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JOHCM Funds

Emerging Market Spotlight

JOHCM Global Emerging Markets Opportunities Fund

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Highlights

It has been our view for over a year that the G7 policy-driven slowdown in emerging economies would feed back into the developed world through weaker orders and revenues for EM-facing companies.

The more cyclical end of EM (predominantly Asian exporters) does contain some markets that are clearly already pricing in a sharp slowdown.

We remain substantially overweight India and Korea and continue to rotate the portfolio into more domestically-driven markets that can benefit from the Fed's new-found caution.

There are two powerful sources of qualitative information that can help investors in emerging markets assess how US monetary policy (which is one of the key global drivers of EM equity returns) might evolve.

The first of these two is the quarterly results and outlook commentary from globally-facing US companies. These comments give an immediate view of the state of demand in various economies around the world, and how those demand conditions might be feeding back into the US economy (and, in turn, how US monetary policy might evolve). The second is from speeches and comments from the leadership of the Federal Reserve, particularly where those comments reference emerging markets.

It has been our view for over a year that the G7 policy-driven slowdown in emerging economies would feed back into the developed world through weaker orders and revenues for EM-facing companies, until either weakness in financial markets and/or weakness in economic statistics caused a policy re-think in G7 capitals. Over the last 20 years, sustained weakness in emerging market currencies has led, or been coincident with, a fall in US and G7 activity measures, such as industrial production and manufacturing PMI. We expect the EM sell-off in 2018 will show up in developed market corporate and economic data in 2019.

Looking at some of the company results published so far in 2019, there are certainly signs of weakness, with China very much a focus of it. This trend includes Apple ('while we anticipated some challenges in key emerging markets, we did not foresee the magnitude of the economic deceleration, particularly in Greater China. In fact, most of our revenue shortfall to our guidance, and over 100 percent of our year-over-year worldwide revenue decline, occurred in Greater China'), Caterpillar ('Construction activities remained at low levels in Latin America... weakness in the Middle East… sales in Asia/Pacific declined due to lower demand in China'), Nvidia ('deteriorating macroeconomic conditions, particularly in China') and Disney, where a trend of very strong results from parks and resorts was broken by 'lower operating income at Shanghai Disney Resort… primarily due to lower attendance').

We can also see the Federal Reserve paying increasing attention to emerging markets. Notably, Chairman Jerome Powell held the view in May 2018 that 'the normalization of monetary policies in advanced economies should continue to prove manageable for EMEs', but by September 2018 was claiming that 'when our economy is strong and we're raising rates, that puts upward pressure around the world and can affect countries, particularly countries that have external dollar borrowing… The performance of the emerging market economies really matters to us in carrying out our domestic mandate', which pre-figured the move to the Fed being 'patient' with rate hikes.

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This growing evidence of weakness in the cyclical part of EM does not create an automatically bearish outlook for the asset class though. One of the key sensitivities in the asset class is to bond yields and the strength of the US dollar; markets more exposed to this tend to be the more domestically-driven, current account deficit markets such as India, Indonesia, Turkey and most of Latin America. As US monetary policy moves through the stages of fewer hikes-pause-cuts-[QE4?], the prospects for economic growth and market recovery in these markets improve. We expect strong returns from some of these markets in 2019, and have seen a strong start to the year in some of them. We remain substantially overweight India and Korea and continue to rotate the portfolio into more domestically-driven markets that can benefit from the Fed's new-found caution.

An investor should consider the Fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other important information about the Fund can be found in the Fund's prospectus or summary prospectus, which can be obtained at www.johcm.com or by calling 866-260-9549 or 312-557-5913. Please read the prospectus or summary prospectus carefully before investing. The JOHCM Funds are advised by J O Hambro Capital Management Limited and distributed through FINRA member Foreside Financial Services, LLC. The JOHCM Funds are not FDIC-insured, may lose value, and have no bank guarantee.

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The views expressed are those of the portfolio manager as of February 2019, are subject to change, and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice.