



October 2019

FOR PROFESSIONAL INVESTORS ONLY

# Emerging Markets Spotlight

James Syme, JOHCM Global Emerging Markets Opportunities Fund

There are two broad drivers of the emerging market equity asset class: global growth and US dollar liquidity. This update serves to point out that neither of these drivers is showing any sign of being supportive, but also that a robust investment process and differentiated portfolio can still find opportunities in the asset class.

Global growth is sick and failing to respond to treatment because no treatment has been applied. In the developed world, the US has seen the weakest ISM manufacturing survey in 10 years as well as weakness in the crucial services data, while eurozone 2019 real GDP growth forecasts have been steadily revised down to the current level of just 1.1%. In the emerging world, recent Chinese data has been particularly soft, with fixed asset investment (+5.5% year-on-year), retail sales (+7.5% year-on-year), industrial production (+4.4% year-on-year) and exports (-1.0% year-on-year) all coming in both low and below expectations. The exports of the most cyclically-exposed emerging economies tell a similar story, with Korean exports -11.7% and Taiwanese exports -4.6% in the year to September.

Meanwhile, the inherent strengths of the US economy relative to the rest of the world, combined with the asymmetric impact of the trade war, have kept investors more optimistic about US assets and/or more pessimistic about the need to have sufficient US dollar-denominated assets. This has happened despite the enormous increase in the US fiscal deficit (federal government gross issuance will be around US\$11.3 trillion in FY2019, up from around US\$10 trillion in FY2018, with the majority of that issuance at maturities of six months or less), which represents a huge drain on global dollar liquidity. The net effect of this has been a resumption of the uptrend in the US dollar relative to other global currencies that began in 2011.

The slide in growth and tight liquidity have been transmitted into emerging economies, with negative GDP growth revisions in almost all of the 26 emerging market economies during 2019. Even previous areas of strength, such as India, Pakistan and Thailand, have been caught up in the slowdown, with the 2019 GDP growth estimate revised down 0.8% in India, 1.2% in Pakistan and 0.8% in Thailand. Global conditions remain tough.

Our investment process is designed to seek opportunity, principally at the country level, and we have found various areas of opportunity through our process this year. One would be areas where GDP growth estimates have held firm, including Eastern Europe, where aggregate GDP revisions are about flat year-to-date. We have held some exposure in the Czech Republic, which has been a slight laggard, and considerably more in Russia, which has substantially outperformed.

Another source of opportunity is in the pricing (both equity and currency) of these macro conditions. Even where growth is weakening, panicking investors can drive valuations to levels that overstate the challenging fundamentals, and we aim, through a disciplined monthly review, to identify these opportunities. One such has been Turkey. With 2019 GDP growth revisions of -1.5%, Turkey has been the second-weakest of all emerging economies year-to-date (Brazil, at -1.6%, is in last place). In May, however, the pricing of that slowdown became wildly excessive, and the Turkish stocks we bought at the end of that month have very substantially outperformed (and, importantly, have actually made money for investors). Interestingly, Turkey's 2019 GDP growth estimate has in fact been revised up since the end of May, suggesting that the worst of the selling pressure (and the greatest opportunity for us) was right before the turn.

Most, perhaps all, investing is a trade-off between fundamentals and valuation, and we look to use both to identify top-down, country-level opportunities in EM equity, no matter how good or bad the global environment is at that moment.

---

## JOHCM Global Emerging Markets Opportunities Fund

### 5 year discrete performance (%)

Discrete 12 month performance (%):

	30.09.19	30.09.18	30.09.17	30.09.16	30.09.15
A USD Class	-0.14	-1.63	21.56	17.70	-12.98
Benchmark	-1.97	-0.65	22.22	17.10	-19.59
Relative return	1.87	-0.99	-0.54	0.52	8.22

### Past performance is no guarantee of future performance.

Source: JOHCM/MSCI Barra/Bloomberg, NAV of Share Class A in USD, net income reinvested, net of fees as at 30 September 2019. The A USD Class was launched on 30 June 2011. Benchmark: MSCI Emerging Markets NR (12pm adjusted). Performance of other share classes may vary and is available on request.

### Past performance is no guarantee of future performance.

The value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. Investing in companies in emerging markets involves higher risk than investing in established economies or securities markets. Emerging Markets may have less stable legal and political systems, which could affect the safe-keeping or value of assets. The Fund's investments include shares in small-cap companies and these tend to be traded less frequently and in lower volumes than larger companies making them potentially less liquid and more volatile. The information contained herein including any expression of opinion is for information purposes only and is given on the understanding that it is not a recommendation. Issued and approved in the UK by J O Hambro Capital Management Limited, which is authorised and regulated by the Financial Conduct Authority. JOHCM® is a registered trademark of J O Hambro Capital Management Ltd. J O Hambro® is a registered trademark of Barnham Broom Holdings Ltd. Registered in England and Wales under No: 2176004. Registered address: Level 3, 1 St James's Market, London SW1Y 4AH, United Kingdom.