Deutsche Bank
Markets Research

Global

Strategy

The Month in GEM Equities: Jul 2014

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Strategy Update

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Source: Deutsche Bank

Better sentiment and flows, but little improvement in fundamentals

Improving sentiment towards EM led by China increases risk of correction

EM equities performed strongly in July in both absolute and relative terms, led by China, which was the best performing of all of the major EM markets having lagged badly over the first half of the year. Whilst momentum still appears to be positive, the transformation of sentiment towards EM in general, and China in particular, removes the major obstacle to a correction later in the year if the contrarian pattern of the past four years holds. We believe that EM equities are unlikely to break out of their post-GFC trading range, although we concede that they may enter a technical bull market before any correction.

China; strong financial flows cannot compensate for real reforms

As usual, the reform rhetoric from Beijing is running far ahead of implementation as the authorities bail out struggling industry and local government with yet another fiscal/monetary stimulus. The anti-corruption campaign which has been stepped up over recent weeks might appear to have very positive implications, but is subject to conflicting interpretations. Is the primary purpose of the campaign to facilitate the reform process or is it to serve as the justification for what is primarily a struggle between competing factions? If it is, as we suspect, the latter, then the pro-reform rhetoric serves largely to shore up financial flows, thereby helping to safeguard economic growth at an 'acceptable' level during a crucial period for the leadership. The Chinese economy and market may now be much more vulnerable to any increase in risk aversion on the part of global investors than it was in 2013.

Tactically less bearish Russia for EM benchmarked investors

We remain structural bears about the prospects for the Russian economy and equity market, but the risk/reward ratio against the rest of GEM has clearly improved on a tactical basis following the market's massive underperformance over the year to date. The potential exclusion of all or part of Russia from the mainstream EM benchmark may in any case render such advice academic, and serves to highlight the absurdity of the distinction between emerging and frontier markets, as well as the folly of a benchmark-driven approach towards investing in EM. We remain underweight Russia (and zero-weight for non-EM investors), but at the very least would not be reducing exposure to invest in any of the BRIC markets or Turkey at this precise moment in time.

Geopolitical factors compound governance risks for EM investors

The impact of geopolitical developments on financial markets usually only becomes clear on a longer term perspective. More broadly, we believe that the most important 'big picture' geopolitical shift is the increasing degree of opposition to US military, ideological and financial hegemony throughout much of the emerging world. The most tangible result for EM investors thus far is the increasing level of state intervention in both economies and markets, which we first identified as a major risk factor towards the end of 2010. As in the specific case of Russia/Ukraine, the more general conclusion is that flexible, absolute return based strategies, based on fundamental factors, are likely to provide superior long term returns to benchmark-based funds given that i) geopolitical tail risks have clearly increased and ii) non-convergence of EM governance systems with Anglo-Saxon norms is likely to undermine the buy and hold strategies, which underpin most EM-dedicated fund structures.

Summary

Improving sentiment towards China bolstered EM returns in July

Over the first six months of 2014 Chinese equities, both 'H' listed and 'A' shares lagged all of the other major EM markets, with the exception of Russia which was obviously subject to the Ukraine factor. In July, there was a major positive shift in sentiment towards Chinese equities for the following reasons:

- First, the announcement of the so-called 'Hong Kong/Shanghai Connect' or 'through train' whereby onshore Chinese investors are able to invest in Hong Kong-listed equities and vice versa subject to a daily quota. Whilst a similar scheme which was mooted in 2007 never materialised, this one appears likely to be more successful, although there are still some details to be worked out, most notably around the level of capital gains tax and some more technical issues.
- Second, recent macroeconomic data, in particular the manufacturing PMIs, appear to show that Beijing's efforts to shore up economic growth are succeeding to the extent that some economists are revising their estimates for 2014 in a positive direction for the first time.
- Third, investors have responded positively to a plethora of reform announcements, most notably company-specific shifts in governance for SOEs, as well as the increasing intensity of the anti-corruption campaign.
- Finally, managers used inflows into EM funds to increase their weightings in a market, which appeared cheap on valuations (Figure 8) and which had lagged the EM benchmark over the first six months of 2014 (Figure 27), amidst a dearth of obviously attractive alternatives.

We do not believe that this rally in China or GEM is the precursor to a secular bull market

July's rally is just the latest of a series of violent swings in sentiment which have taken place since the end of the post-GFC equity rally in late 2009. In June's monthly (*Sticking to bearish 2014 view on the back of China/ dollar concerns*, 2 July 2014), we wrote that whilst we remained bearish on the prospects for EM over the remainder of 2014, the generally bearish sentiment towards EM was likely to be positive over the short term from a contrarian perspective. The outperformance of EM over DM in July (Figure 1), including over the correction in global equity markets which took place towards the end of the month, suggests to us that many managers of the more actively managed international funds are in the process of being forced to close their underweight positions in GEM, and that we are closer to the end rather than to the beginning of this process if the history of the past few years is anything to go by. We do not believe that the fundamentals are supportive of any sustained move higher, whilst supply is set to increase with an acceleration in both primary and secondary issuance as we move into September, led by China. The MSCI EM index got to within 2% of a new bull market from the February lows in late July and may well reach that technical threshold for a new bull market in August, but we think that the prospects of a significant break-out from the trading range of the past four years is relatively low.

Chinese manufacturing sector bailed out by fiscal/monetary stimulus

Our long-held bearish view on both the Chinese economy and market has been partly based on an analysis of the level of overcapacity which persists across much of the materials and industrials sector, and the linkages which exist between these enterprises and the highly indebted local governments. There have been pronounced signs of weakness across many of the materials industries so far this year. DB analysts Johnson Wan and Kames Kan wrote that the majority of companies under their coverage might only achieve about 40% of the 2014FY NPAT consensus estimated by the Bloomberg consensus over the first six months of the year. The build-up of debt in the enterprise and local government sectors had already begun to pose a threat to the stability of the Chinese economy even before the current downturn in the housing market, which will exacerbate the problem for both groups.

The very real prospect of a debt trap, which we have been highlighting throughout this year, is the reason behind the determination of the authorities in Beijing to launch a series of stimulus measures, in our view. Whether this is achieved by monetary or fiscal means is largely besides the point, as the overall effect will be to offer local government and industry a temporary bail-out by increasing the overall leverage of the Chinese economy. We believe that the rise in capacity utilisation across most industries will only last as long as the stimulus since we see little indication of any sustainable rationalisation of capacity across most industries.

Growth seems to take precedence over real reforms

The reform measures which have recently been announced are definitely secondary to the stimulus in terms of their impact on the corporate sector in our view. The so-called “mixed ownership” mode, as it applies to a number of enterprises, is unlikely to result in a quantum improvement in governance; Johnson Wan points out that the subsidiaries of CNBM have already adopted mixed ownership without any obvious benefits in terms of efficiency thus far. The restructuring at CITIC has been warmly received by investors, but the primary aim appears to bring more capital into the company without ceding control. The Petrochina share price also appears to have run ahead of the potential benefits of the proposed restructuring of the downstream businesses.

Big questions concern anti-corruption campaign and fiscal/land reforms

We are often asked what would change our relatively bearish attitude towards the Chinese economy and equity market, to which our first answer is a credible proposal to reorganise the fiscal relationship between central and local government on a similar scale to what happened in 1994, but with the opposite impact, namely of increasing the revenue base of local government. This is predicated on the belief that much of the sharp drop in China's productivity growth which has taken place in recent years derives from the reliance of local government on manufacturing industries for social/financial support. The resolution of the underlying fiscal issues around local government is also bound up with reforms to the current system of land ownership and the way in which the *hukou* or residency permits are granted. There have been some fairly strong statements from the finance minister Lou Jiwei since the start of 2014 that the authorities may be on the cusp of announcing a much clearer roadmap for fiscal reform, but so far nothing has emerged. Similarly there has also been a wave of speculation over the past couple of week concerning the possibility of a major liberalisation of the regulations concerning the system of granting *hukous*, but a clarifying statement has made it clear that any shift can only occur on a city-by-city basis. We will continue to scrutinise policy statements towards both fiscal and land issues very carefully, but so far Beijing appears to be continuing its recent tradition of talking up expectations, which are subsequently not backed by tangible measures.

The anti-corruption campaign has also become an increasing area of focus for equity investors as it has been steadily increasing in intensity over recent weeks. The sharp rally in the price of Petrochina in particular, has been partly in response to the potential impact of the allegations of corruption made against senior figures at the company, in causing a re-evaluation of the capital expenditure programmes, which have been perceived as value destructive by minority investors. We are sceptical that there will be much in the way of change, since most of the big downstream projects which were undertaken within China and overseas appear to have reflected the strategic priorities of the Chinese state, priorities which are unlikely to change much over the near future.

The broader issue with the anti-corruption campaign is whether it really is being undertaken as a precursor and enabler of economic reform by removing vested interests, or whether it is primarily motivated by a faction fight within the Chinese leadership as the new leadership, whose power base has been largely derived from Beijing, moves against the so-called "Shanghai Gang", associated with the previous administration. If, as we suspect, the latter interpretation is correct, the suggestion of reform helps to maintain economic growth and hence shore up the regime's support in the country, by attracting inflows of financing from overseas. The implementation of policies to strengthen market disciplines would by contrast be very detrimental to growth in the short term, by forcing the closure of thousands of manufacturing plants, creating millions of new unemployed and undermining the finances of local governments across China. The truth is that no one outside the immediate leadership circle is in a position to make a definitive judgment about this very important issue, so investors should monitor the implementation of potentially painful measures to facilitate economic and industrial restructuring to gauge whether it matches the rhetoric emanating from Beijing.

Increasing vulnerability of Chinese economy to global fund flows

The Beijing authorities increasing emphasis on appealing to the financial markets through measures such as the 'Hong Kong/Shanghai Connect' programme and the broader pro-reform rhetoric, reflects a key part of their strategy, which is to delegate a large part of the necessary financing for the enterprise and local government sectors through securitisation in the bond and equity markets. Every investor knows that the vast majority of the stock of Chinese debt is financed internally, but it has become increasingly clear since the GFC that the rapid accumulation of internal debt poses a grave risk to the medium and long term stability of the Chinese economy. The credit stimulus of 2012 was supposed to have relieved the banks of some of the more onerous obligations, by shifting much of the burden away from the mainly state owned formal banking sector towards more disintermediated sources of finance in the shadow banking sector. The repeated bail-outs of insolvent projects, companies and local governments which have taken place since then, indicate that the authorities are unwilling to allow the purchasers of these products to take any significant haircut or to allow the projects/enterprises concerned to become insolvent; they therefore remain a contingent fiscal liability to a greater or lesser degree.

As an increasing proportion of domestic credit becomes devoted to servicing the debt on existing loans, the obvious solution is to look overseas for new financing. It is difficult to obtain precise figures on the extent to which this has been taking place, but new issue activity in the corporate bond and equity markets has increased over recent months and there are proposals to liberalise the regime for foreign buyers of domestic equity and credit, including municipal bonds. This increases the risk that if the flow of foreign funds begins to slacken for either global risk appetite or China specific reasons, the shortfall in funding will cause a dip in the rate of credit fuelled economic growth which might then lead to a crisis of confidence. For this reason we do not think that China should be perceived as a 'safe haven' as was the case this time last year during the taper scare.

Elsewhere, July in GEM dominated by Ukraine/Russia

Outside the big switch in sentiment towards China, July in GEM was dominated by the repercussions from the continuing turmoil in the Ukraine and in particular the shooting down of Malaysian Airlines flight MH17 with the tragic loss of all on board, an event which has been widely attributed to the Russian-backed rebel force, albeit as a ghastly error. It seems almost disrespectful to discuss the prospects for Russian equities in the wake of such an event, but EM investors now confront something of a dilemma when dealing with Russia. The fundamentals certainly appear to be overwhelmingly negative, in particular the potential damage from sanctions on an economy where growth is at best anaemic, even with an oil price of over $100, as well as the impact of sanctions on individual state-controlled listed companies and on the broader financial system. There is also the not inconsiderable risk that Western investors will be subject to retaliatory action from the Russian authorities, though this is more likely to apply to direct than to portfolio investors in our view. As if the Ukraine did not constitute a sufficient risk, there are also likely to be negative repercussions from the judgment of the Permanent Court of Arbitration in The Hague that Russia must pay $50bn to the former shareholders of Yukos.

We remain underweight Russia but it is a more difficult call for GEM investors

We remain convinced structural bears about the outlook for the Russian economy and equity market as we have been for a number of years and continue to advocate that non-EM investors should zero weight the market, due to governance concerns and our long term bearish outlook for oil. In some ways, the recent plunge in the share prices of Bashneft and Sistema ostensibly over the potential revisiting of a ten-year old privatisation, is more indicative of the underlying issues facing investors in Russia than events in the Ukraine. Nevertheless, for relative return based EM investors, the tactical call has now become much more difficult, given the extent of the underperformance of Russian equities against MSCI EM over 2014, the very low level of valuations and the dearth of attractive opportunities elsewhere in the asset class.

We could easily envisage a situation where given the amount of selling by foreign investors which has already taken place, Russian equities manage to outperform a falling EM benchmark; the contrarian trade which has worked fairly reliably, albeit with time lags over the past four years, now favours Russia within a GEM context. Within emerging Europe, the Turkish market in which we are overweight is starting to appear seriously overbought, while Turkey is not immune from its own political issues, both internal and regarding external relations with the rest of the region. Moreover, despite the apparently intractable nature of the conflict in the Ukraine, it is not in the West's interests to put President Putin in a position where he has no politically acceptable way of helping to ease the tension (we do not however believe there is much prospect of Western pressure leading to a shift to a more liberal regime either). Whilst we remain strategically overweight Turkey and underweight Russia, at the very least we would advise dedicated EM investors not to make such a switch now.

Russia highlights absurdity of benchmark-driven approach to EM

The threat by two of the largest index providers to exclude all or part of Russia from the mainstream EM benchmark highlights the absurdity of a benchmark-driven approach to EM investing in our view. The definition of what constitutes an EM as opposed to a frontier or developed market is overly predicated on technical and liquidity criteria, as opposed to more substantive issues such as corporate governance where Russia is almost entirely deficient in form if not in substance. In truth, Russia has never been a market suitable for passive investors, nor for that matter is much of listed China, as the objectives of minority shareholders are invariably sublimated to those of the state or other controlling parties.

The shifts in index composition generally appear to work to the detriment of the majority of benchmark or quasi benchmark investors. A whole industry has grown up to exploit any likely changes, which are usually telegraphed some way in advance as part of a consultation process. The result is that countries tend to get relegated from indices at precisely the wrong time for many index based investors, that is after what is usually a series of adverse developments, such as occurred in Argentina or Greece, which have both been strong performers around the time of their respective demotions - the main overseas buyers of both markets at around the bottom were in fact the hedge funds, who can take a much more opportunistic view than their benchmarked peers. Our solution would be to give non-passive managers a much greater degree of flexibility when it comes to managing their portfolios, a subject we return to towards the end of this note.

Geopolitical developments increase governance tail risks in EM

Ongoing events involving Russia and the Ukraine highlight two related political /geopolitical themes which we identified in our GEM coverage initiation in late 2010, as potential drags on the prospects for positive absolute and relative returns from emerging market equities. Firstly, that growing antipathy towards US influence would lead to more volatile political/geopolitical developments across the emerging universe. Secondly, that the continuing growth of state capitalism, partly as a reaction against US hegemony, would result in a increasing level of state intervention across a number of EM economies, financial markets and companies, generally to the detriment of the mainly developed market-based minority shareholders. The major geopolitical developments since late 2010 that matter to EM investors have been concentrated in three main areas:

- In the Middle East where the Arab Spring in 2011, which virtually none of the area specialists predicted, has compounded the difficulty of analysing developments in what was already a complex region with many moving parts. Investors now have to grapple with the potential fluctuations in relations between the West and Iran, the increasing hostility between Sunni and Shia Islam, the schism within the Sunni world between Qatar/Turkey and Saudi Arabia/Egypt/UAE, not to mention Iraq, Kurdistan, developments within Egypt or the conflict between Israel and the Palestinians.

- In Asia, the consequences of China's more aggressive stance towards her neighbours regarding sovereignty over large parts of the South and East China Seas.
- In Europe and Central Asia, the attempts by Russia to extend its influence across the former Soviet Union by economic (the Eurasian Union) and military means, against the perceived provocation from westward extension of the EU and NATO. The Ukraine has understandably been the focal point for investors but there are potentially serious issues in some of the other states, in particular Kazakhstan where there is a significant Russian minority population.

Results of geopolitical developments are not usually immediately obvious

Investors tend to be slow to recognise the build-up of political/geopolitical developments in our experience, before exhibiting a fairly knee-jerk response to what they perceive as 'black swan' events. We would advocate a greater awareness of the political/geopolitical context around the major issues to help formulate a more considered and less reactive strategy. The consequences for financial markets can often develop in what appears to be a relatively counterintuitive direction when compared with investors' initial reaction. The Egyptian market has been a strong performer despite the political turmoil which followed the ousting of President Mubarak, but the main financial beneficiary of the Arab Spring has been the UAE, and in particular the Dubai property and equity markets, which have soared over the past thirty months. In Asia, the genesis of 'Abenomics' in Japan derives in no small measure from an attempt to inject more dynamism into the economy, in response to the strategic challenge from China according to some well-informed local commentators. In Europe recent developments in the Ukraine threaten to reverse some of the peace dividend, which has allowed military spending to diminish as a proportion of GDP since the dissolution of the USSR.

Growing but fragmented opposition to US political, economic and financial hegemony

The most important big picture political shift for financial markets is the growing opposition to US political, economic and financial hegemony. The recent announcement of the formation of a BRICS banks is a rare example of an explicit challenge to the dominance of the Western nations led by the US, but is in our opinion unlikely to be very significant since the underlying interests of the BRICS are very different, and to a great extent irreconcilable. The US also enjoys the huge advantage of a robust economic system, which has been tested in adversity, in contrast to what we see as the underlying fragility of the corporate and financial systems in all of the BRICS nations, with the partial exception of South Africa. Still, the ability of the US to use its military and financial dominance is likely to be increasingly challenged over the next decade, albeit in a relatively fragmented fashion and this has some important likely consequences for investors in emerging markets.

Growth of state capitalism remains a major risk for EM investors

The implication of the increasing resistance to US dominance is that contrary to conventional wisdom a decade ago, there is little prospect of any linear convergence of EM governance systems towards 'Anglo-Saxon' norms. Our prediction of greater state involvement has been borne out since 2010 across a number of markets, not least Hungary, where there has been a sustained assault on foreign capital, and Brazil, which has been the worst performing of the major emerging markets, mainly on the back of the interventionist policies pursued by the Rousseff-led administration. The Hungarian Prime Minister Viktor Orban encapsulated this attitude in a recent speech in Romania when he said that the financial crisis has shown that liberal democracies cannot remain globally competitive 'we want to create a work-based society which is admittedly of a non-liberal nature'.

Whilst the direct impact on state-controlled companies may have become more widely recognised since we pointed out the risks of state intervention in late 2010, it is difficult to fully discount the more general risks for Western direct and portfolio investors. Hungary is the poster child for attacks on Western capital over the past four years but we have also seen action against Western companies in China for perceived specific violations of local regulations and in some cases criminal laws. The global playing field does not appear quite so flat as when Thomas Friedman wrote his book in 2005. The state is also exerting an increasing degree of control on printed, broadcast and social media across a number of emerging markets, in particular Russia, Turkey, China and Hungary. Investors have generally ignored these developments as not being of direct relevance to financial markets, but as in the case of Russia, they are invariably indicative of the state's attitude to transparency and governance in a broader perspective.

China is the major outstanding risk within EM on governance criteria

China remains the outstanding risk for investors in EM equities on governance criteria in our view in a number of ways. First, the market is dominated by state-controlled companies to a greater extent than any other EM constituent whilst the state exerts considerable leverage over the majority of privately controlled companies. Second, the underlying level of financial transparency across much of the corporate sector is very low partly due to the relative inability and unwillingness of outside parties such as journalists and financial analysts to challenge the *status quo*. Finally, there are no practical steps for minority shareholders to protect their interests if there is an economic or financial crisis in China. China is already the biggest single constituent of the EM benchmark and may well become even more significant if the index providers begin to allow 'A' shares to become part of the index. If there is any sort of systemic crisis, then it is not too farfetched to suggest that it would probably represent the end of the emerging market equity asset class in its current form.

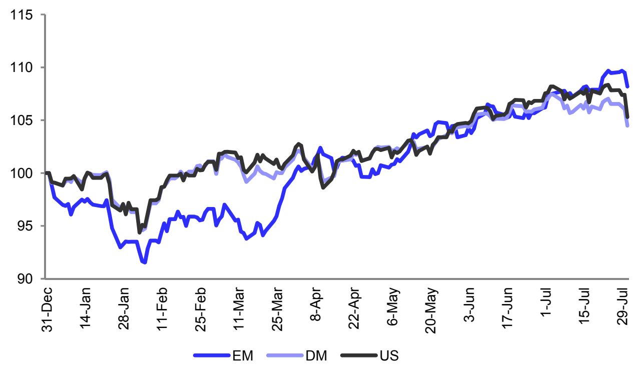
Governance and geopolitical risks favor flexible/absolute return based approach

The most important implication for global equity investors is that the increasing importance of both governance and political/geopolitical issues introduces an additional element of uncertainty and volatility into EM investing, thereby undermining the narrative of inevitable EM outperformance on the back of higher economic growth rates. The investment process of the vast majority of EM dedicated funds is currently predicated on the assumption of positive long term returns, based around an index benchmark with a very limited ability to hold cash. We would argue that non-passive EM funds should be able adopt a much more flexible approach, which would enable them to better protect their investors in the event of a systemic issue and also to exploit the valuation and other anomalies which are bound to result from the surge in indexation as a proportion of total assets managed, which is currently taking place. We would i) replace index benchmarks with multi-year absolute return targets of at least three and preferably five years. ii) introduce the facility to hold unlimited cash at any time. iii) allow investment in frontier markets as well as companies listed on developed market exchanges with a relatively high level of exposure to emerging economies. The resulting fund structure would differ from most existing hedge funds in two ways. First using cash as opposed to shorting stocks to preserve value, would in our view focus attention of longer term fundamental issues rather than shorter term market flows. Second, almost all manager remuneration would be based on the multi-year performance fee with a negligible base fee, to discourage asset gathering and quasi-benchmarking. We know of a very few funds who operate in a similar manner at the present time, but we suspect that this structure would provide a much better alignment between managers and their investors than is generally the case at present and would be more suited to deal with the likely challenges facing the asset class.

July performance review

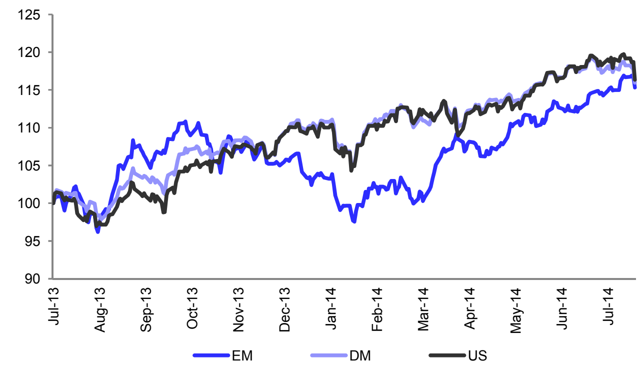
First month of 2014 in which EM equities have outperformed DM equities on a year-to-date basis

Figure 1: YTD total returns of EM versus DM and US equities, USD (rebased at 31 December 2013)



(1) EM refers to the MXEF (MSCI Emerging Markets) index.
(2) DM is proxied using the MSCI World index.
(3) US refers to the MSCI US index.
Source: Deutsche Bank, Bloomberg Finance LP

Figure 2:12m total returns of EM versus DM and US equities, USD (as of 31 Jul 2014)



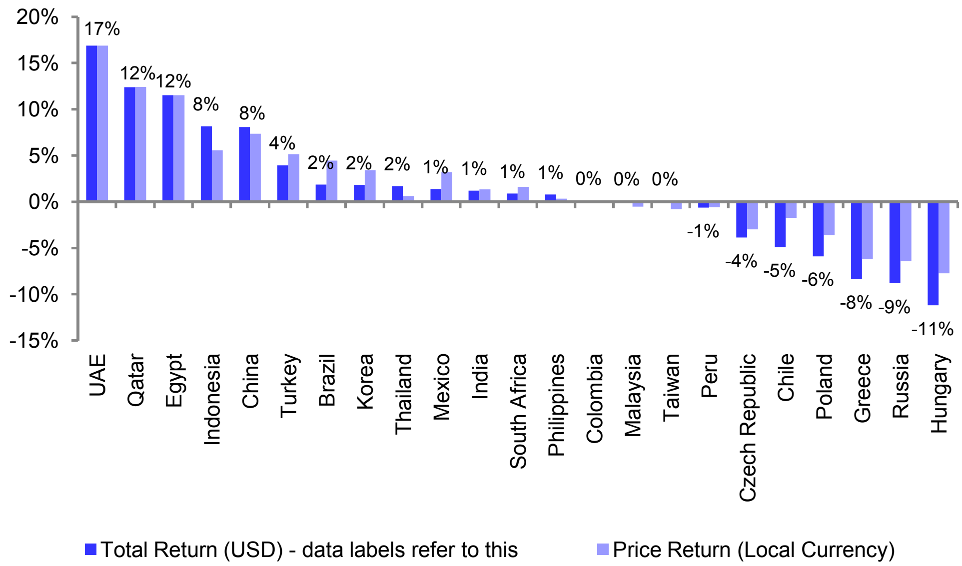
(1) EM refers to the MXEF (MSCI Emerging Markets) index.
(2) DM is proxied using the MSCI World index.
(3) US refers to the MSCI US index.
Source: Deutsche Bank, Bloomberg Finance LP

Over the month of the July, EM returned +1.9% and outperformed strongly against DM equities by +3.5%. In absolute terms, DM equities returned negative returns over the month (-1.6%), as did US equities (-1.4%). The performance of equities in all three regions was affected by a correction towards the end of the month driven by renewed focus on the Fed possibly ending QE in October, and to a lesser extent, US/ EU sanctions on Russia and the Argentinean default, although these latter two events had limited scope for contagion. The EM benchmark was given additional support from strong performance of its largest constituent market, China (Figure 3).

This is the third month in a row in which EM has outperformed DM on a monthly basis, and it is the very first time in 2014 that year-to-date performance of EM equities has exceeded that of DM at the time of writing our monthly note (outperformance of +3.7% as of end-July). Absolute year-to-date performance of EM, DM and US equities now stands at +8.2%, +4.5% and +5.3% respectively.

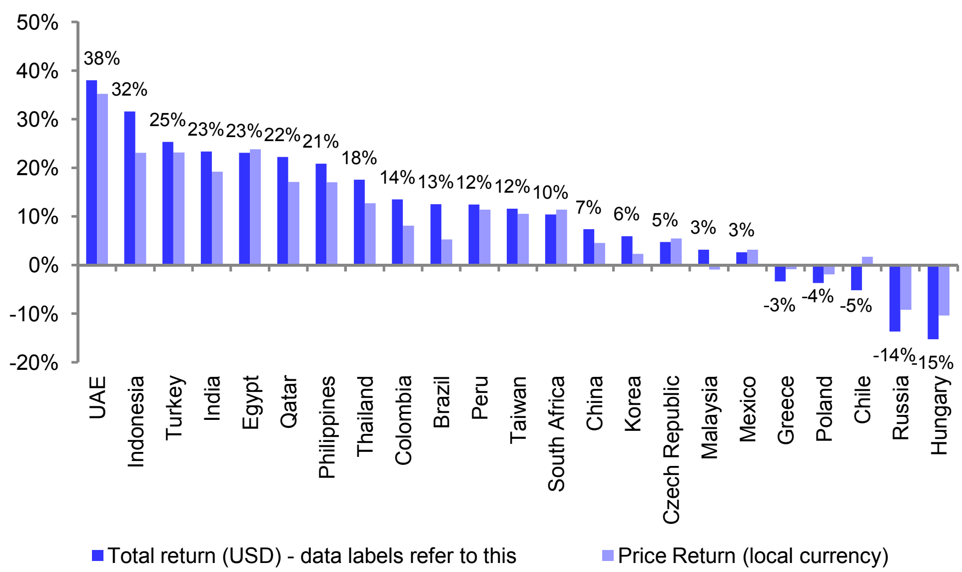
EM performance by country

Figure 3: Returns over July 2014 (%) – Total return, USD, and price return, local currency



(1) The relevant MSCI country index has been used for each data point above.
(2) Total returns are not available in local currency, hence we provide price only returns.
Source: Deutsche Bank, Bloomberg Finance LP

Figure 4: YTD returns (%) – Total return, USD, and price return, local currency



(1) The relevant MSCI country index has been used for each data point above.
(2) Total returns are not available in local currency, hence we provide price only returns.
Source: Deutsche Bank, Bloomberg Finance LP

The best-performing main market over July was **Indonesia**, which saw a sharp rally going into the general election, mostly confined to the week just before (Figure 5), although since then, performance has been fairly flat and unexciting. This is because Jokowi, the winner and President elect, will only be head of a coalition government, rather than having an outright majority, which may limit his mandate. At the time, there was also uncertainty as to whether his less market-friendly opponent would contest Jokowi's victory, whilst Jokowi's election campaign exposed his clear lack of national political experience. Indonesia's equity market movements both in the run-up to the election, and what we have so far seen since, were not as large as India's market movements around its election, which also brought to power a leader who appears to represent the promise of far-reaching reforms, albeit Modi won an outright majority in India (Figure 5).

India was a middling performer in July, and there are signs that the "Modi mania" rally is starting to now stagnate as investors realise the obstacles facing the new leader in implementing reform (e.g. lowering rail ticket subsidies was watered down after protests, whilst the budget has been widely criticised as overly cautious). For those who wish to make a comparison with Indonesia, India is three months ahead in the election cycle, and a similar market reaction could await Indonesian equities in the near term as the reality of the challenges facing Jokowi becomes apparent. Caution towards both "fragile five" markets is also edging up as the end of QE draws closer.

Figure 5: India and Indonesia – Comparison of equity market performance around 2014 general elections in both countries (total returns, USD)

Period of performance calculation	India	Indonesia
General election date	7 April to 12 May	9 July
Results announcement date	16 May	22 July
3 months to election	+10.6%	+1.3%
2 months to election	+12.3%	+4.1%
1 month to election	+4.0%	+6.2%
1 week to election	-0.4%	+5.8%
During election	+3.7%	na
Election date until official results	+4.1%	+2.0%
1 day post-result	+1.9%	+0.6%
1 week post-result	+3.9%	-0.4%
1 month post-result	+3.9%	na

(1) The relevant MSCI index is used for both countries.
Source: Deutsche Bank, Bloomberg Finance LP, MSCI

The best performers overall in July were the latest entrants to the mainstream EM index, **UAE** and **Qatar**. Their strong performance seems primarily due to a technical bounceback, since they were the worst performers last month, falling by -24% and -22% respectively over June. Both stock markets are now almost back to the 2014 highs of early May.

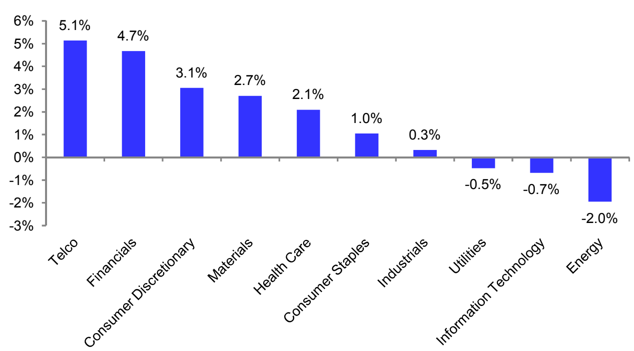
Equities in **China** were another notable strong performer in EM over July. We think there are technical factors at work in this market too; as sentiment towards other major EM markets such as Russia and Brazil became more negative in July, China became relatively more attractive. This is because it is appears to be quite cheap (Figure 8), but also because as at the end of June, it was one of only three EM markets which had negative YTD performance.

More fundamentally, there has been a clear transition in investor reaction to signals about the direction of Chinese policy. Whilst recent events such as the bailout to prevent China's second corporate default this year, and implicit loosening via targeted RRR cuts at banks, would most likely have been received negatively a month or two ago, the actual reaction has been relief that contagion in Chinese assets continues to be avoided. This is alongside a general reluctance to address the well-flagged problems such policy actions are likely to create for the future.

Within the CEMEA region, **Turkey** appears to have benefitted the most from a rotation out of **Russia**, although the current account data has been improving over recent weeks. The first ever public election for the Turkish President will be held on 10 August, with a possible second round to follow – the incumbent PM Erdogan is the favourite to win, which poses the greatest worry for investors in the near term given his autocratic tendencies. Russia remains deeply out of favour, and saw a renewed sell-off after further sanctions were imposed by both the US and the EU in the aftermath of the tragedy of flight MH17. We anticipate the Russian market will be volatile but remain in its post-Crimea trading range for the rest of this year, with further news flow inevitably continuing to emerge regarding tensions with the West.

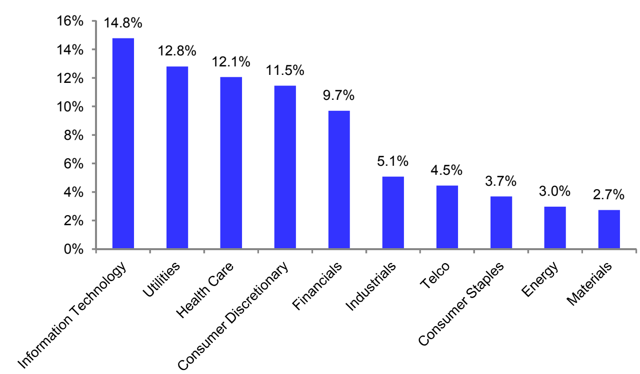
...and performance by sector

Figure 6: Total return of each EM sector over July 2014, USD (%)



(1) The relevant MSCI sector index has been used for each data point above.
Source: Deutsche Bank, Bloomberg Finance LP

Figure 7: YTD total return of each EM sector, USD (%)



(1) The relevant MSCI sector index has been used for each data point above.
Source: Deutsche Bank, Bloomberg Finance LP

At a sector level, **Telco** went from being the worst-performing sector in June to the best-performing in July – the defensive sector seems to have benefitted from the slightly more risk-off sentiment in global equity markets towards the latter part of July. **Consumer Staples** and **Health Care**, the other main defensive sectors, also eked out positive returns over the month, but delivered a middling performance relative to other sectors, with their attractiveness probably constrained by still expensive valuations (Figure 12 and Figure 13).

This was also a strong month for the **Financials** sector, although most of the top performing stocks in the sector were property and bank plays in Qatar and UAE.

Given the minor correction in equities towards the end of July, it is unsurprising to see that cyclical/ growth sectors such as **IT** and **Utilities** were amongst the poorer performers this month. **Industrials** also struggled, with many of the worst-performing stocks being Korean (e.g. Samsung, Hyundai) where a major theme in the Q2 earnings season has been headwinds from the stronger Won.

Year-to-date sector performance has barely been affected by July's performance with IT and Utilities remaining in the lead, and Materials, Consumer Staples and Telco still looking weak. However, **Energy** is now the second worst YTD performer, as many stocks in the sector have been doubly hit by both stagnating commodity prices (Figure 16) and the heavy weighting in Russia which is under intense scrutiny for sanctions.

Valuations across GEM

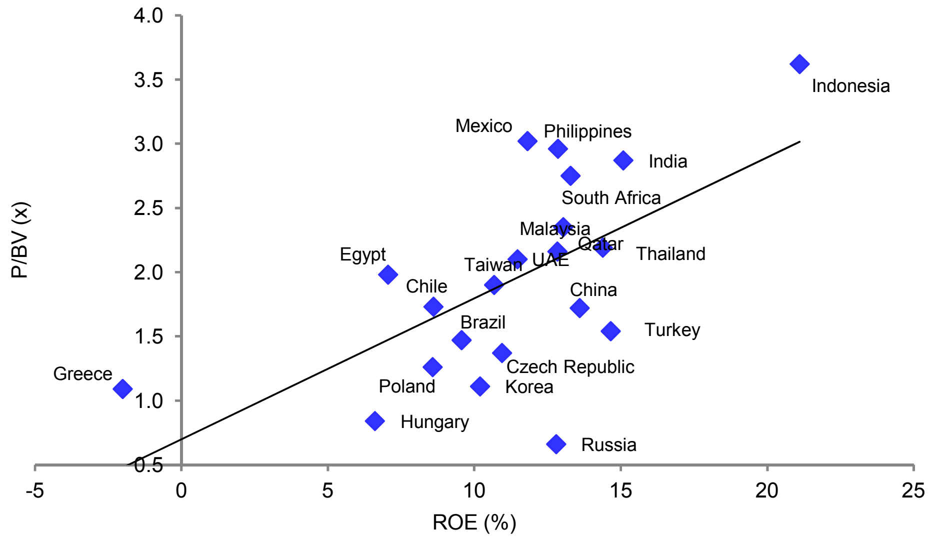
Countries in GEM

Figure 8: Current P/BV by country (1) versus own country's historical average and (2) relative to GEM P/BV versus historical average relative valuation

GEM Country	Current P/BV (x)	Current P/BV versus country's 10-year historical average P/BV	Current P/BV relative to EM P/BV, versus 10-year historical average
EM	**1.57**	**-20.5%**	**na**
DM	**2.15**	**3.3%**	**28.1%**
US	**2.72**	**10.0%**	**35.3%**
Brazil	1.47	-24.8%	-4.6%
Chile	1.73	-20.9%	-3.3%
China	1.54	-31.6%	-12.4%
Czech Republic	1.37	-35.1%	-17.8%
Egypt	1.98	-34.8%	-13.8%
Greece	1.09	-43.9%	-27.8%
Hungary	0.84	-52.6%	-38.1%
India	2.87	-17.8%	4.5%
Indonesia	3.62	-3.1%	19.7%
Korea	1.11	-22.5%	-3.0%
Malaysia	2.16	3.0%	25.4%
Mexico	3.02	4.2%	28.1%
Philippines	2.96	17.7%	41.4%
Poland	1.26	-29.2%	-9.8%
Qatar	2.35	-0.4%	26.4%
Russia	0.66	-53.7%	-38.9%
South Africa	2.75	4.5%	29.7%
Taiwan	1.90	1.1%	24.4%
Thailand	2.19	3.9%	26.6%
Turkey	1.72	-3.8%	19.3%
UAE	2.10	33.8%	74.7%

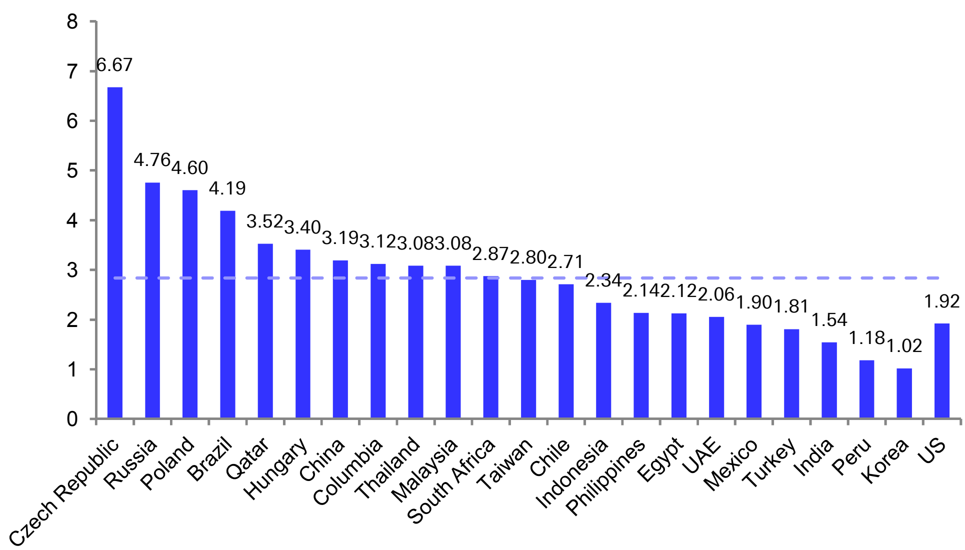
(1) Current valuation is correct as at end-Jul 2014.
(2) For data on each country, we use the corresponding MSCI EM country index.
(3) For EM, we use the MXEF index, and for DM, we proxy using the MSCI World index.
Source: Deutsche Bank, Bloomberg Finance LP

Figure 9: EM countries – P/BV (x) versus RoE (%)



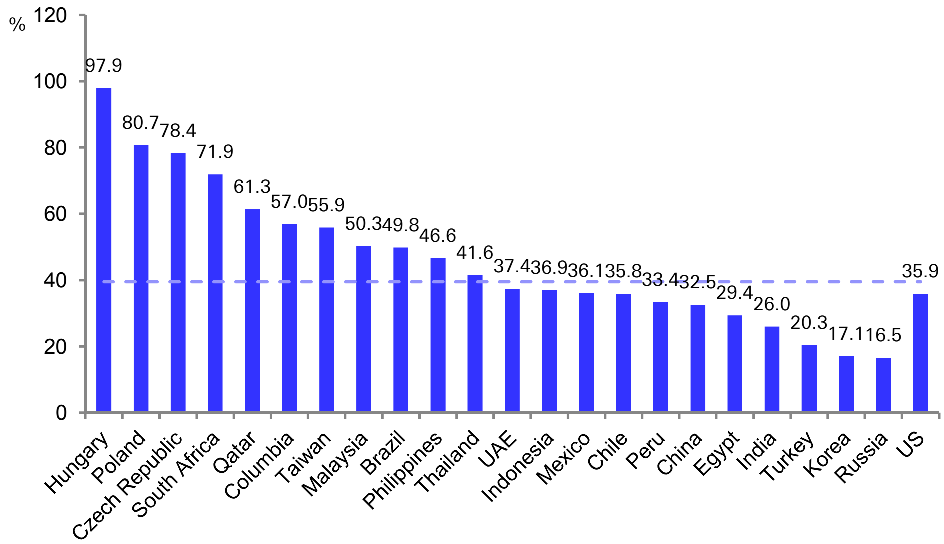
(1) Data points are correct as at end-July 2014.
(2) For data on each country, we use the corresponding MSCI country index.
Source: Deutsche Bank, Bloomberg Finance LP

Figure 10: Dividend yields across EM markets and US at end-Jul 2014 (%)



Source: Deutsche Bank, Bloomberg Finance LP

Figure 11: Payout ratios across EM markets and US at end-Jul 2014 (%)



Source: Deutsche Bank, Bloomberg Finance LP

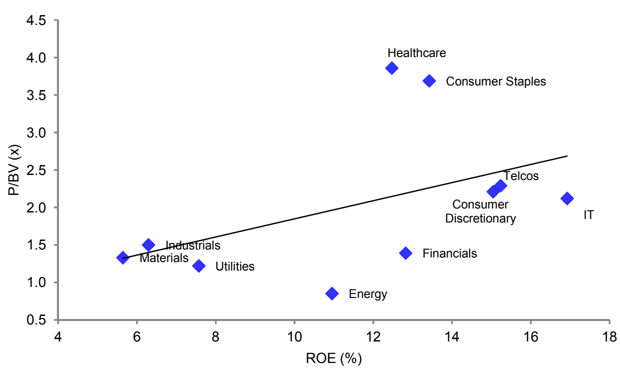
Sectors in GEM

Figure 12: Current P/BV by sector (1) versus own sector's historical average and (2) relative to GEM P/BV versus historical average relative valuation

GEM Sector	Current P/BV (x)	Current P/BV versus sector's 10-year historical average P/BV	Current P/BV relative to EM P/BV, versus 10-year historical average
EM	1.57	-20.5%	0.0%
Consumer Discretionary	2.21	0.8%	23.6%
Consumer Staples	3.69	9.4%	32.1%
Energy	0.85	-49.2%	-34.2%
Financials	1.39	-25.9%	-6.3%
Health Care	3.86	9.8%	33.7%
Industrials	1.50	-18.7%	2.7%
Information Technology	2.12	-5.3%	16.9%
Materials	1.33	-31.1%	-12.5%
Telco	2.29	-11.7%	10.3%
Utilities	1.22	6.8%	31.3%

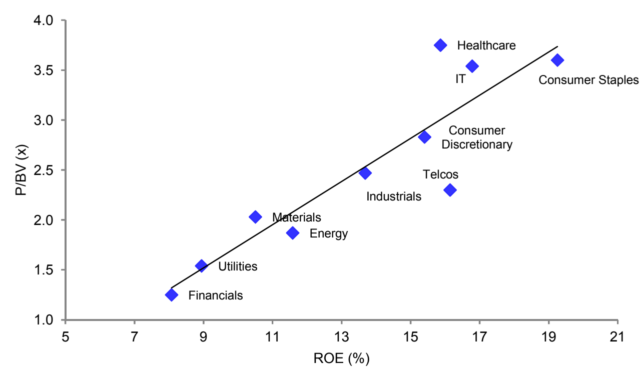
(1) Current valuation is correct as at end-Jul2014.
(2) For data on each sector, we use the corresponding MSCI EM sector index, and for EM, we use the MXEF index.
Source: Deutsche Bank, Bloomberg Finance LP

Figure 13: EM sectors – P/BV (x) versus RoE (%)



(1) Data points are correct as at end-Jul 2014.
(2) For data on each sector, we use the corresponding MSCI EM sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Figure 14: DM sectors – P/BV (x) versus RoE (%)

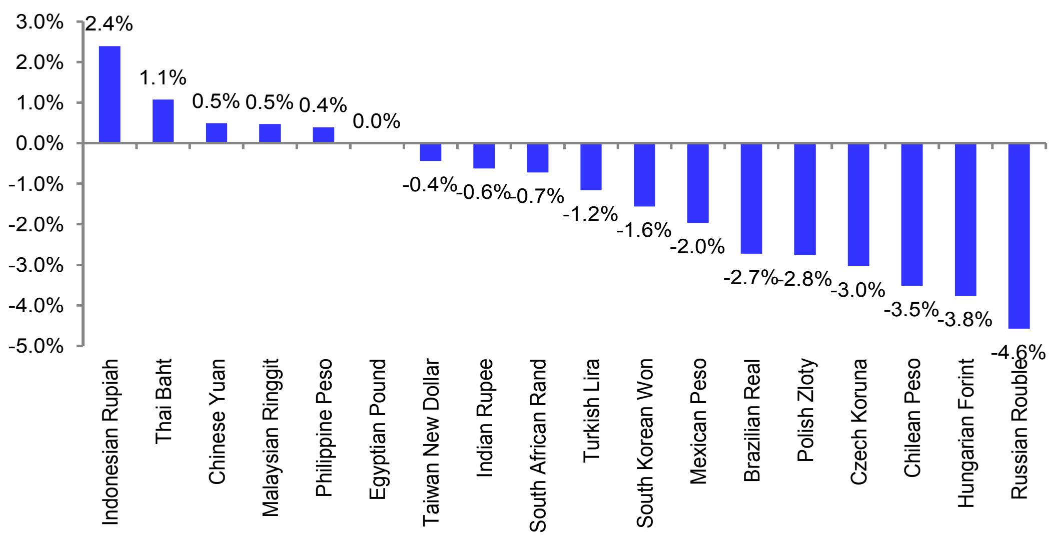


(1) Data points are correct as at end-Jul 2014.
(2) For data on each sector, we use the corresponding MSCI World sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Related asset class considerations

EM currency movements over the past month

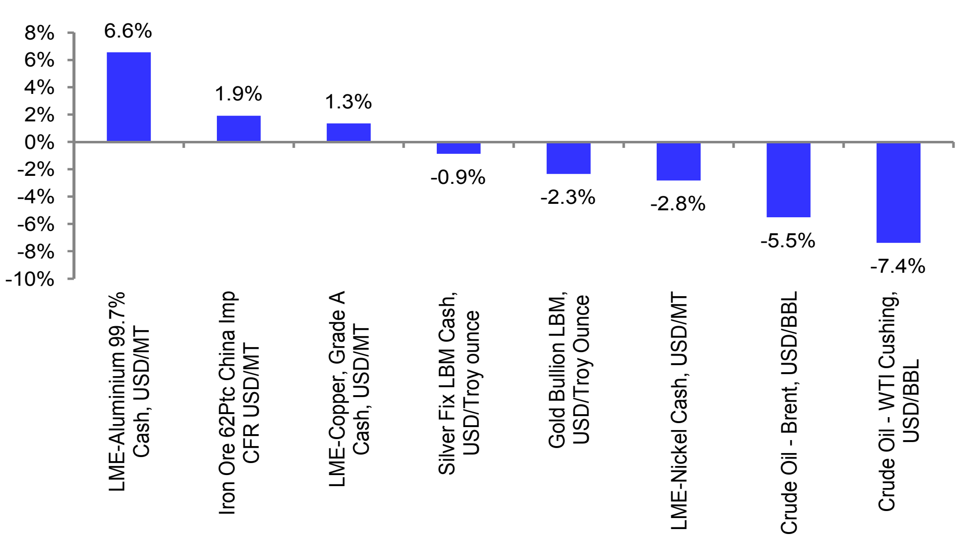
Figure 15: Appreciation/ Depreciation of key EM currencies versus USD over July 2014



Source: Deutsche Bank, Thomson Datastream

Movements of key commodity prices over the past month

Figure 16: % changes in key commodities over July 2014, USD

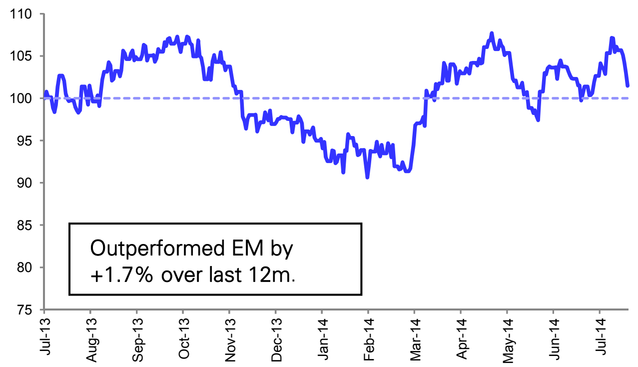


Source: Deutsche Bank, Thomson Datastream

Brazil

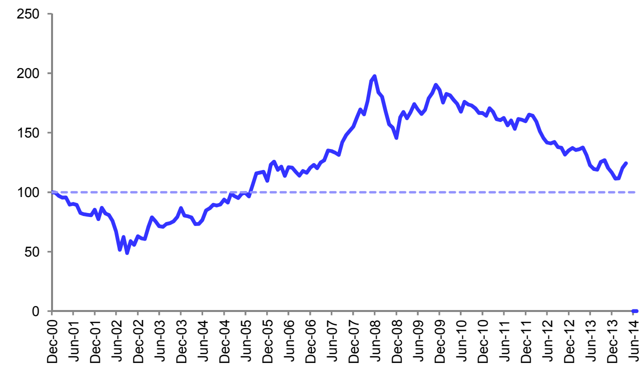
Country performance versus EM

Figure 17: 12-month total return of Brazilian equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

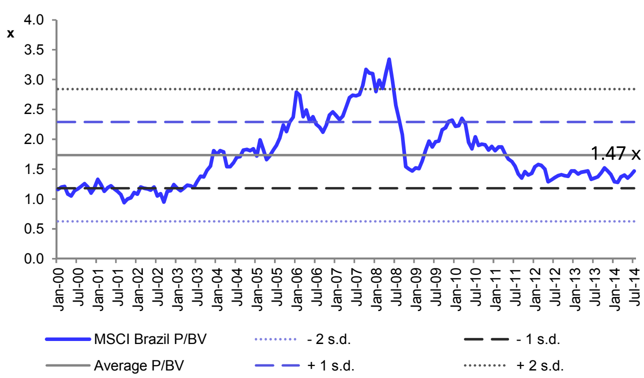
Figure 18: Total return of Brazilian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

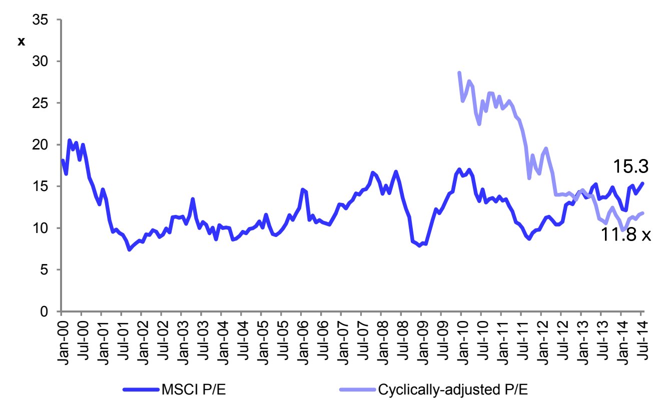
Valuation

Figure 19: MSCI Brazil – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 20: MSCI Brazil – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 21: Price returns of each Brazilian sector on a 1m, 3m, 12m and YTD basis, USD (%)

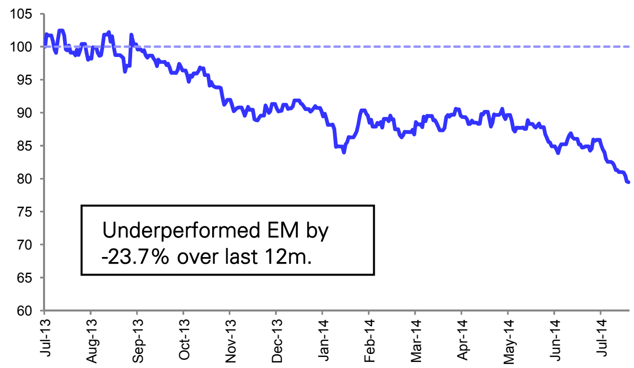
	1 Month	3 Month	12 Month	YTD
MSCI Brazil (TR)	1.9	5.5	17.0	12.6
Financials	4.5	4.8	25.1	23.5
Industrials	-2.2	3.5	3.8	11.8
Energy	5.6	10.0	13.6	13.4
Consumer Discretionary	-4.0	11.1	23.9	21.4
Consumer Staples	-2.1	-0.4	-1.6	1.1
Information Technology	-9.8	4.0	41.7	28.2
Health Care	-2.9	13.8	33.9	13.4
Telco	-8.9	-10.0	-3.8	-7.3
Utilities	-1.4	1.7	3.9	10.1
Materials	6.3	7.0	3.4	-11.6

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Brazil sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Chile

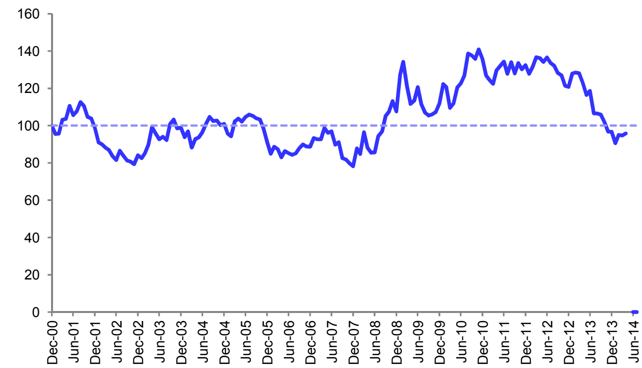
Country performance versus EM

Figure 22: 12-month total return of Chilean equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

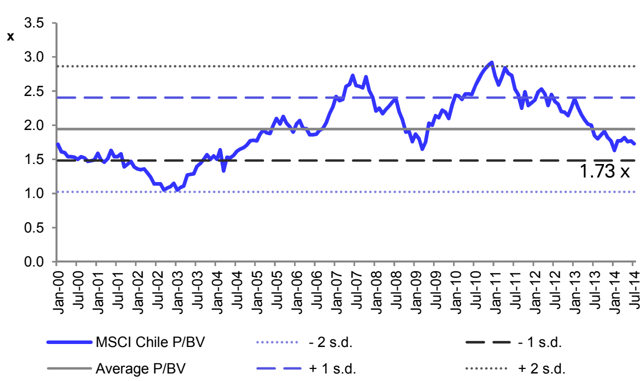
Figure 23: Total return of Chilean equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

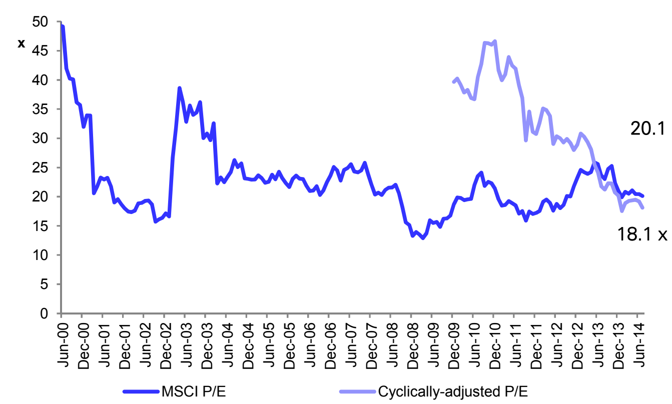
Valuation

Figure 24: MSCI Chile – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 25: MSCI Chile – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 26: Price returns of each Chilean sector on a 1m, 3m, 12m and YTD basis, USD (%)

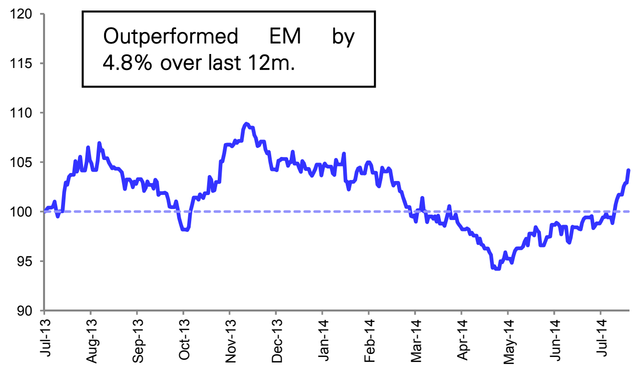
	1 Month	3 Month	12 Month	YTD
Chile	-4.9	-4.2	-8.4	-5.2
Financials	-4.2	1.4	4.2	-3.1
Industrials	-12.7	-23.1	-12.9	-25.3
Energy	-6.2	-6.6	-6.6	-8.9
Consumer Discretionary	-12.7	-6.9	-22.3	-11.5
Consumer Staples	-4.9	-7.0	-25.4	-11.6
Telco	-1.9	-1.6	-26.1	-11.0
Utilities	-0.5	1.4	3.2	4.6
Materials	-1.9	-7.4	-16.5	-6.2

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Chile sector index.
Source: Deutsche Bank, Bloomberg Finance LP

China

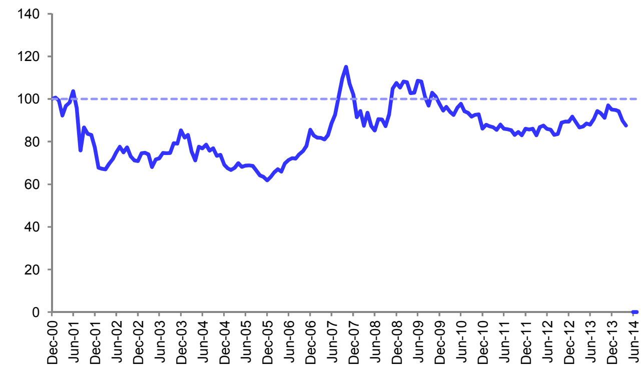
Country performance versus EM

Figure 27: 12-month total return of Chinese equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

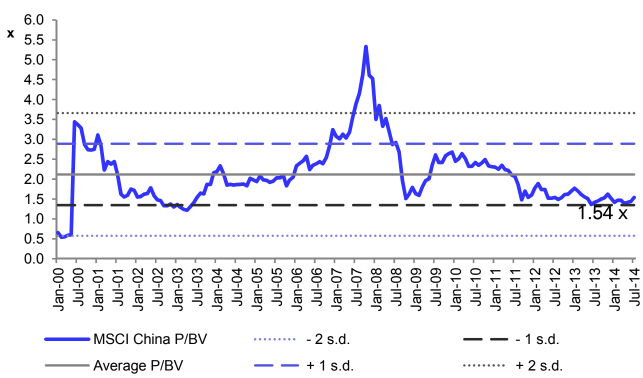
Figure 28: Total return of Chinese equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

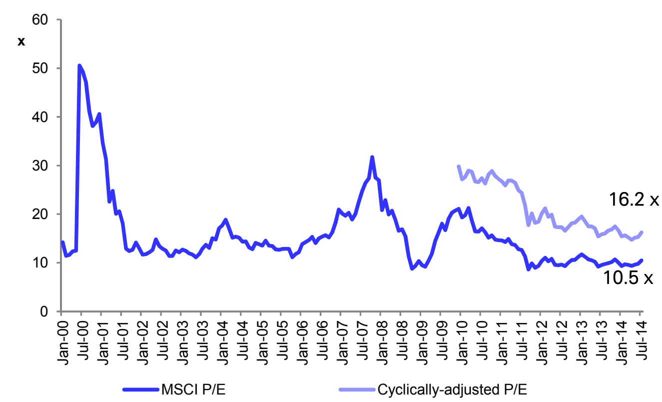
Valuation

Figure 29: MSCI China – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 30: MSCI China – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 31: Price returns of each Chinese sector on a 1m, 3m, 12m and YTD basis, USD (%)

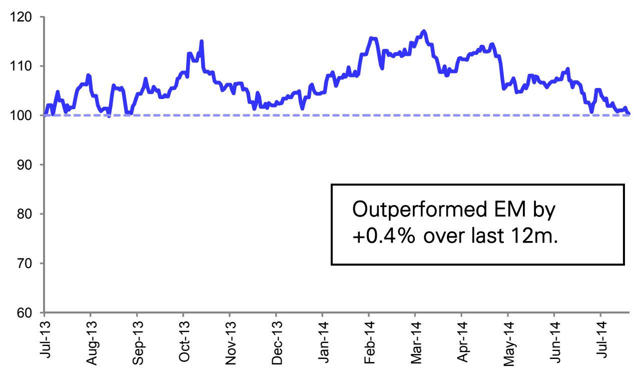
	1 Month	3 Month	12 Month	YTD
MSCI China (TR)	8.1	16.7	20.2	7.4
Financials	9.8	14.8	11.3	1.3
Industrials	6.1	11.4	16.7	-1.4
Energy	3.1	10.8	10.1	5.4
Consumer Discretionary	5.6	12.5	14.7	1.5
Consumer Staples	2.4	-2.9	0.0	-8.2
Information Technology	6.4	28.1	71.9	25.8
Health Care	0.9	5.4	15.2	-2.1
Telco	13.7	14.9	5.3	7.2
Utilities	-1.5	8.3	23.7	5.9
Materials	12.1	8.9	21.7	3.3

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI China sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Czech Republic

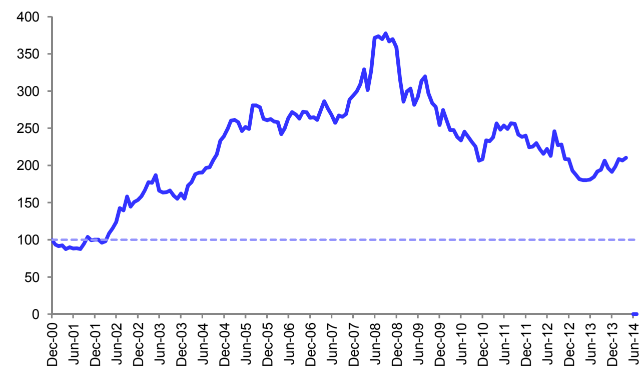
Country performance versus EM

Figure 32: 12-month total return of Czech equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

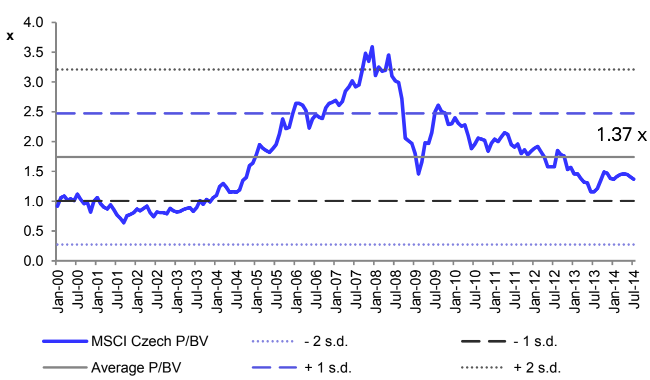
Figure 33: Total return of Czech equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

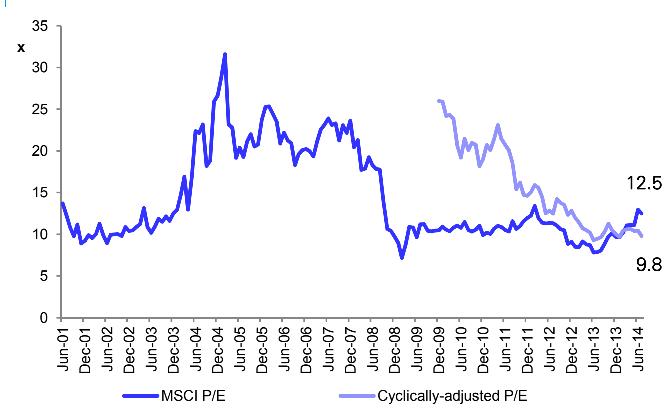
Valuation

Figure 34: MSCI Czech Republic – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 35: MSCI Czech Republic – P/E (x) and CAPE (x) since 2001



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 36: Price returns of each Czech sector on a 1m, 3m, 12m and YTD basis, USD (%)

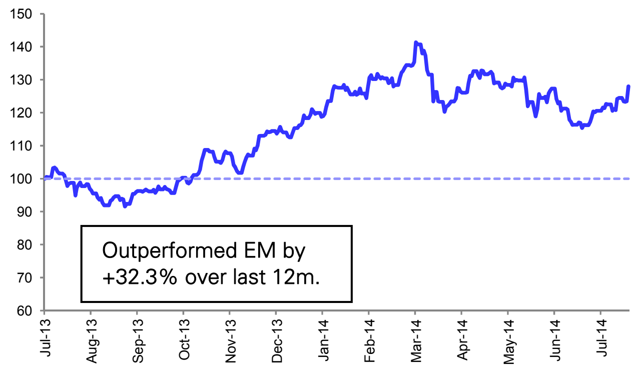
	1 Month	3 Month	12 Month	YTD
MSCI Czech Republic (TR)	-3.9	-4.6	15.7	4.7
Financials	-5.4	-5.5	12.0	-2.3
Telco	-7.0	-12.9	-11.7	-11.3
Utilities	-5.9	-5.4	19.7	9.1

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Czech Republic sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Egypt

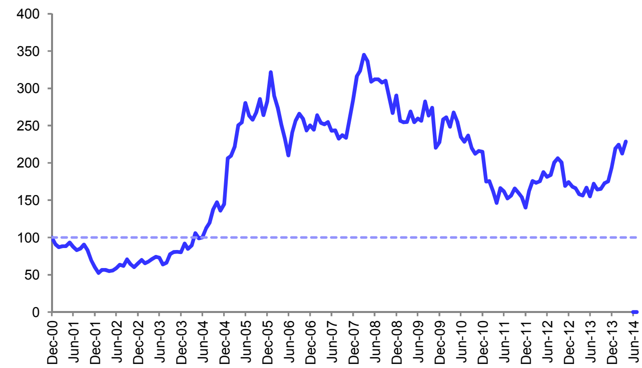
Country performance versus EM

Figure 37: 12-month total return of Egyptian equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

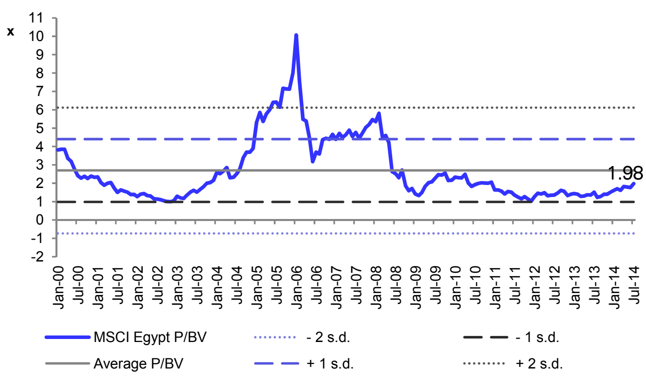
Figure 38: Total return of Egyptian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

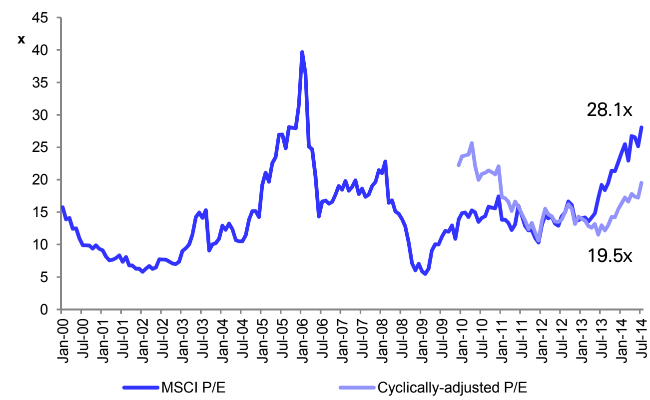
Valuation

Figure 39: MSCI Egypt – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 40: MSCI Egypt – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 41: Price returns of each Egyptian sector on a 1m, 3m, 12m and YTD basis, USD (%)

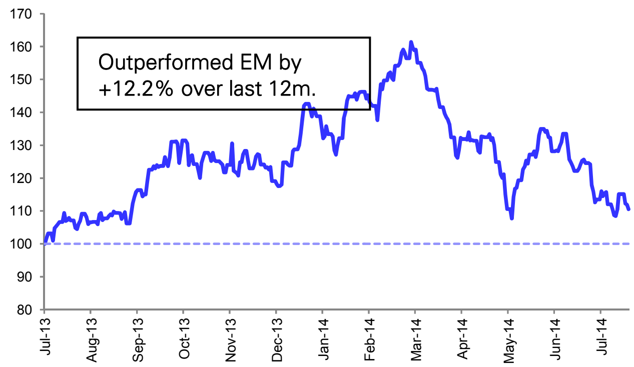
	1 Month	3 Month	12 Month	YTD
MSCI Egypt (TR)	11.5	4.4	47.6	23.1
Financials	16.5	8.6	79.8	29.8
Telco	0.7	-4.7	9.1	1.5

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Egypt sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Greece

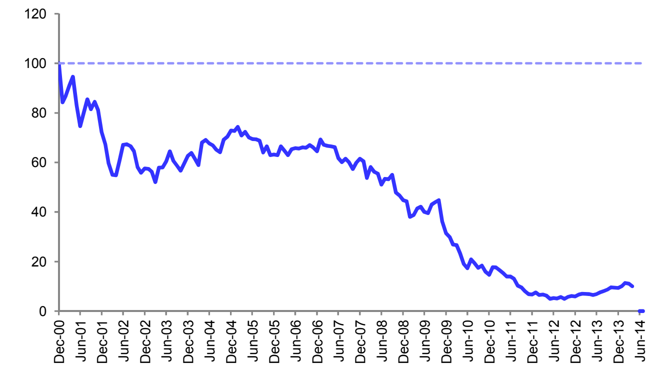
Country performance versus EM

Figure 42: 12-month total return of Greek equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

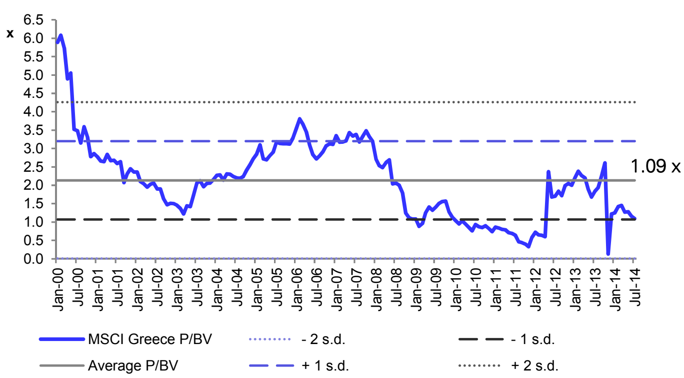
Figure 43: Total return of Greek equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

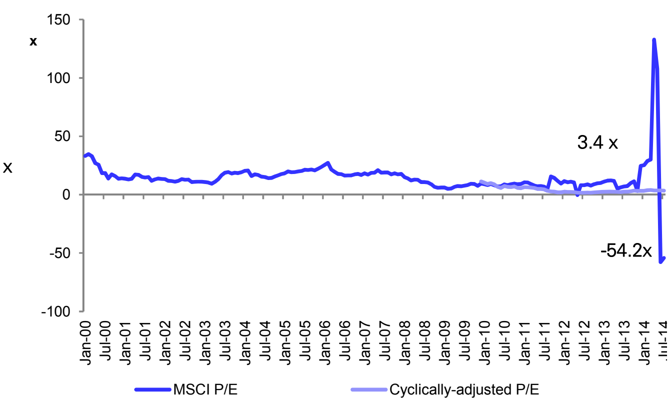
Valuation

Figure 44: MSCI Greece - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 45: MSCI Greece - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 46: Price returns of each Greek sector on a 1m, 3m, 12m and YTD basis, USD (%)

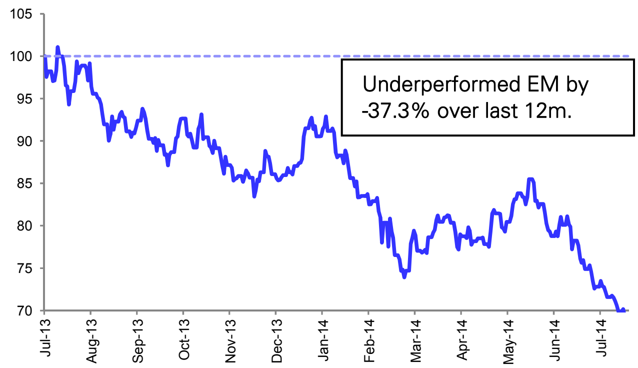
	1 Month	3 Month	12 Month	YTD
MSCI Greece (TR)	-8.3	-9.8	-	-3.4
Consumer Discretionary	-5.8	3.1	-	17.0
Telco	-6.8	-13.5	-	3.3
Financials	-10.1	-14.1	-	-13.4
Utilities	-5.2	-2.9	-	-1.6

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Greece sector index
Source: Deutsche Bank

Hungary

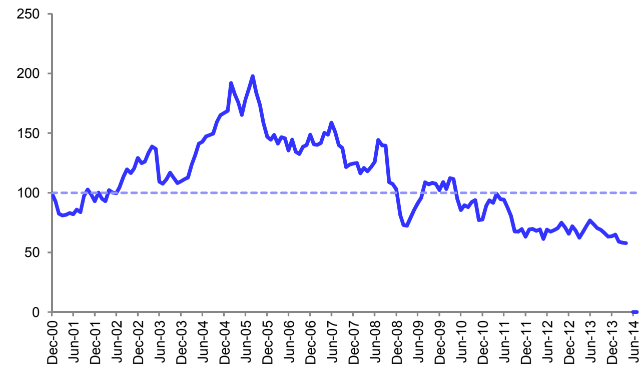
Country performance versus EM

Figure 47: 12-month total return of Hungarian equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

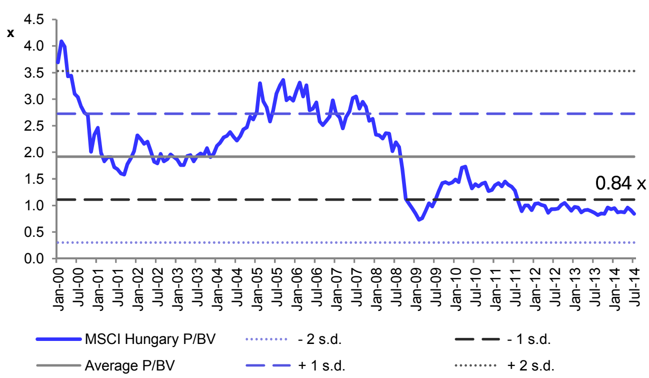
Figure 48: Total return of Hungarian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

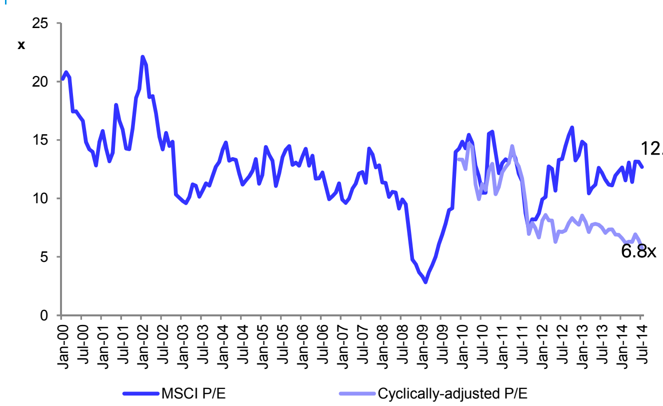
Valuation

Figure 49: MSCI Hungary – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 50: MSCI Hungary – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 51: Price returns of each Hungarian sector on a 1m, 3m, 12m and YTD basis, USD (%)

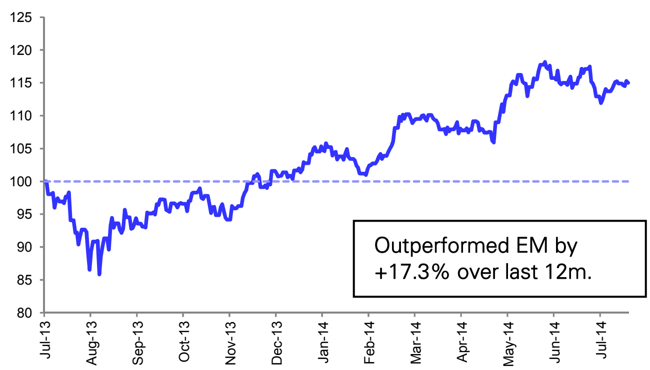
	1 Month	3 Month	12 Month	YTD
MSCI Hungary (TR)	-11.2	-6.7	-22.0	-15.2
Financials	-9.6	-8.6	-13.3	-9.0
Energy	-9.5	-15.6	-35.3	-28.2
Health Care	-14.4	-3.9	-79.8	-19.8

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Hungary sector index.
Source: Deutsche Bank, Bloomberg Finance LP

India

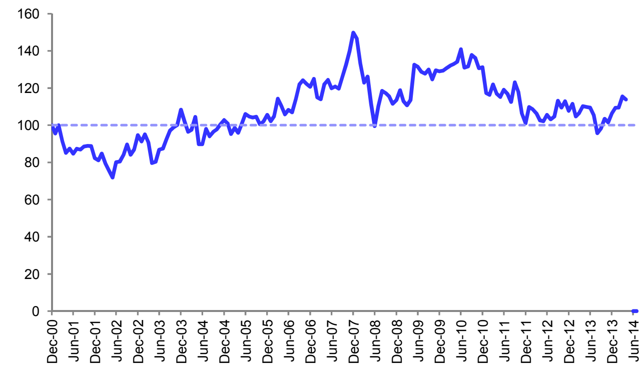
Country performance versus EM

Figure 52: 12-month total return of Indian equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

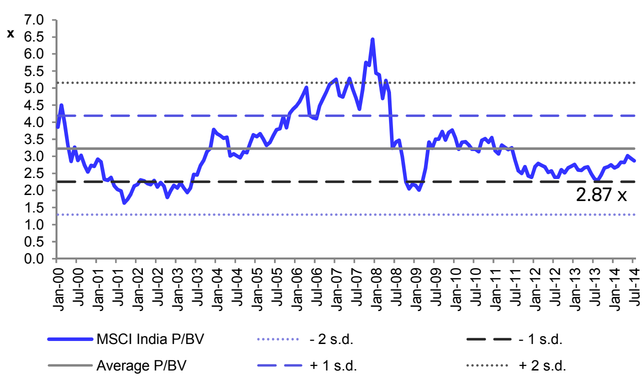
Figure 53: Total return of Indian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

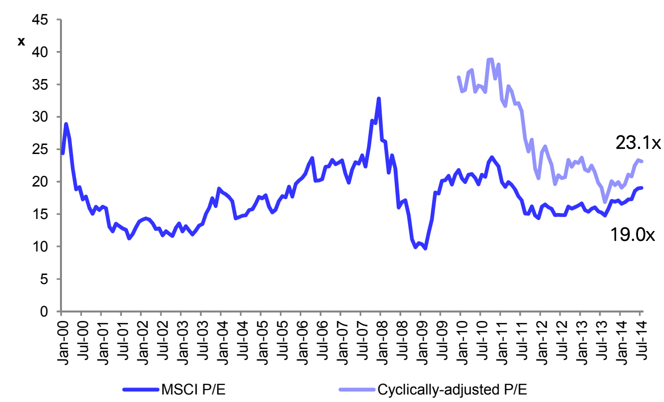
Valuation

Figure 54: MSCI India – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 55: MSCI India – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 56: Price returns of each Indian sector on a 1m, 3m, 12m and YTD basis, USD (%)

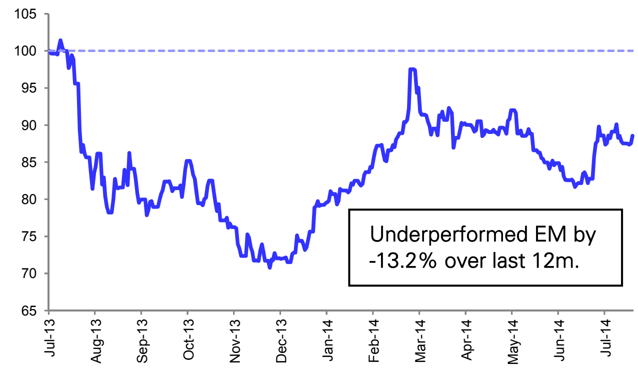
	1 Month	3 Month	12 Month	YTD
MSCI India (TR)	1.2	15.3	32.6	23.3
Financials	-0.8	17.2	37.6	33.0
Industrials	-9.8	19.2	71.9	40.3
Energy	-4.6	9.8	20.6	19.2
Consumer Discretionary	-0.7	9.8	30.3	22.0
Consumer Staples	6.5	5.6	6.7	10.9
Information Technology	2.6	9.3	27.6	7.8
Health Care	6.7	14.0	30.2	24.5
Telco	6.9	11.7	0.9	6.5
Utilities	-8.4	22.6	28.8	23.4
Materials	-0.9	27.0	68.4	33.0

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI India sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Indonesia

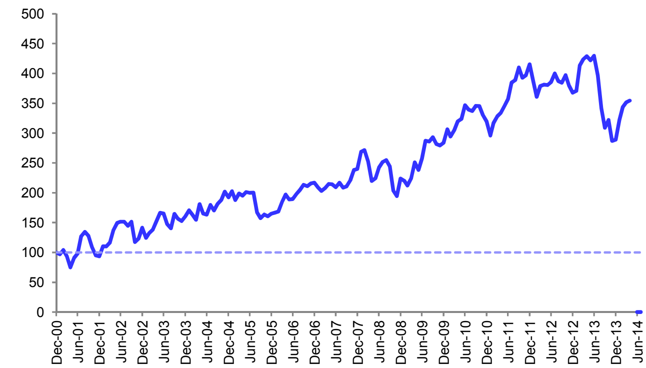
Country performance versus EM

Figure 57: 12-month total return of Indonesian equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

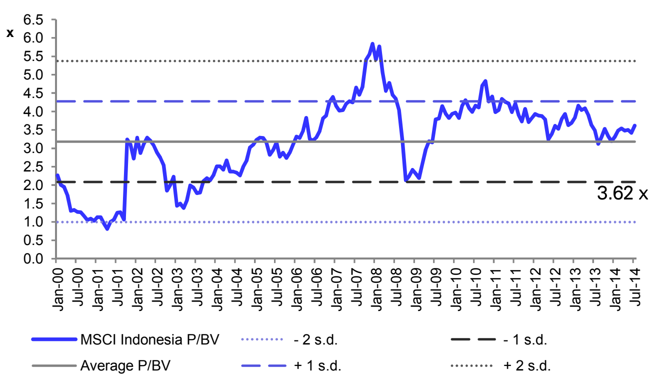
Figure 58: Total return of Indonesian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

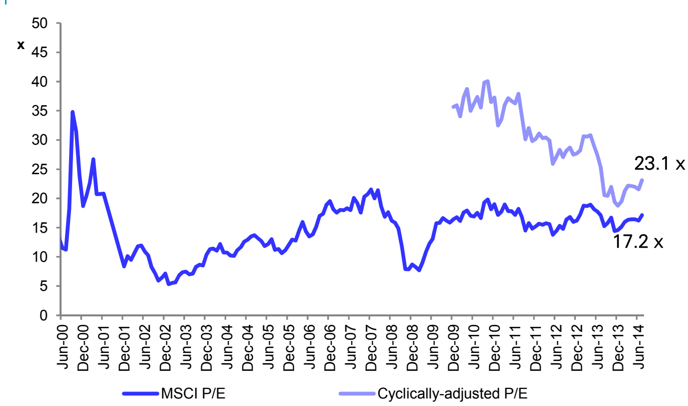
Valuation

Figure 59: MSCI Indonesia – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 60: MSCI Indonesia – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 61: Price returns of each Indonesian sector on a 1m, 3m, 12m and YTD basis, USD (%)

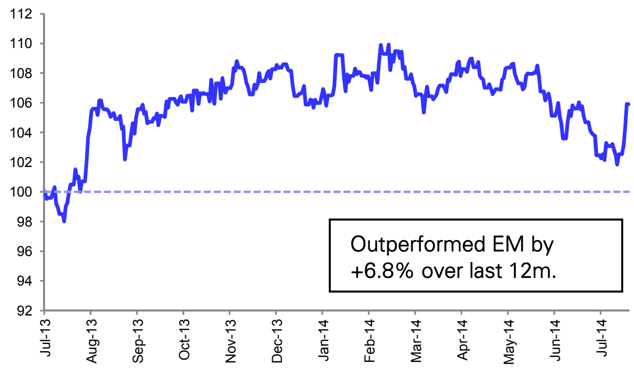
	1 Month	3 Month	12 Month	YTD
MSCI Indonesia (TR)	8.2	7.4	2.1	31.6
Financials	9.0	6.5	2.1	38.2
Industrials	3.6	6.2	17.0	31.1
Energy	4.0	4.8	5.2	10.4
Consumer Discretionary	6.8	2.5	0.0	21.6
Consumer Staples	6.1	1.2	-6.7	21.5
Health Care	6.8	11.8	7.4	46.1
Telco	9.5	16.4	-0.6	29.6
Utilities	8.4	10.7	-11.2	39.2
Materials	12.9	12.3	0.6	27.0

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Indonesia sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Korea

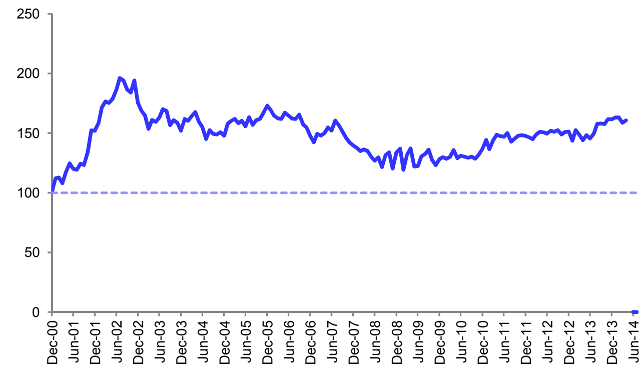
Country performance versus EM

Figure 62: 12-month total return of Korean equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

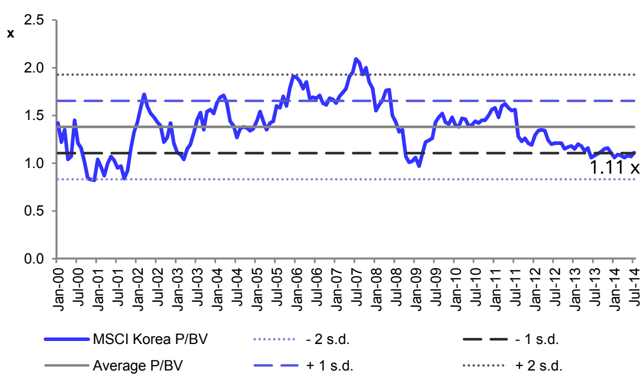
Figure 63: Total return of Korean equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

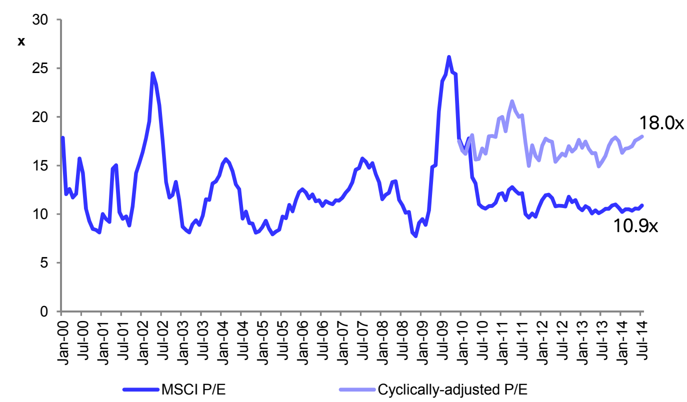
Valuation

Figure 64: MSCI Korea – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 65: MSCI Korea – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 66: Price returns of each Korean sector on a 1m, 3m, 12m and YTD basis, USD (%)

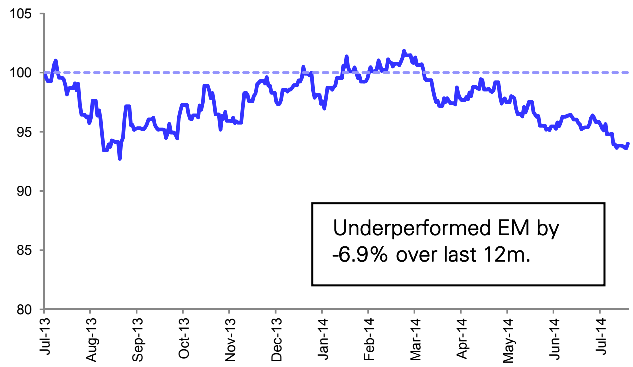
	1 Month	3 Month	12 Month	YTD
MSCI Korea (TR)	1.8	6.5	22.1	5.9
Financials	8.9	14.3	25.4	6.4
Industrials	-1.9	2.4	10.8	-1.3
Energy	-6.5	-9.3	-21.1	-23.0
Consumer Discretionary	4.5	7.7	19.3	8.8
Consumer Staples	5.7	16.5	32.2	20.9
Information Technology	-2.5	2.5	26.8	4.1
Health Care	-12.2	-12.3	-24.7	2.6
Telco	6.0	6.2	-0.5	5.0
Utilities	11.3	6.5	52.4	19.7
Materials	2.6	9.8	14.8	-0.4

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Korea sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Malaysia

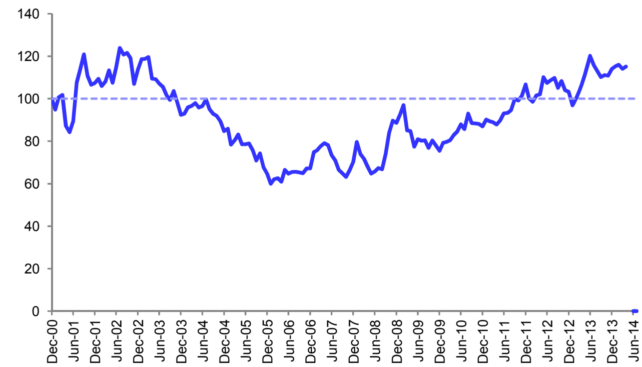
Country performance versus EM

Figure 67: 12-month total return of Malaysian equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

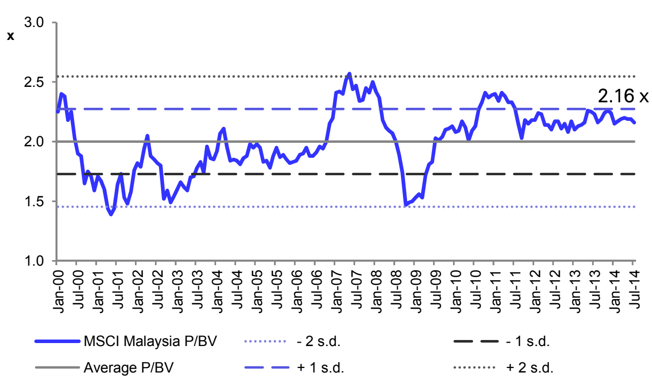
Figure 68: Total return of Malaysian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

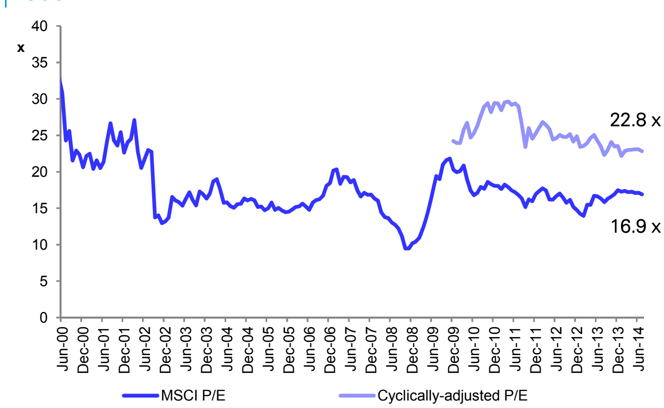
Valuation

Figure 69: MSCI Malaysia - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 70: MSCI Malaysia - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 71: Price returns of each Malaysian sector on a 1m, 3m, 12m and YTD basis, USD (%)

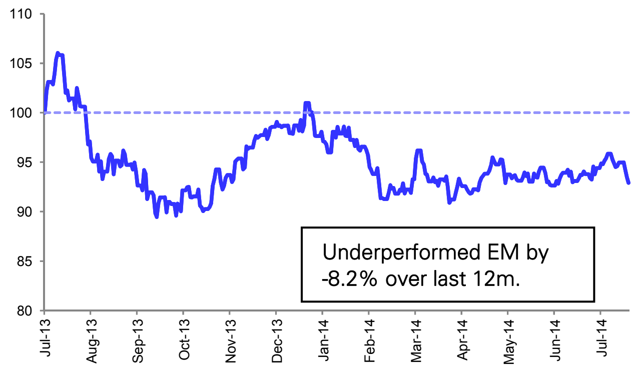
	1 Month	3 Month	12 Month	YTD
MSCI Malaysia (TR)	0.1	2.4	8.4	3.2
Financials	-0.1	-0.5	-3.0	-0.8
Industrials	-1.0	2.7	6.2	3.9
Energy	-6.7	-11.8	-3.0	-18.5
Consumer Discretionary	1.1	3.8	0.5	1.5
Consumer Staples	-1.4	0.8	11.0	3.0
Health Care	7.3	19.1	19.0	24.4
Telco	-0.5	2.8	9.1	6.2
Utilities	-0.4	3.4	23.7	4.8
Materials	-1.8	1.6	0.5	0.7

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Malaysia sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Mexico

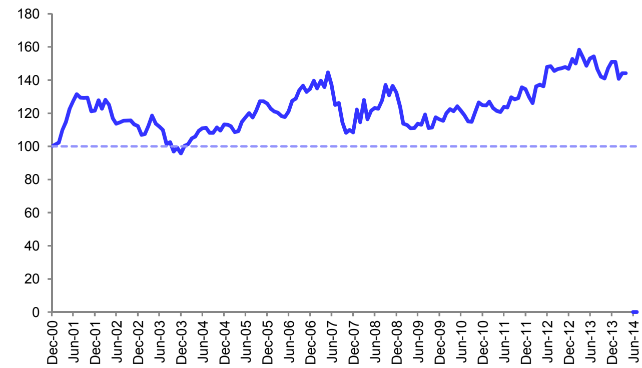
Country performance versus EM

Figure 72: 12-month total return of Mexican equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

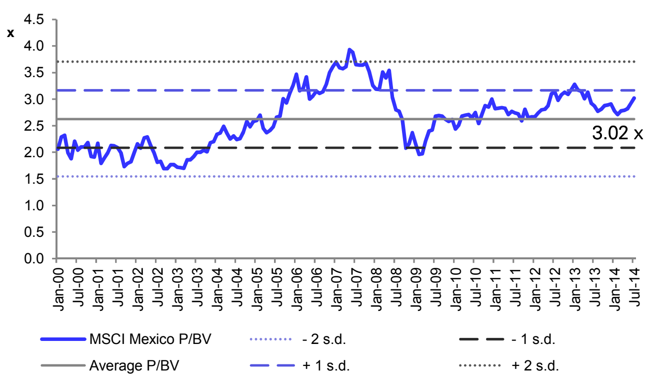
Figure 73: Total return of Mexican equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

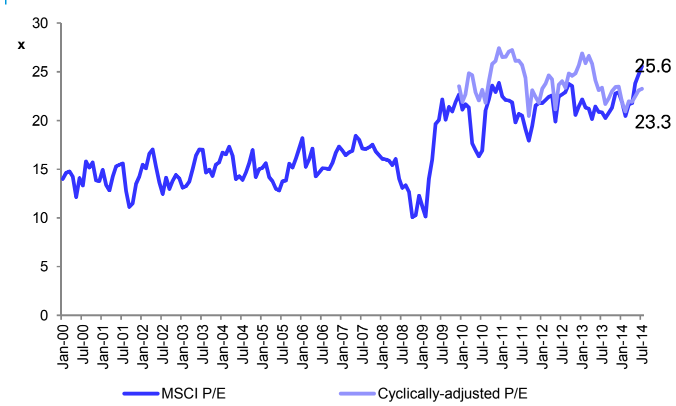
Valuation

Figure 74: MSCI Mexico - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 75: MSCI Mexico - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 76: Price returns of each Mexican sector on a 1m, 3m, 12m and YTD basis, USD (%)

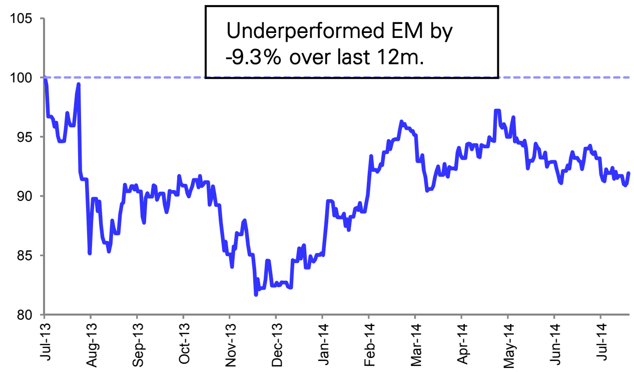
	1 Month	3 Month	12 Month	YTD
MSCI Mexico (TR)	1.4	7.7	7.1	2.7
Financials	-2.5	7.1	8.5	0.7
Industrials	-0.1	4.8	13.7	5.8
Consumer Discretionary	2.7	8.6	27.6	16.0
Consumer Staples	-3.0	1.9	-10.0	-4.1
Health Care	-1.5	5.4	14.4	-4.5
Telco	13.6	17.2	12.5	1.4
Materials	-0.3	7.1	5.0	6.0

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Mexico sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Philippines

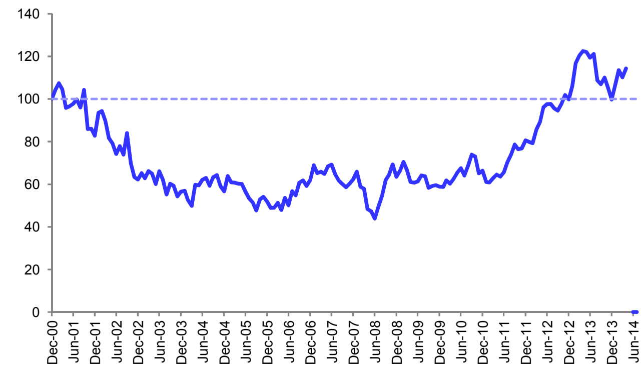
Country performance versus EM

Figure 77: 12-month total return of Philippine equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

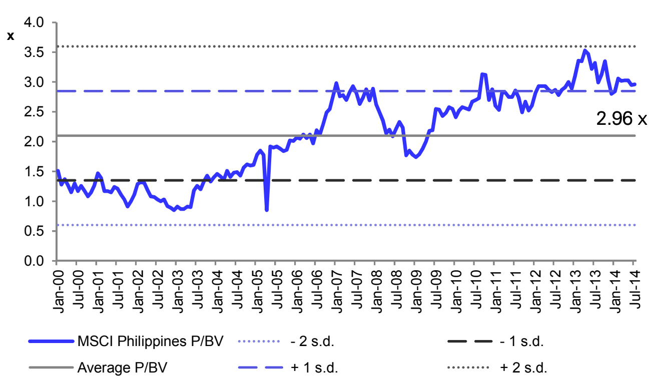
Figure 78: Total return of Philippine equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

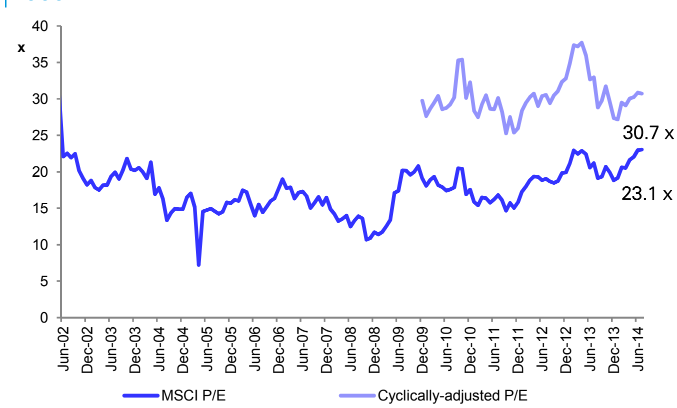
Valuation

Figure 79: MSCI Philippines - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 80: MSCI Philippines - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 81: Price returns of each Philippine sector on a 1m, 3m, 12m and YTD basis, USD (%)

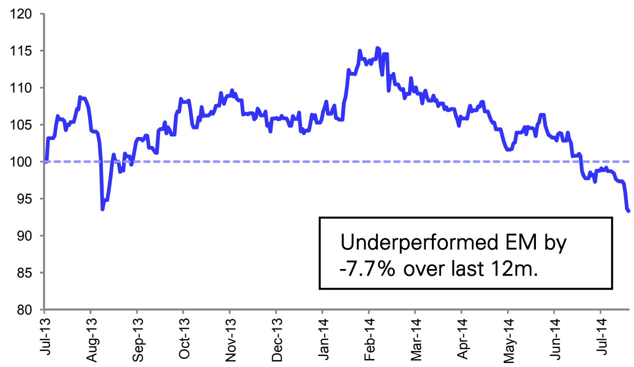
	1 Month	3 Month	12 Month	YTD
MSCI Philippines (TR)	0.8	5.6	6.0	20.9
Financials	-0.4	2.8	0.9	21.7
Industrials	-1.1	3.4	3.5	15.7
Consumer Discretionary	0.4	4.8	13.7	3.8
Consumer Staples	5.3	13.5	30.3	46.0
Telco	3.9	7.6	2.2	13.4
Utilities	-1.2	6.2	3.3	12.6

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Philippines sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Poland

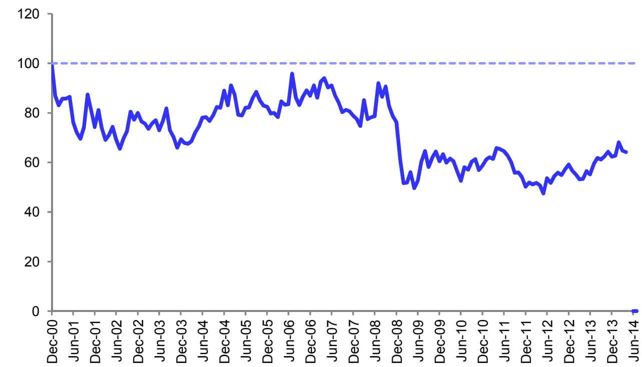
Country performance versus EM

Figure 82: 12-month total return of Polish equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

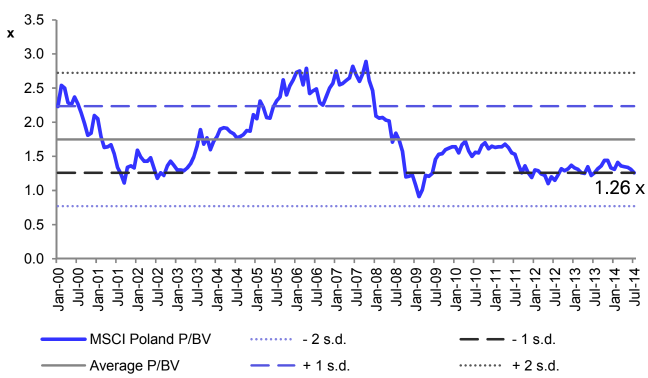
Figure 83: Total return of Polish equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

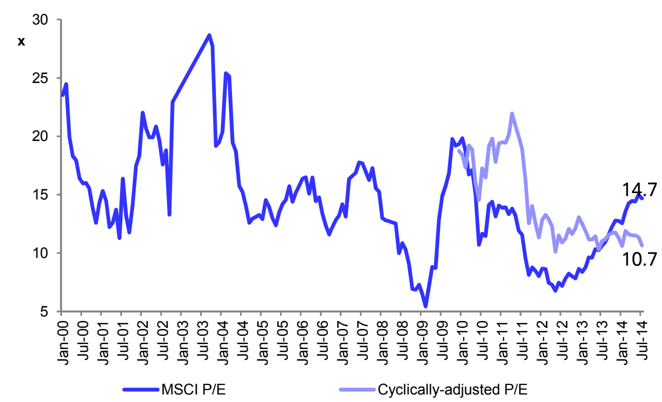
Valuation

Figure 84: MSCI Poland - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 85: MSCI Poland - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 86: Price returns of each Polish sector on a 1m, 3m, 12m and YTD basis, USD (%)

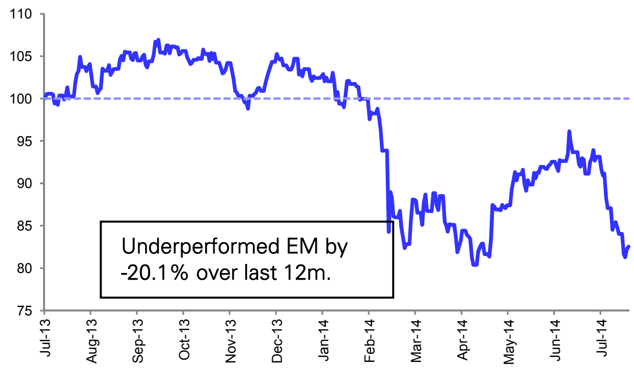
	1 Month	3 Month	12 Month	YTD
MSCI Poland (TR)	-5.9	-6.5	7.6	-3.7
Financials	-7.2	-11.6	2.6	-9.9
Energy	-10.8	-13.0	-13.6	-10.7
Consumer Discretionary	1.8	10.5	13.3	13.8
Consumer Staples	-6.8	-8.8	-38.9	-27.2
Telco	3.3	-3.4	39.1	1.2
Utilities	-6.0	-3.7	33.7	20.0
Materials	-1.6	9.5	9.4	-1.0

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Poland sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Russia

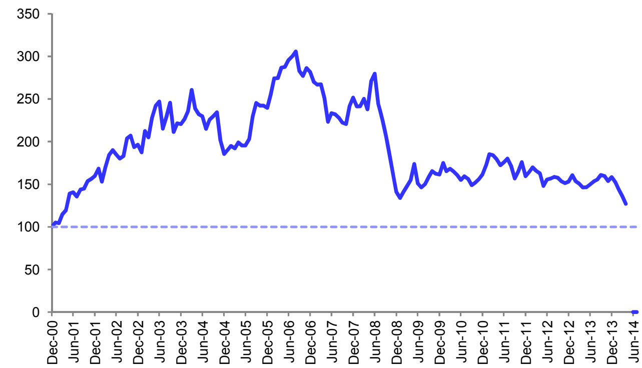
Country performance versus EM

Figure 87: 12-month total return of Russian equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

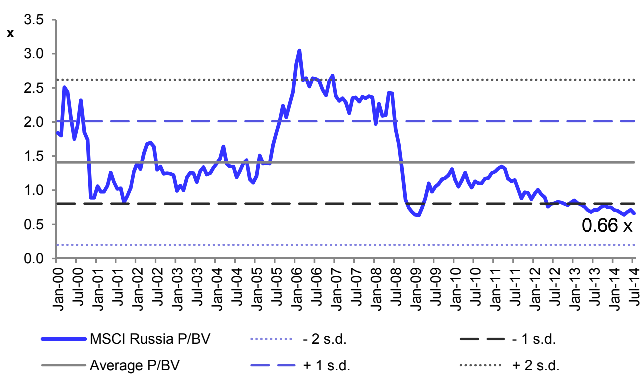
Figure 88: Total return of Russian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

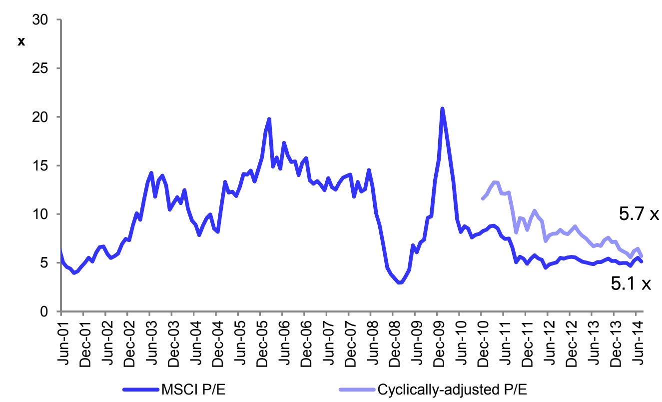
Valuation

Figure 89: MSCI Russia - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 90: MSCI Russia - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 91: Price returns of each Russian sector on a 1m, 3m, 12m and YTD basis, USD (%)

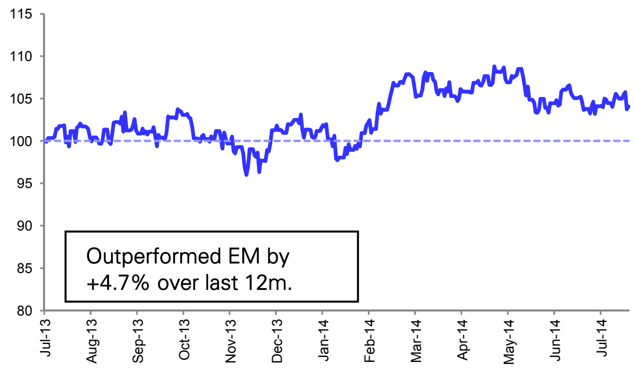
	1 Month	3 Month	12 Month	YTD
MSCI Russia (TR)	-8.8	7.9	-4.8	-13.6
Financials	-15.7	0.9	-27.1	-31.8
Energy	-11.9	2.9	-6.0	-13.3
Consumer Staples	0.0	25.4	2.4	-10.9
Telco	-11.5	6.7	-9.6	-19.9
Utilities	-12.2	6.3	-26.7	-15.0
Materials	-3.6	4.6	22.3	0.0

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Russia sector index.
Source: Deutsche Bank, Bloomberg Finance LP

South Africa

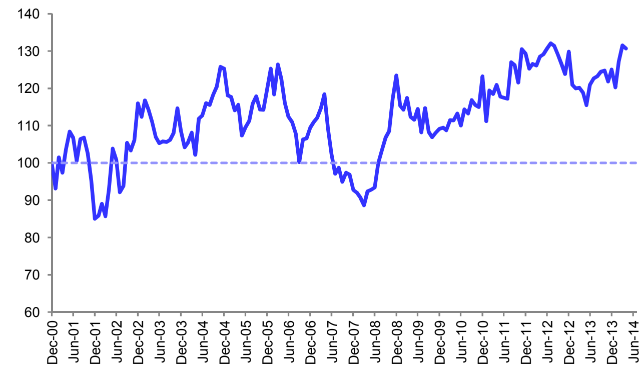
Country performance versus EM

Figure 92: 12-month total return of South African equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

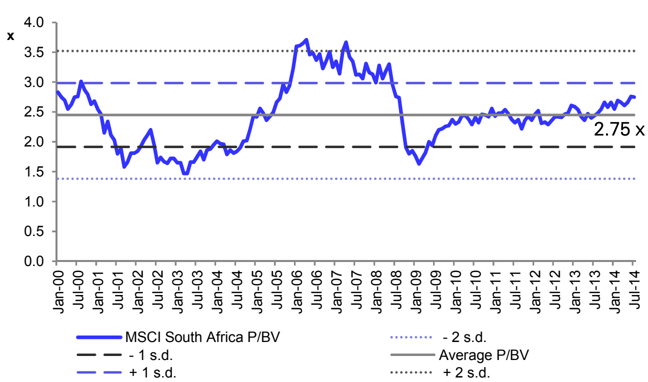
Figure 93: Total return of South African equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

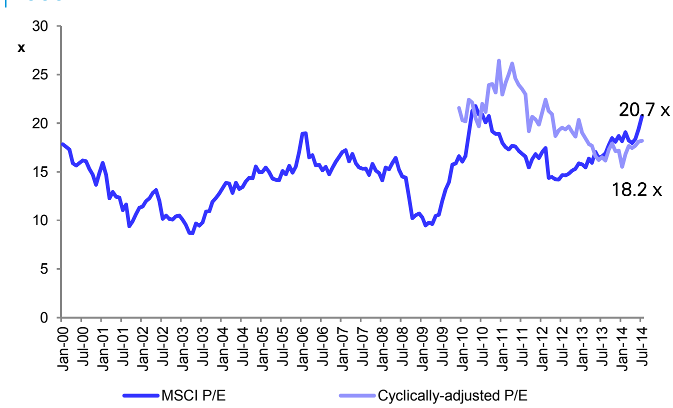
Valuation

Figure 94: MSCI South Africa - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 95: MSCI South Africa - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 96: Price returns of each South African sector on a 1m, 3m, 12m and YTD basis, USD (%)

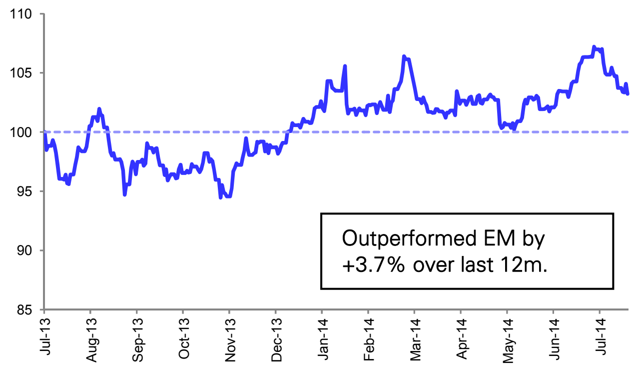
	1 Month	3 Month	12 Month	YTD
MSCI South Africa (TR)	0.9	5.8	20.0	10.4
Financials	0.3	3.3	14.4	9.8
Industrials	1.2	-4.3	9.6	4.6
Energy	-2.3	3.0	23.2	17.0
Consumer Discretionary	3.2	20.2	37.5	15.7
Consumer Staples	2.2	-2.5	-6.5	2.7
Health Care	1.0	6.5	18.4	7.8
Telco	-1.8	3.1	9.8	-0.2
Materials	3.3	-4.0	3.9	7.7

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI South Africa sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Taiwan

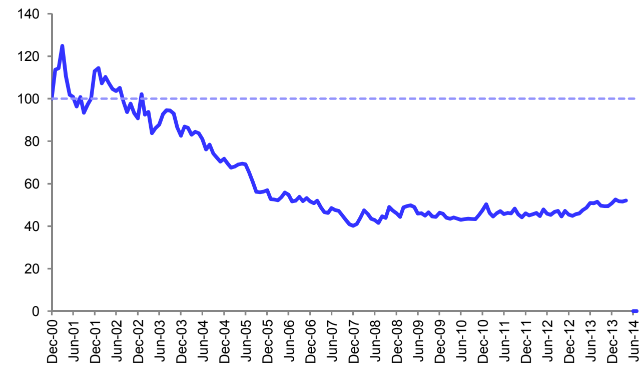
Country performance versus EM

Figure 97: 12-month total return of Taiwanese equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

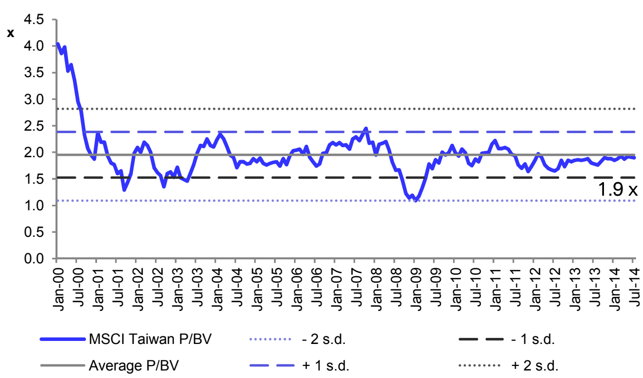
Figure 98: Total return of Taiwanese equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

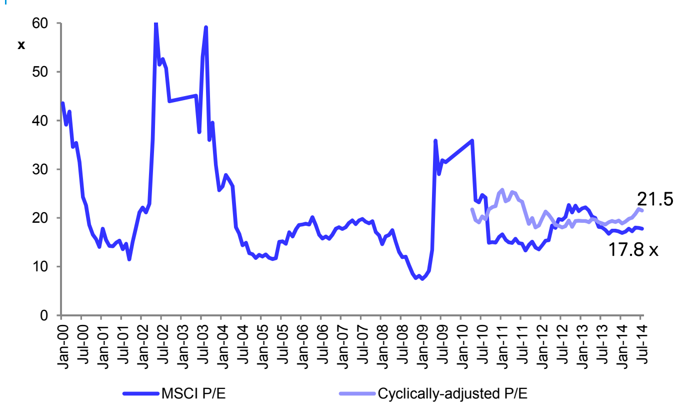
Valuation

Figure 99: MSCI Taiwan - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 100: MSCI Taiwan - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 101: Price returns of each Taiwanese sector on a 1m, 3m, 12m and YTD basis, USD (%)

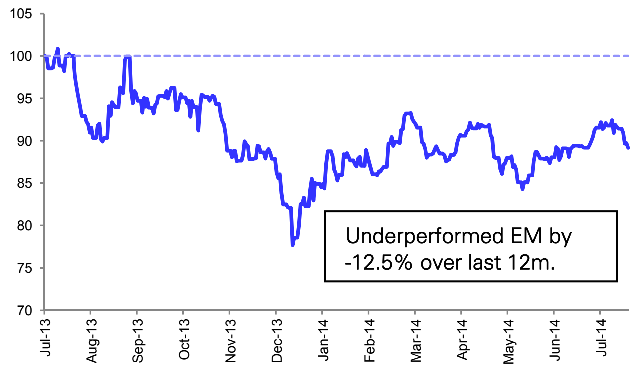
	1 Month	3 Month	12 Month	YTD
MSCI Taiwan (TR)	0.1	9.1	19.0	11.6
Financials	6.5	15.9	14.2	4.7
Industrials	1.2	7.3	8.8	1.0
Energy	-2.1	1.4	-1.8	-7.0
Consumer Discretionary	0.4	0.9	6.6	-2.1
Consumer Staples	3.8	10.2	1.5	7.7
Information Technology	-4.0	6.8	25.2	18.0
Health Care	-2.8	-11.5	-11.9	-18.0
Telco	-4.8	-2.5	-9.9	-3.1
Materials	-1.4	1.5	3.9	-5.0

(1) Returns are correct as at end-July 2014
(2) For data on each sector, we use the corresponding MSCI Taiwan sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Thailand

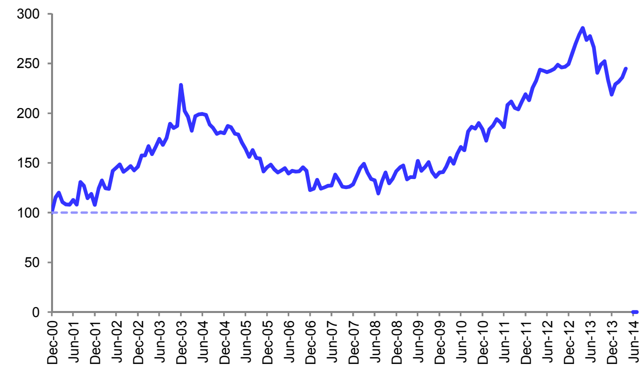
Country performance versus EM

Figure 102: 12-month total return of Thai equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

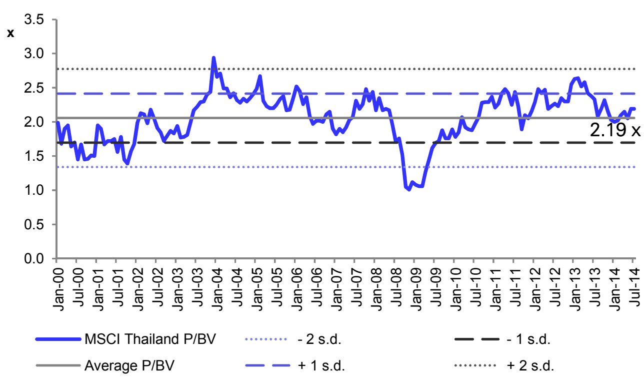
Figure 103: Total return of Thai equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

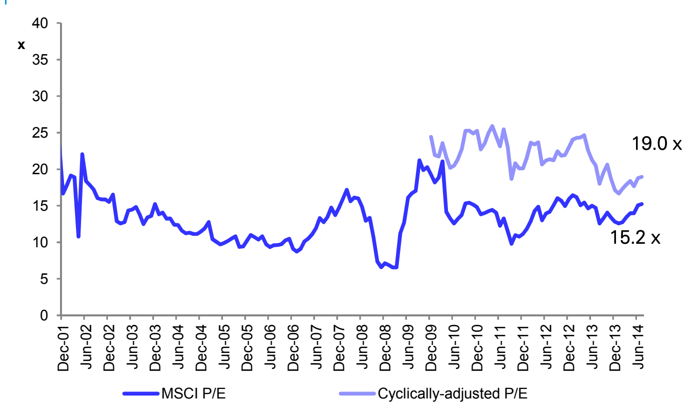
Valuation

Figure 104: MSCI Thailand - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 105: MSCI Thailand - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 106: Price returns of each Thai sector on a 1m, 3m, 12m and YTD basis, USD (%)

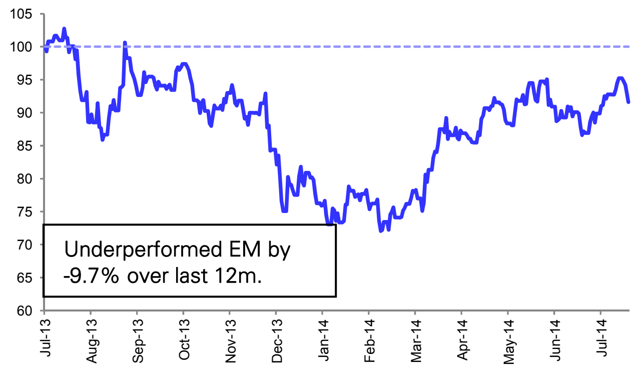
	1 Month	3 Month	12 Month	YTD
MSCI Thailand (TR)	1.7	5.1	2.8	17.5
Financials	4.2	8.6	4.0	26.5
Industrials	5.3	7.6	10.2	21.8
Energy	0.0	1.7	-2.3	5.8
Consumer Discretionary	7.2	10.2	3.6	25.1
Consumer Staples	-2.4	7.5	11.4	3.8
Health Care	3.1	17.1	14.6	49.8
Telco	-1.3	-4.0	-20.9	13.6
Utilities	2.9	9.9	20.9	23.1
Materials	-3.6	-1.1	-2.9	1.5

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Thailand sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Turkey

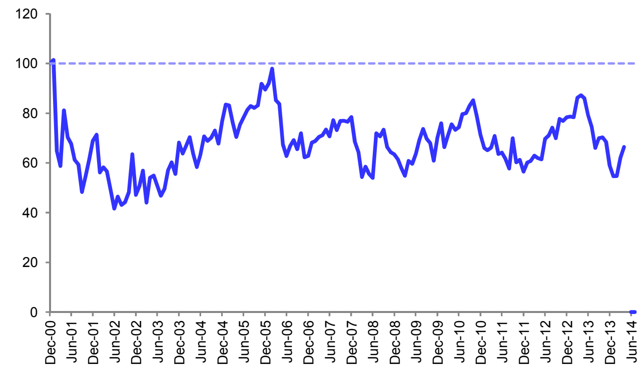
Country performance versus EM

Figure 107: 12-month total return of Turkish equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

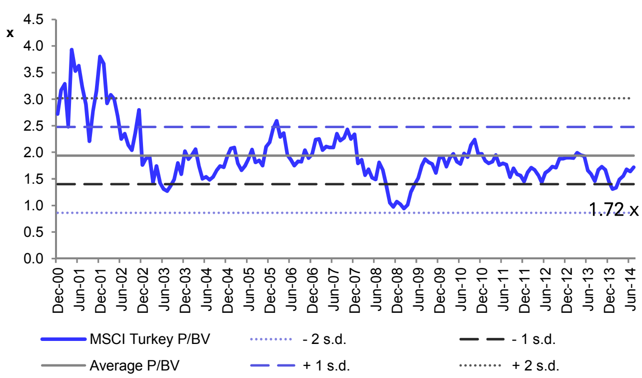
Figure 108: Total return of Turkish equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

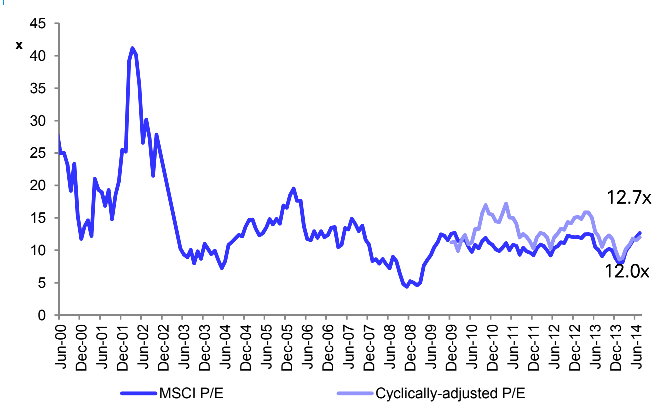
Valuation

Figure 109: MSCI Turkey - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 110: MSCI Turkey - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 111: Price returns of each Turkish sector on a 1m, 3m, 12m and YTD basis, USD (%)

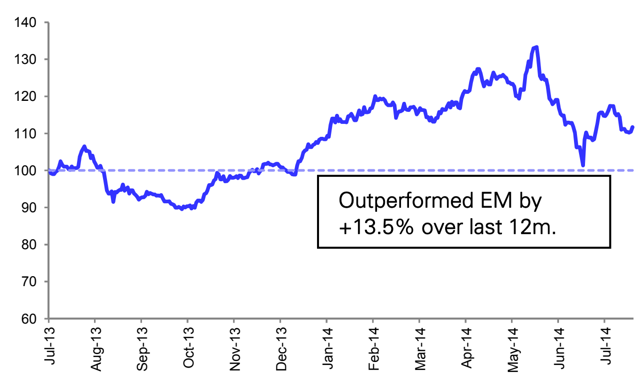
	1 Month	3 Month	12 Month	YTD
MSCI Turkey (TR)	3.9	11.4	5.7	25.3
Financials	4.0	12.4	2.2	27.9
Industrials	3.3	7.4	4.3	15.6
Energy	4.7	8.8	14.4	22.3
Consumer Discretionary	4.8	7.8	-4.8	13.4
Consumer Staples	0.6	2.8	-5.5	12.6
Telco	4.3	9.5	4.4	20.0
Materials	13.3	43.4	69.6	59.4

(1) Returns are correct as at end-July 2014.
(2) For data on each sector, we use the corresponding MSCI Turkey sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Qatar

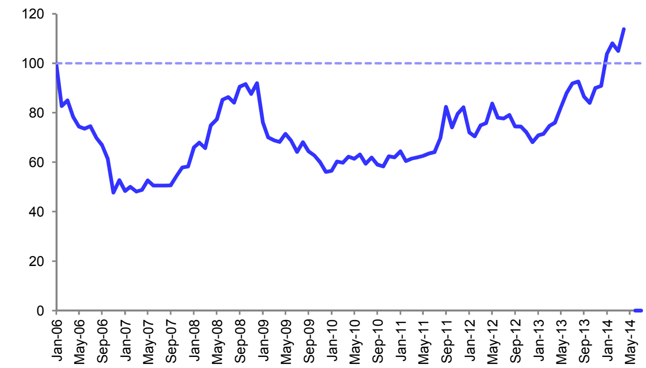
Country performance versus EM

Figure 112: 12-month total return of Qatari equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

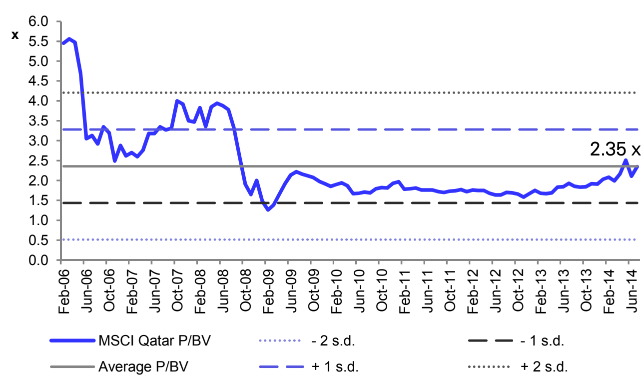
Figure 113: Total return of Qatari equities relative to EM since 2006, USD (rebased at January 2006)



Source: Deutsche Bank, Bloomberg Finance LP

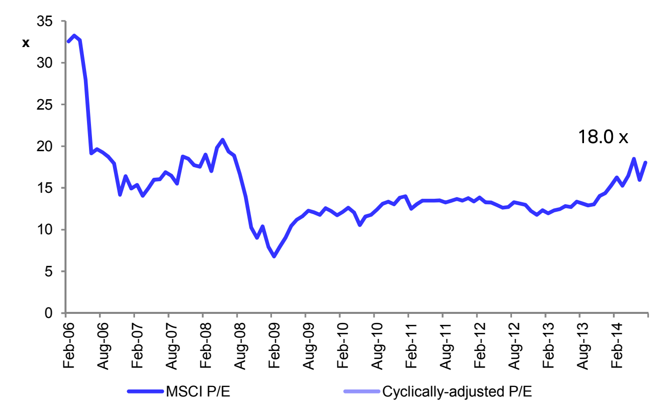
Valuation

Figure 114: MSCI Qatar - P/BV (x) since 2006



Source: Deutsche Bank, Bloomberg Finance LP

Figure 115: MSCI Qatar - P/E (x) since 2006

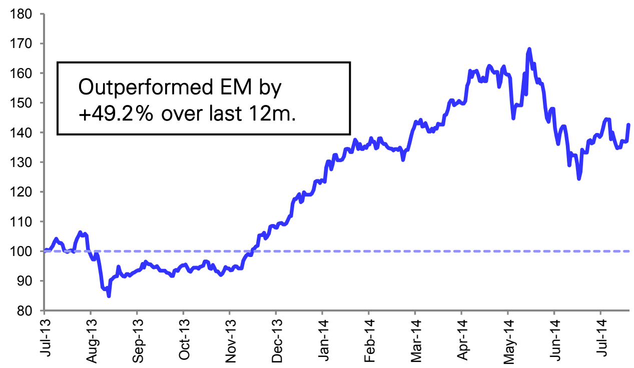


Source: Deutsche Bank, Bloomberg Finance LP

UAE

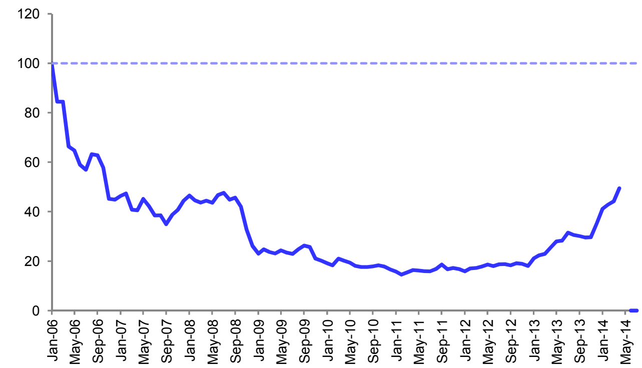
Country performance versus EM

Figure 116: 12-month total return of UAE equities relative to EM, USD (rebased at end-July 2013)



Source: Deutsche Bank, Bloomberg Finance LP

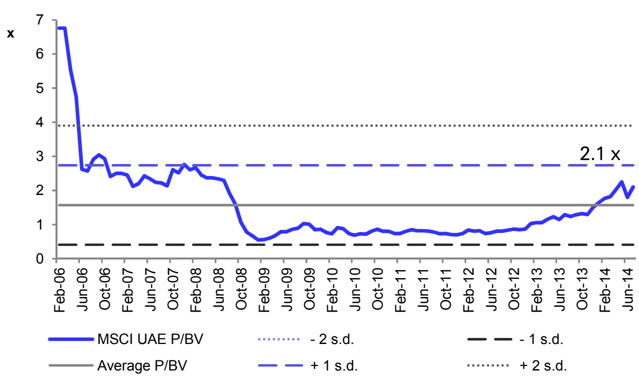
Figure 117: Total return of UAE equities relative to EM since 2006, USD (rebased at January 2006)



Source: Deutsche Bank, Bloomberg Finance LP

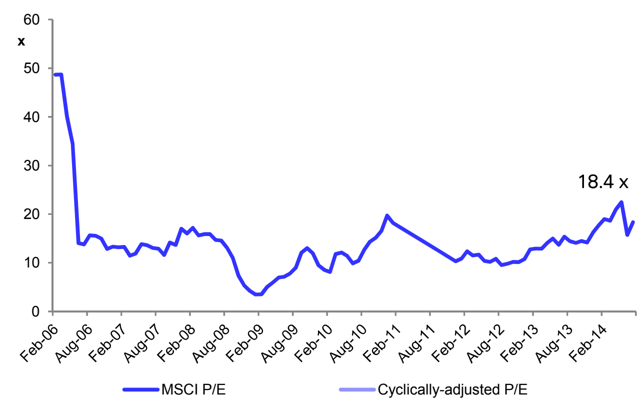
Valuation

Figure 118: MSCI UAE - P/BV (x) since 2006



Source: Deutsche Bank, Bloomberg Finance LP

Figure 119: MSCI UAE - P/E (x) since 2006



Source: Deutsche Bank, Bloomberg Finance LP

Appendix 1

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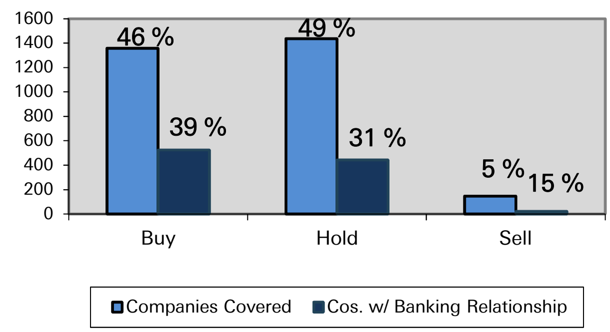

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