

# 2018 Emerging Markets Outlook

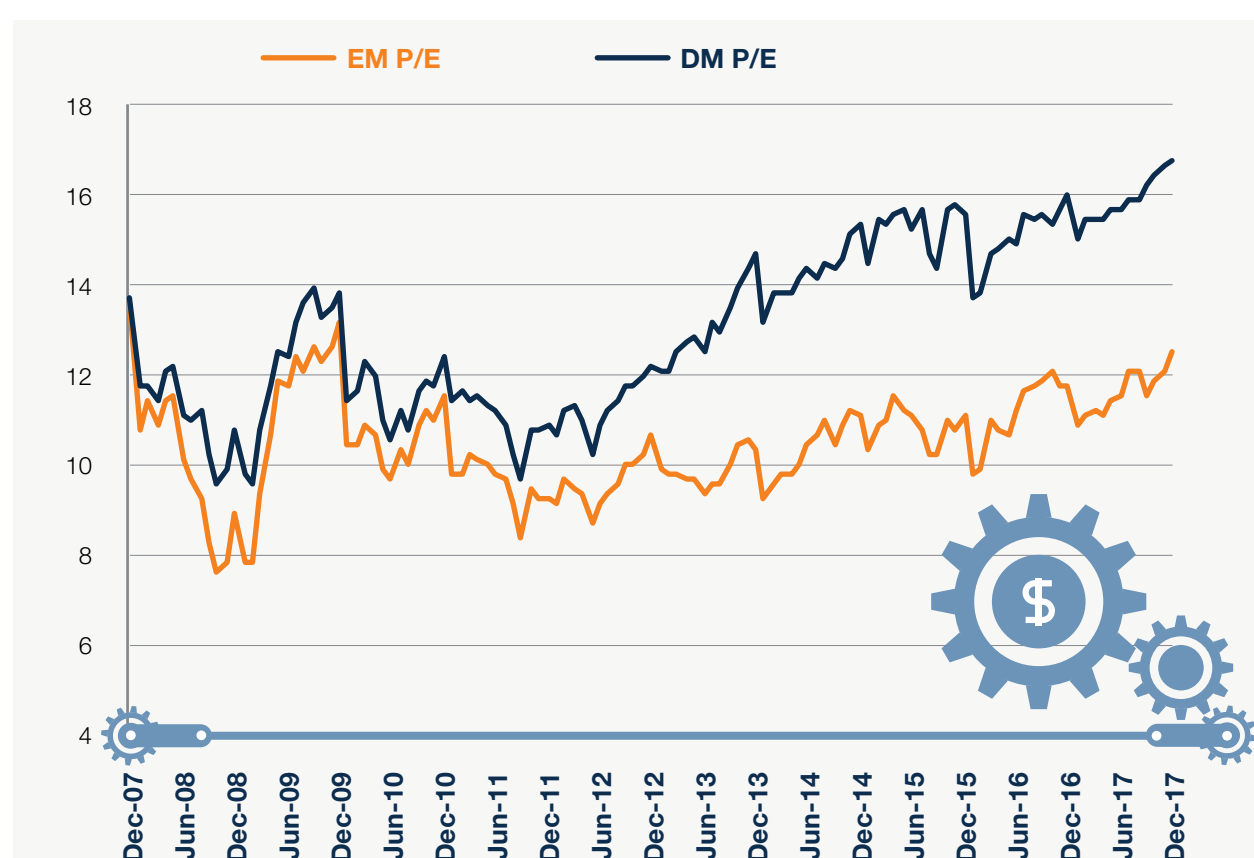
## The Next Leg of the Recovery

### Emerging Market Outperformance in Tandem with Global Recovery

- The unique combination of positioning, superior growth and valuation discounts provides emerging market (EM) equities with a prominent competitive edge to outperform their developed market (DM) counterparts. On average, EM bull cycles have lasted for around 42 months, offering comfort that EM equities could still see a period of re-rating and further earnings upgrades.<sup>1</sup>
- The sustained global growth cycle would benefit EMs more as slack in the economies is utilized. Rising capacity utilization results in earnings upgrades thanks to favorable operating leverage, stronger free cash flows, and higher return on equity.

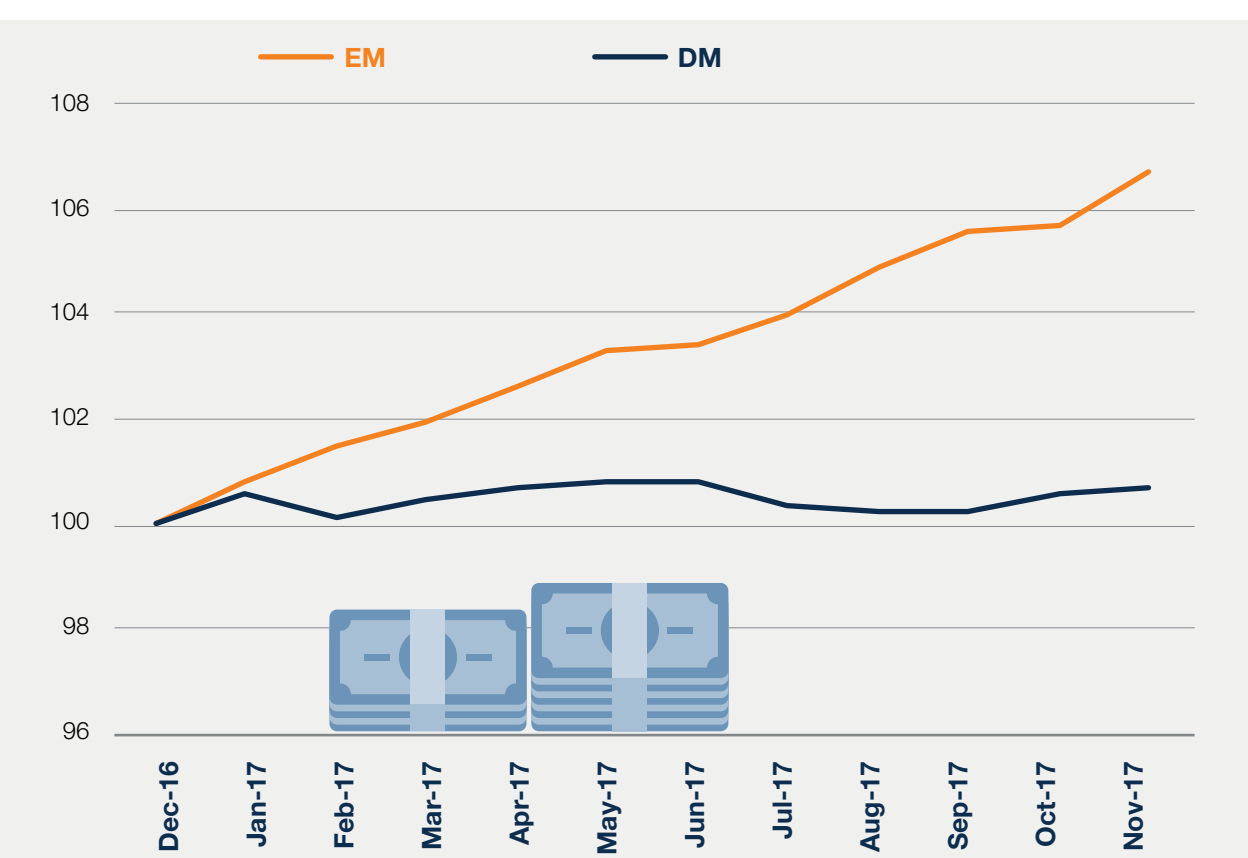
<sup>1</sup> Bank of America Merrill Lynch, September 2017

#### Forward Price to Earnings (PE) Ratio



Source: Bloomberg, Mirae Asset Global Investments (2017)

#### Emerging Market Earnings Revisions Trend Upwards for 2018

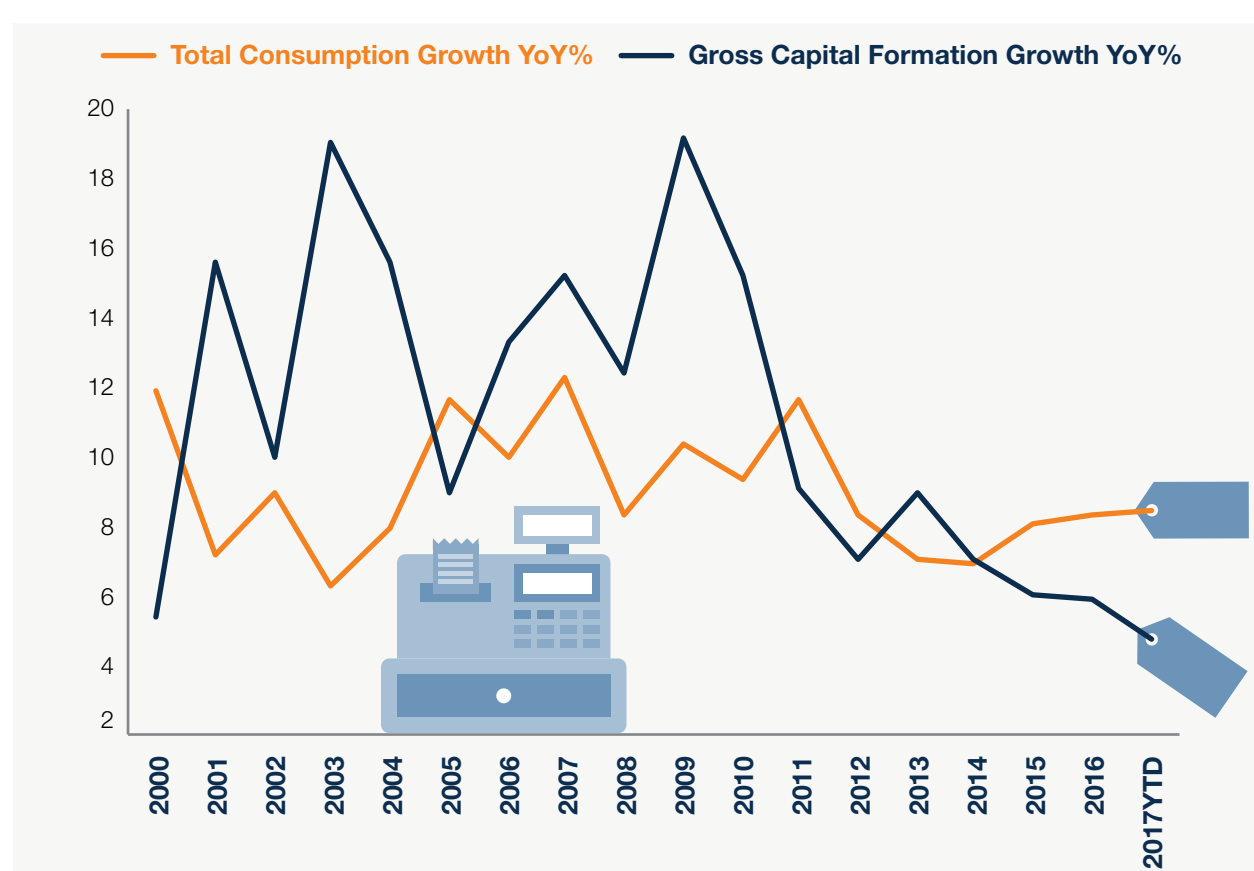


Source: Factset, CLSA. Based on 2018 forecasted earnings revisions. Rebased to 100 (Accessed in December 2017)

### Extension of Chinese Growth & Index Inclusion

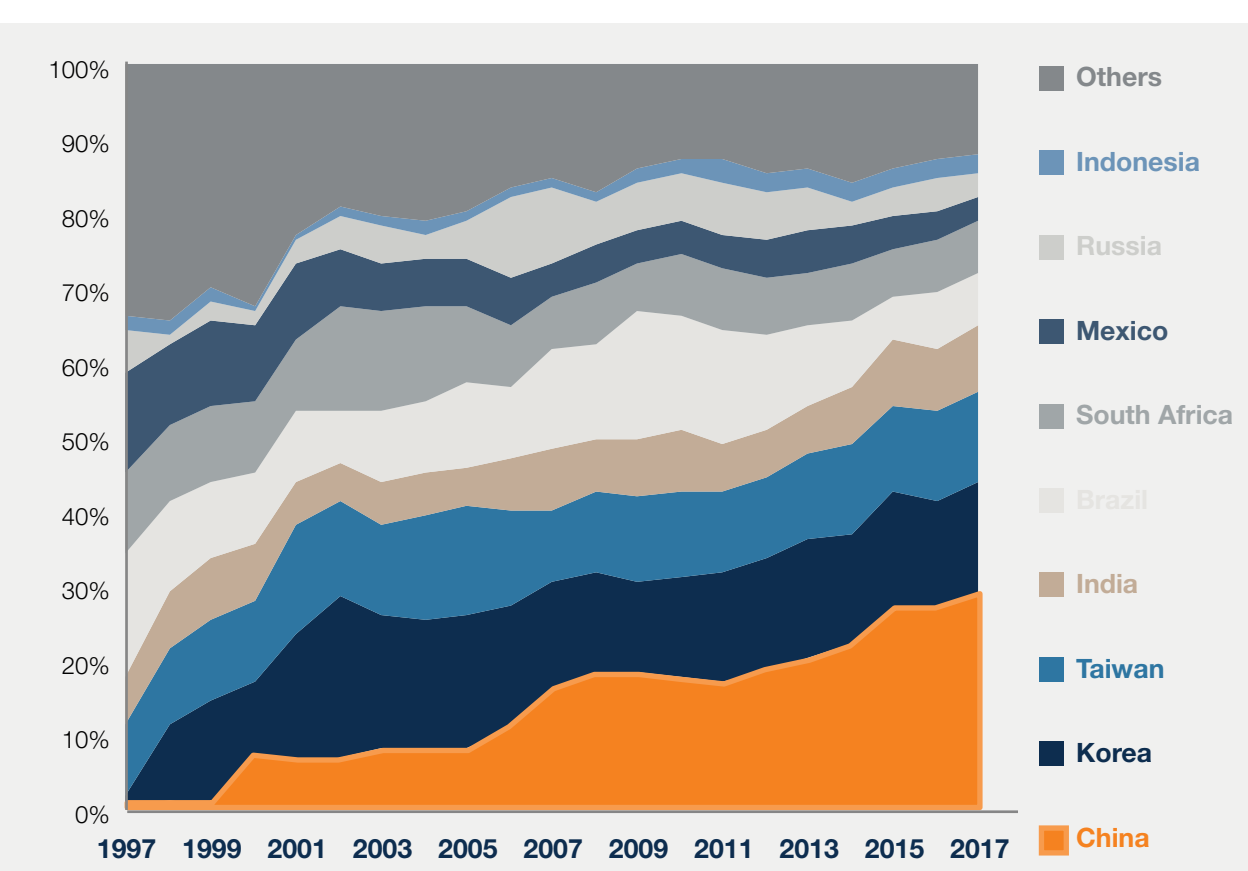
- We maintain the view that China is not heading into a hard landing scenario and will continue to be a key growth driver for the Asian region and globally. Consumption growth continues to outpace investment growth and the economy is shifting more towards high value-added economic activity.
- The recent MSCI China A-Share inclusion decision is set to propel China's equity markets into new phases of growth as improvements are made in corporate governance and reporting standards from foreign investor participation.

#### Chinese Consumers' Increasing Confidence



Source: NBS, CEIC, Morgan Stanley (2017)

#### MSCI Emerging Markets: Increasing share of China

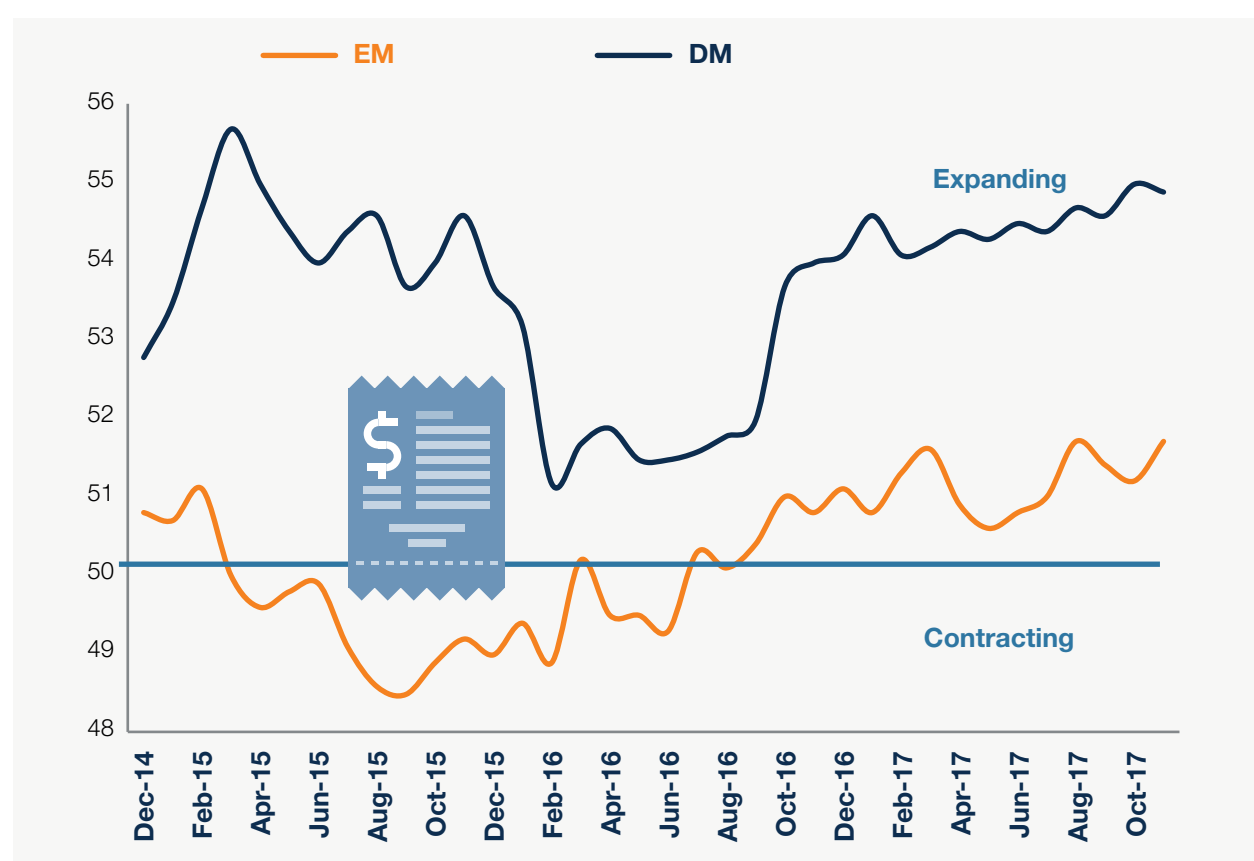


Source: FactSet, MSCI, Mirae Asset Global Investments (2017)

### Start of a New CAPEX Cycle

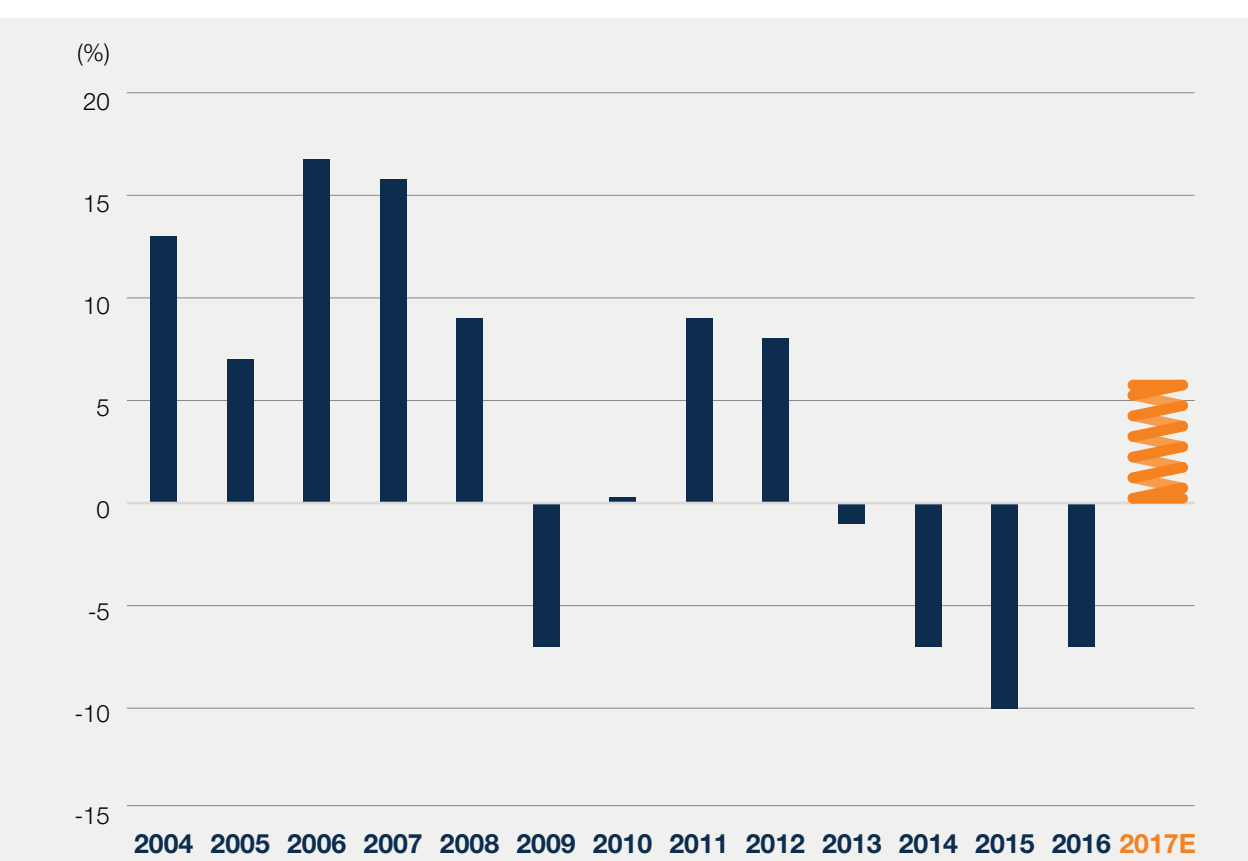
- After almost half a decade of declining global corporate capital expenditure (CAPEX) growth, a result of the Euro crisis and declining US commodity investments, CAPEX growth has pivoted back to a positive cycle as evidenced in synchronous PMI (purchasing managers' index) levels trending above 50 in EM and DM regions.
- The age of capital stock across most countries is fairly old and rapid technological changes necessitate upgrades for future competitiveness. The recently passed tax reforms in the US are an additional catalyst for financial markets and corporate investments alike.

#### Purchasing Managers' Index in Expansory Territory



Source: Bloomberg (2017)

#### Global Capex Rebounds



Source: S&P Global Ratings: Global Corporate Capital Expenditures Survey 2017

### US Federal Reserve Tightening

- Even though US Federal Reserve tightening may lead to near-term pull back, retrospectively, early cycle tightening has not de-railed upward equity markets.
- We believe that with sharing economy gaining ground and rapid automation, an inflation spike on the back of sharp wage increases remains a remote possibility for 2018.

#### Global Interest Rate Trajectories



Source: Bloomberg, Mirae Asset Global Investments (2017)

\*Emerging markets average include 16 major emerging markets ex-China

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