EMERGING MARKETS UPDATE

Week Ending November 6, 2020

Market Performance

For the week ended November 6th, 2020, Emerging Market equities increased by 6.6% led by many of this year's weakest performing countries. Russia, South Africa, Brazil, Chile and Poland were among the countries advancing by more than 10% for the week. After last week's move, all of these countries are down between 10% and 35% for the year-to-date. The prospects of a Biden presidential election victory, combined with a divided congress, gave a boost to risk assets in emerging markets. All emerging market sectors were in positive territory last week, again with the year's underperforming sectors outperforming for the week, including Materials, Financials, Utilities and Real Estate. Emerging Market Value and Growth styles of management were both up 6.6%, equaling the return of the Index. For the year-to-date, emerging market equites increased by 7.9% with the Emerging Market Growth style returning +24%, materially outperforming the Emerging Market Value style return of -8.1%. In the short-term, a risk on rally in emerging markets may favor the weakest countries for the year-to-date. Longer-term, we believe the focus will return to countries, sectors and companies with sustainable growth prospects. For the most part, this includes companies with exposure to rising per capita income in Asia.

US Presidential Election and Emerging Markets – First Impression

It appears a Joe Biden presidential victory checked by a divided Congress could lead to a favorable outcome for financial assets globally. It seems investors came to this conclusion last week. A more moderate leader in the White House could reduce uncertainty with respect to global trade and result in more modest fiscal stimulus, while keeping a cap on U.S. interest rates. And, in the U.S., a material increase in taxes appears to be off the table with a split government. As this scenario applies to emerging markets, a cap on U.S. interest rates is positive for emerging market interest rates and currencies providing a tailwind for emerging market equities. A Biden victory also portends less open conflict with respect to trade thus reducing uncertainty with China. Leading up to the election, a Democratic sweep was perceived to be the least favorable outcome for financial assets. With those chances waning, a more constructive view of risk assets, including emerging markets, appears to be unfolding. It is early in the process and more will be learned over the next few months, but markets, as they usually do, have a way of appropriately adapting to the most likely outcome. Uncertainty with respect to the election did not lead to the material sell-off in equity valuation as many bears expected. With the election risk fading we expect investors to be keenly focused on the progression of COVID-19 in Europe and the U.S. and the resulting impact on global growth. We believe we continue to be in a favorable environment for financial assets, with inflation and interest rates well contained for an extended period of time and prospects for growth improving. The news released this morning from Pfizer indicating the company's COVID-19 vaccine is 90% effective is the most encouraging scientific advance in containing coronavirus and could have a material impact on global growth over the next 2-3 years. We continue to have a favorable view of emerging market consumption growth which we believe represents one of the most compelling growth opportunities for the next 25 years. Low inflation and low interest rates favor those companies with enduring growth rates and companies exposed to the Asian middle class consumer are among the best positioned companies globally.

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