

Market Performance

For the week ended July 16, 2021, EM equities increased by +1.7%. EM Growth outperformed with a +1.9% return versus EM Value with a +1.5% return. The strongest sectors for the week were Communication Services +2.9%, Healthcare +2.6% and Consumer Discretionary +2.5%, while the weakest performers were Energy -0.7%, Real Estate +0.8% and Industrials +0.9%. Commodity and Energy rich countries were among the worst performers for the week with Russia, Chile, Peru, Colombia and Argentina among the worst performers. China outperformed with a return of 2.3% while India slightly underperformed with a return of 1.2%. For the year-to-date, the leading sectors remain Materials +19.3%, Industrials +14.0% and Energy 11.2%, while the worst performers remain Consumer Discretionary -5.6%, Real Estate -3.8% and Healthcare +0.1%. Finally, EM equities outperformed Developed Market (DM) equities, which returned -0.9% during the week. However, YTD EM equities are still lagging DM equities, which have returned +13.4%. Markets continue to struggle with the uncertainty of the economic outlook and levels of short-term inflation in developed nations as the World attempts to get a new footing post the Covid-19 pandemic.

Covid-19, Vaccinations in EM and the Possible Creation of Travel Bubbles

China is on track to have its entire population vaccinated by October 2021 as 1.22 billion people have already received their first dose (87.2% of its population). This compares with the U.S. first dose rate of 56.6%, Germany at 59.8%, Japan at 32.4%, Korea at 31.2% and Taiwan at 20.3%. The sudden acceleration of vaccines in some EM countries comes at a time when a new variant of Covid-19 spreads worldwide. Some of the countries that have materially accelerated their vaccination program are among the worst hit: Brazil, which has reached a first dose rate of 44.4% and India which has reached 23.2% as they exit one of the worst Covid-19 waves so far.

In the same month China announced it was maintaining its 14 day mandatory quarantine for inbound travelers (domestic and foreign) for another year, it also announced it plans to create a travel bubble with Hong Kong and Macao. While the World still struggles with different vaccination levels and new variants of Covid-19 appear, travel bubbles are possibly going to be part of our near future. Nations or blocks of nations with similar levels of vaccination and effective tracing methods may enter into travel bubbles in order to allow for tourism and business to resume to a new level of normal within the bubble. It is not unthinkable to see Korea and Japan or groups of European nations contemplating this concept in the near future. Consider how many Americans have confined their holiday travels to Mexico and the Caribbean, and you can see another bubble starting to take shape there.

So Where Does That Leave EM Equities?

Consumption in Emerging Markets is one of the last frontiers of growth in global equities. China, Korea and Taiwan have led a successful campaign against Covid-19. India and Brazil, despite having had two of the worst Covid-19 waves globally, have stabilized the situation and have accelerated their vaccination levels. Similarly to developed consumers, emerging market consumers are looking forward to traveling and spending in a safe manner. China has led the way both in terms of effective response to Covid-19, leading vaccination rate and the possible creation

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of the first travel bubble globally. Surveys show Chinese consumers are eager to travel and have experiences in places they deem safe. This level of confidence will continue to fuel the growth of consumption in major EM markets such as China and India. With attractive valuation levels relative to history and developed market equities and EM equities, especially those exposed to China and India, are poised to have superior consumption led performance in the years ahead.



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