined the opposition ranks, bringing with him a number of other leading (ex) UMNO figures.

Crucially, Dr Mahathir's party has an alliance with one of the leading political parties in Sabah (East Malaysia) – formerly an UMNO stronghold. There are rumours of tensions within the opposition coalition so Najib may still hold the day but the thirty-year reign of Barisan Nasional looks increasingly tenuous.

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