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Upgrade Emerging Markets to OW & Downgrade Developed Markets to N

Listen to Monthly Insights

Main Points

Global markets continued to trade higher in August. The U.S. claimed the top performing spot as Tech powered the S&P 500 to all-time highs. On the international front, EM's June and July rally lost steam against DM. DM Asia, led by Japan and Hong Kong, outpaced the broad DM index after trailing in July 2020. Economic data indicates the recovery is stronger in Asia than Europe. Asia, led by China and South Korea, outperformed LatAm, which was weighed down by Brazil. The EM regional performance gap forming between EM Asia and LatAm continues to grow (**Figure 51**). LatAm is struggling to contain the COVID-19 pandemic, and a lack of policy support is hurting both Brazil and Mexico. USD stabilized in August after weakening during June and July as the U.S. experienced a COVID-19 resurgence. For now, we continue to favor the U.S. market over international markets.

We are taking advantage of EM's August underperformance to upgrade EM to OW and downgrade DM to N. The high EM-DM correlation starting in 2017 resulted in minimal performance dispersion between the two international market segments (**Figure 4**). Looking ahead, we believe there are multiple reasons to favor EM over DM. Global monetary policy is highly accommodative with interest rates at low levels. Enhanced global liquidity and low interest rates should cause investors to favor higher growth assets. EM's exposure is tilted toward higher growth sectors, such as Tech and Consumer Discretionary, while DM's exposure is tilted toward Financials and Health Care. This impacts blended EPS growth and is a factor in EM's superior EPS growth (**Figure 8**). EM's rebound from the pandemic has been swifter and stronger than DM (**Figure 23 vs Figure 49**), with EM closing the performance gap vs the MSCI ACWI ex U.S. (**Figure 50**). EM is nearing the +1std line, but we believe a combination of investor demand for higher growth assets and superior sector exposure can cause it to outperform DM and narrow the U.S. performance gap.

International Roundup

► **Developed Markets:** Stronger stimulus response than EM, but sector exposure is lower growth than EM (**Figures 5 & 8**)

► **Emerging Markets:** More attractive sector exposure than DM; Benefits from global stimulus wave, but COVID-19 resurgence is a risk

► **Europe:** Recent stimulus is a positive catalyst & suggest bloc-wide relations are improving; No Deal Brexit is a risk

► **Asia:** Economic recovery appears stronger than Europe & LatAm; China's global ambitions could stoke regional tensions

► **Latin America:** Weighed down by Brazil in August; Struggle to combat COVID-19 could undo the last decade's economic progress

► **U.S. Dollar:** Stabilized in August, but risk of continued weakness as U.S. growth & monetary policy normalize vs world

Global Equity Ratings
12-18 Month Investment Horizon

Region	Our View	Last Chg
Broad U.S.	OW	Dec-19
Emerging Mkts	OW	Sep-20
Developed Mkts	N	Sep-20
Broad Intl.	N	Dec-19

Source: MarketDesk Research

Research Portal →

International Equities: The goal of international equity ratings and the following analysis is to simplify international investing by focusing on the key drivers of risk and return. Below is a summary of our allocation views for the next 12 months. Up / down arrows indicate a positive (▲) or negative (▼) change in view since the prior monthly report.

● Underweight (UW)　　● Neutral (N)　　● Overweight (OW)

International Region / Country	Quantitative Rating				Key Drivers of Current Outlook	Rationale
	Chg	UW	N	OW		
U.S. vs International						
U.S.		•	•	●	Gov't Stimulus; Tech Sector	Aggressive Federal Reserve & Congressional stimulus measures; Concerns about USD weakening & expensive valuations
International		•	●	•	Outlook for USD	Strong USD is a hurdle for U.S. investors, while weak USD is a catalyst; No exposure to high-growth U.S. tech sector
Emerging vs Developed						
Emerging Markets		•	•	●	Global Stimulus Liquidity Wave	LTM EPS held up better than DM; Manufacturing PMIs rebounding quicker than DM; Second infection = Material risk
Developed Markets		•	●	•	Strong COVID-19 Responses	Central banks & governments responded more aggressively with stimulus; Concerns about weaker blended EPS growth

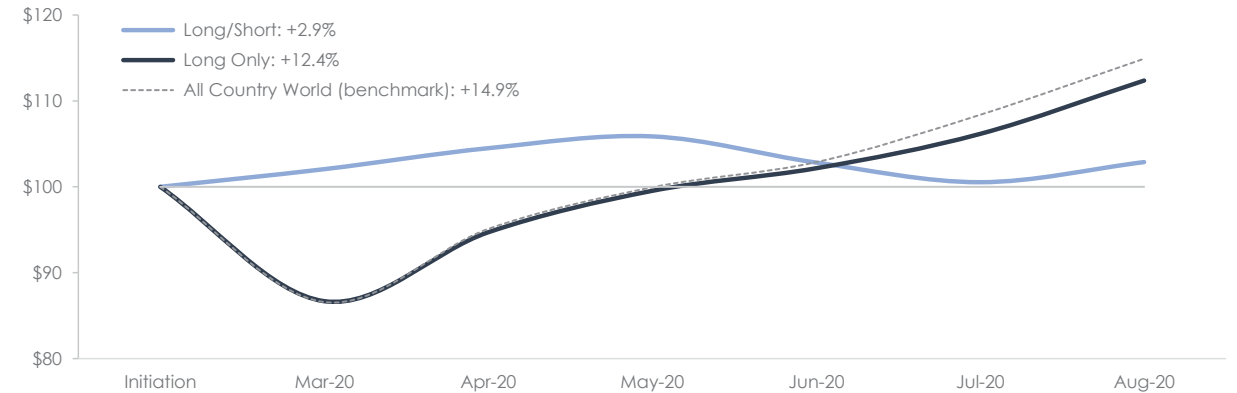**Figure 1: Performance of MDR Ratings — August 2020**

Average monthly performance across international markets by rating.
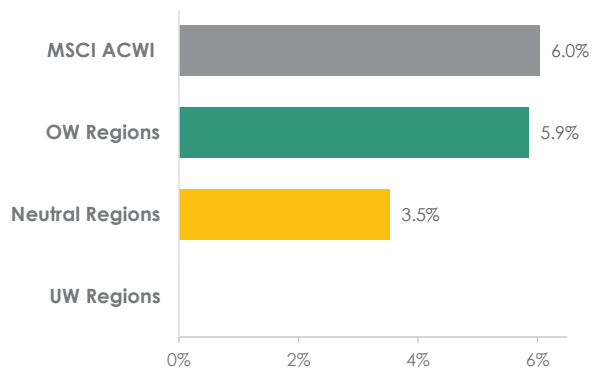
Source: MarketDesk Research

Figure 2: Model Portfolios Performance

Based on equal weight total return data. Assumes long OW and short N & UW regions. Returns do not include borrowing costs.

Source: MarketDesk Research. **Note:** *MDR International Ratings began on 2/28/2020.*

Figure 3: Regional Monthly Performance
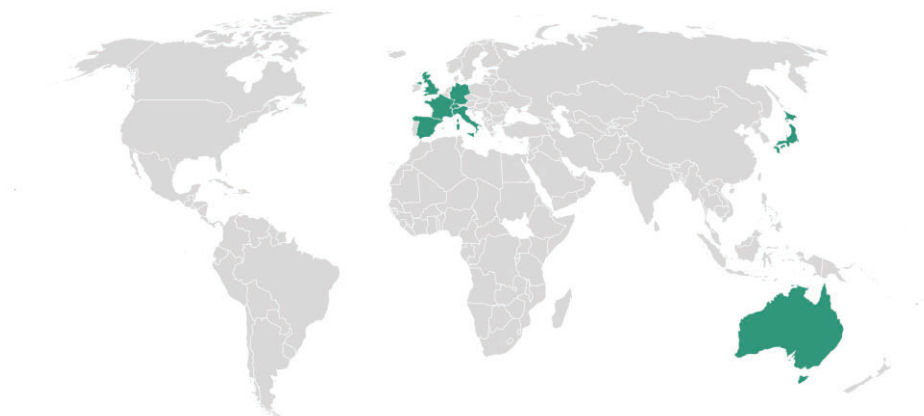Monthly total returns over the past year by region in USD.

The U.S. market claimed the top performing spot in August as Tech powered U.S. equities to all-time highs.

Broad EM underperformed Broad DM in August after outperforming in both June and July.

	September 2019	October 2019	November 2019	December 2019	January 2020	February 2020	March 2020	April 2020	May 2020	June 2020	July 2020	August 2020	YTD	1-Year
Best	EM Europe 3.7%	Broad EM 4.2%	U.S. 3.6%	LatAm 10.5%	U.S. 0.0%	Broad EM -3.8%	U.S. -12.5%	MENA 12.9%	EM Europe 7.8%	DM Asia 6.6%	Broad EM 8.3%	U.S. 7.0%	U.S. 9.4%	U.S. 21.4%
	Broad DM 3.2%	DM Europe 3.7%	MENA 1.8%	Broad EM 7.7%	MENA -1.2%	EM Asia -5.4%	Broad DM -14.1%	U.S. 7.2%	LatAm 7.2%	Broad EM 6.6%	LatAm 7.9%	DM Asia 4.8%	Broad EM -0.2%	Broad EM 13.7%
	LatAm 3.1%	Broad DM 3.4%	DM Asia 1.4%	EM Asia 4.8%	EM Europe -2.5%	DM Asia -5.6%	ACWI ex U.S. -15.0%	EM Europe 9.5%	DM Europe 6.3%	EM Asia 5.6%	MENA 6.5%	MENA 4.8%	ACWI ex U.S. -3.6%	ACWI ex U.S. 7.4%
	ACWI ex U.S. 2.7%	EM Asia 3.3%	Broad DM 1.1%	EM Europe 4.7%	Broad DM -2.8%	ACWI ex U.S. -6.7%	Broad EM -15.8%	EM Asia 9.0%	Broad DM 5.4%	LatAm 5.6%	U.S. 5.9%	Broad DM 4.7%	DM Europe -4.8%	DM Europe 6.8%
	DM Europe 2.5%	ACWI ex U.S. 3.1%	EM Europe 1.1%	DM Europe 4.4%	DM Europe -2.8%	DM Europe -7.6%	DM Asia -15.8%	LatAm 8.0%	U.S. 4.8%	ACWI ex U.S. 4.4%	EM Asia 5.5%	DM Europe 4.7%	Broad DM -5.2%	Broad DM 5.4%
	U.S. 2.0%	DM Asia 3.1%	DM Europe 1.1%	ACWI ex U.S. 4.1%	ACWI ex U.S. -3.4%	Broad DM -7.8%	EM Asia -17.5%	DM Europe 7.5%	ACWI ex U.S. 4.6%	DM Europe 3.8%	DM Europe 4.1%	ACWI ex U.S. 4.2%	DM Asia -5.6%	DM Asia 3.8%
	DM Asia 1.9%	EM Europe 2.5%	ACWI ex U.S. 1.0%	Broad DM 3.0%	DM Asia -3.6%	U.S. -7.9%	DM Europe -18.4%	Broad EM 7.4%	EM Asia 4.4%	Broad DM 3.5%	ACWI ex U.S. 4.0%	Broad EM 2.9%	EM Asia -5.9%	EM Asia 3.1%
	Broad EM 1.7%	U.S. 2.2%	Broad EM -0.1%	DM Asia 3.0%	LatAm -4.9%	MENA -10.1%	MENA -18.9%	Broad EM 7.3%	Broad EM 3.0%	EM Europe 3.3%	Broad DM 1.9%	EM Asia 2.0%	MENA -8.8%	MENA -2.6%
	MENA 0.8%	MENA 1.0%	EM Asia -0.7%	U.S. 2.9%	Broad EM -6.2%	LatAm -10.6%	EM Europe -21.4%	ACWI ex U.S. 6.4%	DM Asia 2.2%	U.S. 1.8%	EM Europe 1.0%	EM Europe 1.1%	EM Europe -19.9%	EM Europe -9.7%
Worst	EM Asia 0.8%	LatAm 0.8%	LatAm -3.4%	MENA 2.4%	EM Asia -6.8%	EM Europe -16.1%	LatAm -30.1%	Broad DM 5.8%	MENA -0.1%	MENA 1.4%	DM Asia 0.8%	LatAm -1.6%	LatAm -22.9%	LatAm -14.3%

LatAm was the only global region to produce a negative return in August 2020. The region was weighed down by Brazil and Chile after those two countries both recorded strong gains in June and July.

Source: MarketDesk Research. **Broad EM** = MSCI EM. **Broad DM** = MSCI EAFE. **LatAm** = average return of Brazil, Mexico, Chile, Peru, Colombia, Argentina. **EM Asia** = average return of China, Taiwan, South Korea, India, Thailand, Malaysia, Indonesia, Philippines. **DM Asia** = average return of Japan, Australia, Hong Kong, Singapore, New Zealand. **EM Europe** = average return of Russia, Poland, Turkey, Greece. **DM Europe** = average return of U.K., Switzerland, France, Germany, Netherlands, Sweden, Spain, Denmark, Italy, Finland, Belgium, Ireland, Norway, Portugal, Austria. **MENA** = average return of Saudi Arabia, Qatar, UAE, Pakistan, Egypt.

Report Index
Country IDs

MSCI EAFE Countries

MSCI Emerging Countries

MSCI EAFE Weight	Country	Region	Report ID	ETF Ticker
25%	Japan	DM Asia	JPN	EWJ
12%	United Kingdom	DM Europe	UK	EWU
11%	Switzerland	DM Europe	SWZ	EWL
10%	France	DM Europe	FRA	EWQ
9%	Germany	DM Europe	GER	EWG
7%	Australia	DM Asia	AUS	EWA
3%	Hong Kong	DM Asia	HK	EWH
2%	Spain	DM Europe	SPN	EWP
2%	Italy	DM Europe	ITA	EWI
1%	Singapore	DM Asia	SG	EWS
17%	Other			
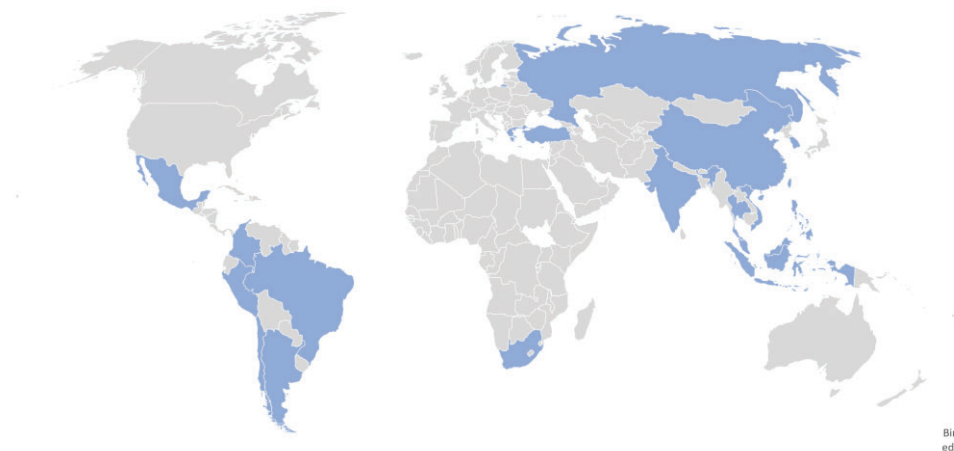
MSCI EM Weight	Country	Region	Report ID	ETF Ticker
37.7%	China	EM Asia	CHN	GXC
12.3%	Taiwan	EM Asia	TAI	EWT
11.3%	South Korea	EM Asia	SK	EWY
8.2%	India	EM Asia	INDA	INDA
4.8%	Brazil	LatAm	BRL	EWZ
3.4%	South Africa	-	SAF	EZA
2.7%	Russia	EM Europe	RUS	RSX
1.9%	Thailand	EM Asia	THD	THD
1.6%	Mexico	LatAm	MEX	EWW
1.7%	Malaysia	EM Asia	MAL	EWM
1.4%	Indonesia	EM Asia	INDO	IDX
0.7%	Philippines	EM Asia	PHIL	EPHE
0.5%	Chile	LatAm	CHL	ECH
0.3%	Turkey	EM Europe	TUR	TUR
0.2%	Colombia	LatAm	COL	GXG
-	Greece	EM Europe	GRE	GREK
0.0%	Argentina	LatAm	ARG	ARGT
11.1%	Other			

International Allocation: DM vs EM

6   Returns, Earnings & Valuations
Relative performance, earnings growth, and valuation composite.
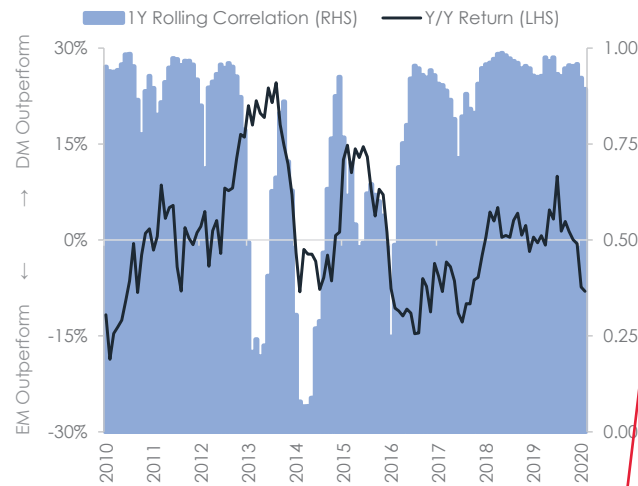
7   Macro Factor Heat Map
Table of key drivers (high correlations) for each country across economic, monetary, and commodity inputs.

Developed vs Emerging Markets
Returns, Earnings & Valuations

We would not draw any major conclusions from EM trading more expensive vs its historical valuation composite than DM trades against its composite. In our view, sector exposures explain the valuation difference: (1) EM's Tech sector exposure increased materially over the last decade, which justifies a higher valuation premium and (2) DM is more exposed to Financials, which trade less expensive than historical levels.

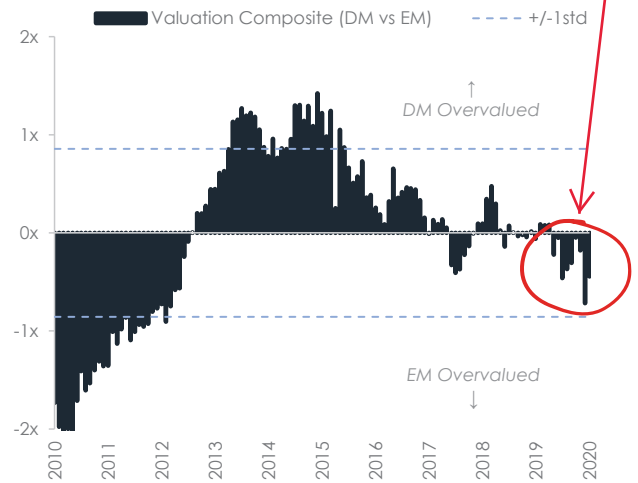### Figure 4: DM vs EM — Y/Y Returns & Rolling Correlation

In our view, the current high correlation simplifies the allocation decision to either high beta (EM) or low beta (DM) international exposure.

Source: MarketDesk Research

Figure 5: DM vs EM — Y/Y Returns & Real GDP Growth

GDP growth and regional outperformance are highly correlated. This figure tracks the historical relationship between these two.

Source: MarketDesk Research

Emerging Asia's y/y GDP strength caused EM's GDP growth gap vs DM to expand during the pandemic.

Figure 6: Manufacturing PMIs

Manufacturing PMIs are based on a survey of supply chain managers. Readings of >50 (<50) signal expansion (contraction).

Developed PMI: 51
Emerging PMI: 52

Source: MarketDesk Research

EM's technical strength weakened in August with LatAm and EM Asia both seeing fewer companies trade above their respective 100dma. In contrast, DM technicals strengthened, led by DM Asia.

Figure 7: DM vs EM — Relative Valuation Composite

The valuation composite for each region is the average z-score of NTM P/E, LTM P/E, P/Book, EV/Sales, and EV/EBITDA.
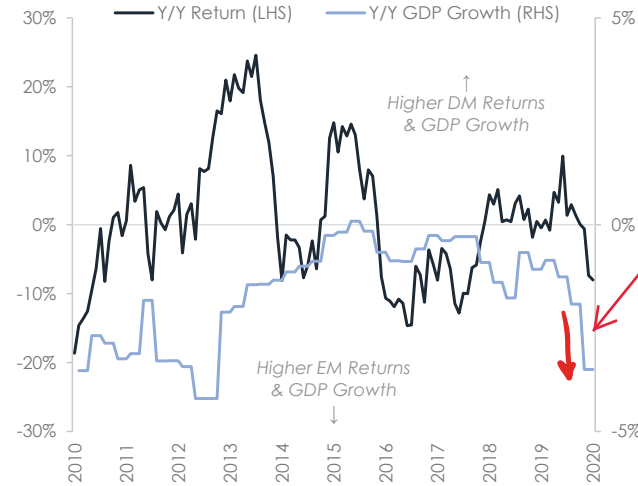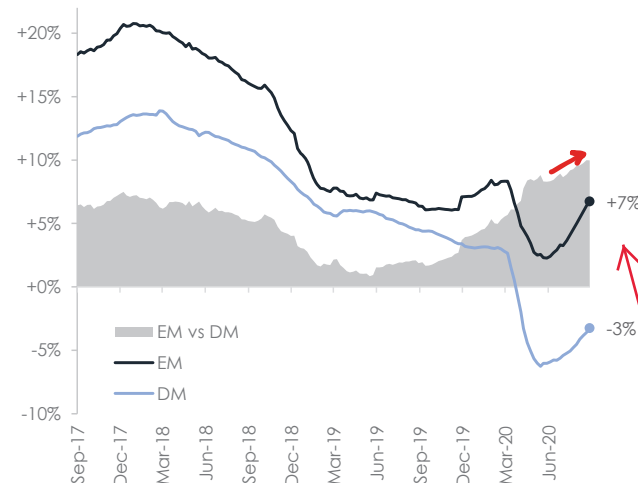

Source: MarketDesk Research

Figure 8: Blended Earnings Growth (Average LTM & NTM)

Relative earnings power in the DM and EM regions. Blended growth (average of LTM & NTM) smooths earnings trends.

Source: MarketDesk Research

Figure 9: Technical Strength (% > 100dma)

Technical strength is measured as the % of companies within each region trading above the 100 day moving average.
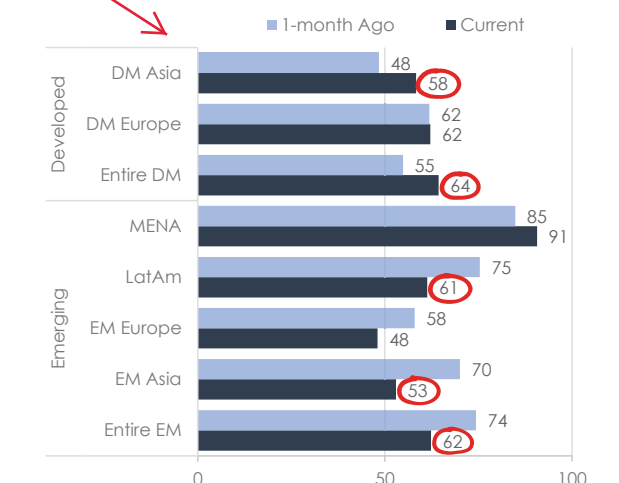
Source: MarketDesk Research

EM's blended EPS gap vs DM's blended EPS expanded during the pandemic and economic recovery, which we attribute partially to sector exposure. EM is OW Tech (+9%), Cons Disc (+8%), and Comm Svcs (+7%) and UW Industrials (–11%), Health Care (–9%), and Cons Stpls (–6%) vs DM.

Figure 10: Macro Factor Heat Map

The analysis below highlights key drivers (e.g. high correlations) for each country across economic, monetary, and commodity inputs using data from the past 10 years. Each datapoint is calculated as the correlation between the month-over-month change in the macro input to each country's monthly return. Quarterly data and returns are used for U.S. & China GDP Growth.

Less *Correlated* More

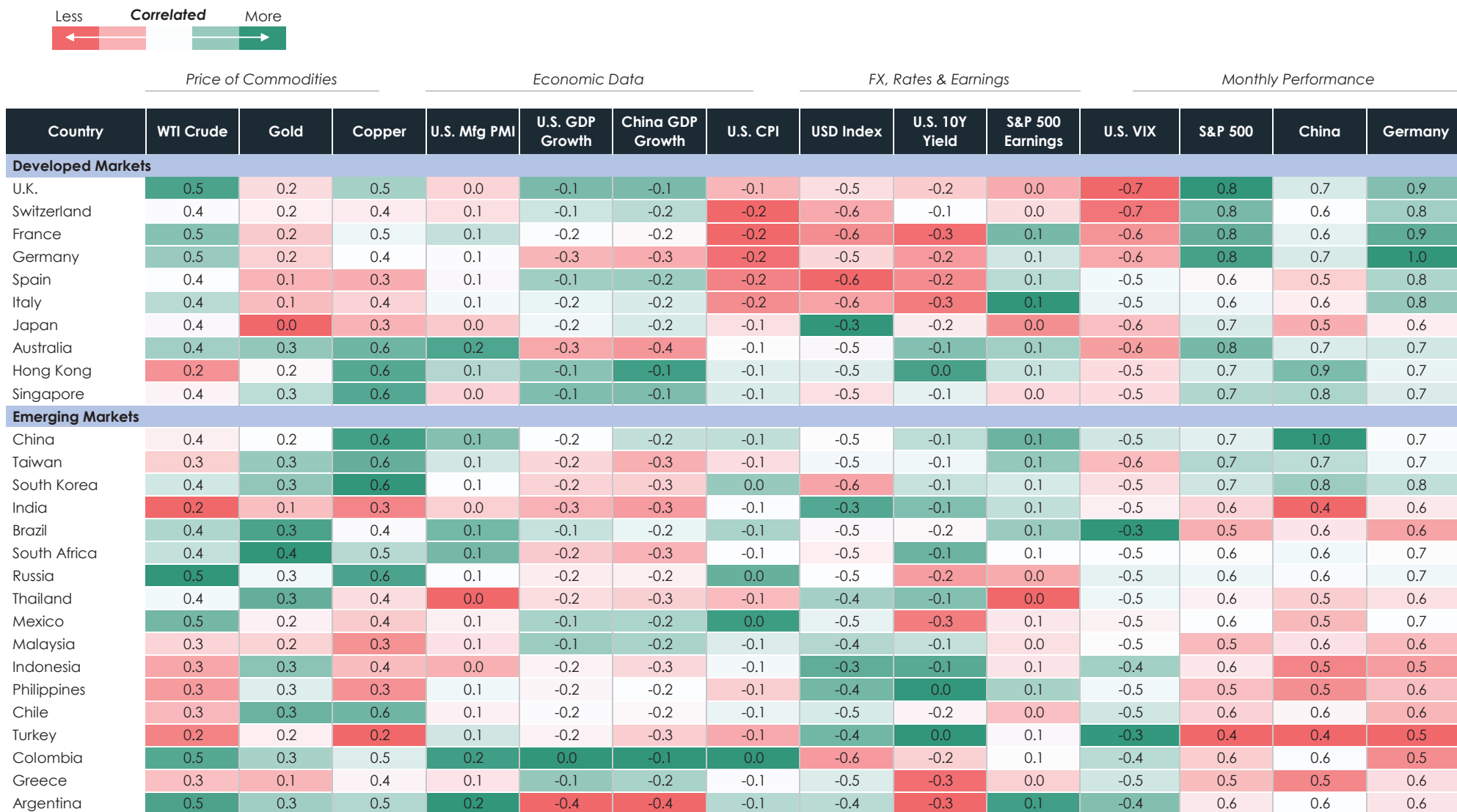| Country	Price of Commodities			Economic Data				FX, Rates & Earnings				Monthly Performance		
	WTI Crude	Gold	Copper	U.S. Mfg PMI	U.S. GDP Growth	China GDP Growth	U.S. CPI	USD Index	U.S. 10Y Yield	S&P 500 Earnings	U.S. VIX	S&P 500	China	Germany
Developed Markets														
U.K.	0.5	0.2	0.5	0.0	-0.1	-0.1	-0.1	-0.5	-0.2	0.0	-0.7	0.8	0.7	0.9
Switzerland	0.4	0.2	0.4	0.1	-0.1	-0.2	-0.2	-0.6	-0.1	0.0	-0.7	0.8	0.6	0.8
France	0.5	0.2	0.5	0.1	-0.2	-0.2	-0.2	-0.6	-0.3	0.1	-0.6	0.8	0.6	0.9
Germany	0.5	0.2	0.4	0.1	-0.3	-0.3	-0.2	-0.5	-0.2	0.1	-0.6	0.8	0.7	1.0
Spain	0.4	0.1	0.3	0.1	-0.1	-0.2	-0.2	-0.6	-0.2	0.1	-0.5	0.6	0.5	0.8
Italy	0.4	0.1	0.4	0.1	-0.2	-0.2	-0.2	-0.6	-0.3	0.1	-0.5	0.6	0.6	0.8
Japan	0.4	0.0	0.3	0.0	-0.2	-0.2	-0.1	-0.3	-0.2	0.0	-0.6	0.7	0.5	0.6
Australia	0.4	0.3	0.6	0.2	-0.3	-0.4	-0.1	-0.5	-0.1	0.1	-0.6	0.8	0.7	0.7
Hong Kong	0.2	0.2	0.6	0.1	-0.1	-0.1	-0.1	-0.5	0.0	0.1	-0.5	0.7	0.9	0.7
Singapore	0.4	0.3	0.6	0.0	-0.1	-0.1	-0.1	-0.5	-0.1	0.0	-0.5	0.7	0.8	0.7
Emerging Markets														
China	0.4	0.2	0.6	0.1	-0.2	-0.2	-0.1	-0.5	-0.1	0.1	-0.5	0.7	1.0	0.7
Taiwan	0.3	0.3	0.6	0.1	-0.2	-0.3	-0.1	-0.5	-0.1	0.1	-0.6	0.7	0.7	0.7
South Korea	0.4	0.3	0.6	0.1	-0.2	-0.3	0.0	-0.6	-0.1	0.1	-0.5	0.7	0.8	0.8
India	0.2	0.1	0.3	0.0	-0.3	-0.3	-0.1	-0.3	-0.1	0.1	-0.5	0.6	0.4	0.6
Brazil	0.4	0.3	0.4	0.1	-0.1	-0.2	-0.1	-0.5	-0.2	0.1	-0.3	0.5	0.6	0.6
South Africa	0.4	0.4	0.5	0.1	-0.2	-0.3	-0.1	-0.5	-0.1	0.1	-0.5	0.6	0.6	0.7
Russia	0.5	0.3	0.6	0.1	-0.2	-0.2	0.0	-0.5	-0.2	0.0	-0.5	0.6	0.6	0.7
Thailand	0.4	0.3	0.4	0.0	-0.2	-0.3	-0.1	-0.4	-0.1	0.0	-0.5	0.6	0.5	0.6
Mexico	0.5	0.2	0.4	0.1	-0.1	-0.2	0.0	-0.5	-0.3	0.1	-0.5	0.6	0.5	0.7
Malaysia	0.3	0.2	0.3	0.1	-0.1	-0.2	-0.1	-0.4	-0.1	0.0	-0.5	0.5	0.6	0.6
Indonesia	0.3	0.3	0.4	0.0	-0.2	-0.3	-0.1	-0.3	-0.1	0.1	-0.4	0.6	0.5	0.6
Philippines	0.3	0.3	0.3	0.1	-0.2	-0.2	-0.1	-0.4	0.0	0.1	-0.5	0.5	0.5	0.6
Chile	0.3	0.3	0.6	0.1	-0.2	-0.2	-0.1	-0.5	-0.2	0.0	-0.5	0.6	0.6	0.6
Turkey	0.2	0.2	0.2	0.1	-0.2	-0.3	-0.1	-0.4	0.0	0.1	-0.3	0.4	0.4	0.5
Colombia	0.5	0.3	0.5	0.2	0.0	-0.1	0.0	-0.6	-0.2	0.1	-0.4	0.6	0.6	0.5
Greece	0.3	0.1	0.4	0.1	-0.1	-0.2	-0.1	-0.5	-0.3	0.0	-0.5	0.5	0.5	0.6
Argentina	0.5	0.3	0.5	0.2	-0.4	-0.4	-0.1	-0.4	-0.3	0.1	-0.4	0.6	0.6	0.6

Source: MarketDesk Research

Developed Markets

Developed Asia outperformed the broad DM index in August, with Hong Kong and Japan claiming the top two DM country performance spots.

The quarterly y/y GDP growth column highlights how DM Asia's economies remained more resilient than DM Europe's economies during the pandemic. We attribute this to Asia containing the virus more aggressively and China's economic impact across the region.
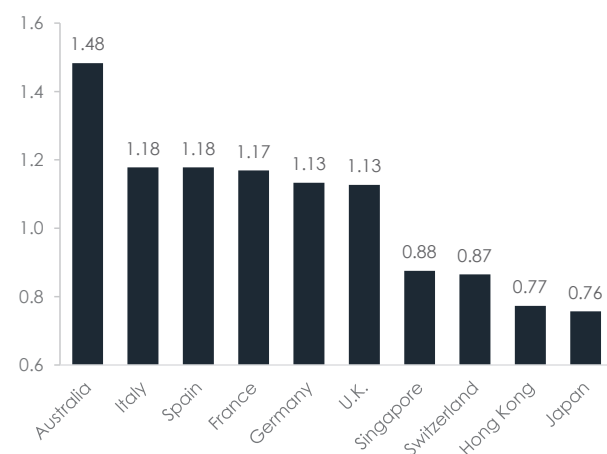
Figure 11: Key Country Metrics

International Country	Investor Sentiment						Economic Datapoints						Valuation			Factor Exposure
	Performance (%)			Asset Flows (%)			Blended EPS Growth	Qtrly GDP (y/y%)	Mfg PMI	Inflation (CPI y/y%)	FX Volatility	Unemploy Rate	Valuation Composite			Factor Tilts (see definitions below)
	1M	6M	1Y	1M	6M	1Y							-3std		+3std	
Regional Exposure																
Developed Markets	4.7	4.4	2.8	1.3	-6.3	0.9	-3%	-13.9%	51.2	-0.3%	0.6%	7.1%		● +2.1		
Country Exposure																
U.K.	2.7	-9.1	-12.2	0.3	-1.8	28.6	-7%	-21.7%	55.2	1.0%	0.8%	-		● +0.7		Value
Switzerland	3.0	10.2	11.4	1.0	46.4	26.4	2%	-9.4%	51.8	-0.9%	0.5%	3.3%		● +2.1		Growth, Value
France	4.7	1.1	-0.8	8.0	8.3	-20.2	0%	-18.9%	49.8	0.8%	0.6%	-		●+2.2		Growth
Germany	6.5	14.8	14.7	10.5	15.9	18.7	2%	-11.3%	52.2	0.0%	0.6%	4.4%		+2.6 ●		Growth, Momentum
Spain	2.3	-11.9	-13.4	4.7	-51.9	-23.3	-10%	-22.1%	49.9	-0.5%	0.6%	15.8%		● +0.9		Value
Italy	4.1	-5.5	-4.3	-17.2	-21.7	1.8	-2%	-17.7%	53.1	-0.5%	0.6%	9.7%		● +1.3		Growth, Value
Japan	6.8	9.6	7.6	-1.6	-2.9	-16.0	0%	-9.9%	47.2	0.4%	0.6%	2.9%		● +1.9		Growth, Value, Momentum
Australia	4.4	3.3	-4.1	3.1	-6.5	-6.6	-3%	-6.3%	53.6	-	1.0%	7.5%		● +2.0		Value
Hong Kong	7.5	-1.2	-0.6	-4.5	-26.1	2.3	-2%	-9.0%	-	-2.3%	0.0%	6.1%		● +0.6		Growth, Value, Momentum
Singapore	2.3	-12.7	-16.5	0.6	15.2	19.4	-8%	-13.2%	50.1	-0.4%	0.4%	-		● +1.2		Value

Blended EPS Growth is the average of LTM and NTM. FX Volatility is the standard deviation of the daily return over the last 6 months. Valuation Composite is an average Z-Score of LTM P/E, NTM P/E, P/B, EV/Sales, and EV/EBITDA using the past 10 years of data. Growth Factor Tilt = Blended EPS greater than MSCI EAFE Index. Value Factor Tilt = valuation composite less than MSCI EAFE Index. Momentum Factor Tilt = 1-month return higher than the MSCI EAFE Index.
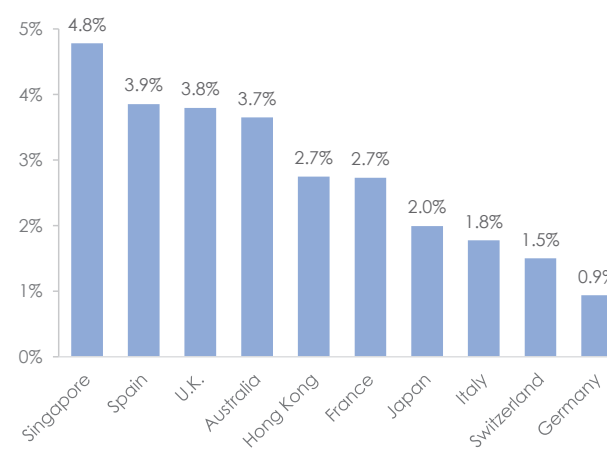
Figure 12: Country Betas to MSCI EAFE

Beta is compared to the MSCI EAFE Index over the past 6-months.

Country	Beta
Australia	1.48
Italy	1.18
Spain	1.18
France	1.17
Germany	1.13
U.K.	1.13
Singapore	0.88
Switzerland	0.87
Hong Kong	0.77
Japan	0.76

Source: MarketDesk Research

Figure 13: Dividend Yields

Current dividend yield across developed countries.

Country	Yield
Singapore	4.8%
Spain	3.9%
U.K.	3.8%
Australia	3.7%
Hong Kong	2.7%
France	2.7%
Japan	2.0%
Italy	1.8%
Switzerland	1.5%
Germany	0.9%

Source: MarketDesk Research

Figure 14: Price to Earnings (NTM)

Current valuations across countries (next 12-months P/E).

Country	P/E
Australia	19.5
Switzerland	19.4
France	19.3
Japan	18.1
Germany	17.7
Hong Kong	17.4
Singapore	15.8
Italy	15.7
Spain	15.7
U.K.	15.5
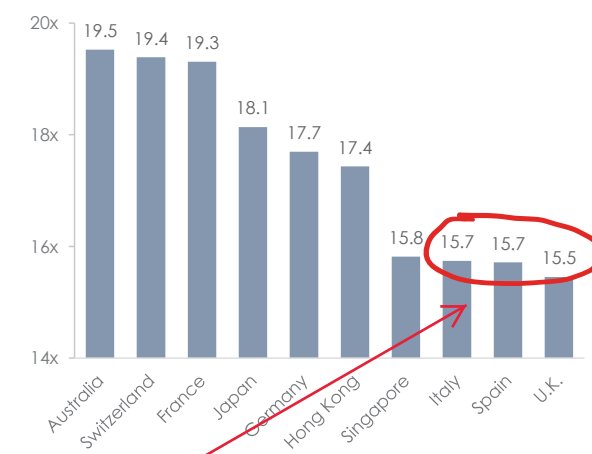
Source: MarketDesk Research

The U.K. trades more like a southern European country today than a northern European country. We believe two sector exposures are pressuring UK valuations: a 17% exposure to Financials and only 1.5% exposure to Tech. When a Brexit risk premium and weak economic growth are factored in, the UK's headwinds become stronger.

Developed Markets
Active Manager Pulse

September 1, 2020

Outside of Japan, DM managers are the most UW Australia. There are two likely reasons: (1) U.S.–China trade issues (Australia exports to China could be collateral trade war damage) and (2) weak global growth (Australia is a large commodity exporter). The Australia UW is notable ...
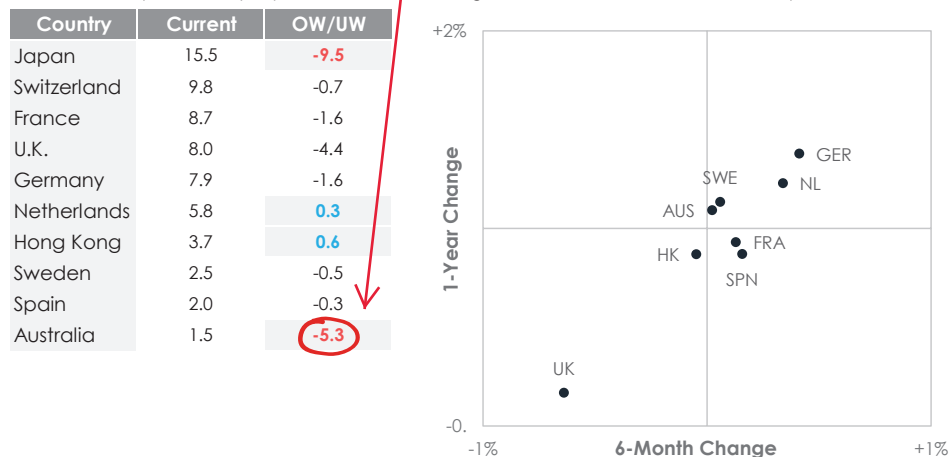
The MDR Active Manager Pulse is a proprietary indicator created by MarketDesk Research to highlight portfolio shifts within the developed market universe. The funds' portfolio managers tend to focus exclusively on developed market countries, and their positioning at the country and sector levels can provide portfolio insights. Figures 15 and 16 highlight how developed market mutual fund portfolios are positioned across countries and sectors relative to the MSCI EAFE index. Figure 18 provides a tactical positioning view based on non-top 10 country exposure and emerging market exposure. The data is calculated by pulling down holdings each month and analyzing country and sector exposures. (Developed Market Mutual Funds: VSIEX, AEPGX, PRIUX, FIGSX, HLMIX, MIEIX, AIIEX, GOIGX, LISIX, JOHIX.)

Figure 15: Country Exposure (%) — OW/UW vs MSCI EAFE
Current developed country exposure, over/under weight vs the benchmark, and recent exposure tilts.

Country	Current	OW/UW
Japan	15.5	**-9.5**
Switzerland	9.8	-0.7
France	8.7	-1.6
U.K.	8.0	-4.4
Germany	7.9	-1.6
Netherlands	5.8	**0.3**
Hong Kong	3.7	**0.6**
Sweden	2.5	-0.5
Spain	2.0	-0.3
Australia	1.5	**-5.3**

Source: MarketDesk Research, Various SEC 13F Forms

Figure 16: Sector Exposure (%) — OW/UW vs MSCI EAFE
Current developed sector exposure, over/under weight vs the benchmark, and recent exposure tilts.

Sector	Current	OW/UW
Financials	16.2	0.0
Tech	15.6	**8.1**
Industrials	15.0	**1.1**
Health Care	13.8	-0.3
Cons Disc	11.3	-1.0
Cons Stpls	11.1	-0.9
Comm Svcs	5.2	-0.4
Materials	4.6	-2.1
Utilities	1.6	**-2.3**
Energy	1.5	-1.5
Real Estate	1.1	**-2.1**

Source: MarketDesk Research, Various SEC 13F Forms

... because the Asia region is the highest exposure from an opportunistic EM viewpoint.
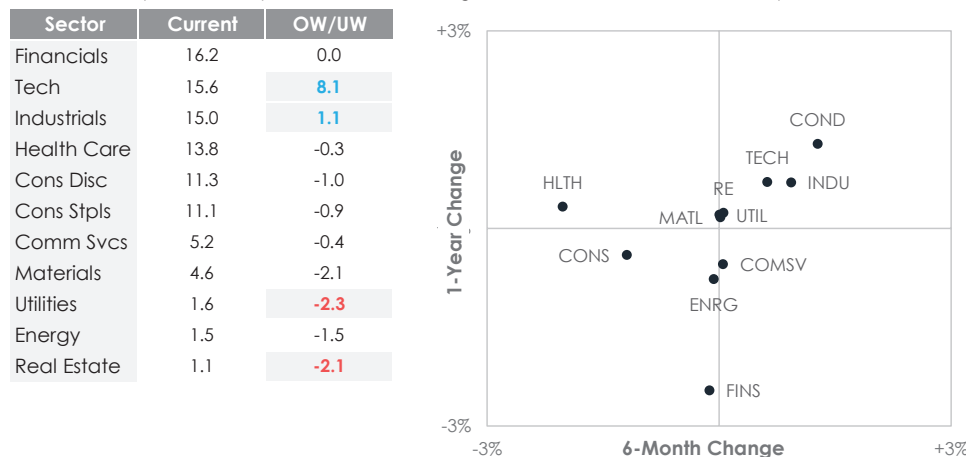
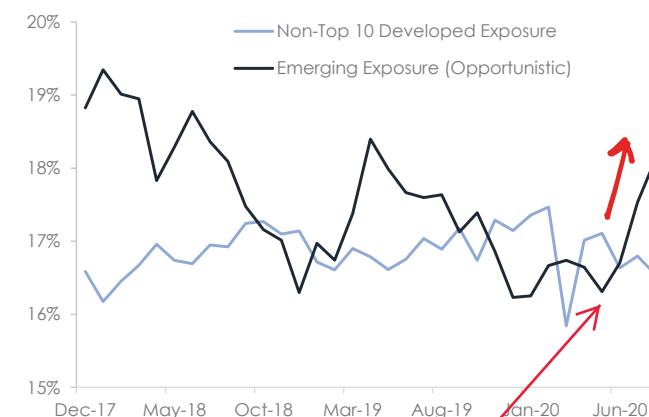**Figure 17: Cyclical vs Defensive Positioning**
Current cyclical vs defensive sector positioning across developed markets among active international equity managers.
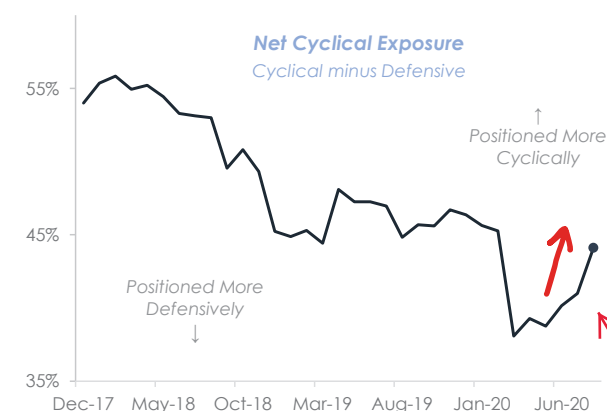
*Source: MarketDesk Research. **Cyclical** = CONS, UTIL, HLTH. **Defensive** = COND, TECH, COMSV, FINS, ENRG, INDU, MATL, RE.*

Figure 18: Tactical Exposure — Non-Top DM 10 & Opportunistic EM Countries
Developed market managers have two levers to outperform their benchmarks: (1) overweight exposure to countries outside of the top 10, which comprise ~90% of MSCI EAFE and (2) opportunistically add to emerging market exposure. The analysis below tracks both levers.

Top Developed *Outside of Top 10*			Top Emerging *Opportunistic*		
Country	%	6m%	Country	%	6m%
Ireland	3.4	**-0.3**	China	6.9	**0.9**
Denmark	2.6	–	Taiwan	2.8	**0.4**
Italy	1.2	**0.3**	India	2.0	–
Singapore	0.7	-0.1	South Korea	1.6	–
Israel	0.6	**0.1**	Brazil	1.1	**0.2**
Finland	0.5	–	Mexico	0.4	–
Belgium	0.4	–	South Africa	0.3	–
Portugal	0.3	–	Indonesia	0.3	**0.1**
New Zealand	0.3	**-0.1**	Argentina	0.3	–
Norway	0.3	–	Russia	0.2	–

Source: MarketDesk Research, Various SEC 13F Forms. **Note: %** = Current Position   **6m%** = 6-Month Change

Managers are positioning more cyclically and increasing their opportunistic EM exposure. This suggest risk sentiment continues to improve, including among active managers.

Monthly Report

September 1, 2020

PMI readings > 50 indicate expansion, but shouldn't be construed as the economy is growing y/y. PMIs are coming off low levels, and manufacturing remains down materially y/y.

Weak Australia July 2020 exports are worth keeping an eye on. This could either signal a stalling economic recovery or deteriorating Australia–China relations.

Figure 19: Summary of Key Indicators

Category	Economic Indicator	Report Date	Latest Report	1-Month Trend	3-Month Trend	10-Yr Current	Range (0%)	Range (100%)	Commentary
Key Exports	Australia Mineral Exports (A$ Bn)	7/31	11.0B	▼ 1.5B	▲ 2.6B	82%	4.3B	12.5B	Noticeable Australia export drop-off
	Australia Exports to China (A$ Bn)	7/31	11.8B	▼ 2.5B	▲ 2.1B	75%	4.2B	14.3B	Noticeable Australia export drop-off
	German Vehicle Exports	7/31	242.8k	▲ 27k	▼ 43k	53%	23k	441k	
	Japan Vehicle Exports	7/31	291k	▲ 91k	▼ 102k	48%	120k	441k	
PMIs & Mfg	Industrial Production (y/y%)	6/30	-11.7%	▼ 0.5%	▼ 10.0%	33%	-25%	+15%	Down y/y but continues trending higher
	German Manufacturing PMI	8/31	52	▲ 1.2	▲ 4.2	61%	35	63	
	Spain Manufacturing PMI	8/31	50	▼ 3.6	▼ 0.5	75%	31	56	
	Hong Kong PMI	7/31	44	▼ 5.1	▲ 11.4	61%	33	52	
	Italy Services PMI	7/31	52	▲ 5.2	▼ 0.5	87%	11	58	
Business Sentiment	Japan Leading Index	6/30	84	▼ 0.6	▼ 7.0	22%	78	107	
	Switzerland KOF Leading Indicator	8/31	110	▲ 24.2	▲ 8.5	99%	50	111	
	Australia NAB Business Confidence	7/31	-14	▼ 14.4	▼ 11.5	64%	-66	15	
	U.K. Industrial Confidence	8/31	-31	▼ 8.6	▼ 17.5	24%	-45	16	
	German Ifo Expectations	8/31	97	▲ 0.8	▲ 4.6	76%	70	106	
Consumer Sentiment	Spain Unemployment Rate	7/31	15.8%	▲ 0.0%	▲ 2.2%	17%	14%	26%	
	U.K. Consumer Confidence	8/31	-27	▲ 0	▼ 20	17%	-34	7	Consumer confidence remains under pressure
	France Consumer Spending (y/y%)	7/31	0.6%	▲ 0%	▲ 2%	91%	-33%	4%	
	Japan Retail Sales (y/y%)	7/31	-21.3%	▼ 1%	▼ 8%	53%	-73%	+25%	
	Japan Bank Loans (¥ Tn)	7/31	573Tn	▲ 2.7	▲ 28.1	100%	454Tn	573Tn	
Housing	BoE Net Mortgage Lending (£ Bn)	7/31	2.7B	▲ 0.3B	▼ 1.4B	40%	-0.3B	7.2B	
	Australia New Home Sales (m/m%)	6/30	77.6%	▲ 101%	▲ 71%	100%	-23%	+78%	Housing is strong globally
Inflation	U.K. Core CPI (y/y%)	7/31	+1.8%	▲ 0.3%	▲ 0.2%	36%	+0.5%	+4.1%	
	Japan CPI Tokyo (y/y%)	8/31	+0.3%	▼ 0.3%	▼ 0.1%	35%	-1.2%	+3.1%	
	German PPI (y/y%)	7/31	-5.8%	▲ 0.4%	▼ 3.3%	16%	-9.0%	+10.9%	Deflationary pressures in supply chains still
Monetary Policy	Japan Policy Rate	8/31	-0.1%	-	-	0%	-0.1%	0.1%	Rates expected to remain low for years
	BoE Official Bank Rate	8/31	0.1%	-	▼ 0.7%	0%	0.1%	0.8%	Rates expected to remain low for years
	ECB Policy Rate	8/31	0.0%	-	-	0%	0.0%	1.5%	Rates expected to remain low for years

Inflationary pressures remain in check.

Source: MarketDesk Research, German Association of the Auto Industry, Japan Auto Manufacturers Association, European Central Bank, Bank of Japan, Bank of England, Eurostat, Australia Housing Industry Association, National Australia Bank
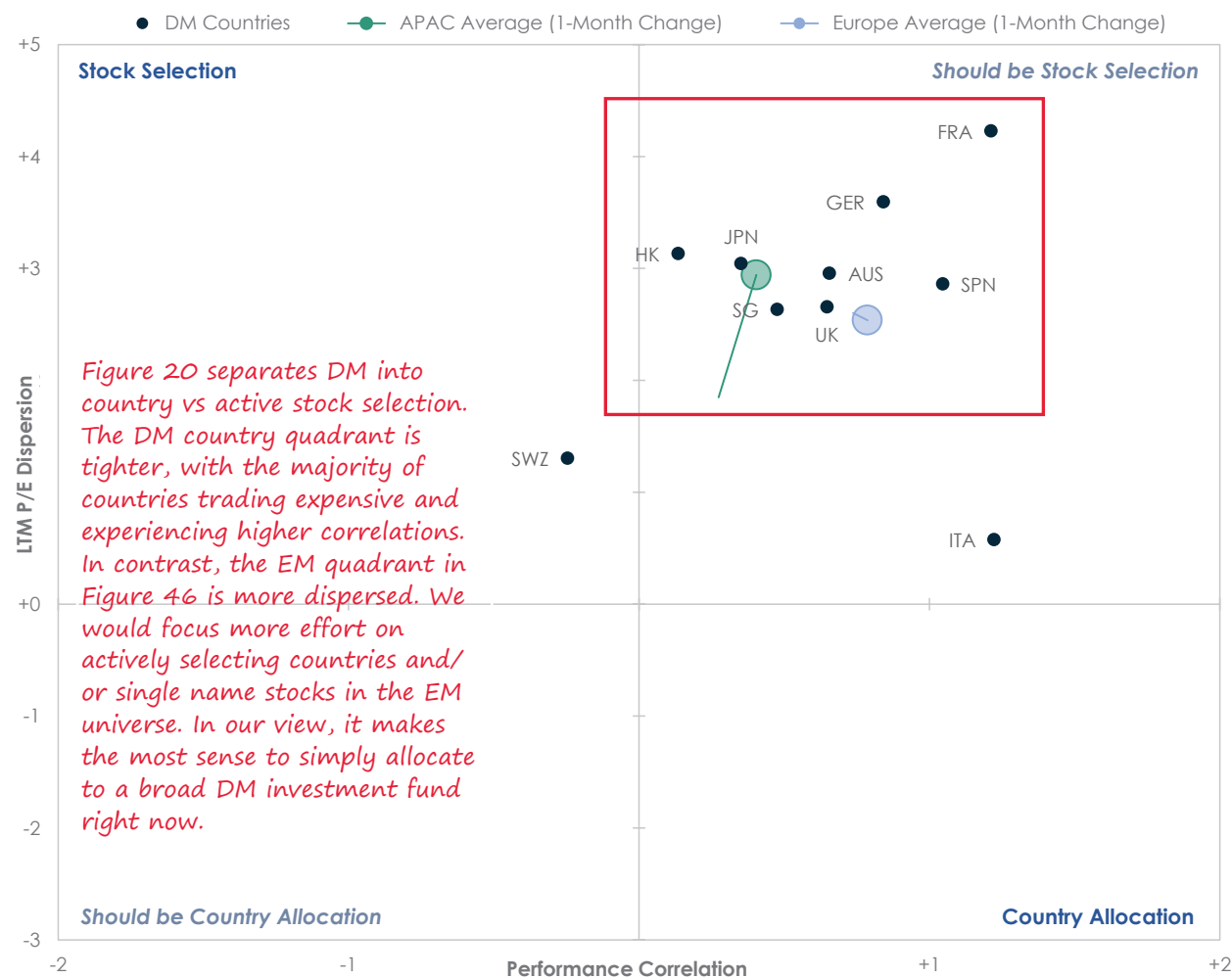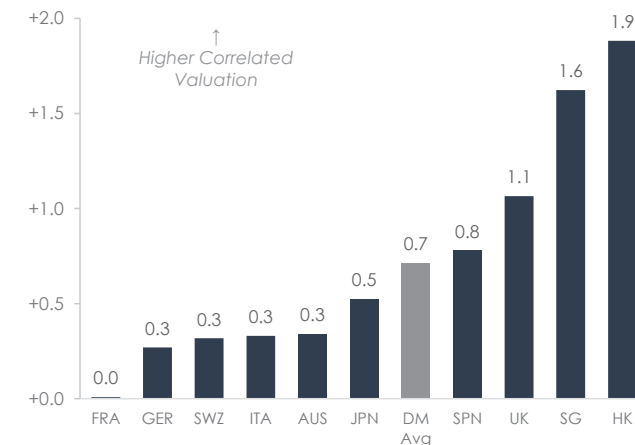
The analysis below simplifies developed market country allocation into two investment regimes: country selection and stock selection. The scatter plot graphs the LTM P/E dispersion against performance intra-correlation for each country. Both axes are standardized using z-scores based on month-end data vs the three-year moving average. The further a country's value is from either axis, the stronger the implied investment regime. Performance correlation is measured by taking the average daily correlation of each company vs the country average performance over the prior 3-months. Positive correlation indicates companies are moving together (e.g. country allocation), while negative correlation indicates companies are moving independently of each other (e.g. stock selection). LTM P/E dispersion is calculated at the ETF level as the standard deviations each country ETF's LTM P/E sits vs the ETF's 3-year average. High LTM P/E dispersion highlights countries where the average company is overvalued vs its 3-year average (e.g. active stock selection approach to identify superior stocks), while lower dispersion highlights countries where the average company trades below its 3-year average (e.g. passive allocations to ride country revaluation higher). LTM P/E levels above 50x are removed to cleanse the data.

Figure 20: Country Valuation Dispersion vs Performance Correlation

Figure 20 separates DM into country vs active stock selection. The DM country quadrant is tighter, with the majority of countries trading expensive and experiencing higher correlations. In contrast, the EM quadrant in Figure 46 is more dispersed. We would focus more effort on actively selecting countries and/ or single name stocks in the EM universe. In our view, it makes the most sense to simply allocate to a broad DM investment fund right now.

Source: MarketDesk Research

Figure 21: NTM P/E Dispersion — 1 Month Change

Source: MarketDesk Research

Figure 22: Performance Correlation — 1 Month Change

Source: MarketDesk Research

MSCI EAFE's rolling y/y return is in the midpoint of the range, which leaves the risk/reward setup cloudier than back in March 2020 when it sat near the –1std line.

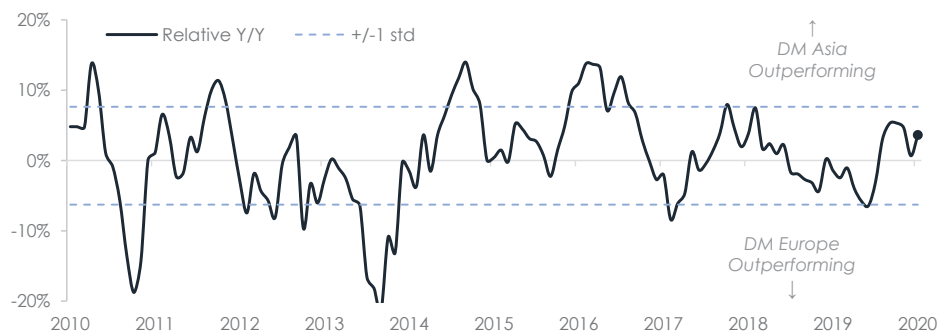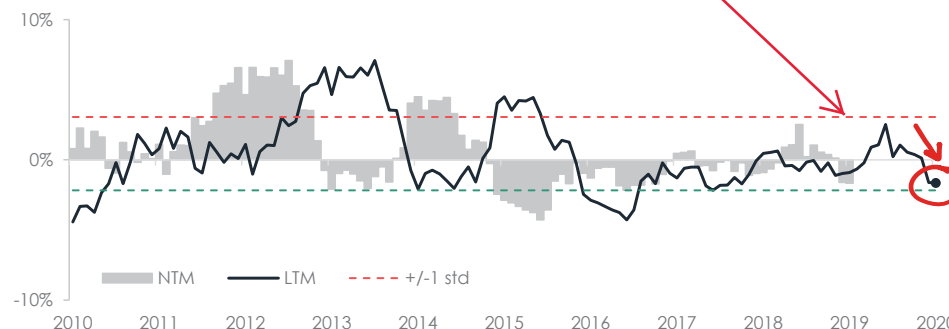MSCI EAFE's rolling performance gap vs MSCI ACWI ex U.S. is nearing the –1std line. This coincides with MSCI EM's outperformance the past few months and could signal a DM/EM performance decoupling after multiple years of high correlation.

Figure 23: Y/Y Return — MSCI EAFE
This figure tracks DM's Y/Y rolling return to provide context relative to historical bounds.

Source: MarketDesk Research. **Note:** Price returns in USD.

Figure 24: Relative Y/Y Return — MSCI EAFE vs MSCI ACWI ex U.S.
This figure tracks DM's Y/Y relative return to provide context versus to historical levels
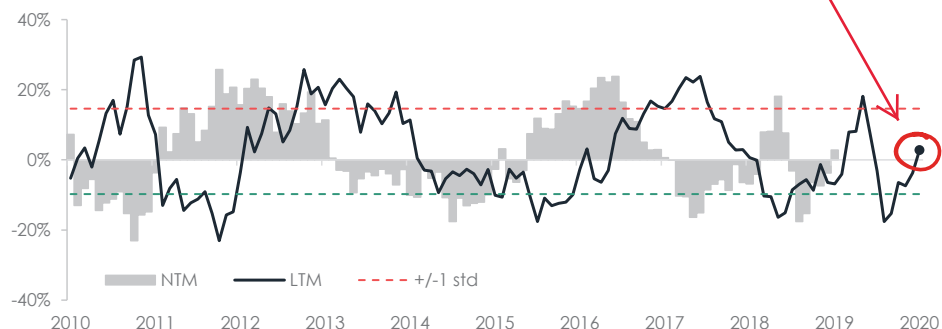
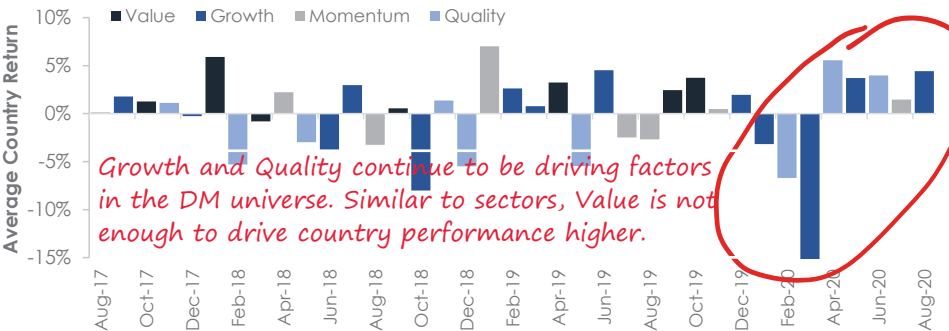Source: MarketDesk Research. **Note:** Price returns in USD.

Figure 25: Y/Y Return — DM Asia vs DM Europe
Developed Europe & Asia are highly correlated (~90% since 2010). Deviations in Y/Y returns = opportunity.

Source: MarketDesk Research. **Note:** Price returns in USD.

Figure 26: Y/Y Return — MSCI EAFE vs S&P 500
Relative performance between MSCI EAFE and U.S. Markets.
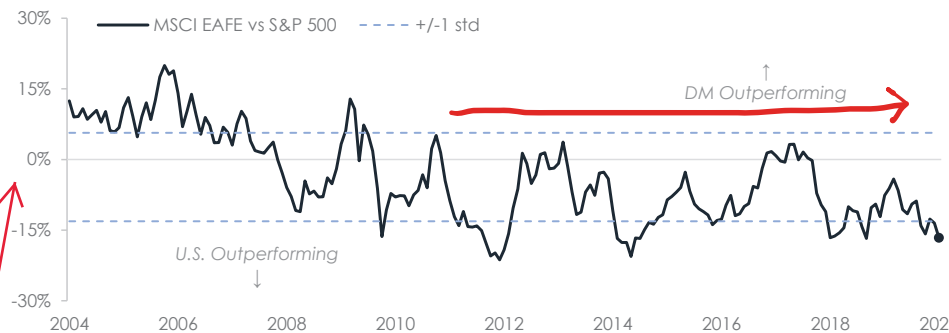
Source: MarketDesk Research. **Defensive** = Consumer Staples. **Cyclical** = Consumer Discretionary.

Figure 27: 1-Month Return — MSCI EAFE Country Attribution

Source: MarketDesk Research. **Note:** Price returns in USD. **Other** includes remaining countries.

Figure 28: Largest Factor Driving Country Performance Each Month

Growth and Quality continue to be driving factors in the DM universe. Similar to sectors, Value is not enough to drive country performance higher.

Source: MarketDesk Research. **Value** is based on NTM P/E. **Growth** is based on blended EPS growth (NTM & LTM). **Momentum** is based on previous 3-month returns. **Quality** is based on Profit Margin.

The S&P 500 consistently outperformed MSCI EAFE over the past decade. While the rolling y/y return sits near the –1std line currently, the probability of underperformance is still above average. We do not see a catalyst to cause DM to outperform the S&P 500. DM's role is purely diversification right now in our view.

Developed Markets
Valuation & Earnings Monitor

In general, today's relative DM country valuation composites are consistent with the 3-year averages (e.g. higher historical average composites imply higher current composites). The one difference would be a slightly larger premium for EU countries, which we attribute to an improved EU relations outlook following the recent bloc-wide stimulus agreement.

**Figure 29: Valuation Composites — Current vs Historical 3-Year Averages**

Snapshot of current country valuations vs historical averages. Valuation Composite is an average Z-Score of LTM P/E, NTM P/E, P/B, EV/Sales, and EV/EBITDA using the past 10 years of data.

Source: MarketDesk Research

Figure 30: Relative Valuation Composites — DM vs EM & U.S.

Relative valuations of Developed vs Emerging & U.S. Markets. Valuation Composite is an average Z-Score of LTM P/E, NTM P/E, P/B, EV/Sales, and EV/EBITDA using the past 10 years of data.
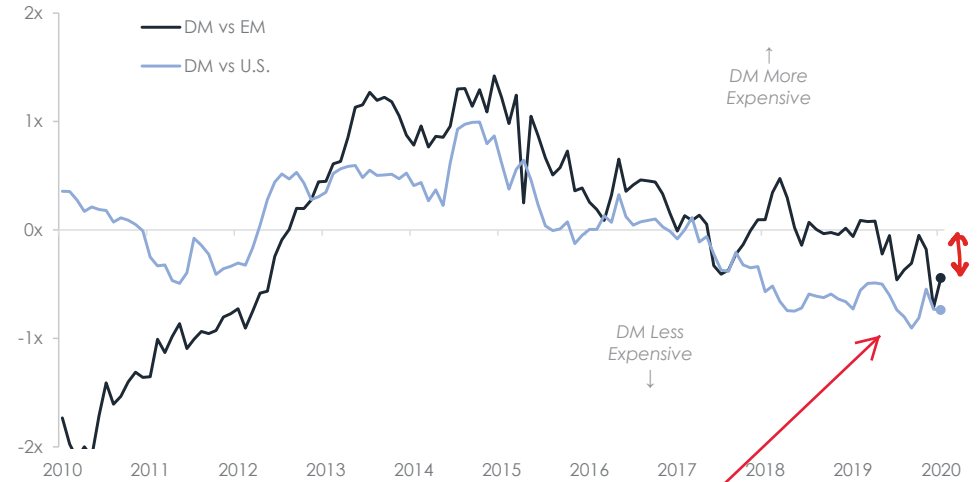
Source: MarketDesk Research

**Figure 31: 3-Month Trends — Performance vs NTM EPS Growth**

Assuming all else is constant (e.g. valuation multiples), a +1% EPS change should result in a +1% share price change. Countries that deviate from this relationship can present buying / selling opportunities.
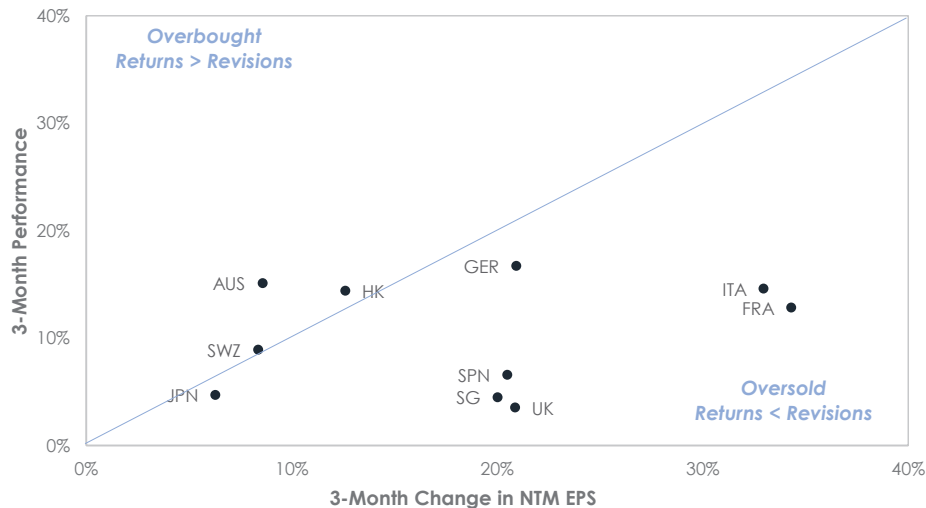
Source: MarketDesk Research. **Note:** *Returns & earnings in USD.*

Figure 32: Earnings Importance Indicator

Measured as the rolling 3-month correlation between NTM EPS revisions and performance. A higher correlation indicates the performance trend is more directionally accurate based on earnings revisions.
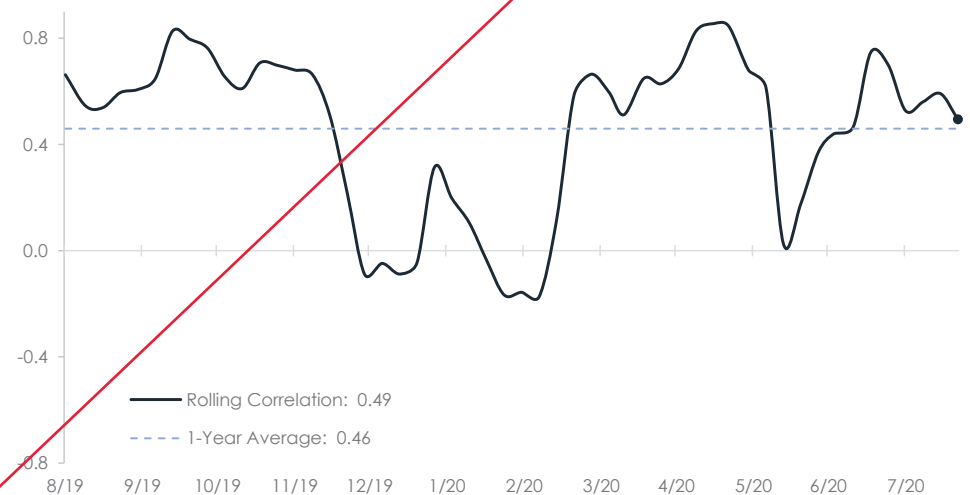
Source: MarketDesk Research

DM's trades less expensive vs its historical valuation composite average. As we highlighted in Figures 7 and 8, this is most likely attributed to sector exposure differences.

Developed Markets
FX & Credit

The prevailing trend continues to be USD weakness vs DM currencies. We expect USD weakness to slow in the coming 3 months and not repeat the prior 3 month's performance.

Figure 33: Developed Market Currency Performance

Currency performance vs U.S. Dollar and the current percentile vs 10-Year historical range for developed market countries. FX is a large driver of international investment returns.

Country	FX Performance			10-Year Historical Percentile Current (●) & 6-Month Change (—)
	1-Month	3-Month	1-Year	
U.K.	2.0%	8.3%		
Switzerland	1.0%	6.7%		
France	1.1%	7.5%		
Germany	1.1%	7.5%		
Spain	1.1%	7.5%		
Italy	1.1%	7.5%		
Japan	-0.3%	1.6%		
Australia	3.1%	11.4%		
Hong Kong	0.0%	0.0%		
Singapore	0.9%	4.0%		

Source: MarketDesk Research

**Figure 34: Key Developed Market Central Bank Policy Rates**

This figure charts interest rate levels across key DM Central Banks. Falling (rising) rates are considered positive (negative) for equities.

Legend: UK: 0.10% — Eurozone: 0.00% — HK: 0.50% — JPN: -0.10% — AUS: 0.25%
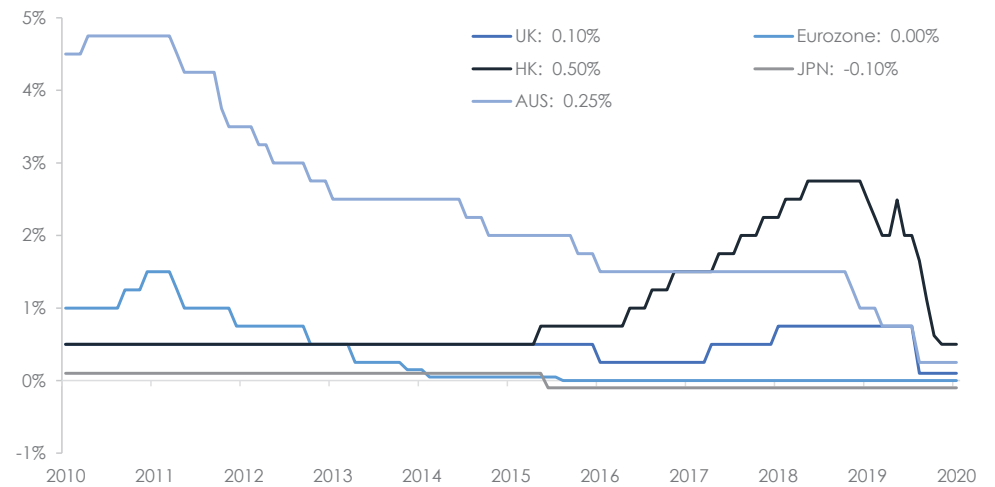
Source: MarketDesk Research

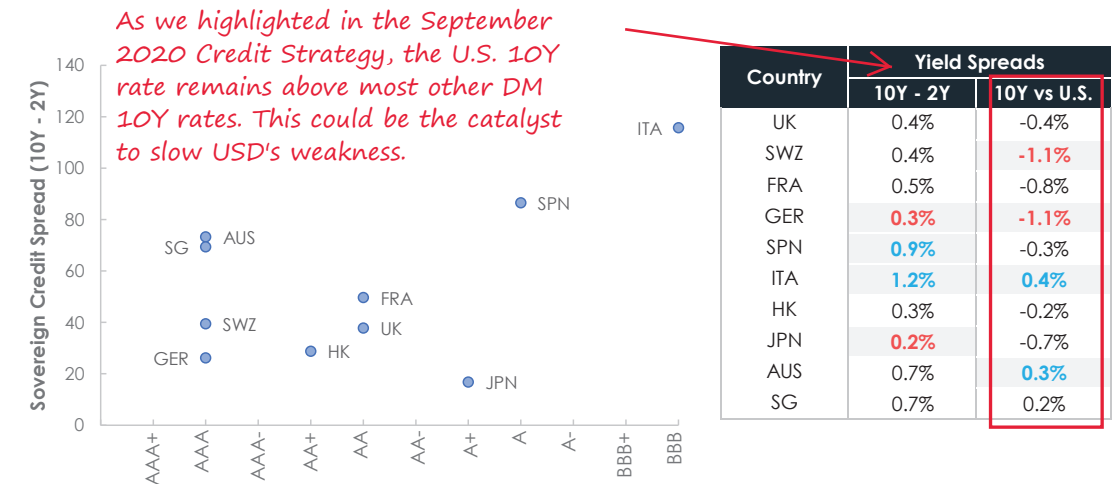**Figure 35: FX vs Local Rates — Current Percentiles vs 10-Year Valuation History**

Highlights fixed income opportunities across DM countries given the current FX / Rate regime. Future returns tend to be higher when yields are higher and FX is moving from weak to strong.

Weak FX, High Yields

Strong FX, Low Yields
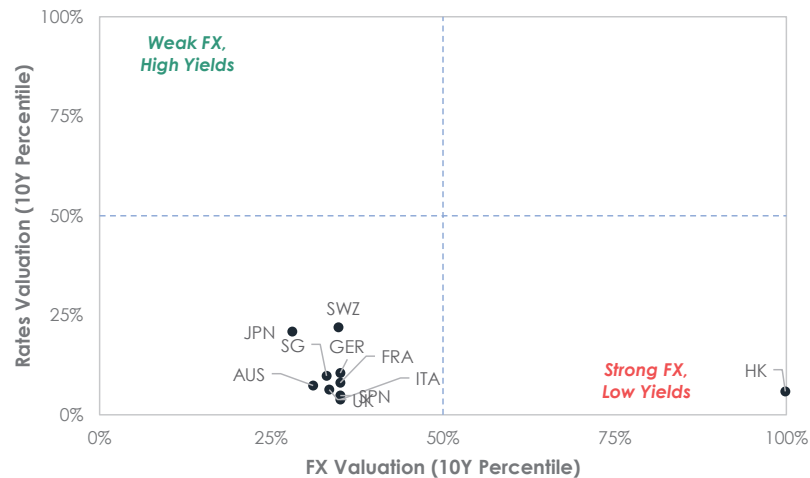
Source: MarketDesk Research. **Note:** *Sovereign 10-year bond yields are used for rates valuation. Current valuations (percentiles) are calculated using the past 10-years of data.*

Figure 36: Sovereign Credits — Spread (10Y - 2Y) vs Rating

This figure charts each country's sovereign credit spread grouped by sovereign credit ratings. We calculate each country's sovereign credit spread as the yield differential between a country's 10-year bonds and 2-year bonds.

As we highlighted in the September 2020 Credit Strategy, the U.S. 10Y rate remains above most other DM 10Y rates. This could be the catalyst to slow USD's weakness.

Country	Yield Spreads	
	10Y - 2Y	10Y vs U.S.
UK	0.4%	-0.4%
SWZ	0.4%	-1.1%
FRA	0.5%	-0.8%
GER	0.3%	-1.1%
SPN	0.9%	-0.3%
ITA	1.2%	0.4%
HK	0.3%	-0.2%
JPN	0.2%	-0.7%
AUS	0.7%	0.3%
SG	0.7%	0.2%

Source: MarketDesk Research

Emerging Markets

Mexico outperformed Brazil by +9.6% in August and continues to experience strong net inflows. Both countries are struggling to combat COVID-19 and are not implementing stimulus as aggressively as other countries. In our view, the differentiator is Mexico's proximity and trading relationship with the U.S. Investors appear to be losing faith in the Brazil turnaround story.

Figure 37: Key Country Metrics
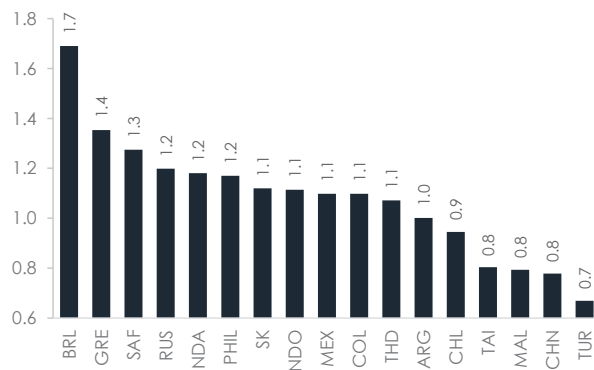
International Country	Investor Sentiment						Economic Datapoints						Valuation	Factor Exposure
	Performance (%)			Asset Flows (%)			Blended EPS Growth	Qtrly GDP (y/y%)	Mfg PMI	Inflation (CPI y/y%)	FX Volatility	Unemploy Rate	Valuation Composite	Factor Tilts (see definitions below)
	1M	6M	1Y	1M	6M	1Y								
Regional Exposure													-3std +3std	
Emerging Markets	2.9	9.9	10.8	-1.6	-12.9	-10.3	7%	-10.8%	52.5	2.9%	0.8%	10.0%	+2.8	
Country Exposure														
China	5.8	22.9	34.4	-3.8	-10.5	0.8	12%	3.2%	53.1	-	0.2%	-	+2.2	Growth, Momentum
Taiwan	-1.5	17.5	25.9	0.0	6.3	29.8	8%	-0.6%	52.2	-	0.2%	-	+1.7	Growth
South Korea	4.7	14.8	18.4	0.3	1.7	8.8	17%	-2.7%	48.5	0.7%	0.7%	-	+2.2	Growth, Momentum
India	4.5	3.7	3.7	-0.5	-28.3	-32.8	11%	-23.9%	52.0	-	0.4%	-	+1.7	Growth, Momentum
Brazil	-8.4	-22.3	-27.3	0.0	-14.8	3.6	47%	-11.4%	64.7	-	1.6%	-	+2.7	Growth
South Africa	-1.0	-7.7	-22.4	3.3	16.0	12.0	19%	-0.1%	57.3	-	1.2%	-	-1.0	Growth, Value
Russia	3.6	6.1	1.9	10.5	5.3	-7.6	-8%	-8.5%	51.1	-	1.4%	-	+1.1	Momentum
Thailand	-0.6	-2.9	-24.2	29.4	25.3	22.3	-10%	-12.1%	49.7	-0.5%	0.3%	-	+1.9	
Mexico	1.2	-20.9	-20.7	12.2	73.4	57.2	-	-18.7%	41.3	-	1.6%	-		
Malaysia	-2.9	4.2	-5.0	4.2	-3.5	-4.3	0%	-17.1%	49.3	-	0.4%	-	+2.9	
Indonesia	4.6	-9.3	-22.2	2.3	2.9	10.3	-2%	-5.3%	50.8	1.0%	0.9%	-	-0.1	Value, Momentum
Philippines	2.5	-9.1	-22.9	0.0	-24.5	-16.3	-1%	-16.3%	47.3	2.4%	0.3%	10.0%	-0.7	Value
Chile	-7.2	-6.0	-29.0	3.4	3.9	85.7	9%	-13.7%	-	-	1.0%	-	-0.7	Growth, Value
Turkey	-7.4	-15.6	-17.2	3.2	-23.7	-29.9	9%	-10.0%	54.3	11.8%	0.8%	-	-0.8	Growth, Value
Colombia	4.9	-25.4	-27.9	-8.1	-7.5	-15.6	-4%	-15.7%	51.2	1.9%	1.3%	-	-0.3	Value, Momentum
Greece	4.9	-7.7	-25.1	-3.7	-31.3	-38.0	24%	-15.3%	49.4	-	0.6%	-	-0.0	Growth, Value, Momentum
Argentina	-3.3	12.2	14.8	-2.3	-32.6	-35.3	21%	-15.2%	-	-	0.1%	-	-0.2	Growth, Value

Blended EPS Growth is average of LTM & NTM. FX Volatility is standard deviation of the daily return over last 6 months. Valuation Composite is an average Z-Score of LTM P/E, NTM P/E, P/B, EV/Sales, and EV/EBITDA analyzing 10 years of data. Growth Factor Tilt = Blended EPS growth greater than MSCI EM Index. Value Factor Tilt = valuation composite less than group average. Momentum Factor Tilt = 1-month return higher than the MSCI EM Index.

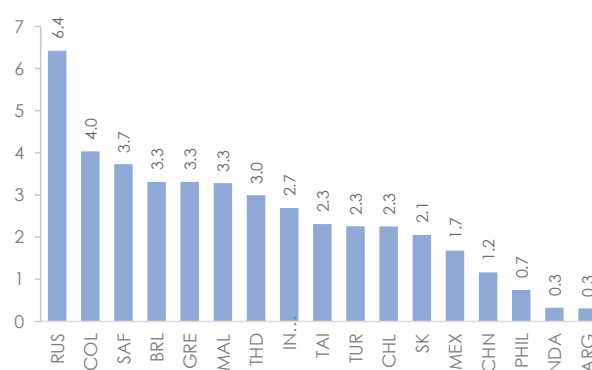
Figure 38: Country Betas to MSCI EM

Beta is compared to the MSCI EM Index over the past 6-months.

BRL	GRE	SAF	RUS	INDA	PHIL	SK	INDO	MEX	COL	THD	ARG	CHL	TAI	MAL	CHN	TUR
1.7	1.4	1.3	1.2	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.0	0.9	0.8	0.8	0.8	0.7

Source: MarketDesk Research

Figure 39: Dividend Yields (%)

Latest dividend yield across emerging countries.

RUS	COL	SAF	BRL	GRE	MAL	THD	IN..	TAI	TUR	CHL	SK	MEX	CHN	PHIL	INDA	ARG
6.4	4.0	3.7	3.3	3.3	3.3	3.0	2.7	2.3	2.3	2.3	2.1	1.7	1.2	0.7	0.3	0.3

Source: MarketDesk Research

Figure 40: Price to Earnings (NTM)

Current valuations across countries (next 12-months P/E).

INDA	BRL	MAL	THD	INDO	PHIL	TAI	CHN	CHL	ARG	SK	GRE	COL	SAF	RUS	TUR
23.1	22.5	18.9	16.7	16.1	15.9	15.8	14.7	14.6	14.3	12.7	12.4	12.0	10.9	9.9	7.3
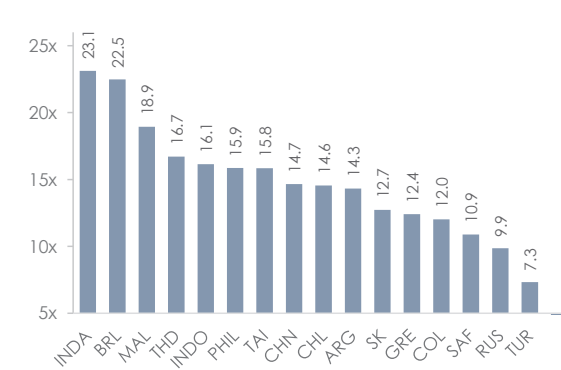
Source: MarketDesk Research

Emerging Markets
Active Manager Pulse

The sector exposure DM and EM tables highlight the exposure differences between DM and EM. EM has a higher overall exposure to Tech, Consumer Discretionary, and Communication Services, and less exposure to Industrials and Health Care. We prefer EM's sector exposure, which we believe has a higher growth potential.
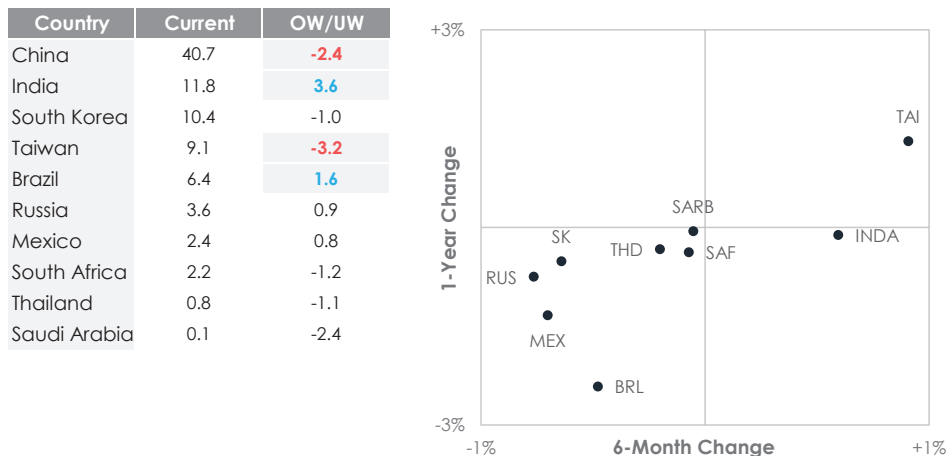
The MDR Active Manager Pulse is a proprietary indicator created by MarketDesk Research to highlight portfolio shifts within the emerging market universe. The funds' portfolio managers tend to focus exclusively on emerging market countries, and their positioning at the country and sector levels can provide portfolio insights. Figures 41 and 42 highlight how emerging market mutual fund portfolios are positioned across countries and sectors relative to the MSCI EM index. Figure 44 provides a tactical positioning view based on regional and non-top 10 country exposure. The data is calculated by pulling down holdings each month and analyzing country and sector exposures. (Emerging Market Mutual Funds: JFAMX, PRMSX, ABEMX, LZEMX, FEMSX, BEXIX, CEMIX, DEMZX, HIEMX, HLMEX.)

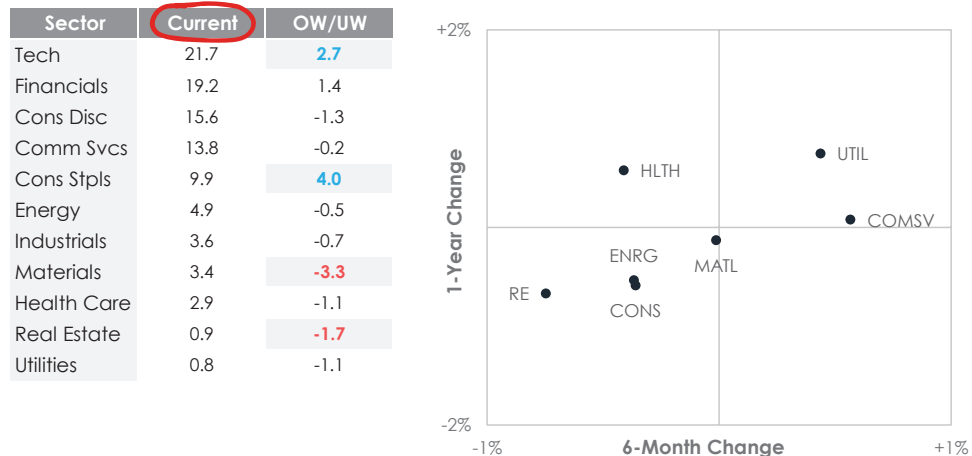### Figure 41: Country Exposure (%) — OW/UW vs MSCI EM Index
Current emerging country exposure, over/under weight vs the benchmark, and recent exposure tilts.

Country	Current	OW/UW
China	40.7	-2.4
India	11.8	3.6
South Korea	10.4	-1.0
Taiwan	9.1	-3.2
Brazil	6.4	1.6
Russia	3.6	0.9
Mexico	2.4	0.8
South Africa	2.2	-1.2
Thailand	0.8	-1.1
Saudi Arabia	0.1	-2.4

Source: MarketDesk Research, Various SEC 13F Forms

Figure 42: Sector Exposure (%) — OW/UW vs MSCI EM Index
Current emerging sector exposure, over/under weight vs the benchmark, and recent exposure tilts.

Sector	Current	OW/UW
Tech	21.7	2.7
Financials	19.2	1.4
Cons Disc	15.6	-1.3
Comm Svcs	13.8	-0.2
Cons Stpls	9.9	4.0
Energy	4.9	-0.5
Industrials	3.6	-0.7
Materials	3.4	-3.3
Health Care	2.9	-1.1
Real Estate	0.9	-1.7
Utilities	0.8	-1.1

Source: MarketDesk Research, Various SEC 13F Forms

Figure 43: Cyclical vs Defensive Positioning
Current cyclical vs defensive sector positioning across emerging markets among active international equity managers.
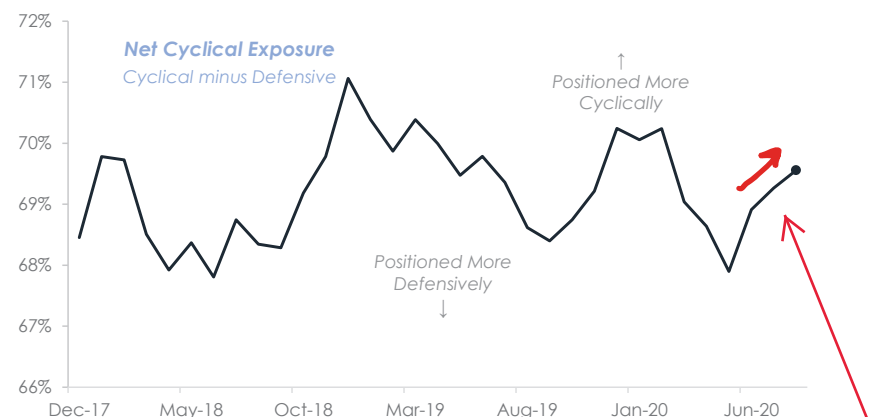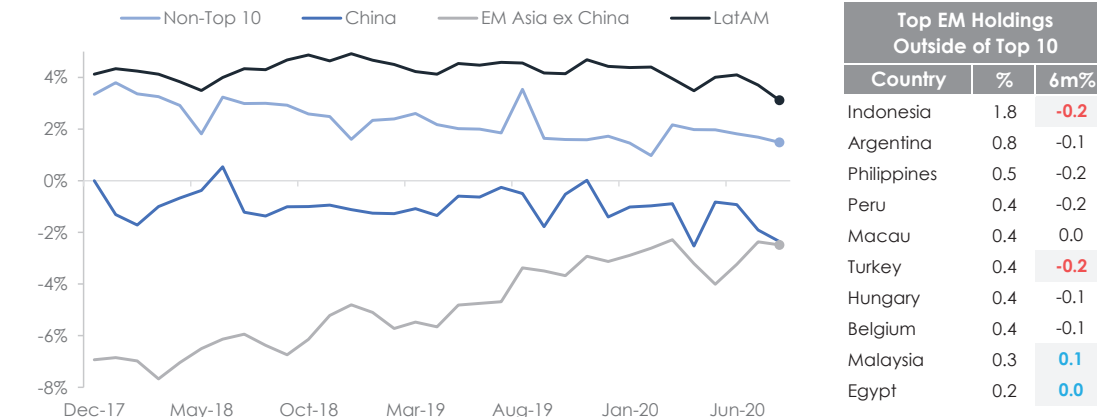

*Source: MarketDesk Research. **Cyclical** = CONS, UTIL, HLTH. **Defensive** = COND, TECH, COMSV, FINS, ENRG, INDU, MATL, RE.*

Similar to DM managers, EM managers moved to position more cyclically during the recovery. Investor risk appetite appears to be increasing.

Figure 44: Tactical Exposure — Over / Underweight Across Different Exposures
The analysis below highlights tactical positioning among EM managers across different exposures: China (largest country in MSCI EM), EM Asia ex China, LatAm and in countries outside the top 10 (which accounts for ~90% of the benchmark).

Top EM Holdings Outside of Top 10		
Country	%	6m%
Indonesia	1.8	-0.2
Argentina	0.8	-0.1
Philippines	0.5	-0.2
Peru	0.4	-0.2
Macau	0.4	0.0
Turkey	0.4	-0.2
Hungary	0.4	-0.1
Belgium	0.4	-0.1
Malaysia	0.3	0.1
Egypt	0.2	0.0

*Source: MarketDesk Research, Various SEC 13F Forms. **Note:** % = Current Position   6m% = 6-Month Change*

South Korea's electrical parts exports decreased materially before the COVID-19 and remain down from 2018 highs. This indicates South Korea's economy continues to be collateral damage in the U.S.–China trade war.

Figure 45: Summary of Key Indicators

Category	Economic Indicator	Report Date	Latest Report	1-Month Trend	6-Month Trend	10-Year Historical Percentile — Current	Current (●) & 1-Month Change (—)		Commentary
							0% / 50% / 100%		
Key Exports	Taiwan New Export Orders (y/y%)	7/31	12.4%	▲ 5.9%	▲ 13.2%	71%	-14%	+23%	Taiwan exports continue to trend higher
	South Korea Electrical Parts (Bil USD)	7/31	10.0B	▲ 0.4B	▲ 0.8B	48%	5.2B	15.2B	Weak China supply chain pull through
	China Total Exports (y/y%)	7/31	7.2%	▲ 6.7%	▲ 13.8%	46%	-28%	+48%	Global supply chains not fully reopened
	Indonesia Total Exports (y/y%)	7/31	-10.1%	▼ 12.2%	▼ 22.1%	25%	-29%	+49%	
	South Africa Precious Metals (Bil ZAR)	7/31	25.3B	▼ 1.4B	▲ 3.8B	92%	8.5B	26.7B	
	Chile Copper Exports (Bil USD)	7/31	3.1B	▲ 0.2B	▲ 0.7B	38%	2.0B	5.0B	Dr. Copper confirms global demand recovering
	Thailand Tourism (Mil Visitors)	7/31	0.0M	▲ 0.0M	▼ 2.1M	0%	0.0M	3.9M	Tourism down due to country shutdowns
	Price of WTI Crude (USD $/bbl)	8/31	$43	▲ $2	▼ $2	30%	$12	$114	Creates issues for Brazil & Mexico
Industrial Production & Mfg	Malaysia Industrial Production (y/y%)	6/30	-0.4%	▲ 4.4%	▼ 6.6%	74%	-32%	+11%	
	Argentina Industrial Production (y/y%)	6/30	-6.3%	▲ 10.2%	▼ 5.5%	59%	-33%	+13%	
	India PMI Manufacturing Index	8/31	52	▲ 6	▼ 2	88%	27	55	
	India Industrial Production Index	6/30	108	▼ 9	▼ 26	60%	54	144	
	Mexico Rail Traffic (# Wkly Carloads)	7/31	20.4k	▲ 1.1k	▲ 0.0k	85%	13k	22k	U.S. lockdown = Lower cross border traffic
Business Sentiment	China Li Keqiang Index	8/31	320	▲ 0	▲ 5	100%	172	320	China's informal leading index is strong
	China New Yuan Loans	7/31	13.0%	▼ 0.2%	▲ 0.9%	12%	+12%	+20%	
	Mexico Business Confidence	3/31	89	▼ 6	▼ 4	0%	89	106	Mexican business confidence remains weak
	India Bank Outstanding Credit (INR)	7/31	28.2Tn	▼ 0.5Tn	▲ 0.3Tn	92%	19Tn	29Tn	
	Taiwan Leading Economic Index	7/31	115	▲ 2	▲ 4	100%	86	115	Similar to China, Taiwan's leading indicator stror
	South Africa Leading Indicator	6/30	94	▼ 9	▼ 10	14%	92	109	
	South Africa Electricity Prod. (GWh)	6/30	20,679	▲ 569	▲ 1,265	66%	16,014	23,111	
Consumer Sentiment	South Korea Consumer Sentiment	8/31	88	▲ 4	▼ 9	40%	71	114	
	South Korea Retail Sales (y/y%)	7/31	-2.1%	▲ 1.3%	▲ 19.3%	59%	-40%	+24%	
	Brazil Retail Sales (y/y%)	6/30	0.5%	▲ 1.6%	▼ 4.2%	59%	-17%	+13%	
	China Retail Sales (y/y%)	7/31	-1.1%	▲ 0.7%	▲ 14.7%	41%	-16%	+20%	
	India Housing Loan Credit (Bil INR)	6/30	13.4B	-	▲ 0.1B	100%	3.1B	13.4B	
	Mexico Unemployment Rate	3/31	3.3%	▼ 0.4%	▼ 0.4%	5%	+3%	+6%	
Inflation	China PPI (y/y%)	8/31	-1.8%	▲ 0.6%	▼ 1.4%	30%	-6%	+8%	Deflationary pressures remain in supply chains
	China CPI (y/y%)	7/31	2.7%	▲ 0.2%	▼ 2.5%	34%	+1%	+6%	
	Brazil CPI (y/y%)	7/31	2.7%	▲ 0.3%	▼ 1.2%	12%	+2%	+11%	Demand shock eases inflationary pressures

On a positive note, retail sales are nearing 2019 levels, which is also occurring in the U.S. Consumers appear confident enough to resume spending.

Emerging Markets
Country vs Stock Allocation

The EM country vs stock selection quadrant is significantly more dispersed than the DM quadrant. The data suggests the separation between EM winners and losers will be wider than DM post COVID-19. In our view, this bolsters the case for active country and stock selection in the EM universe rather than allocating to broad EM indexes.

The analysis below simplifies emerging market country allocation into two investment regimes: country selection and stock selection. The scatter plot graphs the LTM P/E dispersion against performance intra-correlation for each country. Both axes are standardized using z-scores based on month-end data vs the three-year moving average. The further a country's value is from either axis, the stronger the implied investment regime. Performance correlation is measured by taking the average daily correlation of each company vs the country average performance over the prior 3-months. Positive correlation indicates companies are moving together (e.g. country allocation), while negative correlation indicates companies are moving independently of each other (e.g. stock selection). LTM P/E dispersion is calculated at the ETF level as the standard deviations each country ETF's LTM P/E sits vs the ETF's 3-year average. High LTM P/E dispersion highlights countries where the average company is overvalued vs its 3-year average (e.g. active stock selection approach to identify superior stocks), while lower dispersion highlights countries where the average company trades below its 3-year average (e.g. passive allocations to ride country revaluation higher). LTM P/E levels above 50x are removed to cleanse the data.

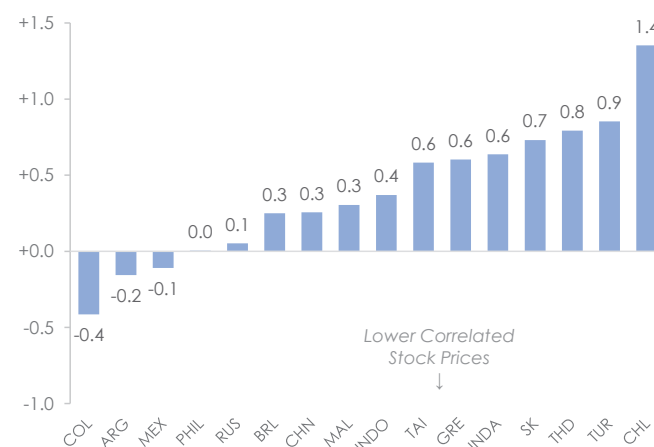**Figure 46: Country Valuation Dispersion vs Performance Correlation**

Source: MarketDesk Research

Figure 47: NTM P/E Dispersion — 1 Month Change
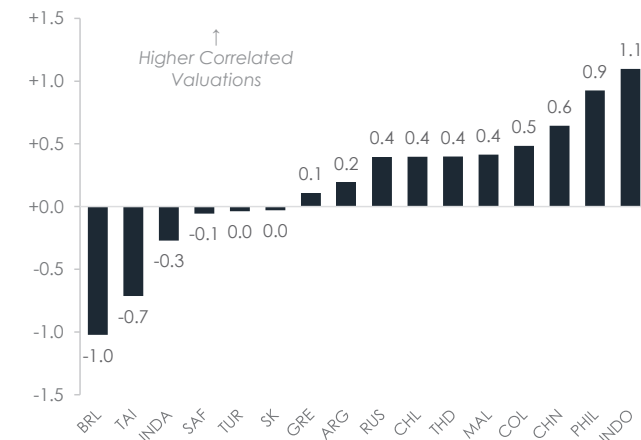
Source: MarketDesk Research

Figure 48: Performance Correlation — 1 Month Change
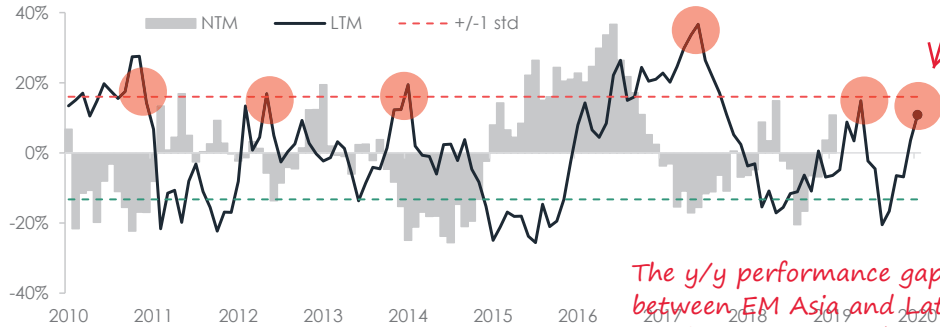

Source: MarketDesk Research

The MSCI EM index rebounded more aggressively than MSCI EAFE during the recovery. MSCI EM's rolling y/y return vs itself and the ACWI ex U.S. is approaching the +1std line. Historically, this signaled impending weakness. However, …
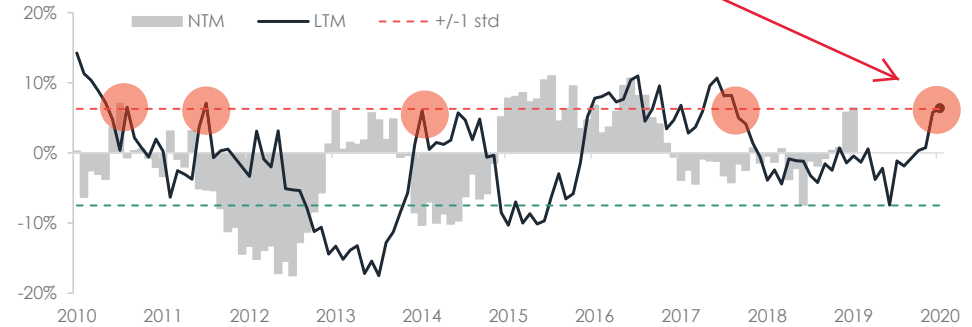
Figure 49: Y/Y Return — MSCI EM
This figure tracks EM's Y/Y rolling return to provide context relative to historical bounds.

Source: MarketDesk Research. **Note:** *Price returns in USD.*

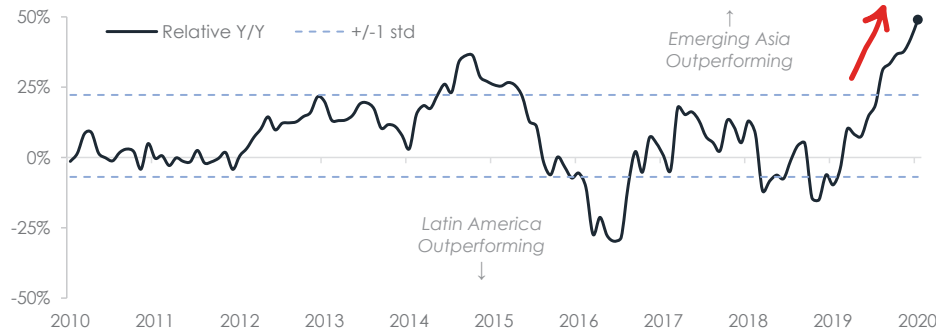### Figure 50: Relative Y/Y Return — MSCI EM vs MSCI ACWI ex U.S.
This figure tracks EM's Y/Y relative return to provide context versus to historical levels.

Source: MarketDesk Research. **Note:** *Price returns in USD.*

The y/y performance gap between EM Asia and LatAm continues to grow. The gap is starting to resemble the U.S. Tech vs non-Tech sector performance gap.

Figure 51: Y/Y Return — Emerging Asia vs Latin America
Relative performance between the two largest emerging market regions.

Emerging Asia Outperforming ↑

Latin America Outperforming ↓

Source: MarketDesk Research. **Note:** *Price returns in USD.*

Figure 52: Y/Y Return — MSCI EM vs S&P 500
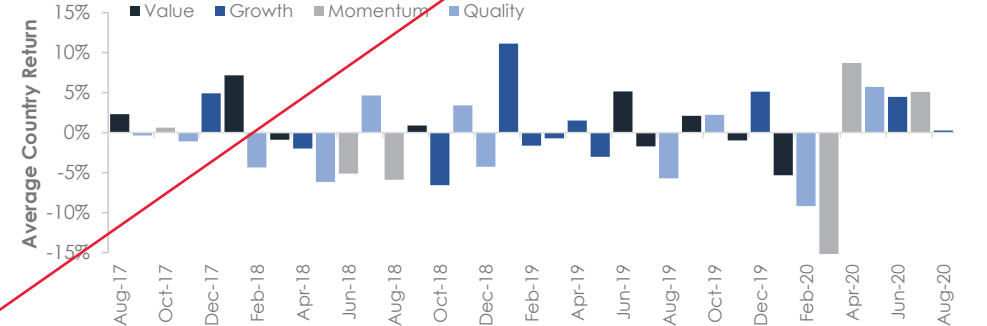Relative performance between MSCI EM and U.S. Markets.

EM Outperforming ↑

U.S. Outperforming ↓

Source: MarketDesk Research

Figure 53: 1-Month Return — MSCI EM Country Attribution
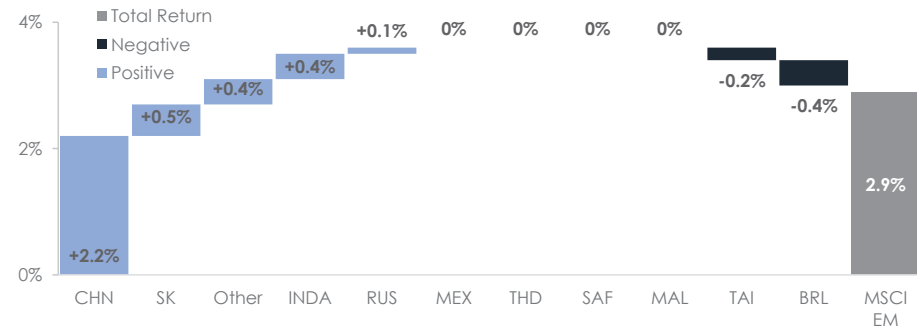
- Total Return
- Negative
- Positive

CHN +2.2%, SK +0.5%, Other +0.4%, INDA +0.4%, RUS +0.1%, MEX 0%, THD 0%, SAF 0%, MAL 0%, TAI -0.2%, BRL -0.4%, MSCI EM 2.9%

Source: MarketDesk Research. **Note:** *Price returns in USD.* **Other** *includes remaining countries.*

Figure 54: Largest Factor Driving Country Performance Each Month

Value, Growth, Momentum, Quality
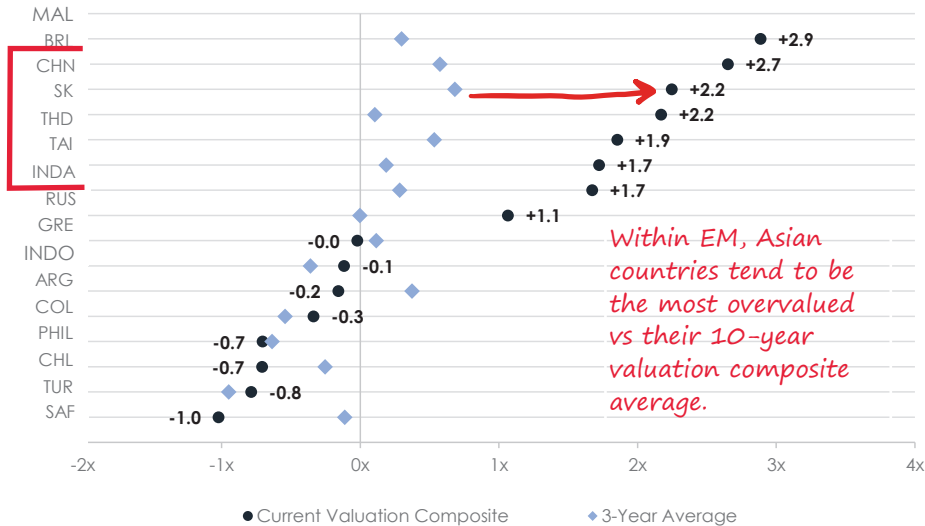
Average Country Return

Source: MarketDesk Research. **Value** *is based on NTM P/E.* **Growth** *is based on blended EPS growth (NTM & LTM).* **Momentum** *is based on previous 3-month returns.* **Quality** *is based on Profit Margin.*

… MSCI EAFE continues to lag the S&P 500. Between EM and DM, we believe there is a higher chance EM can close the performance gap vs the U.S. Global liquidity measures and low interest rates should support EM valuations, and EM's sector exposure is more growth friendly than DM.

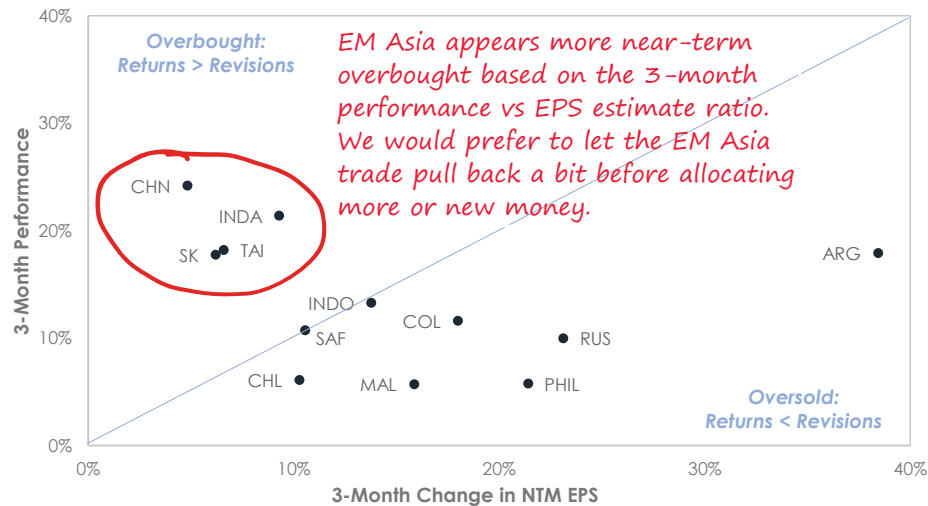**Figure 55: Valuation Composites — Current vs Historical 3-Year Average**

Snapshot of current country valuations vs historical averages. Valuation Composite is an average Z-Score of LTM P/E, NTM P/E, P/B, EV/Sales, and EV/EBITDA using the past 10 years of data.

Within EM, Asian countries tend to be the most overvalued vs their 10-year valuation composite average.

● Current Valuation Composite   ◆ 3-Year Average

Source: MarketDesk Research.

Figure 56: Relative Valuation Composites — EM vs DM & U.S. Markets

Relative valuations of Emerging vs Developed & U.S. Markets. Valuation Composite is an average Z-Score of LTM P/E, NTM P/E, P/B, EV/Sales, and EV/EBITDA using the past 10 years of data.

EM trades more expensive vs its valuation composite average than DM but is not as overvalued as the U.S. market.

Source: MarketDesk Research

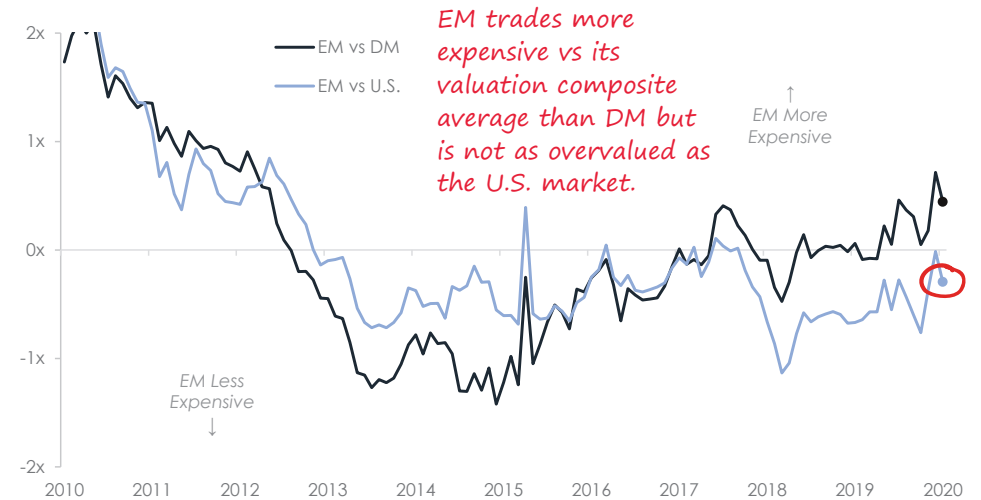**Figure 57: 3-Month Trends — Performance vs NTM EPS Growth**

Assuming all else is constant (e.g. valuation multiples), a +1% EPS change should result in a +1% share price change. Countries that deviate from this relationship can present buying / selling opportunities.

EM Asia appears more near-term overbought based on the 3-month performance vs EPS estimate ratio. We would prefer to let the EM Asia trade pull back a bit before allocating more or new money.

Source: MarketDesk Research. **Note:** *Returns & earnings in USD.*

Figure 58: Earnings Importance Indicator

Measured as the rolling 3-month correlation between NTM EPS revisions and performance. A higher correlation indicates the performance trend is more directionally accurate based on earnings revisions.

— Rolling Correlation: 0.08
- - - 1-Year Average: 0.23
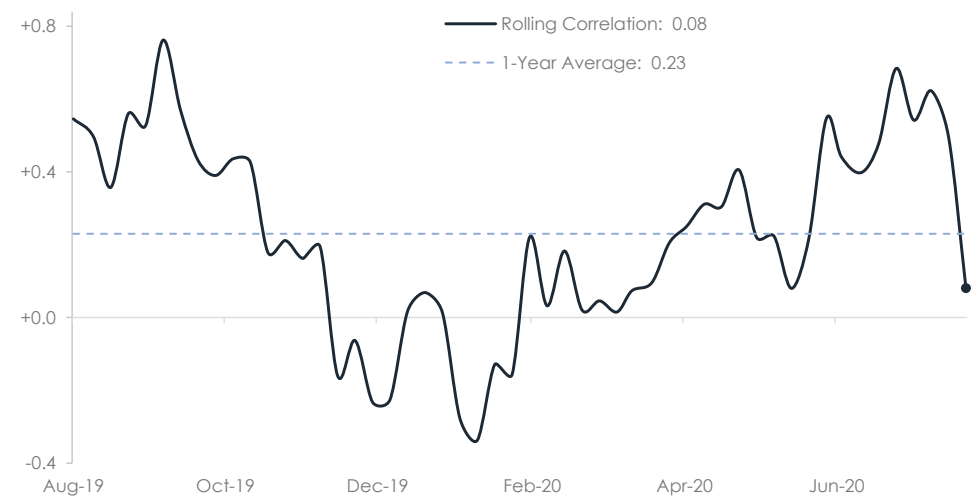
Source: MarketDesk Research

Emerging Markets
FX & Credit

The 6-month change column highlights the EM central bank rate cutting cycle that occurred during the pandemic. Lower interest rates should stimulate economic growth. However, EM rate cuts should not materially weaken EM currencies because DM central banks are also cutting rates, which means the interest rate differential did not materially tighten.

Figure 59: Emerging Market Currency Performance vs U.S. Dollar

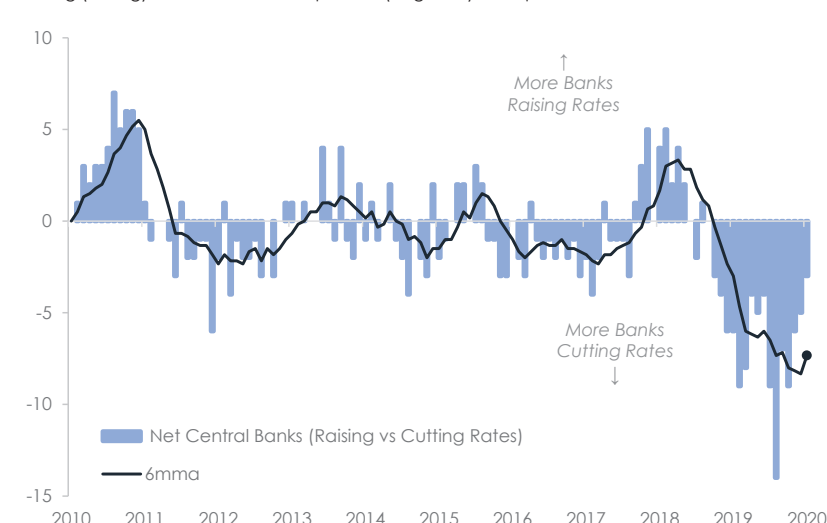| Country	FX Performance			10Y Historical Percentile Current (●) & 6mo Chg (—)
	1-Month	3-Month	1-Year	
China	**1.8%**	4.2%		
Taiwan	-0.2%	2.3%		
South Korea	0.3%	4.3%		
India	1.6%	2.7%		
Brazil	**-5.1%**	-1.0%		
South Africa	0.5%	4.1%		
Russia	0.2%	-4.6%		
Thailand	0.2%	2.2%		
Mexico	1.4%	1.1%		
Malaysia	**1.8%**	**4.4%**		
Indonesia	0.3%	0.3%		
Philippines	1.4%	**4.4%**		
Chile	-2.4%	3.8%		
Turkey	**-5.2%**	**-7.3%**		
Colombia	-0.6%	-1.0%		
Argentina	-2.6%	**-7.7%**		

Source: MarketDesk Research. **Note:** *5-Year Bond used for Turkey.*

The Brazilian real's August weakness weighed on Brazil's returns.

Figure 60: Emerging Market Central Bank Policy Rate Actions

The figure tracks the number of emerging market Central Banks cutting vs raising interest rates. Cutting (raising) rates is considered positive (negative) for equities.


More Banks Raising Rates ↑

More Banks Cutting Rates ↓

Net Central Banks (Raising vs Cutting Rates)
6mma

Country	6-Month Change
CHN	-0.20%
TAI	-0.25%
SAF	-0.50%
INDO	-0.75%
SK	-0.75%
SAF	-1.00%
INDA	-1.15%
CHL	-1.25%
PHIL	-1.50%
RUS	-1.75%
COL	-2.00%
BRL	-2.25%
ARG	-2.00%
MEX	-2.50%
TUR	-2.50%
SAF	-2.75%

Source: MarketDesk Research. **Note:** *6mma = 6-month moving average.*

**Figure 61: FX vs Local Rates — Current Percentiles vs 10-Year Valuation History**

Highlights fixed income opportunities across EM countries given the current FX / Rate regime. Future returns tends to be higher when yields are higher and FX is moving from weak to strong.

Weak FX, High Yields

Strong FX, Low Yields

Rates Valuation (10Y Percentile)
FX Valuation (10Y Percentile)
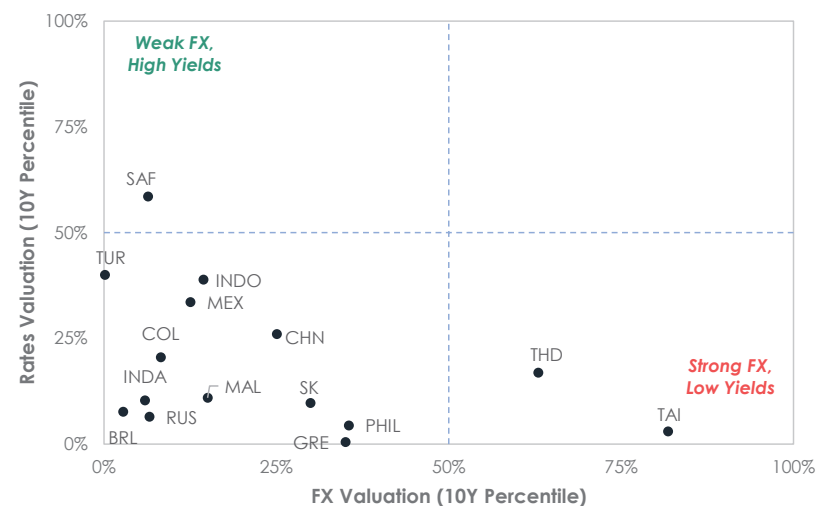
Source: MarketDesk Research. **Note:** *We use sovereign 10-year bond yields for rates valuation. Current valuations (percentiles) are calculated using the past 10-years of data.*

Figure 62: Sovereign Credits — Spread (10Y - 2Y) vs Rating

Country sovereign credit spreads (yield differential between a country's 10-year bonds and 2-year bonds) by sovereign credit ratings.

Sovereign Credit Spread (10-2Y)
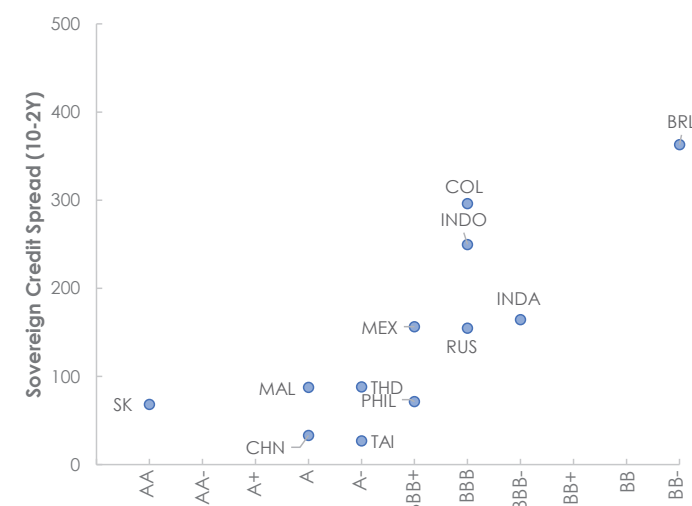
Country	Yield Spreads	
	10Y - 2Y	10Y vs U.S.
CHN	0.3%	2.4%
TAI	**0.3%**	**-0.3%**
SK	0.7%	0.8%
INDA	1.6%	5.4%
BRL	**3.6%**	6.6%
SAF	-	**9.0%**
RUS	1.5%	5.3%
THD	0.9%	0.7%
MEX	1.6%	5.4%
MAL	0.9%	1.9%
INDO	2.5%	6.1%
PHIL	0.7%	2.0%
TUR	**-0.1%**	**12.6%**
COL	**3.0%**	5.0%
GRE	-	0.4%

Source: MarketDesk Research

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