



## News

### Echoes of Caution Amidst Emerging Market Tech Frenzy

Powerful surges in emerging market tech stocks raise flags amidst quality concerns



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July 2023 was a strong month for emerging market equities. The MSCI EM index returned 6.2% in USD terms, with strong gains from some major groups of stocks. Chinese internet names performed well, including some key portfolio holdings; some emerging market banks rose strongly, including portfolio holdings in Mexico and South Africa. Turkish (not held\*) stocks rose strongly on hopes for more orthodox economic policies.

By far, the most substantial gains, though, were in parts of the broader technology sector, particularly stocks with exposure to electric vehicles/batteries and stocks that are possible artificial intelligence beneficiaries. We see multiple signs that there may be excessive optimism in some of these groups of stocks. We are neither taking a view on particular companies/business models nor saying that these upward moves are finished, but we are highlighting some of the market dynamics we see:

- 1. Huge volumes and parabolic price moves driven by retail investors:** this has particularly been the case with the Korean EV/battery sector. EV/battery stocks represented nearly half of the total Korean stock market turnover on some days in July, driven by retail investor leverage rising to a record KRW (South Korean won) 10trn. The key to stock selection has been the Korean YouTube presenter Park Soon-hyeok, better known as 'Mr. Battery'. Six of his eight recommended names rose over 40% in the month, with the strongest of them, Ecopro (not held\*), up 1,059% year-to-date (as of 31 July 2023). There has also been a raft of new issuance of Korean EV/battery ETFs in recent weeks.
- 2. Strongest moves in names that might have quality challenges:** Strongest moves in names

that might have quality challenges: New Oriental Education (China, online education, not held\*) has previously been the subject of both short-seller allegations of dishonesty and also of the crackdown on online education by the Chinese government. The stock returned 49.8% in July. NIO (China, EV, not held\*) is forecast by consensus estimates to have a net loss of USD 2bn on USD 8.9bn of sales this year but rose 58% in July, underperforming XPeng (China, EV, not held\*), expected to lose USD 1.2bn on USD 4.5bn of sales, and up 74% in July. In May of this year, Lee Dong-chaee, the chairman and largest shareholder of Ecopro, was sentenced to two years in prison for violating South Korean capital market laws.

**3. Parabolic moves in stocks that aren't pure play tech names:** Posco Holdings (Korea, steel, not held\*) is one of Asia's largest steel producers, with thirty thousand employees producing 32 million tons of steel every year. The company has made some smart investments in green steel technology and has ongoing investments in EV battery components, which it provided an update on in July. That update was material in driving the market cap of Posco Holdings from USD 24.9bn to USD 42.5bn in the month. Similarly, strong monthly gains (+50%) were seen in some Taiwanese PC and laptop producers that have been reporting declining PC, laptop and server volumes this year, on the hope that AI server orders (volumes and margins at this point unclear) are about to follow.

**4. Crucially, the high-quality large-cap companies with proven track records and technologies were laggards in the month.** TSMC (Taiwan, tech hardware, held\*\*) is widely recognised as the world's dominant producer of high-performance semiconductors that are key to AI; the stock fell 2.8% in July. Samsung Electronics (Korea, tech hardware, held\*\*) is TSMC's nearest challenger in high-end semiconductors and a major producer of computer memory, including the HBM type used in AI servers; the stock fell -0.4% in July.

The technological revolutions in AI and EV are changing the world, but equity markets will not price that opportunity with perfect efficiency. We are concerned that some parts of the EM equity space look particularly inefficient right now.

\* not held by JOHCM Global Emerging Market Opportunity strategy

\*\* held by JOHCM Global Emerging Market Opportunity strategy

Source for all data: JOHCM & Bloomberg (unless otherwise stated.)

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