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Strategy

The Month in GEM Equities: Jan 2014

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Strategy Update

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EM equities tactically oversold but structural drivers remain negative

Chinese monetary/fiscal policy critical variable for GEM investors in 2014

Can the authorities in China ease policy without increasing moral hazard to an extent where it becomes counter-productive and triggers major outflows?

Short term EM is only a little oversold without help from external factors

We believe that the underlying causes of the current sell-off in EM equities are structural in nature, namely the deterioration in both sovereign and corporate governance which has taken place across much of the asset class since 2008. Governments across GEM have been paying lip service to the necessity of capital friendly reforms, but history suggests that one or more country specific crises may be necessary to create the pre-conditions for real change. EM now appears oversold, but the MSCI index is still at the same level as four years ago. We can identify three potential 'automatic stabilisers' which might cause a short term recovery; i) a further decline in US Treasury yields as investors downgrade their expectations of Fed tightening; ii) a decisive move down in oil prices, due to lower demand growth; iii) signs of improving exports and/or more credible policies in one or more of the major current account deficit economies. There is however unlikely to be any decisive break-out in either direction, until the longer term outlook for China becomes clearer.

Potentially negative endgame for China economy underpins bearish 2014 view

There is increasing evidence on both a macro and micro basis that a slowdown in nominal GDP growth once again threatens to place a significant part of the Chinese industrial sector in a potential debt trap. If EM follows the script laid down over the past five years, the Chinese authorities will loosen policy before too long and sentiment towards both EM and China will improve, just as occurred in late 2008/early 2009 and then again in the late summer of 2012. This time may be different however, since corporate debt levels are now much higher, whilst investors and borrowers alike are much more aware of the extent of the moral hazard that underlies the Chinese corporate and financial sector. Any attempt to ease policy significantly could therefore trigger capital flight, as well as compromising the industrial restructuring which forms a key element of Beijing's reform agenda. We are also sceptical that increasing exports to DM economies will compensate for a domestic-led slowdown, since Chinese companies are not so favourably placed as in 2002-07. If our bearish scenario begins to materialise, we believe that talk of a RMB devaluation will increase through 2014, which would be bearish for China and GEM.

Few obvious hiding places within EM though some tightening victims oversold

If it was not for our China concerns, we would be very tempted to become less negative towards GEM on a tactical basis, given the prevailing very negative sentiment. Those investors who do wish be contrarian should focus on the markets which have been worst hit by fears of Fed tightening and domestic politics such as Turkey, Thailand and South Africa. We base our fundamental recommendations on governance related factors and as usual find it much easier to identify the underweight markets, namely China, Russia, Brazil and Korea, all of which are also potential victims of lower growth across EM economies, as disinflationary pressures increase. Of our overweights, we have misjudged sovereign governance in Turkey, but believe that now is the wrong time to sell, while Poland Taiwan, Mexico and India (neutral/overweight) should continue to perform in a relatively resilient manner.

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Source: Deutsche Bank

Summary

EM equities tactically oversold but structural drivers remain negative

Negative outlook for EM equities drives global financial markets in January

Financial markets in January have been led by a sell-off in emerging market equities, which has been driven by indications of a slowdown in growth in China and an increase in political uncertainty, most notably in Turkey which has a troubling debt profile. The result has not only been to take MSCI EM two-thirds of the way towards our forecast of a -10% price return for 2014 but also to drag DM, where we expect a roughly flat return over 2014, down by just over -3%. The real winner has (predictably) been US Treasury bonds, which were a big consensus underweight position among international investors at the start of the year.

EM sell-off largely reflects country-specific but distinctly EM-related factors

This period of weakness is somewhat different to the sell-off which took place in the months after Bernanke's speech concerning the likelihood of tapering on 22 May, since EM country-specific factors have dominated this time round. Whilst each of these cases is different, we regard events in Turkey, Thailand, the Ukraine and Argentina as symptomatic of some of the structural weaknesses which we have discussed *ad nauseum* over the past three years, most notably the failings of state capitalism and the blurred boundaries between the state and the private sector, which exist across most EM economies.

- Let's start with Turkey where we have clearly been too optimistic in our assessment of the structural improvement in sovereign governance which has taken place since the AKP took power in 2002. The increasing evidence of political pressure on the central bank to maintain an overly easy monetary policy, as well as some of the allegations concerning linkages between members of the ruling party and the private sector, both appear to be broadly symptomatic of some of the problems that face minority equity investors in emerging markets.
- The ongoing political turbulence in Thailand is largely the product of the polarisation between Bangkok and much of the rest of the country, and the blurred boundaries which have led opponents of the current regime to accuse the Shinawatra family of conducting the government of the country in a way which favours their business interests. Significantly, the institutional roots of democracy are not sufficiently strong to prevent much of the opposition from trying to change the government without recourse to the ballot box.
- The devaluation of the official rate of the Argentinean peso should have been no surprise, but the downward spiral of the Argentinean economy also serves as a warning to the proponents of state capitalism that the effects are likely to be quite negative once a country reaches a certain level of economic development. The state control-centred policies pursued by the government over recent years

are now impacting the very people they were ostensibly designed to protect through higher inflation, while President Kirchner Fernandez will almost certainly be voted out of office at the next available opportunity.

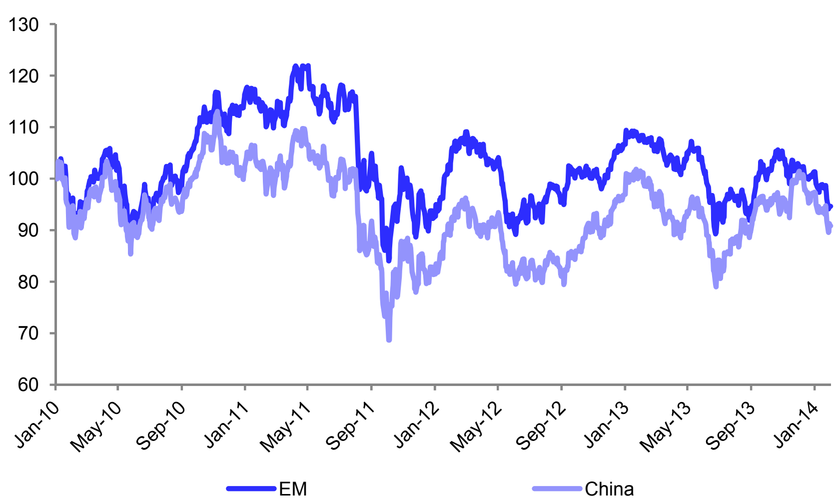
- Finally, the stand-off in the Ukraine between supporters and opponents of President Yanukovych is partly the product of a geographical divide within the Ukraine but also of the disproportionate influence of a group of oligarchs on the government's policies, particularly with respect to the relationship with Russia.

Underlying all of this is the apparent slowdown in the Chinese economy

These country-specific factors, even taken together, would not have had much in the way of a broader impact on financial markets were it not for the slowdown which is becoming increasingly apparent in the Chinese economy. It is impossible to be too precise because of seasonal factors and the usual shortcomings in Chinese data compilation, but the recent PMI readings appear to confirm our impression derived from more micro-based indicators that growth is slowing although the extent and pace of deterioration remain unclear.

Figure 1 shows the extent of the correlation between Chinese equities and the rest of GEM. This may seem obvious because, after all, China weighs in as the biggest single market in the MSCI EM at just under 20%, and was the major driver of the 2001-2007 bull market in energy and industrial metals as well as of growth for her major trading partners. There is a more important factor at work in our view however, namely the extraordinary lack of transparency and visibility concerning most aspects of the Chinese economy, policy making environment and corporate sector, which results in regular massive swings in sentiment on the part of the investor community. The risk premium for GEM equities is therefore very high while the EM index is unlikely to break out of its four year absolute trading range until the outlook for the Chinese economy becomes clearer on either the upside or the downside.

Figure 1: MSCI EM and MSCI China price return, USD, rebased at start-2010



Source: Deutsche Bank, Bloomberg Finance LP

China may be entering debt trap as restructuring causes lower nominal growth

We raised the possibility that China may be about to enter a debt trap in the 2014 outlook document (*Negative year in prospect but underperformance should slow*, 11 December 2013) as companies in the Industrials and Materials sector cut back on their capex relative to sales, which is then likely to feed back into lower nominal GDP and hence sales, so that corporate deleveraging becomes much more difficult in an environment of lower nominal growth. We note that at the recent DB China Access conference, many of the companies which presented from the Industrials and Materials sectors, suggested that they would increase capex by around 4-6% over 2014, a somewhat lower number than in previous years. The problem is that if demand growth falls short of average estimates of 6-9%, then it's possible that that capacity utilisation may even begin to fall. DB Materials analyst, Johnson Wan, has already downgraded his demand estimates on the containerboard/paper sector from the levels in the summary table which he and fellow-materials analyst James Kan compiled at the start of the year (Figure 2). We also note that DB Capital Goods analyst, Phyllis Wang, has downgraded her estimates for 2014 expenditure on railway infrastructure by -11%, which will feed along the upstream and downstream supply chains.

Figure 2: China demand and capacity growth for Materials sub-sectors

	2014E China demand growth	2014E China net capacity growth
Cement	6.8%	-0.3%
Steel	5.7%	3.8%
Aluminium	8%-10%	*6.0%+
Paper	5.9%	5.4%
Copper	5.5%%	*6.0%+
Coal	4.6%	6.9%

Source: Deutsche Bank (James Kan and Johnson Wan, 10 January 2014), NBS, Mysteel

Key issue for China and GEM investors is if China can credibly ease policy

However, on each occasion that the economy has faltered over the past five years, the Chinese authorities have managed to find ways of easing policy, most notably via bank credit in late 2008 to 2009, and via shadow banking in autumn of 2012 through to the first half of 2013. The resulting massive expansion in debt by around 70% of GDP and the increasing evidence of the widespread misallocation of capital has however made investors and lenders alike much more aware of China's structural shortcomings. We have found over recent months that our clients are now far more focused on the underlying governance and fiscal issues, which drive overcapacity across a wide range of Chinese industries and are generally sceptical about the ability of the authorities to resolve the situation. The increased awareness of the extent of moral hazard which lurks in the Chinese economy accounts for the apparently disproportionate reaction to the recent bailout of investors in the $500m trust 'Credit Equals Gold', as previous similar events had been largely ignored by the investor community. If we are correct to assume that China is slowing (and this is emphatically NOT the Deutsche Bank house view from our colleagues Jun Ma and Michael Spencer), then the key question facing equity investors in GEM is as follows;

'Will the Chinese authorities be willing to ease policy significantly given that the whole thrust of their recent policy announcements is to emphasise structural reform, and if they are willing, can they do so without increasing perceived moral hazard to the extent that it triggers capital outflows?'

We remain sceptical, but successful monetary easing would be bullish for EM

As the way we have phrased the question suggests, we are sceptical that the Chinese authorities can ease policy whilst retaining credibility both inside China and externally, but then we have been wrong on a previous occasion in late summer 2012 when the economy was showing similar signs of weakness, especially at a micro/corporate level. On that occasion, the banks, companies and governments at both a national and local level, were successful in engineering a massive increase in shadow financing, which alleviated the cash flow problems among the industrial and material companies in particular. The result was that the bears were routed in both China and overall EM, which rose by +29% and +25% respectively from their 2012 low levels to the end of the year. Whilst a repeat scenario is possible, the indications are that most of the policy-making establishment in Beijing does not believe that the economy is sufficiently weak to require further easing and continues to emphasise the need for restructuring, without being too specific as to the actual measures.

Moreover, should Beijing eventually decide to ease, the mechanics for doing so are not straightforward, given the risks of committing further significant volumes of credit to companies and projects of questionable viability. The effect might be to deter the investment and credit inflows, which have become a more significant component of financing over the past couple of years and to begin to trigger outflows of capital even from what is theoretically a closed capital account. The most straightforward way to bring in additional liquidity would be to engineer a one-off devaluation of the Renminbi of say around 25%, but this would definitely trigger capital outflows unless it were accompanied by specific and far-reaching reforms. Devaluation is therefore definitely not on anybody’s agenda at the present time, though this may not necessarily prevent speculation about the eventual possibility from increasing as we move through 2014 to the detriment of most China related financial assets.

Ex-China easing, tactical rebound is possible as automatic stabilisers kick in

In the absence of a significant easing of policy from Beijing, it is likely that some of the ‘automatic stabilisers’, which should result from a perceived slowdown in the rate of global growth will kick in. The most obvious is lower US Treasury yields and a shift in the perception of US monetary policy, given that fears of tightening have been one of the factors behind the correction in some emerging markets. We would also anticipate lower oil prices, possibly even in excess of DB’s forecast of a $10-$15 decline in Brent over 2014, but we along with many investors are now distinctly stale bears on the oil price. Finally, we would look to incremental improvements in policy and the impact of exchange rate depreciation in stimulating export growth, to improve the position of some of the markets whose economies have big current account deficits. There is a reasonably encouraging precedent here in the shape of India, which appeared to be facing a sovereign and corporate cash crisis in the summer, before the current account began to show a notable improvement, mainly on the back of import compression, but also due to a smaller uptick in exports.

Events across emerging markets reinforce global disinflationary tendencies

Global financial markets are now starting to grasp the extent to which recent events in emerging economies reinforce the disinflationary trends across the global economy. The sharp decline in the EM consumer staples space which took place over January is partly the result of excessive valuation levels, but also reflects the way in which the drop in EM currencies and FX reserves along with higher interest rates is sucking purchasing power out of the global economy. Those economists who claim that the economies impacted are a relatively small proportion of the global total are entirely missing the point in our view in two crucial respects. Firstly because the majority of EM economies which we cover as equity strategists are structurally impaired from a micro perspective in ways which have reduced their growth potential over recent years. This is reflected in the way in which the recent sell-off has broadened out beyond the current account deficit countries to include China, Russia and Korea. Secondly because the current turbulence across emerging markets will also have a detrimental impact on the 'animal spirits' which we have learned in the past six years are far more important in driving global growth than most macro-economic models assume. Given the extent to which emerging economies have been the engine of global growth over recent years, we find the notion that events in EM will have no impact on Fed policy, somewhat extraordinary.

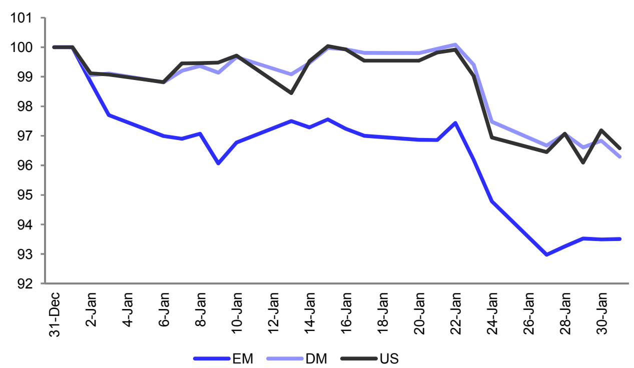
Reinforces preference for rate-sensitive over growth-dependent markets

Everything that has happened so far over the course of 2014 reinforces our conviction that emerging market equities will deliver negative returns with more volatility and greater dispersion between markets than was evident over 2013. We would also note that, as we suggested in December, the outlook for DM is much less straightforward following the major re-rating that took place last year, so it is no surprise to find that the problems in emerging economies and markets are dragging their developed peers lower, thereby reducing the extent of underperformance. At this point, we would continue to underweight what we see as the more growth-dependent markets within the GEM benchmark, namely China, Brazil, Korea and Russia, which also happen to be among the more structurally impaired markets, with the partial exception of Korea where the issues are more stock-specific. The overweights are as ever more difficult, but we retain Mexico, Taiwan, Poland and India, the latter as a neutral to overweight position for those accounts which cannot hold cash. The other outstanding overweight position in Turkey, which has been little short of disastrous over the past year, but which is now starting to look oversold, so long as senior figures in government can resist the temptation to put pressure on the central bank, and the corporate and investor communities.

January performance review

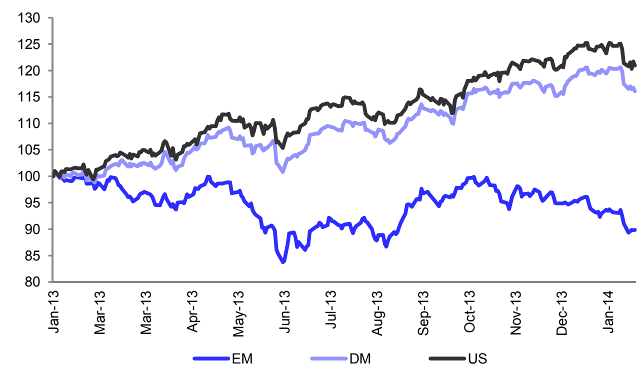
Difficult start to year for EM in both absolute and relative terms

Figure 3: 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

Figure 4: Rolling 12M total returns of EM versus DM and US equities, USD (as of Jan 31, 2014)

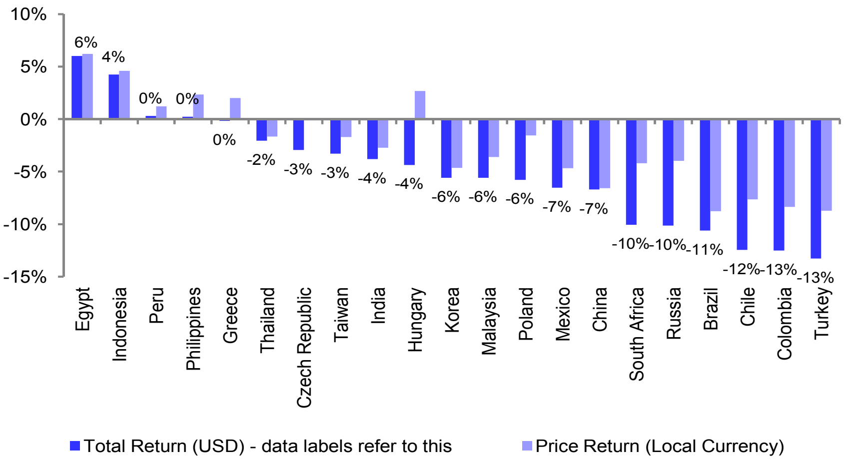


(1) EM refers to the MXEF (MSCI Emerging Markets) index.
(2) DM is proxied using the MSCI World index.
(3) US refers to the MSCI US index.
Source: Deutsche Bank

Equity markets across the globe delivered absolute negative returns in January, led by EM's at -6.5%, whilst DM and US equities returned -3.7% and -3.4% respectively, resulting in EM underperformance against DM equities by -2.8%, and against US equities by -3.1%. In our outlook for 2014 (*Negative year in prospect but underperformance should slow*, 11 December 2013), we tentatively forecast a negative return of -10% for the full year, two-thirds of which has already now been achieved in January alone (Figure 3).

Within EM, performance by country...

Figure 5: Returns over January 2014/ YTD (%) – 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

Almost all equity markets delivered negative returns in January (Figure 5) as they were caught in the cross-asset EM rout, originating from FX weakness in certain economies, and consequent fears of the extent and length of possible contagion. Currencies in all markets under coverage depreciated (Figure 22), so the USD returns of equities look especially poor relative to local currency returns.

Unsurprisingly, with weakening currencies in the spotlight over the past month, markets renowned for large external deficits were amongst the worst performers, in particular **Turkey**, **Brazil** and **South Africa**. Fears towards these were compounded by what most commentators perceived to be reactive and delayed rate hikes, rather than pre-emptive measures.

The notable exceptions from the "Fragile Five" group were **Indonesia** and **India**, both of which performed well relative to other emerging markets. Indonesia's CAD has been easing since December and the economic outlook is picking up (Q4 2013 GDP growth surprised to the upside), making it less vulnerable in the latest EM currency fallout (Figure 22). Although India's fundamentals have also improved in recent months, the relatively better performance seems more so due to increased central bank credibility, especially since Rajan became governor in September 2013, and also a further indication from India's +25bps rate hike in January that his forward guidance on inflation targets and policy responses are trustworthy.

Markets which came to be considered relative "safe havens" over the second half of 2013, such as **China** and **Russia** because of their favourable external balances, are again falling out of favour as focus switches back towards concerns over growth. As we discussed in our introduction, the risks of a China slowdown are also becoming increasingly apparent to investors, which would particularly impact the larger commodity-exporting markets, such as Russia and Brazil.

More clarity on upcoming elections, but with the exception of India, these seem negative for the equity outlook

In 2014 elections are due to take place in some key emerging markets – Turkey, Brazil, Indonesia, India, and now also Thailand. There have been developments in January which will impact the contests in all of these countries.

- **Indonesia** – The PDI-P party, to which the presidential favourite, Joko "Jokowi" Widodo/ Mayor of Jakarta, belongs, has finally announced its long-awaited electoral plan. There are two possible scenarios – (1) Megawati Sukarnoputri, party leader, as the presidential candidate and Jokowi as her VP, or (2) Jokowi as the presidential candidate and an external candidate as VP. The fact that option (1) is an official consideration has broadly been met with surprise because most commentators had expected Megawati to concede her electoral ambitions given the exceptional support Jokowi has amassed, which would have implied a successful outcome for PDI-P. According to our DB Indonesia Strategist, Heriyanto Irawan, the possibility of a Megawati candidature has not been well received by the public.

  Given the market has seen the base case as option (2), there is likely to be volatility in the market if option (1) is the final decision. Investors generally perceive Jokowi as someone who could initiate reforms in a country where politics is still dominated by dynastic political families and large business interests – the same cannot necessarily be said of Megawati although her track record on macro-economic policies during her previous period in office in 2001-04 is generally well-regarded..

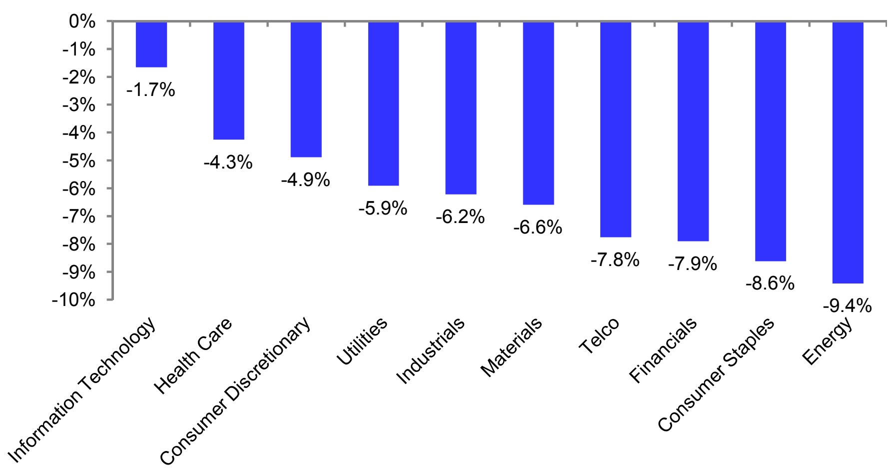
- **Thailand** – The snap election of 2 February went ahead as declared but was heavily disrupted by opposition protestors, and the result has so far been deemed inconclusive. The most likely outcome is that the next government is in effect determined by the judiciary, but it is interesting that the equity market appears to have learned to live with the political volatility for the time being, most likely because of massive selling by foreign investors in 2013.

- **India** – At the turn of the year, there was a lot of focus on the new Aam Aadmi Party (AAP) which had just won a victory in the Delhi local elections, and whether they now had the ability to mobilise mass support for the upcoming national elections. However, since coming to power in the capital, the AAP appear to have alienated the middle class and domestic business community that had formed their key support base, by advocating socialist policies and implementing what many have referred to as "mob rule" (e.g. encouraging secret filming of corrupt activity, and then exposing this). If the AAP's key support evaporates, as is already happening, it is unlikely to be able to alter India's national political dynamic, so for now, the BJP and Congress look set to retain their status quo as the main two political parties, albeit with a much reduced presence for Congress likely in the new parliament.

- **South Africa** – An electoral pact between the main opposition party, Democratic Alliance, and Mamphela Ramphele's newcomer party, Agang, has fallen through. The coalition agreement represented the first plausible threat to the ANC's dominance, which has been the only party to ever rule since apartheid was abolished in South Africa from 1994, although not the extent that there was any real chance of a change in government at the forthcoming election. Reversion of the agreement once again fragments and weakens the ANC's opposition, allowing the ANC to maintain its pre-eminent, and still largely untouchable, status as the only main political party in the country.

...and performance by sector

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



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

All EM sectors yielded negative absolute returns in the first month of 2014. The worst performing was Energy, despite the relative resilience of the oil price in January, especially relative to other commodities (Figure 23). However, it is likely that structural concerns such as poor governance made this sector an obvious sell in an environment where sentiment has been extremely negative towards all EM assets. The other notably poor performing sector, which has been in decline for a few months, was Consumer Staples. We discuss this in more detail below.

Information Technology's performance is still holding up well, despite being the best performing sector by quite a margin over FY2013 (+13.6% total return in USD). A large part of this seems particularly driven by social media stocks which have become a hiding place/ default choice for investors with few other obvious options.

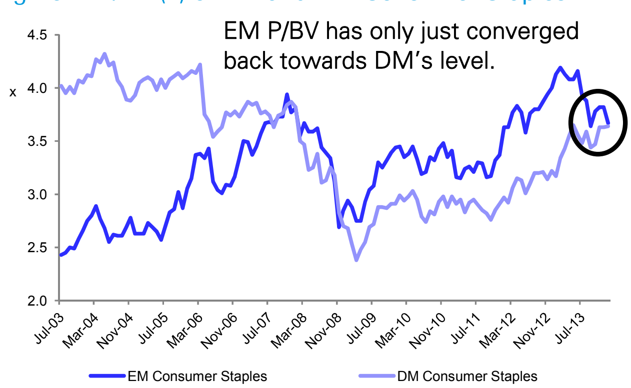
The unwinding of the Consumer Staples trade

We have long flagged Consumer Staples as the standout outperforming but overpriced sector in EM. Rather than being drawn to the attractions of the sector, the overcrowded positioning in this sector seemed more so the function of an "aversion trade" as investors faced a very difficult choice between defensive but expensive sectors (Health Care is another example, although a much smaller sector in comparison) versus cheap but fundamentally poor sectors that were heavily influenced by the state or poor governance (e.g. Energy, Utilities).

However, having consistently been a poor performer over the last few months, it seems this very popular trade has begun to unravel, for the following reasons:

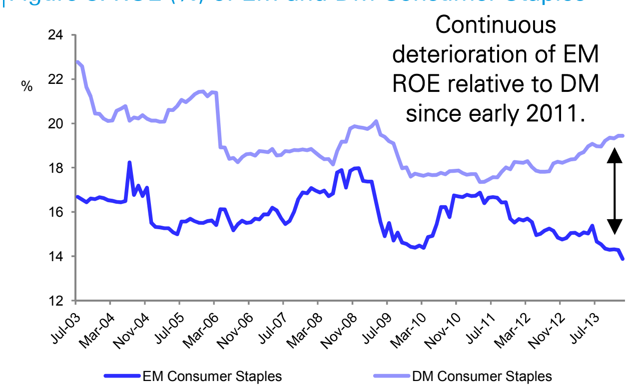
- **Flows** – The liquidation of EM equity assets by retail investors, which has been evident over the past few months as a trickle has now started to accelerate (Figure 20). Many of the funds which have been particularly popular among retail investors have crowded into the staples space mainly for growth and governance related reasons.
- **Excessive valuation** – Although Staples tends to always be one of the more expensive sectors regardless of the region or the point in the cycle, the asset-based valuation in EM seems to have very clearly decoupled from underlying fundamentals since the 2007-08 crisis, and investors are now paying more attention to this mismatch. By contrast, DM Staples have not appeared overpriced to the same degree (Figure 7 to Figure 10). Despite the recent de-rating in EM, it is difficult to argue that valuations are yet low enough to make the sector seem attractive again, especially given that ROE is at the lowest point for the past decade.

Figure 7: P/BV (x) of EM and DM Consumer Staples



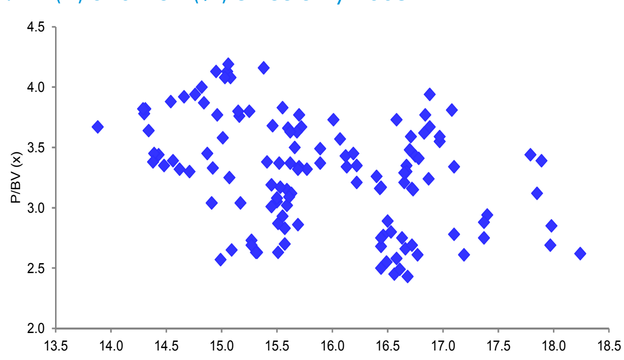
(1) Data is the index-level metric for MSCI EM Consumer Staples and MSCI World Consumer Staples indices.
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Figure 8: ROE (%) of EM and DM Consumer Staples



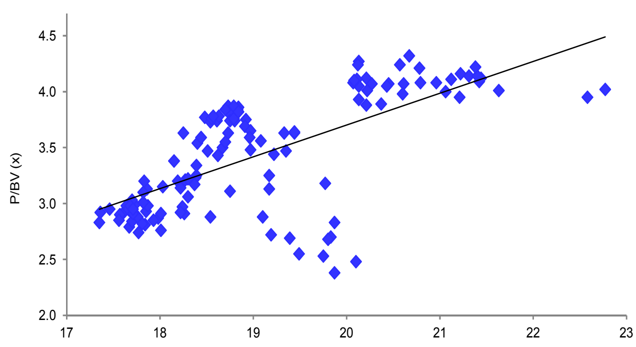
(1) Data is the index-level metric for MSCI EM Consumer Staples and MSCI World Consumer Staples indices.
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Figure 9: EM Consumer Staples – Monthly snapshots of P/BV (X) and RoE (%) since July 2003



(1) Data is the index-level metric for MSCI EM Consumer Staples and MSCI World Consumer Staples indices.
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Figure 10: DM Consumer Staples – Monthly snapshots of P/BV (X) and RoE (%) since July 2003



(1) Data is the index-level metric for MSCI EM Consumer Staples and MSCI World Consumer Staples indices.
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

- **Monetary tightening** – Rate hikes are likely to continue across the EM world as their currencies remain under pressure, which will put further downward pressure on economic growth and jeopardise the "inevitable EM consumer growth" story which has become very popular in recent years.
- **Disinflation** – The depreciation of EM currencies along with the reduction in FX reserves and interest rate hikes in some countries will suck purchasing power out of the emerging economies, especially if the oil price continues to be relatively resilient.
- **DM-listed staples scaling back on EM exposure** – These stories seem to have become slightly more frequent, the most recent examples being L'Oreal and Revlon which found China simply too competitive an environment to operate in, whilst other MNCs have retained exposure in emerging markets but cited slower growth. These anecdotes have drawn attention to the fairly obvious fact that the benefits of accessing EM consumer growth do not always outweigh the costs, and many EMs remain culturally different markets with more diversified tastes and consumption patterns. It also provides another reason to throw EM Staples valuations into question - many DM Staples now appear to have overpaid for acquiring EM assets (e.g. Unilever paid a premium to increase its stake in Hindustan Unilever) and our European Staples team note that the EM parts of companies under their coverage have a higher valuation than those located in DM.
- **Next hot sectors?** – With the cracks in Staples' fundamentals becoming increasingly visible, the sector is no longer a default investment for anyone seeking to avoid the many structurally impaired EM sectors in the "aversion trade". There are signs that social media stocks, particularly in China (e.g. Tencent, Baidu), may be filling the gap that the Staples sector has left, as they are becoming very popular, but this is already starting to play out in terms of higher valuations and outperformance.

Valuations across GEM

Countries in GEM

Figure 11: Current P/BV by country (1) versus own country's historical average and (2) relative to GEM P/BV versus historical average relative valuation

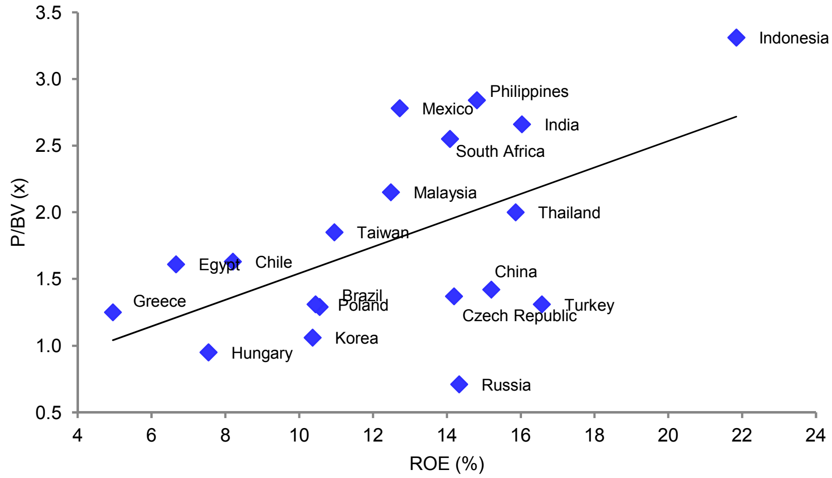
GEM Country	Current P/BV (x)	Current P/BV versus country's 10-year historical average P/BV	Current P/BV relative to EM P/BV, versus 10-year historical average
EM	**1.46**	**-26.7%**	-
DM	**2.08**	**-0.9%**	**33.8%**
US	**2.63**	**5.7%**	**41.6%**
Brazil	1.29	-34.5%	-9.9%
Chile	1.63	-25.1%	-0.5%
China	1.42	-37.7%	-13.6%
Czech Republic	1.37	-34.7%	-10.3%
Egypt	1.61	-47.6%	-25.1%
Greece	1.25	-37.3%	-12.7%
Hungary	0.95	-48.5%	-27.4%
India	2.66	-24.3%	4.6%
Indonesia	3.31	-10.1%	20.8%
Korea	1.06	-27.1%	-1.1%
Malaysia	2.15	3.1%	36.7%
Mexico	2.78	-3.3%	29.4%
Philippines	2.84	16.6%	52.7%
Poland	1.31	-27.5%	0.1%
Russia	0.71	-51.4%	-30.8%
South Africa	2.55	-1.6%	33.1%
Taiwan	1.85	-2.0%	31.3%
Thailand	2.00	-5.9%	24.7%
Turkey	1.31	-27.0%	-1.7%

(1) Current valuation is correct as at end-January 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

EM, DM and US equities unsurprisingly all de-rated on the back of very negative performance over January by -4.6%, -3.7% and -3.3%.

There was generally a de-rating across most markets in line with deteriorating price performance. The most noticeable change is that Turkey's absolute valuation is looking much cheaper relative to history than it was at the end of 2013, but its relative valuation is also now at a discount relative to its long run average which was not previously the case.

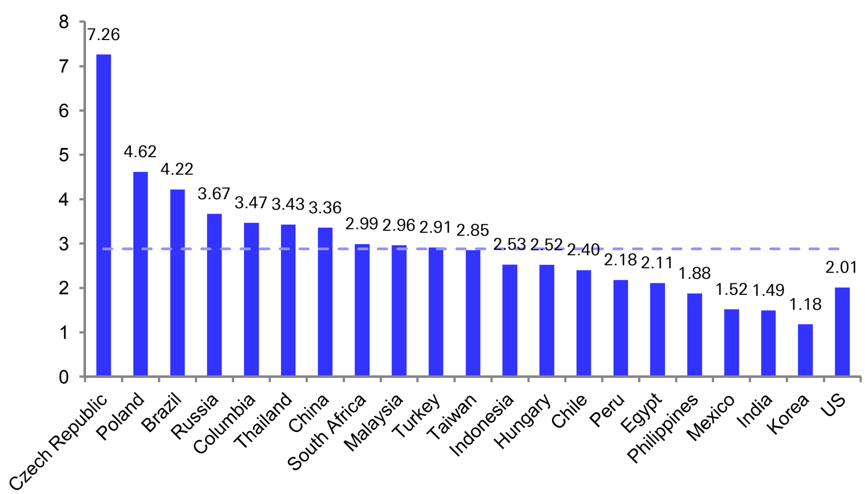
Figure 12: EM countries – P/BV (x) versus RoE (%)



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

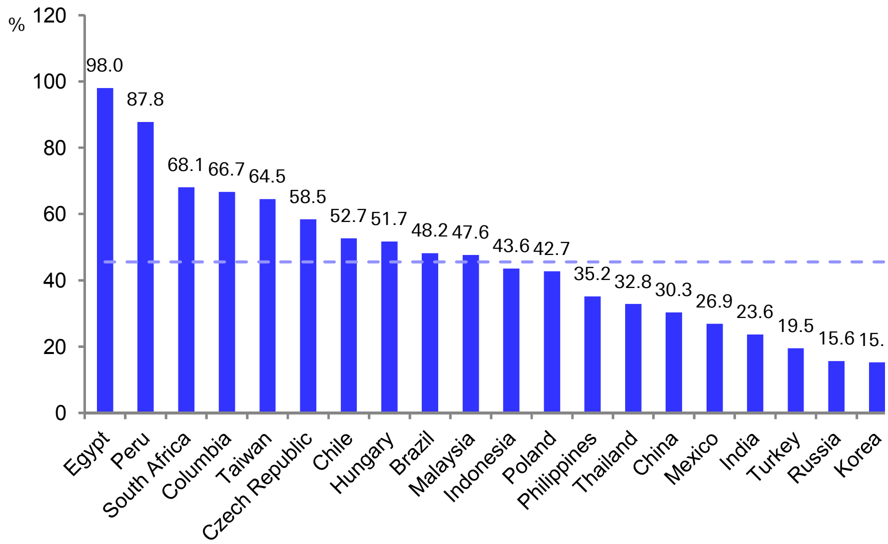
Indonesia is looking like a distinct anomaly at the overpriced end of EM markets yet again on the back of being one of the very few positive performers this month (Figure 5), whilst the same is true for Russia at the cheap end.

Figure 13: Dividend yields across EM markets and US at end-January 2014 (%)



Source: Deutsche Bank, Bloomberg Finance LP

Figure 14: Payout ratios across EM markets and US at end-January 2014 (%)



Source: Deutsche Bank, Bloomberg Finance LP

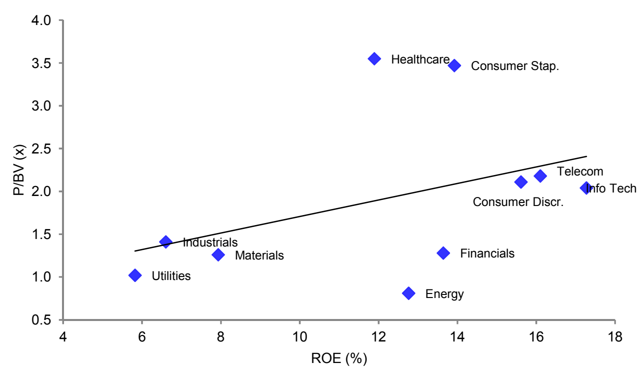
Sectors in GEM

Figure 15: 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	**1.46**	**-26.7%**	-
Consumer Discretionary	2.11	-3.2%	29.2%
Consumer Staples	3.47	4.3%	37.1%
Energy	0.81	-52.9%	-34.1%
Financials	1.28	-32.4%	-7.2%
Health Care	3.55	-0.1%	32.5%
Industrials	1.41	-23.4%	5.1%
Information Technology	2.04	-10.0%	20.9%
Materials	1.26	-35.6%	-11.4%
Telco	2.18	-16.0%	14.0%
Utilities	1.02	-9.4%	21.3%

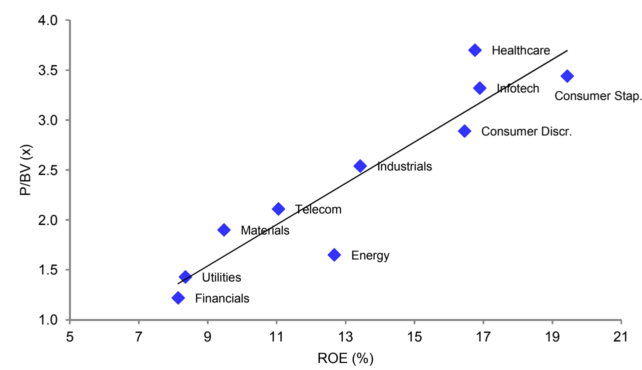
(1) Current valuation is correct as at end-January 2014.
(2) For data on each sector, we use the corresponding MSCI EM sector index, and for EM, we use the MXEF index.
Source: Deutsche Bank, Bloomberg Finance LP

Figure 16: EM sectors – P/BV (x) versus RoE (%)



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

Figure 17: DM sectors – P/BV (x) versus RoE (%)



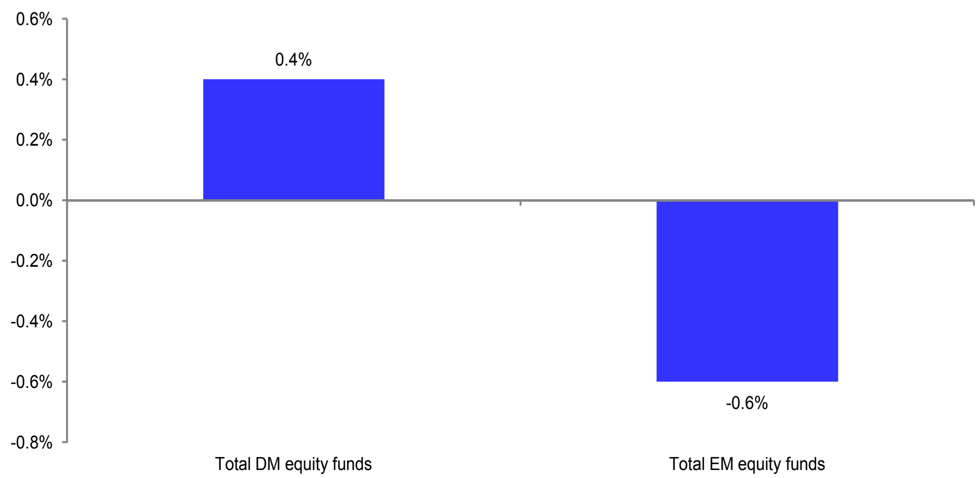
(1) Data points are correct as at end-January 2014.
(2) For data on each sector, we use the corresponding MSCI World sector index.
Source: Deutsche Bank, Bloomberg Finance LP

This is the first month that the valuation of Consumer Staples in EM has dipped below that of Health Care since we initiated *The Month in GEM Equities* in July 2013. Despite the de-rating, it is very evident that the sector has much further to go if it is to become fairly priced relative to its level of ROE generation. Interestingly, the fallout of Consumer Staples is also evident in DM where the sector was also long overcrowded but is now somewhat reversing so looks slightly cheap from its initially more expensive levels.

Flows into GEM equities

EM versus DM equity fund flows

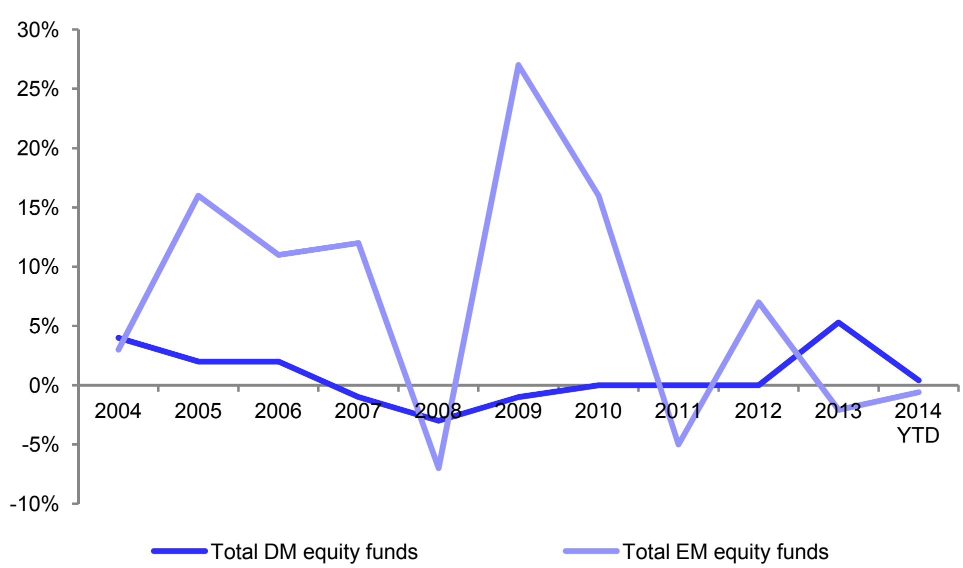
Figure 18: Inflows/ outflows into all DM and EM equity funds over 2014 (including ETFs) – Flows as % of total assets



Source: Deutsche Bank (Jan Rabe and Adrian Rott), EPFR

Although DM equities delivered negative returns over January, retail inflows to the asset class continued. The same did not hold for EM equities whose performance was even weaker.

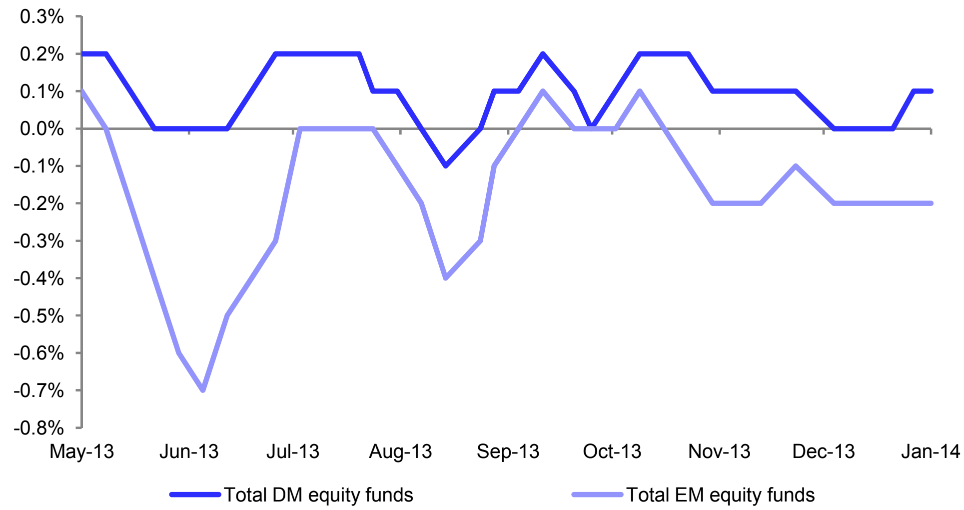
Figure 19: Annual inflows into DM and EM equity funds since 2004 (including ETFs) – Flows as % of total assets



Source: Deutsche Bank (Jan Rabe and Adrian Rott), EPFR

On a long run perspective, it is now very clear that 2013 marked the first year in the whole period for which we have data when there were discernibly positive flows into DM equities and those into EM were contrastingly negative. If the flows seen so far in 2014 follow a similar trend for the full year, we are likely to see EM and DM flows move in the same direction as 2013, but the magnitudes would be much higher.

Figure 20: All EM and DM equity funds – 4-week average flow (% of total assets) over 2013

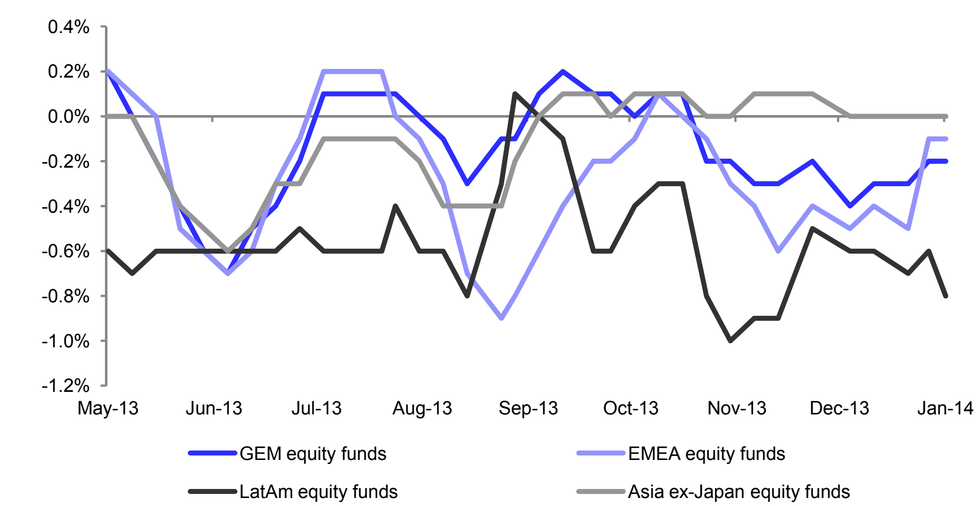


(1) As we still only have four data points for 2014, we start our chart at 22 May 2013 when pessimism towards EM started to become very pronounced.
Source: Deutsche Bank (Jan Rabe and Adrian Rott), EPFR

Whilst flows to DM equities improved at the start of 2014, flows to EM equities overall remained in outflow mode, but did not deteriorate further.

Flows for region-specific EM equity funds

Figure 21: EM equity funds – 4-week average flow (% of total assets) over 2013



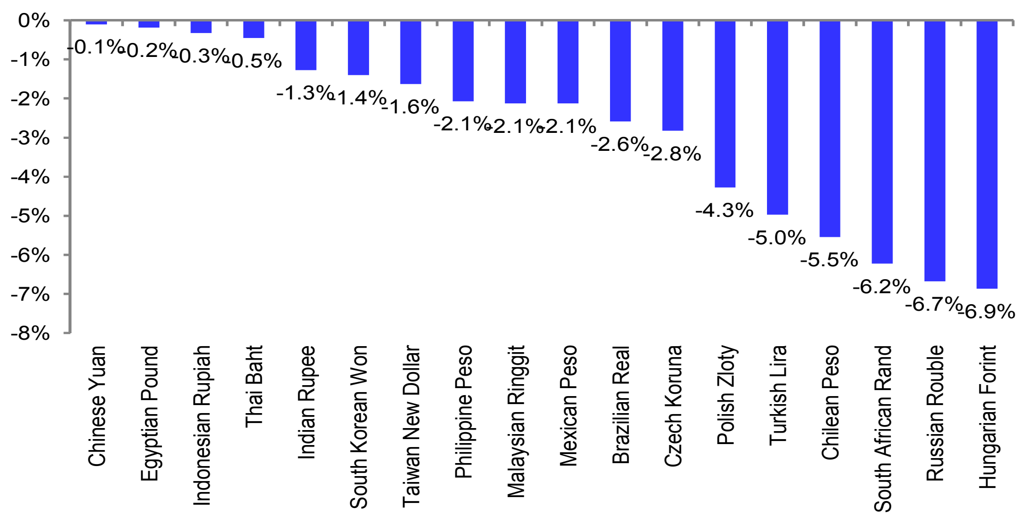
(1) As we still only have four data points for 2014, we start our chart at 22 May 2013 when pessimism towards EM started to become very pronounced.
Source: Deutsche Bank (Jan Rabe and Adrian Rott), EPFR

There was a sharp divergence in the direction of flows to all EM regions over January. All saw outflows except Asia ex-Japan which was flat, and even though EMEA and GEM witnessed outflows, the pace of these slowed compared to December 2013. LatAm was once again the most out-of-favour region, most likely driven by very negative sentiment towards Brazil where investors feel the authorities are increasingly losing credibility.

Related asset class considerations

EM currency movements over the past month

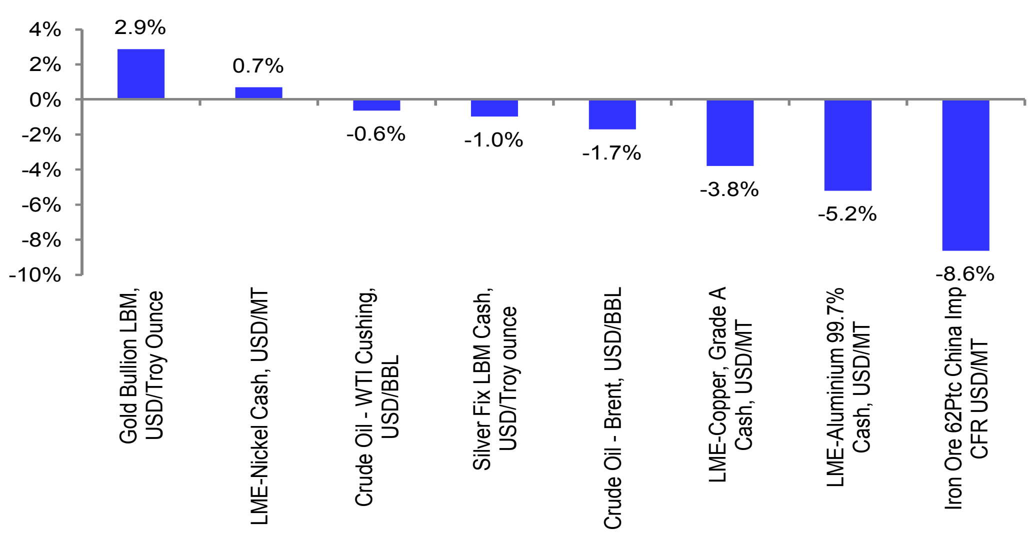
Figure 22: Appreciation/ Depreciation of key EM currencies versus USD over January 2014



Source: Deutsche Bank

Movements of key commodity prices over the past month

Figure 23: % changes in key commodities over January 2014, USD

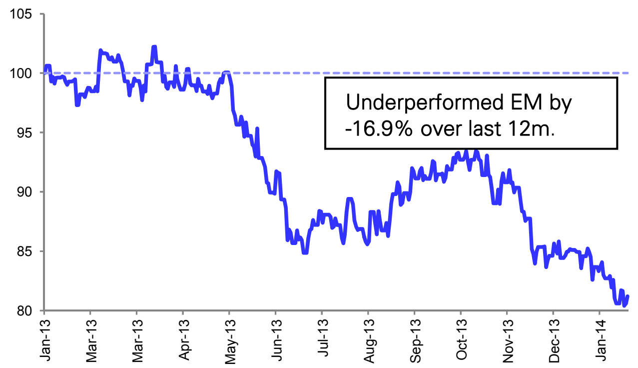


Source: Deutsche Bank

Brazil

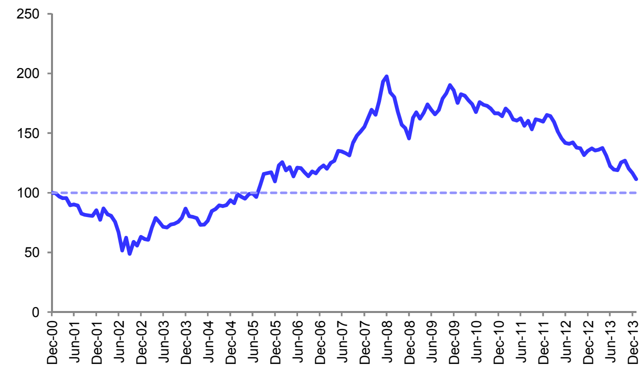
Country performance versus EM

Figure 24: 12-month total return of Brazilian equities relative to EM, USD (rebased at end-January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

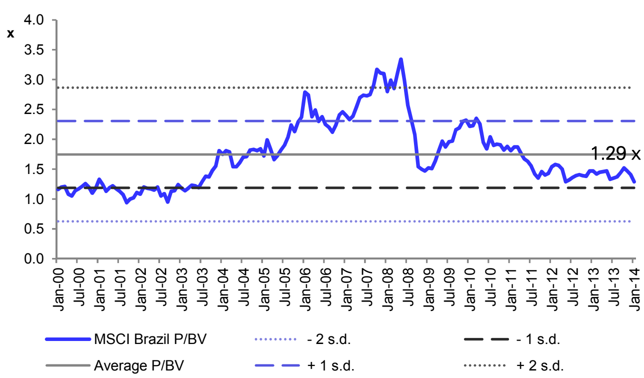
Figure 25: Total return of Brazilian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

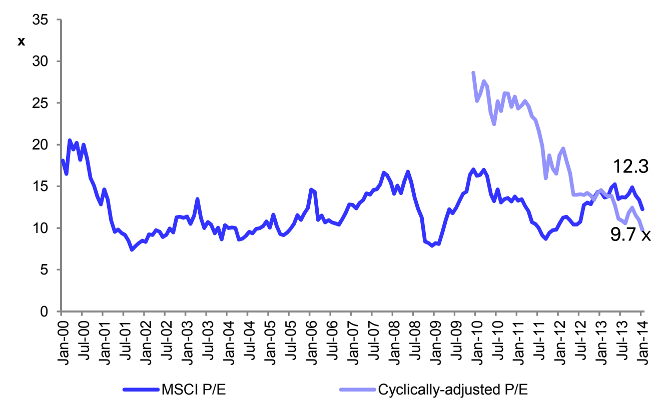
Valuation

Figure 26: MSCI Brazil – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 27: MSCI Brazil – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 28: Price returns of each Brazilian sector on a 1m, 3m, 12m and YTD basis, USD (%)

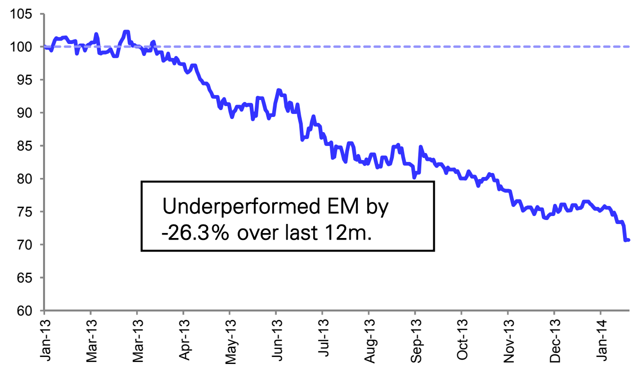
	1 Month	3 Month	12 Month	YTD
MSCI Brazil (TR)	-10.6	-20.4	-27.1	-10.6
Financials	-10.3	-23.7	-28.8	-10.3
Industrials	-10.7	-16.4	-29.4	-10.7
Energy	-14.8	-32.3	-34.6	-14.8
Consumer Discretionary	-10.2	-15.6	-30.2	-10.2
Consumer Staples	-11.2	-17.3	-28.5	-11.2
Information Technology	-6.6	-14.9	0.1	-6.6
Health Care	-11.1	-10.5	-24.0	-11.1
Telco	1.1	-7.2	-24.7	1.1
Utilities	-9.1	-18.6	-31.9	-9.1
Materials	-10.8	-14.7	-29.8	-10.8

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

Chile

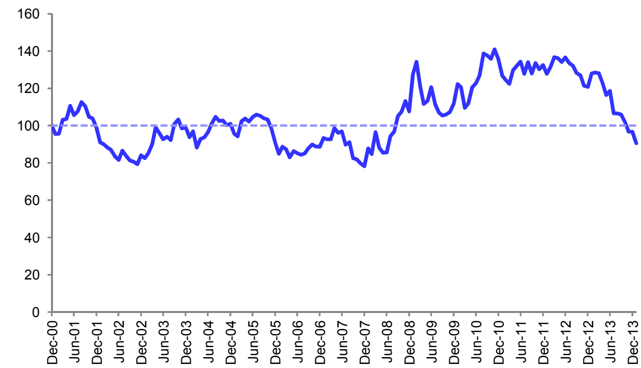
Country performance versus EM

Figure 29: 12-month total return of Chilean equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

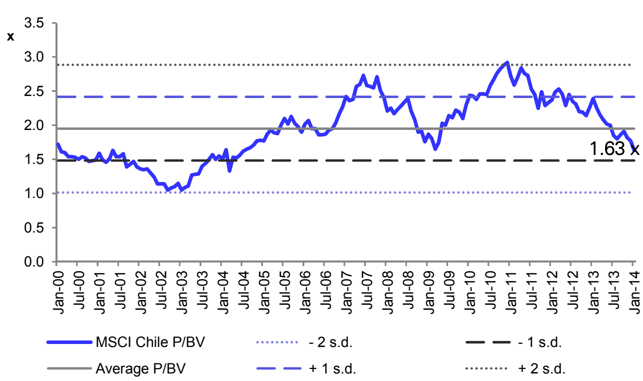
Figure 30: Total return of Chilean equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

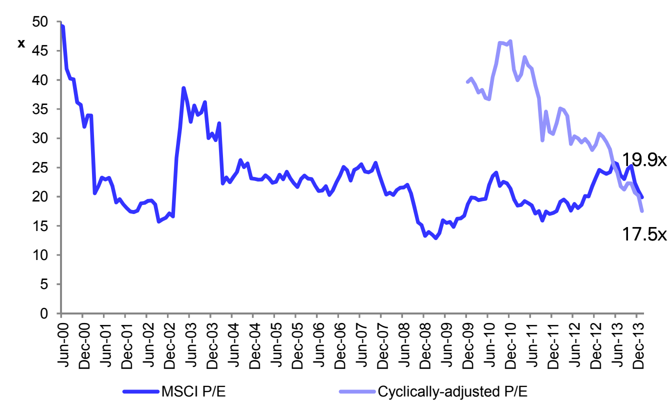
Valuation

Figure 31: MSCI Chile – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 32: MSCI Chile – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 33: Price returns of each Chilean sector on a 1m, 3m, 12m and YTD basis, USD (%)

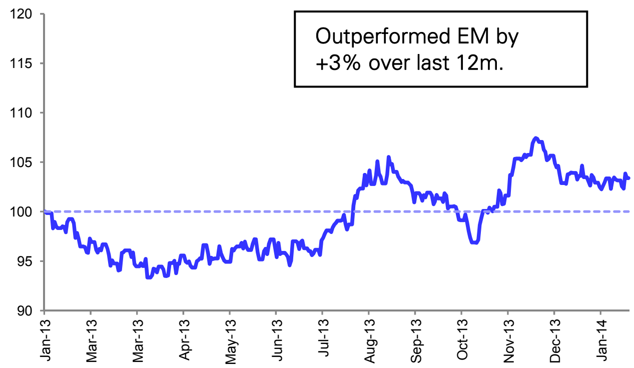
	1 Month	3 Month	12 Month	YTD
Chile	-12.5	-19.3	-36.5	-12.5
Financials	-13.7	-14.8	-29.7	-13.7
Industrials	-11.9	-16.5	-44.0	-11.9
Energy	-12.9	-20.3	-24.6	-12.9
Consumer Discretionary	-12.9	-21.5	-32.8	-12.9
Consumer Staples	-17.0	-26.4	-45.8	-17.0
Telco	-11.5	-22.0	-44.6	-11.5
Utilities	-10.2	-17.0	-29.2	-10.2
Materials	-11.4	-22.9	-53.2	-11.4

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

China

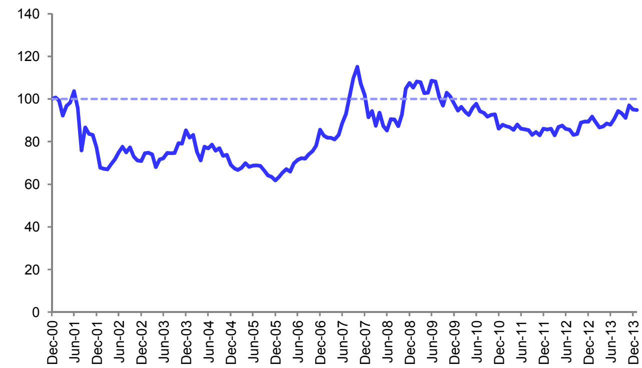
Country performance versus EM

Figure 34: 12-month total return of Chinese equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

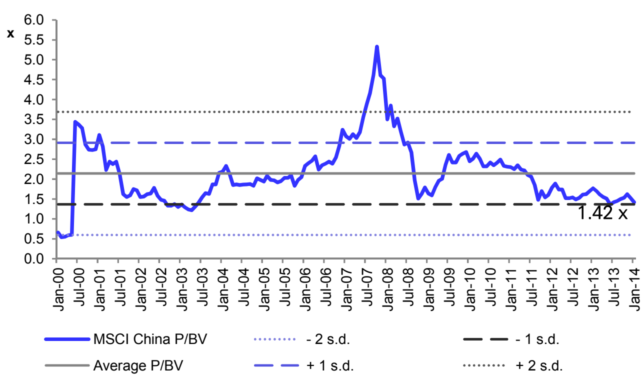
Figure 35: Total return of Chinese equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

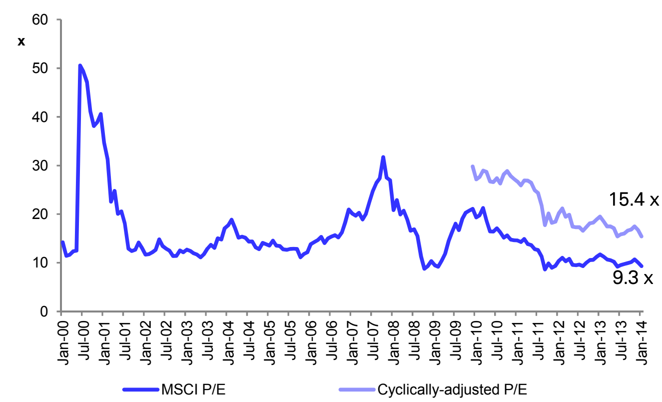
Valuation

Figure 36: MSCI China – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 37: MSCI China – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 38: Price returns of each Chinese sector on a 1m, 3m, 12m and YTD basis, USD (%)

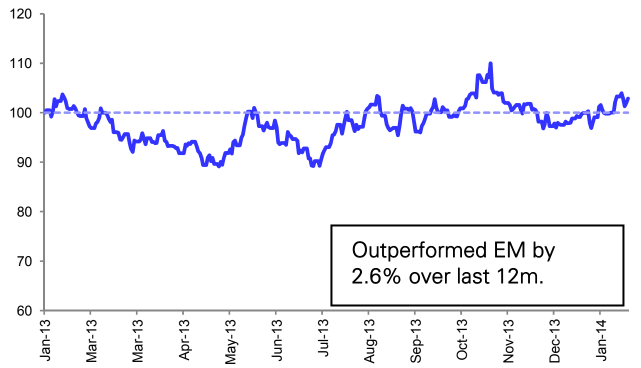
	1 Month	3 Month	12 Month	YTD
MSCI China (TR)	-6.7	-5.5	-7.1	-6.7
Financials	-9.0	-9.0	-18.4	-9.0
Industrials	-8.3	-3.4	-7.6	-8.3
Energy	-11.7	-14.8	-27.1	-11.7
Consumer Discretionary	-6.6	-10.4	-12.5	-6.6
Consumer Staples	-8.4	-10.3	-0.1	-8.4
Information Technology	8.3	23.3	76.5	8.3
Health Care	1.3	20.1	24.6	1.3
Telco	-8.5	-10.1	-13.8	-8.5
Utilities	-6.5	3.5	15.5	-6.5
Materials	-2.4	-0.9	-21.7	-2.4

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

Czech Republic

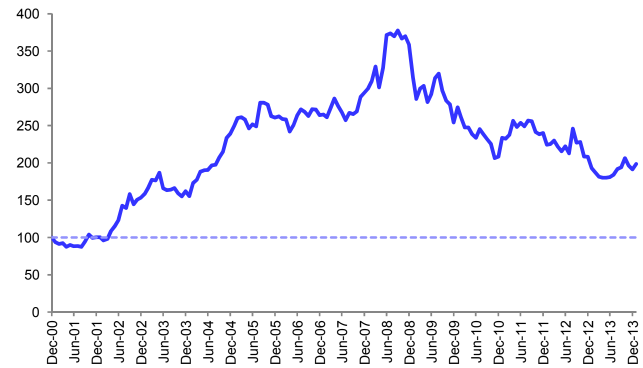
Country performance versus EM

Figure 39: 12-month total return of Czech equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

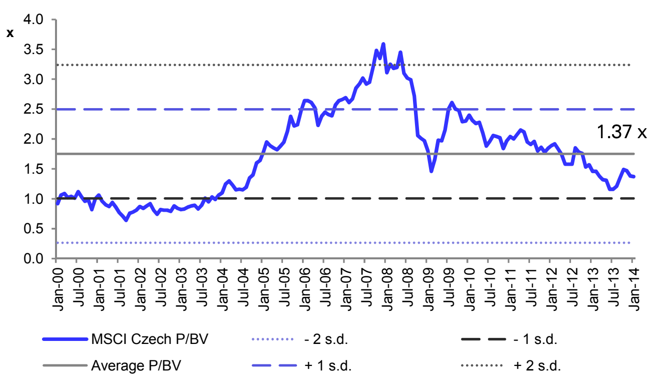
Figure 40: Total return of Czech equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

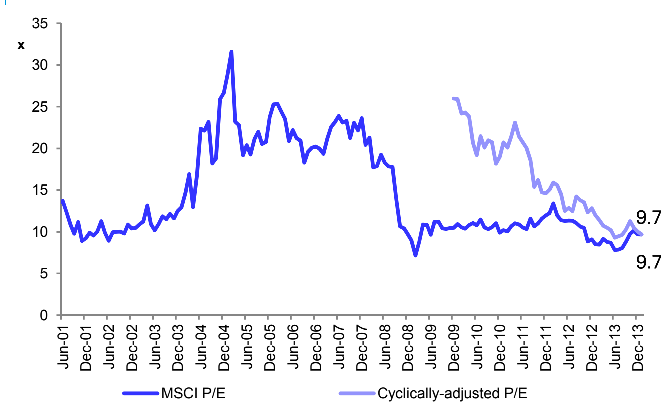
Valuation

Figure 41: MSCI Czech Republic – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 42: MSCI Czech Republic – P/E (x) and CAPE (x) since 2001



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 43: Price returns of each Czech sector on a 1m, 3m, 12m and YTD basis, USD (%)

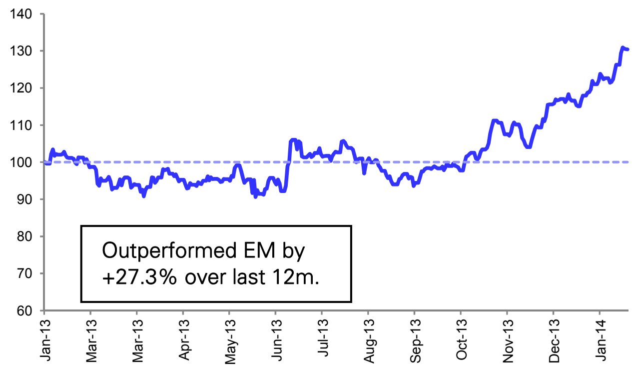
	1 Month	3 Month	12 Month	YTD
MSCI Czech Republic (TR)	-2.9	-12.6	-7.6	-2.9
Financials	-2.6	-12.9	7.3	-2.6
Telco	-2.3	-11.3	-16.1	-2.3
Utilities	-3.0	-12.5	-22.1	-3.0

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

Egypt

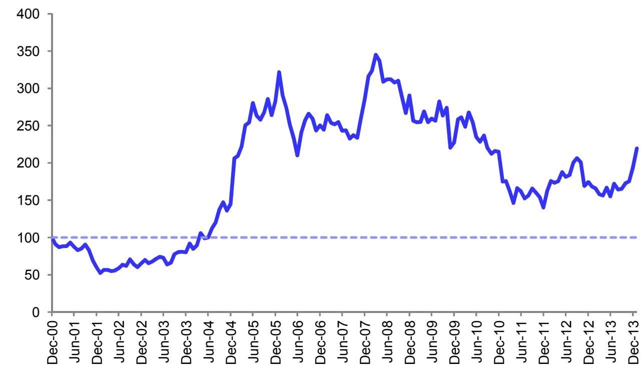
Country performance versus EM

Figure 44: 12-month total return of Egyptian equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

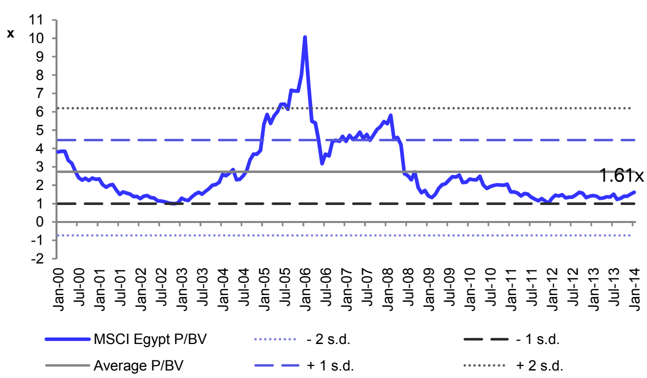
Figure 45: Total return of Egyptian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

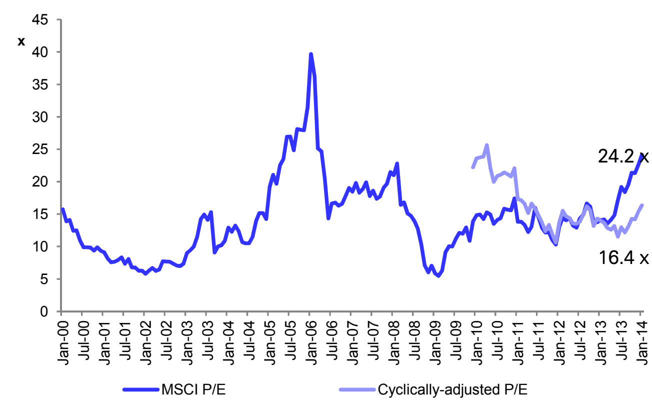
Valuation

Figure 46: MSCI Egypt – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 47: MSCI Egypt – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 48: Price returns of each Egyptian sector on a 1m, 3m, 12m and YTD basis, USD (%)

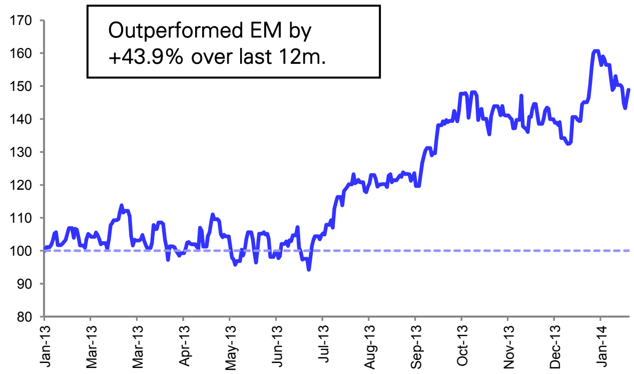
	1 Month	3 Month	12 Month	YTD
MSCI Egypt (TR)	6.0	15.3	17.2	6.0
Financials	5.3	19.2	31.1	5.3
Telco	7.1	8.3	8.7	7.1

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

Greece

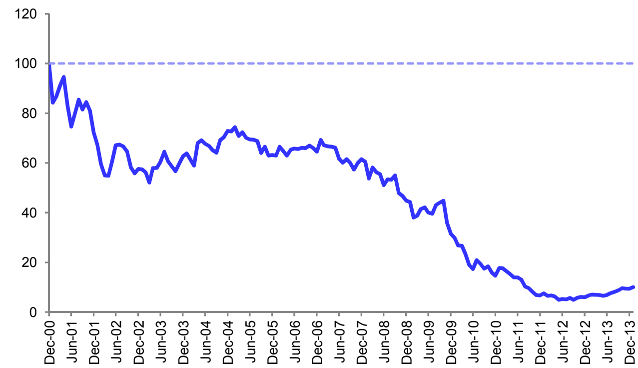
Country performance versus EM

Figure 49: 12-month total return of Greek equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

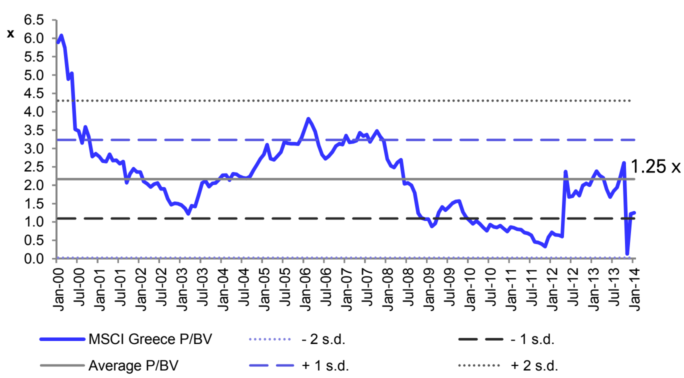
Figure 50: Total return of Greek equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

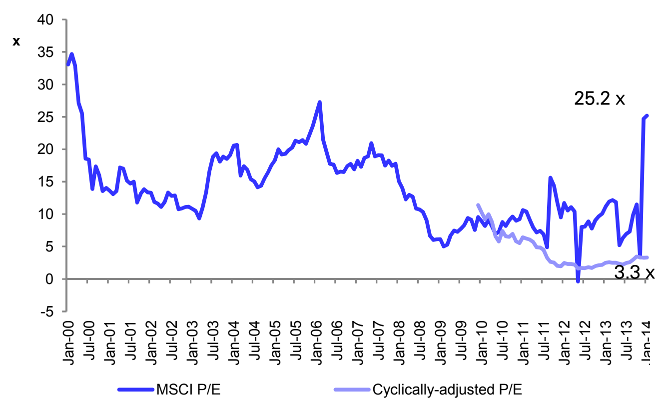
Valuation

Figure 51: MSCI Greece - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 52: MSCI Greece - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 53: Price returns of each Greek sector on a 1m, 3m, 12m and YTD basis, USD (%)

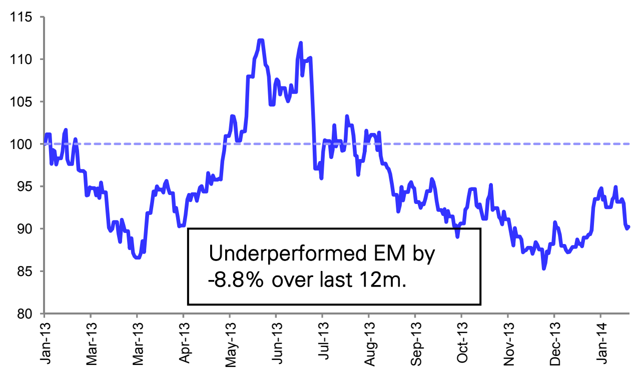
	1 Month	3 Month	12 Month	YTD
MSCI Greece (TR)	-0.2	-	-	-0.2
Consumer Discretionary	-1.1	-	-	-1.1
Telco	9.4	-	-	9.4
Financials	-0.1	-	-	-0.1
Utilities	-10.2	-	-	-10.2

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

Hungary

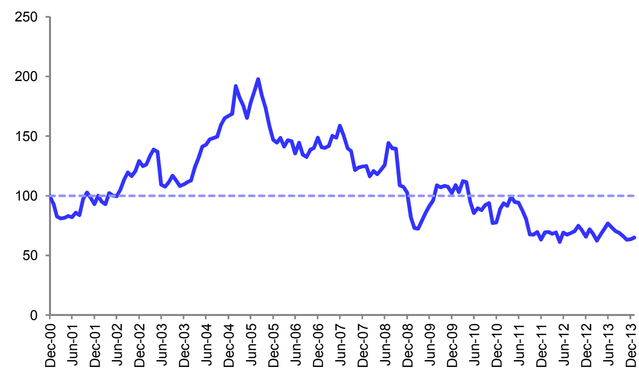
Country performance versus EM

Figure 54: 12-month total return of Hungarian equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

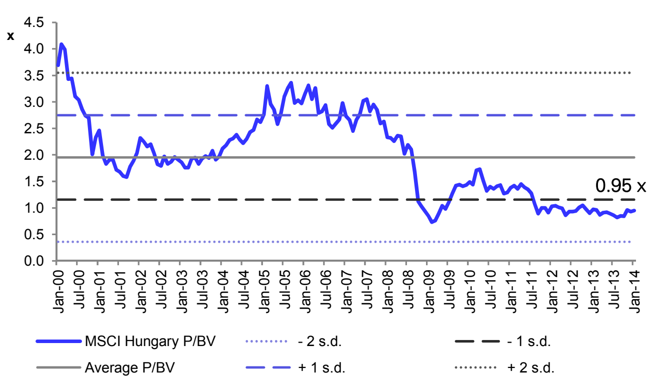
Figure 55: Total return of Hungarian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

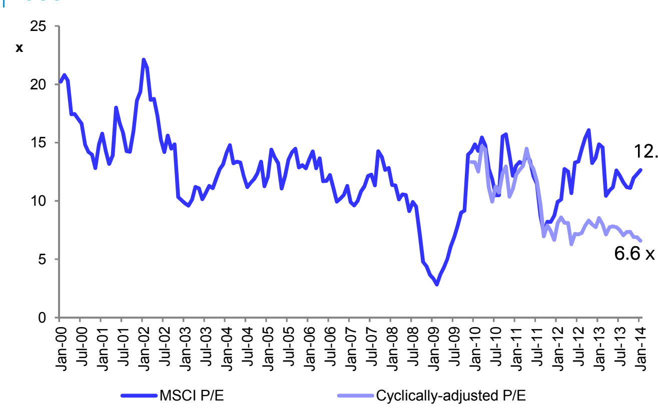
Valuation

Figure 56: MSCI Hungary – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 57: MSCI Hungary – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 58: Price returns of each Hungarian sector on a 1m, 3m, 12m and YTD basis, USD (%)

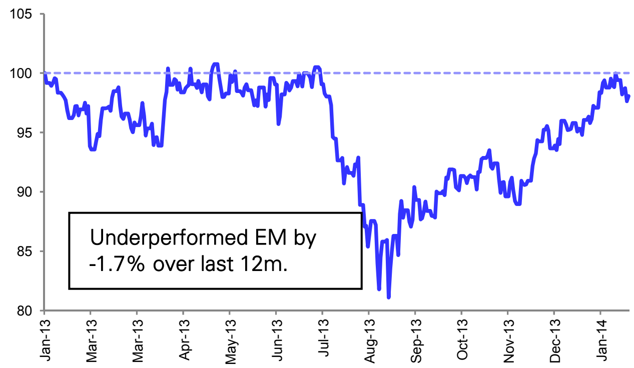
	1 Month	3 Month	12 Month	YTD
MSCI Hungary (TR)	-4.4	-11.0	-18.9	-4.4
Financials	-3.7	-11.7	-14.5	-3.7
Energy	-8.9	-10.5	-28.7	-8.9
Telco	0.0	-7.3	-32.4	0.0

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

India

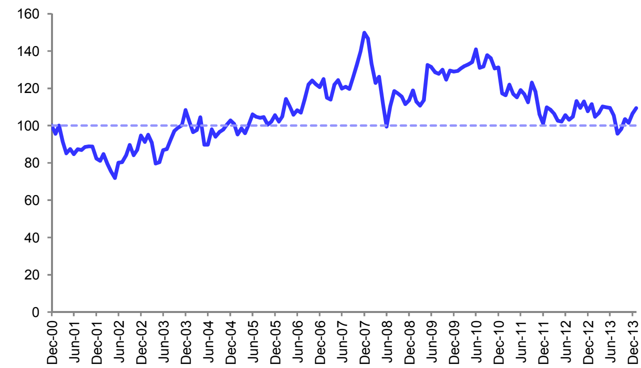
Country performance versus EM

Figure 59: 12-month total return of Indian equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

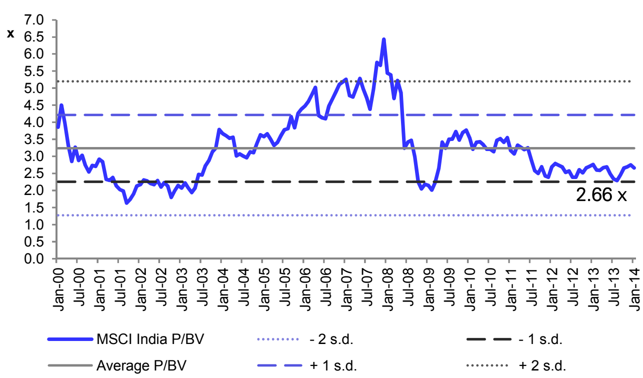
Figure 60: Total return of Indian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

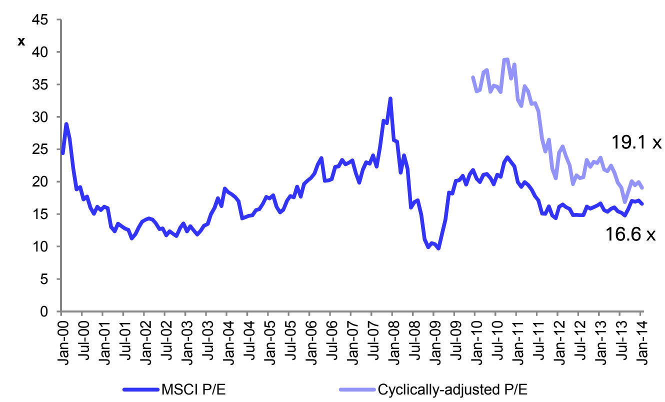
Valuation

Figure 61: MSCI India – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 62: MSCI India – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 63: Price returns of each Indian sector on a 1m, 3m, 12m and YTD basis, USD (%)

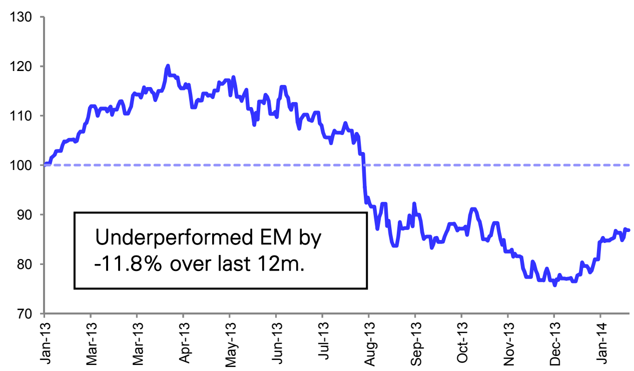
	1 Month	3 Month	12 Month	YTD
MSCI India (TR)	-3.8	-4.0	-11.9	-3.8
Financials	-6.9	-9.4	-29.2	-6.9
Industrials	-10.2	0.9	-27.4	-10.2
Energy	-7.4	-8.7	-23.9	-7.4
Consumer Discretionary	-6.1	-7.2	-13.6	-6.1
Consumer Staples	-2.2	-6.4	-3.1	-2.2
Information Technology	4.0	10.5	27.1	4.0
Health Care	-0.2	-0.3	7.6	-0.2
Telco	-8.5	-16.3	-7.2	-8.5
Utilities	-8.4	-10.0	-29.6	-8.4
Materials	-9.6	-7.0	-25.9	-9.6

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

Indonesia

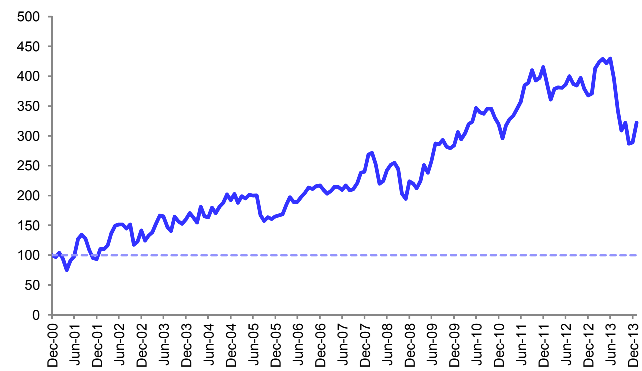
Country performance versus EM

Figure 64: 12-month total return of Indonesian equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

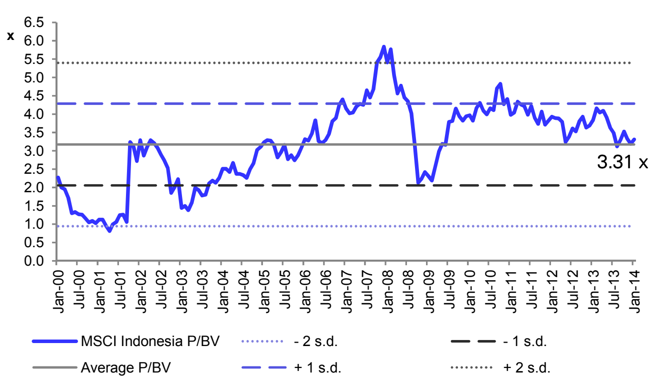
Figure 65: Total return of Indonesian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

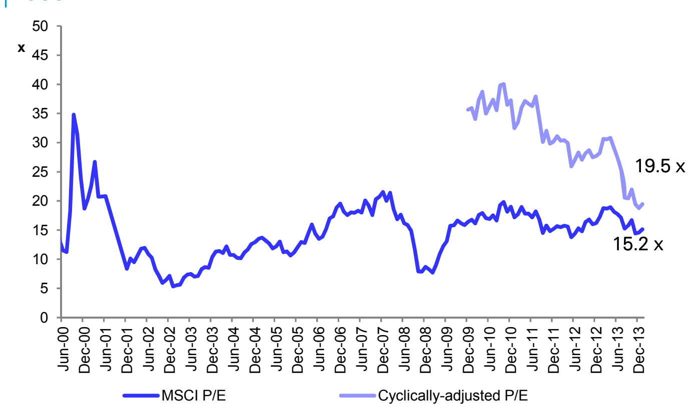
Valuation

Figure 66: MSCI Indonesia – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 67: MSCI Indonesia – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 68: Price returns of each Indonesian sector on a 1m, 3m, 12m and YTD basis, USD (%)

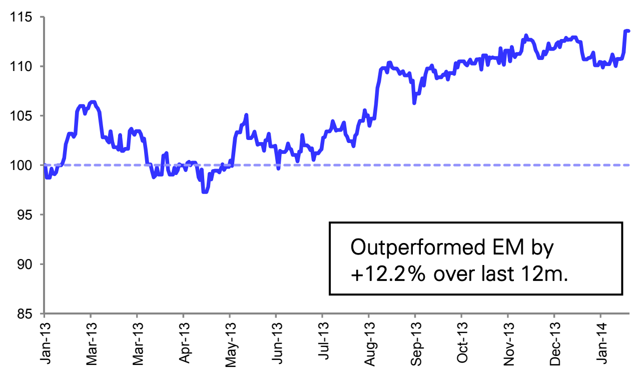
	1 Month	3 Month	12 Month	YTD
MSCI Indonesia (TR)	4.3	-9.2	-22.0	4.3
Financials	9.1	-9.7	-24.0	9.1
Industrials	3.5	-1.0	-23.1	3.5
Energy	-9.8	-22.9	-54.5	-9.8
Consumer Discretionary	-4.4	-11.7	-31.6	-4.4
Consumer Staples	7.9	-4.9	-13.1	7.9
Health Care	12.5	-0.2	2.3	12.5
Telco	4.6	-10.3	-12.8	4.6
Utilities	6.7	-13.6	-19.0	6.7
Materials	5.2	-5.4	-24.3	5.2

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

Korea

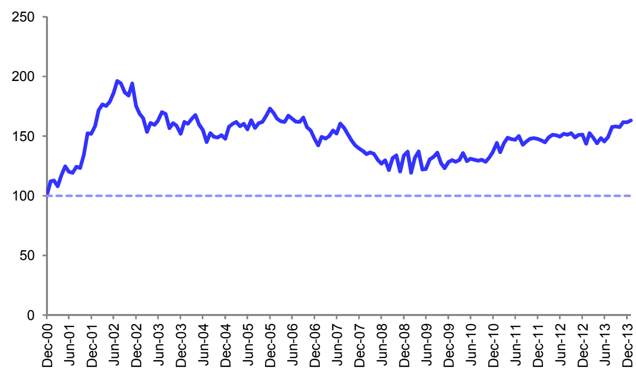
Country performance versus EM

Figure 69: 12-month total return of Korean equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

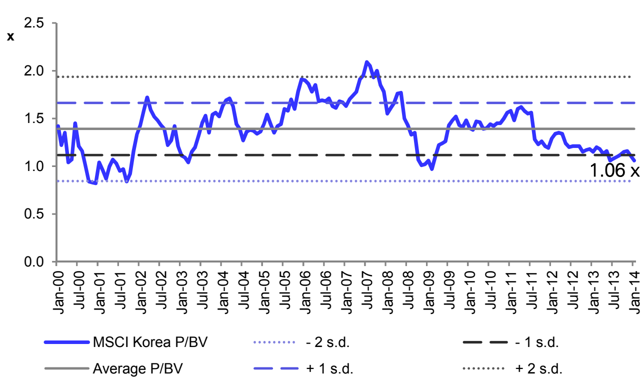
Figure 70: Total return of Korean equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

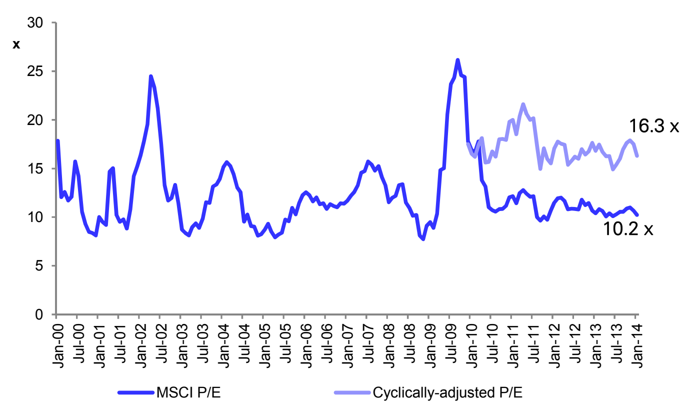
Valuation

Figure 71: MSCI Korea – P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 72: MSCI Korea – P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 73: Price returns of each Korean sector on a 1m, 3m, 12m and YTD basis, USD (%)

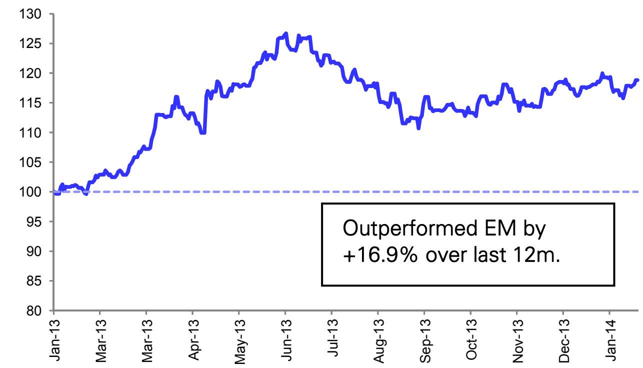
	1 Month	3 Month	12 Month	YTD
MSCI Korea (TR)	-5.6	-6.0	2.0	-5.6
Financials	-7.0	-4.3	2.4	-7.0
Industrials	-5.3	-5.7	-4.9	-5.3
Energy	-11.3	-14.3	-26.4	-11.3
Consumer Discretionary	-2.4	-4.3	14.3	-2.4
Consumer Staples	-5.1	-2.9	-6.6	-5.1
Information Technology	-7.8	-8.6	1.2	-7.8
Health Care	9.9	0.7	-3.3	9.9
Telco	-3.8	-9.1	21.3	-3.8
Utilities	-0.6	19.6	9.3	-0.6
Materials	-10.4	-8.6	-9.9	-10.4

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

Malaysia

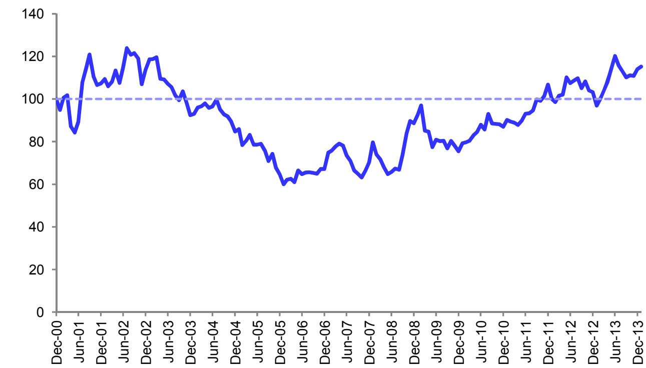
Country performance versus EM

Figure 74: 12-month total return of Malaysian equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

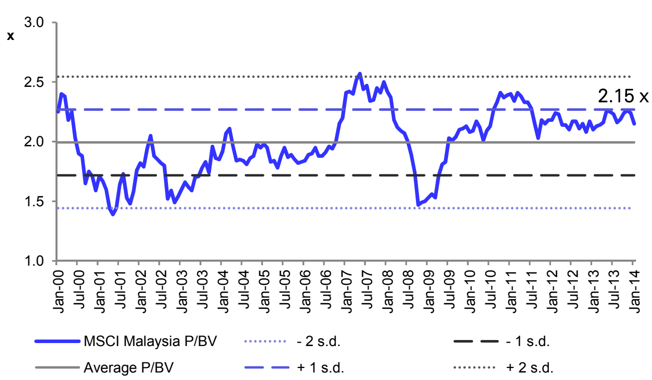
Figure 75: Total return of Malaysian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

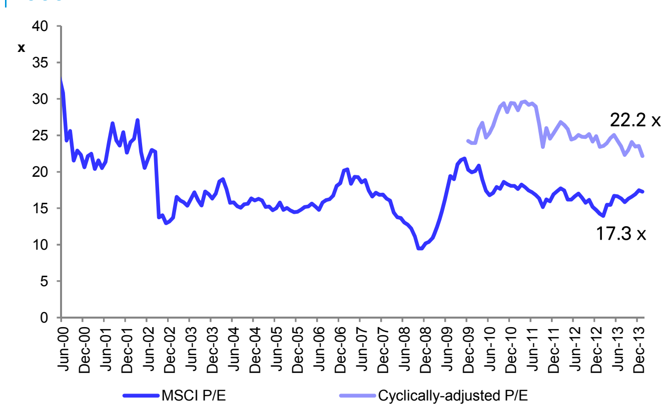
Valuation

Figure 76: MSCI Malaysia - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 77: MSCI Malaysia - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 78: Price returns of each Malaysian sector on a 1m, 3m, 12m and YTD basis, USD (%)

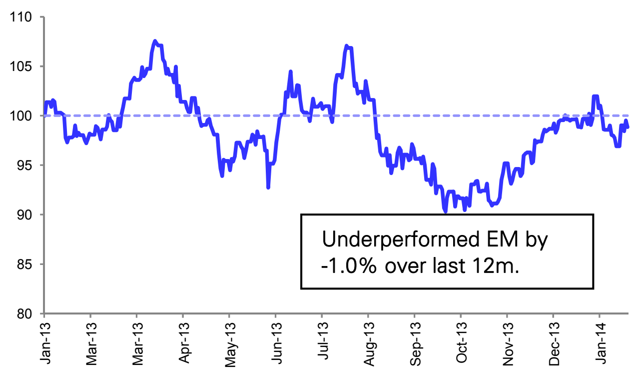
	1 Month	3 Month	12 Month	YTD
MSCI Malaysia (TR)	-5.6	-5.9	6.7	-5.6
Financials	-6.2	-8.2	-1.4	-6.2
Industrials	-5.6	-6.7	1.6	-5.6
Energy	-8.5	0.0	26.0	-8.5
Consumer Discretionary	-1.5	-7.2	-2.6	-1.5
Consumer Staples	-7.4	-5.7	1.6	-7.4
Health Care	-6.0	-15.4	4.4	-6.0
Telco	-6.0	-8.8	-4.7	-6.0
Utilities	-1.3	4.2	29.8	-1.3
Materials	-5.1	-12.7	0.7	-5.1

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

Mexico

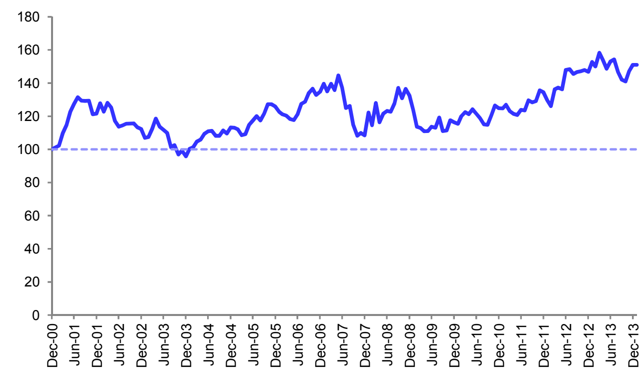
Country performance versus EM

Figure 79: 12-month total return of Mexican equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

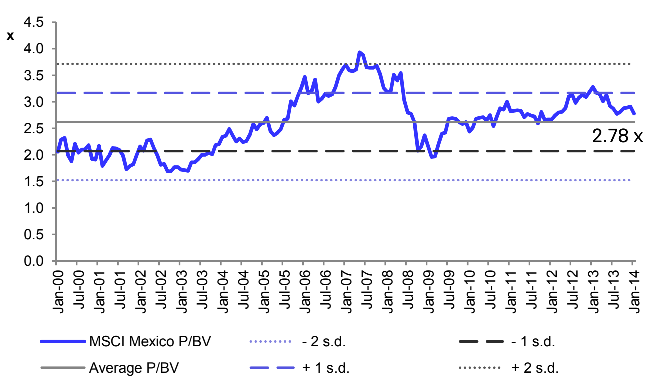
Figure 80: Total return of Mexican equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

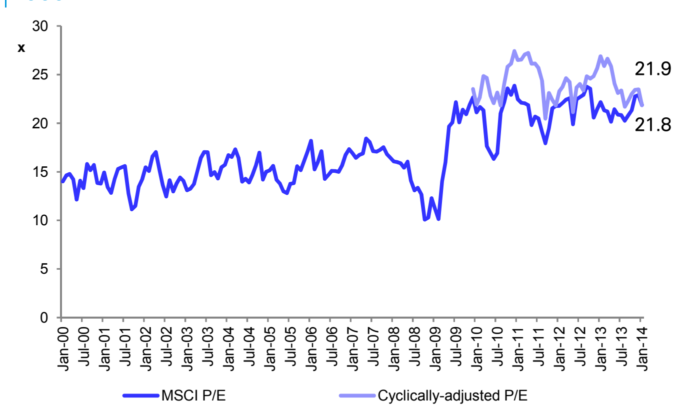
Valuation

Figure 81: MSCI Mexico - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 82: MSCI Mexico - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 83: Price returns of each Mexican sector on a 1m, 3m, 12m and YTD basis, USD (%)

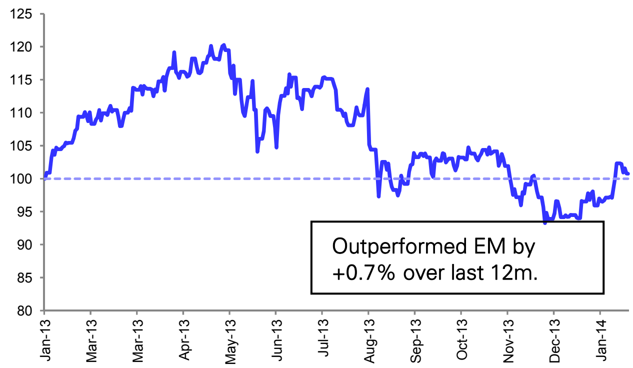
	1 Month	3 Month	12 Month	YTD
MSCI Mexico (TR)	-6.5	-2.8	-11.2	-6.5
Financials	-9.4	-4.6	-12.0	-9.4
Industrials	-1.0	0.1	6.8	-1.0
Consumer Discretionary	-3.8	-4.9	2.6	-3.8
Consumer Staples	-9.0	-9.1	-18.8	-9.0
Health Care	-11.6	-7.5		-11.6
Telco	-8.2	-0.9	-15.1	-8.2
Materials	-2.3	0.3	-18.5	-2.3

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

Philippines

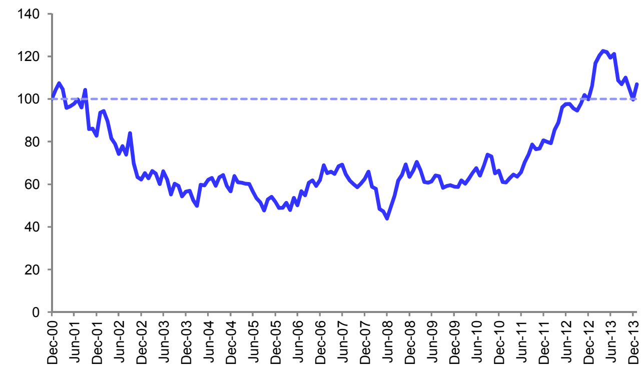
Country performance versus EM

Figure 84: 12-month total return of Philippine equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

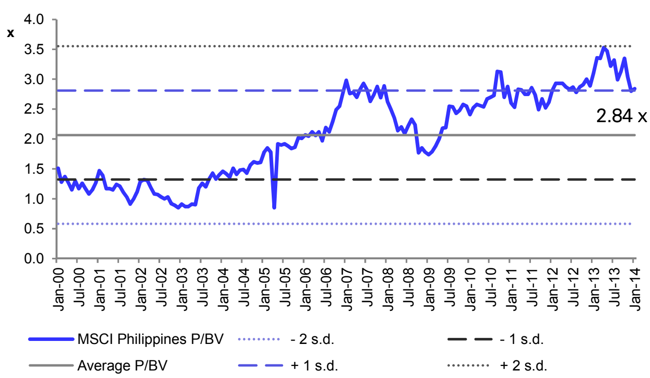
Figure 85: Total return of Philippine equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

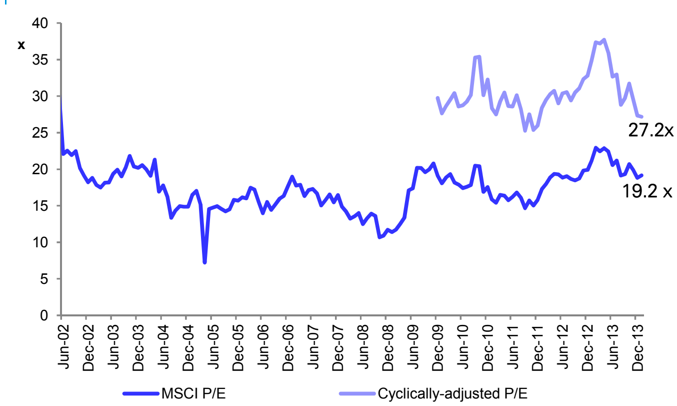
Valuation

Figure 86: MSCI Philippines - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 87: MSCI Philippines - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 88: Price returns of each Philippine sector on a 1m, 3m, 12m and YTD basis, USD (%)

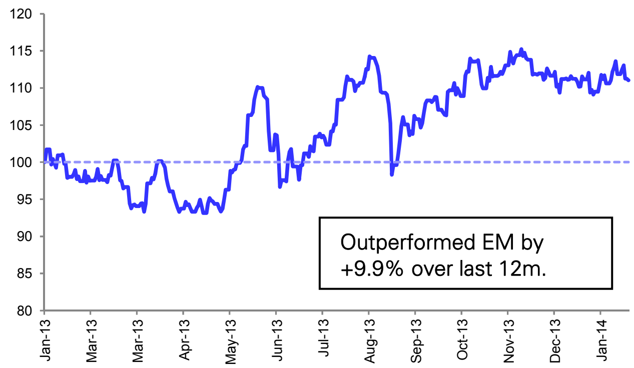
	1 Month	3 Month	12 Month	YTD
MSCI Philippines (TR)	0.2	-11.8	-9.5	0.2
Financials	3.9	-15.4	-17.8	3.9
Industrials	-2.4	-8.3	-9.2	-2.4
Consumer Discretionary	-14.0	-18.3	24.5	-14.0
Consumer Staples	2.3	-11.6	21.4	2.3
Telco	0.1	-9.0	-0.2	0.1
Utilities	0.8	-5.1	-23.4	0.8

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

Poland

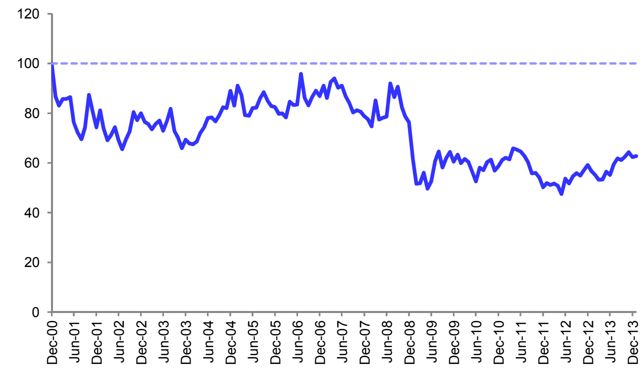
Country performance versus EM

Figure 89: 12-month total return of Polish equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

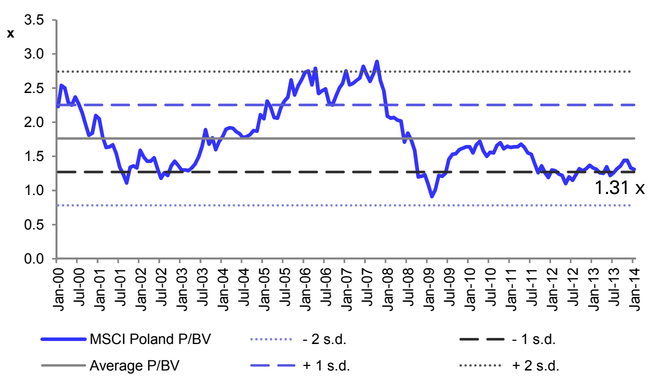
Figure 90: Total return of Polish equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

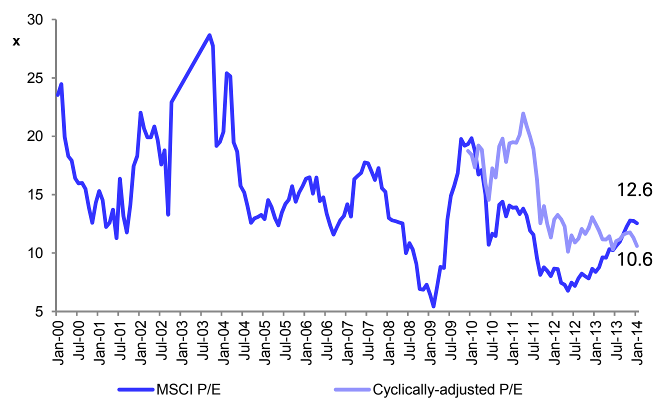
Valuation

Figure 91: MSCI Poland - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 92: MSCI Poland - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 93: Price returns of each Polish sector on a 1m, 3m, 12m and YTD basis, USD (%)

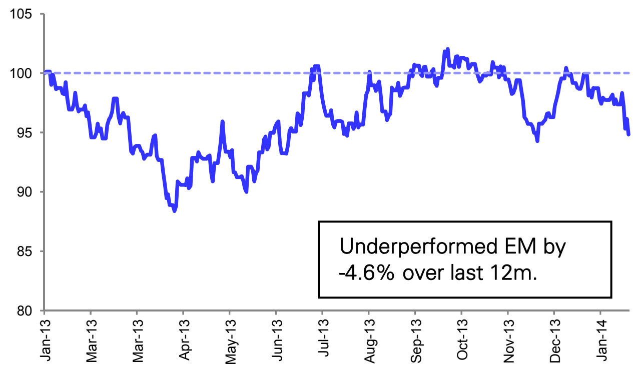
	1 Month	3 Month	12 Month	YTD
MSCI Poland (TR)	-5.8	-8.8	-0.3	-5.8
Financials	-3.8	-5.3	17.4	-3.8
Energy	-10.9	-15.2	-19.8	-10.9
Consumer Discretionary	-5.0	-14.1	15.4	-5.0
Consumer Staples	-13.4	-13.6	-33.6	-13.4
Telco	2.3	2.8	-14.1	2.3
Utilities	-4.6	-12.5	-8.0	-4.6
Materials	-12.8	-17.9	-38.2	-12.8

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

Russia

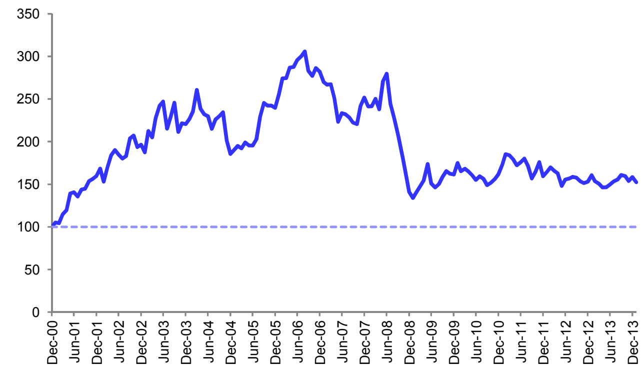
Country performance versus EM

Figure 94: 12-month total return of Russian equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

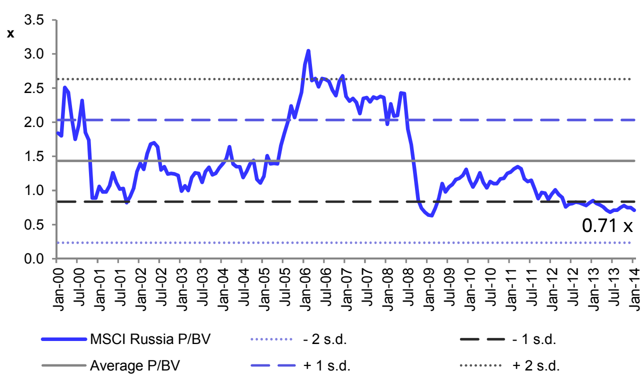
Figure 95: Total return of Russian equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

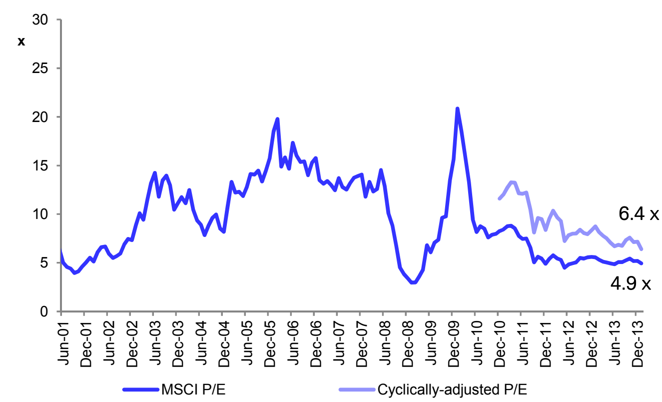
Valuation

Figure 96: MSCI Russia - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 97: MSCI Russia - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 98: Price returns of each Russian sector on a 1m, 3m, 12m and YTD basis, USD (%)

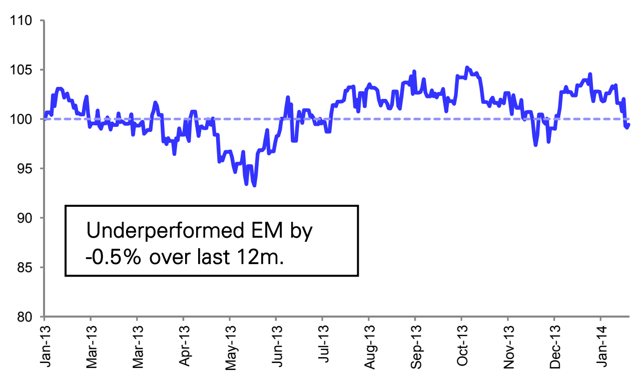
	1 Month	3 Month	12 Month	YTD
MSCI Russia (TR)	-10.1	-13.4	-14.8	-10.1
Financials	-13.0	-15.0	-26.2	-13.0
Energy	-7.0	-12.8	-14.3	-7.0
Consumer Staples	-20.3	-17.9	18.6	-20.3
Telco	-16.0	-17.9	-7.5	-16.0
Utilities	-10.2	-17.3	-57.6	-10.2
Materials	-8.2	-3.9	-31.9	-8.2

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

South Africa

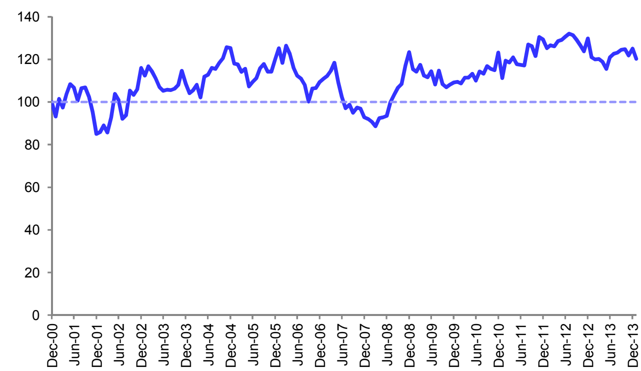
Country performance versus EM

Figure 99: 12-month total return of South African equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

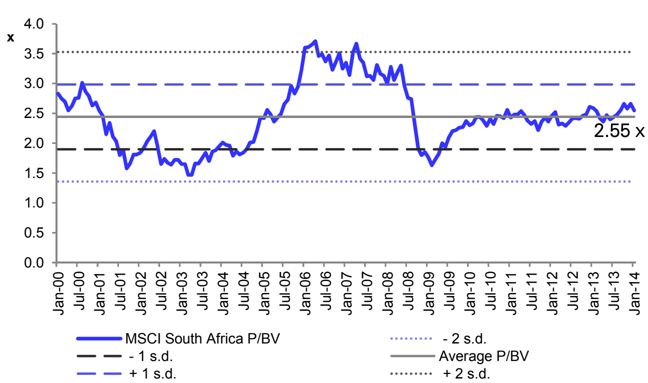
Figure 100: Total return of South African equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

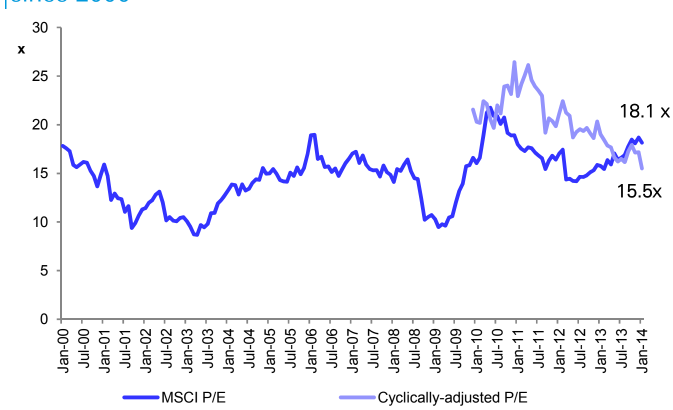
Valuation

Figure 101: MSCI South Africa - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 102: MSCI South Africa - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 103: Price returns of each South African sector on a 1m, 3m, 12m and YTD basis, USD (%)

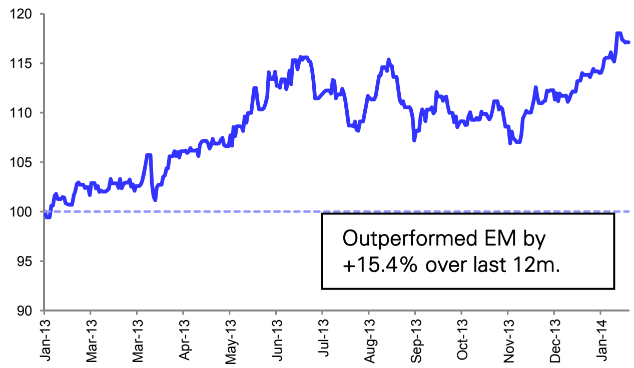
	1 Month	3 Month	12 Month	YTD
MSCI South Africa (TR)	-10.1	-12.5	-10.7	-10.1
Financials	-14.6	-19.9	-21.8	-14.6
Industrials	-10.5	-13.2	-11.2	-10.5
Energy	-2.1	-6.7	6.5	-2.1
Consumer Discretionary	-6.3	-2.5	21.0	-6.3
Consumer Staples	-13.5	-24.3	-30.0	-13.5
Health Care	-14.4	-19.0	5.7	-14.4
Telco	-14.2	-10.4	-11.4	-14.2
Materials	1.7	-8.9	-41.2	1.7

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

Taiwan - Overweight

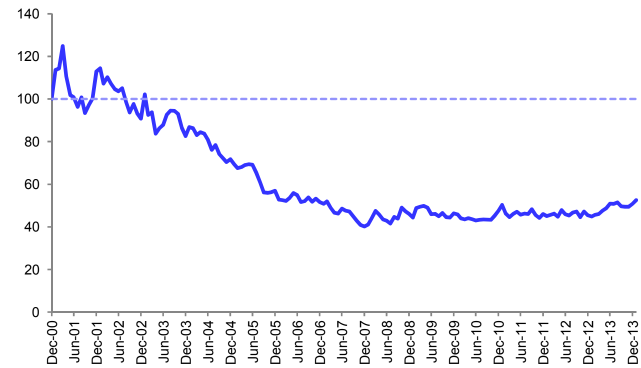
Country performance versus EM

Figure 104: 12-month total return of Taiwanese equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

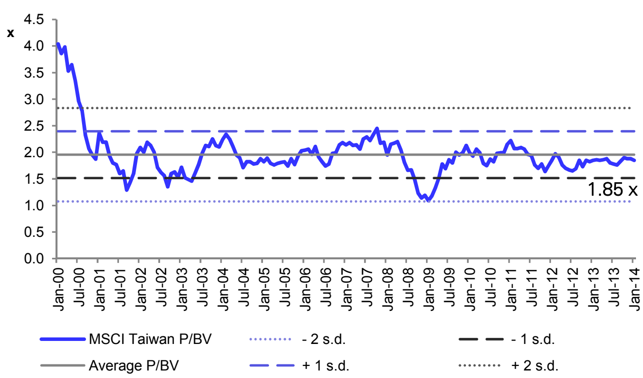
Figure 105: Total return of Taiwanese equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

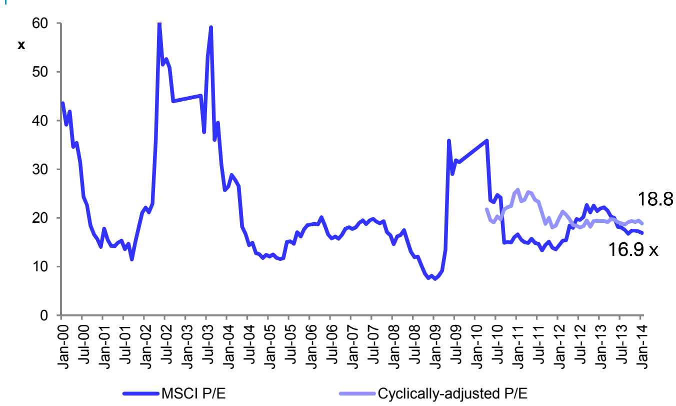
Valuation

Figure 106: MSCI Taiwan - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 107: MSCI Taiwan - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 108: Price returns of each Taiwanese sector on a 1m, 3m, 12m and YTD basis, USD (%)

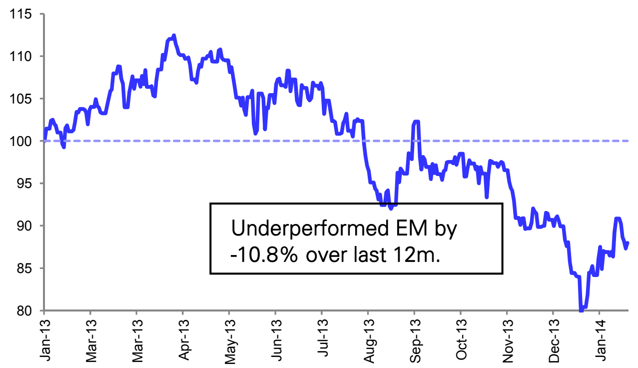
	1 Month	3 Month	12 Month	YTD
MSCI Taiwan (TR)	-3.3	-3.4	5.2	-3.3
Financials	-4.7	-3.2	13.2	-4.7
Industrials	-6.2	-3.3	-4.3	-6.2
Energy	-8.4	-6.6	-12.7	-8.4
Consumer Discretionary	-5.8	-4.4	18.4	-5.8
Consumer Staples	-6.6	-11.0	8.0	-6.6
Information Technology	-1.5	-1.7	1.8	-1.5
Health Care	-4.6	-15.8	23.1	-4.6
Telco	-5.8	-9.8	-11.8	-5.8
Materials	-5.6	-5.3	-2.3	-5.6

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

Thailand

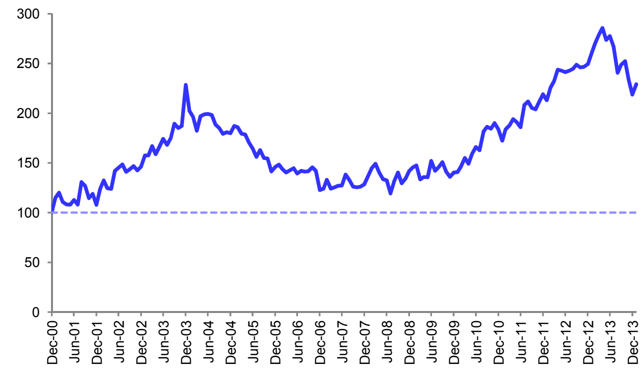
Country performance versus EM

Figure 109: 12-month total return of Thai equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

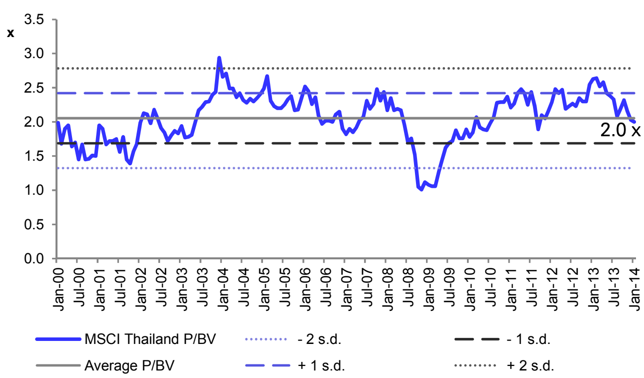
Figure 110: Total return of Thai equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

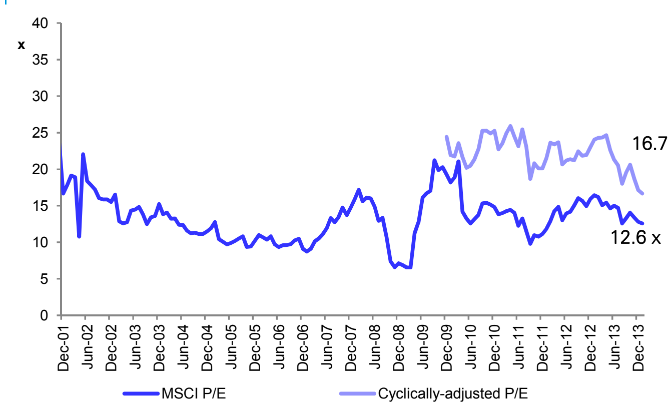
Valuation

Figure 111: MSCI Thailand - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 112: MSCI Thailand - P/E (x) and CAPE (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 113: Price returns of each Thai sector on a 1m, 3m, 12m and YTD basis, USD (%)

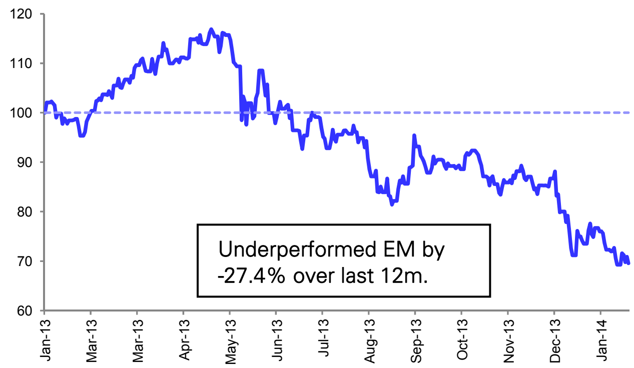
	1 Month	3 Month	12 Month	YTD
MSCI Thailand (TR)	-2.1	-17.6	-21.0	-2.1
Financials	1.9	-19.6	-25.6	1.9
Industrials	1.0	-23.7	46.8	1.0
Energy	-6.5	-16.6	-25.4	-6.5
Consumer Discretionary	-5.8	-27.4	-43.6	-5.8
Consumer Staples	-8.4	-1.1	-17.9	-8.4
Health Care	-0.1	-16.9	-19.8	-0.1
Telco	2.9	-22.7	-12.9	2.9
Utilities	-4.7	-12.4	-22.8	-4.7
Materials	-4.1	-14.3	-20.9	-4.1

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

Turkey

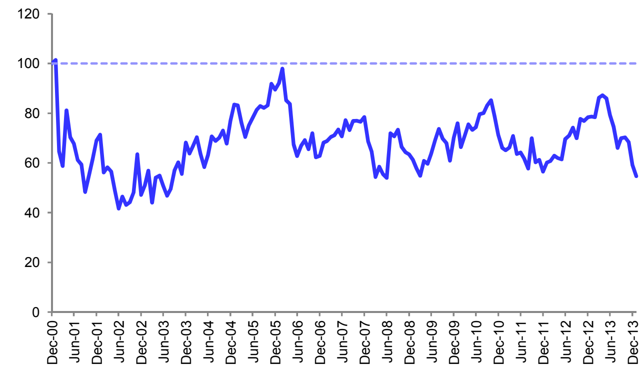
Country performance versus EM

Figure 114: 12-month total return of Turkish equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

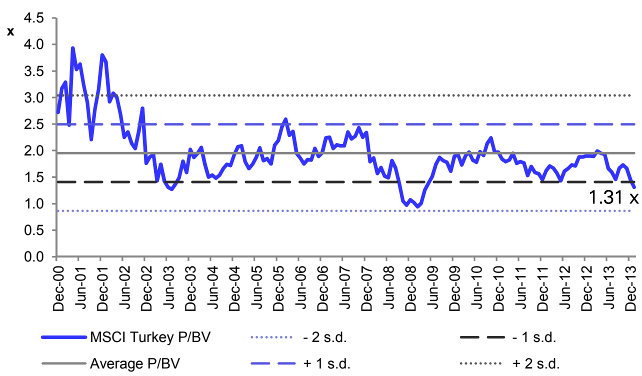
Figure 115: Total return of Turkish equities relative to EM since 2000, USD (rebased at December 2000)



Source: Deutsche Bank, Bloomberg Finance LP

Valuation

Figure 116: MSCI Turkey - P/BV (x) since 2000



Source: Deutsche Bank, Bloomberg Finance LP

Figure 117: MSCI Turkey - P/E (x) and CAPE (x) since 2000

Source: Deutsche Bank, Bloomberg Finance LP

Returns by sector

Figure 118: Price returns of each Turkish sector on a 1m, 3m, 12m and YTD basis, USD (%)

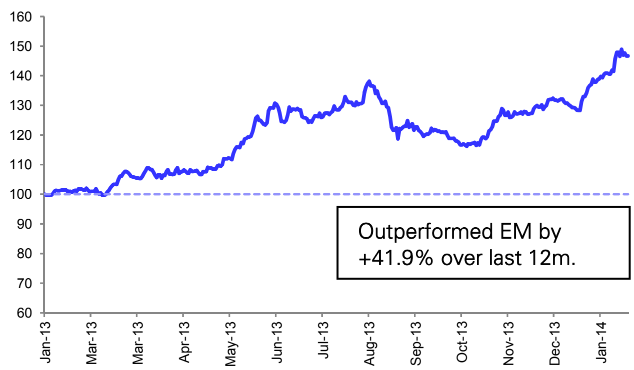
	1 Month	3 Month	12 Month	YTD
MSCI Turkey (TR)	-13.3	-29.3	-37.5	-13.3
Financials	-16.2	-35.2	-48.7	-16.2
Industrials	-6.4	-19.8	-15.9	-6.4
Energy	-17.4	-27.5	-40.3	-17.4
Consumer Discretionary	-17.2	-29.0	-23.7	-17.2
Consumer Staples	-12.5	-21.8	-28.7	-12.5
Telco	-7.6	-22.7	-26.8	-7.6
Materials	-4.0	-25.0	-28.9	-4.0

(1) Returns are correct as at end-December 2013.
(2) For data on each sector, we use the corresponding MSCI Turkey sector index.
Source: Deutsche Bank, Bloomberg Finance LP

Qatar (joins MSCI EM in May 2014 index review)

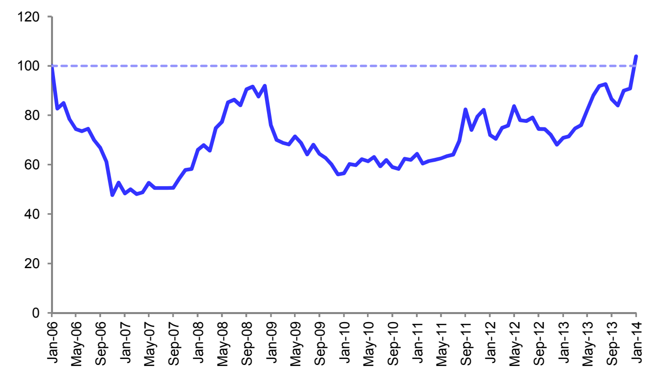
Country performance versus EM

Figure 119: 12-month total return of Qatari equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

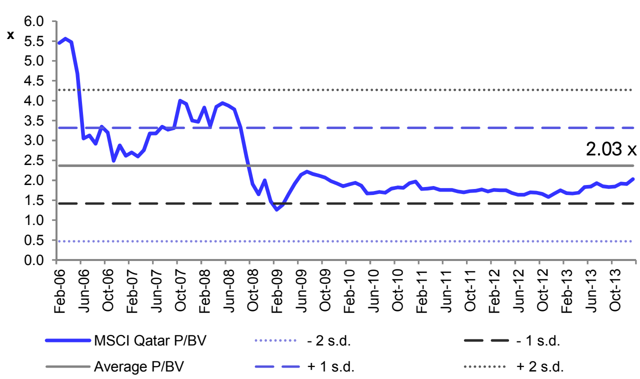
Figure 120: Total return of Qatari equities relative to EM since 2006, USD (rebased at January 2006)



Source: Deutsche Bank, Bloomberg Finance LP

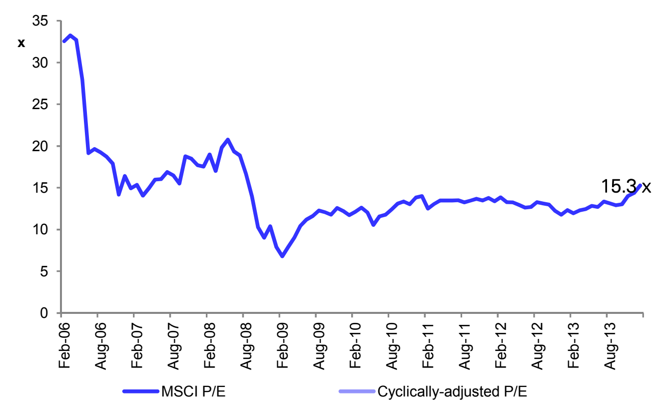
Valuation

Figure 121: MSCI Qatar - P/BV (x) since 2006



Source: Deutsche Bank, Bloomberg Finance LP

Figure 122: MSCI Qatar - P/E (x) since 2006

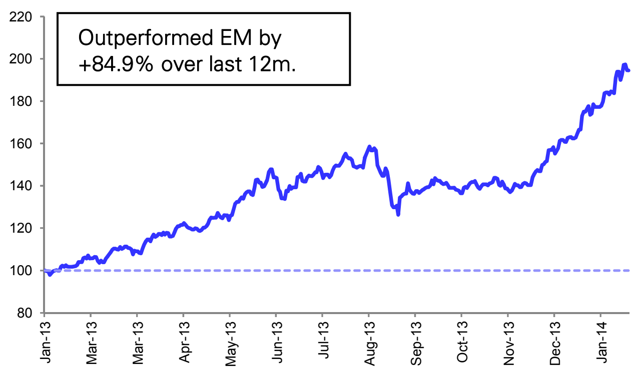


Source: Deutsche Bank, Bloomberg Finance LP

UAE (joins MSCI EM in May 2014 index review)

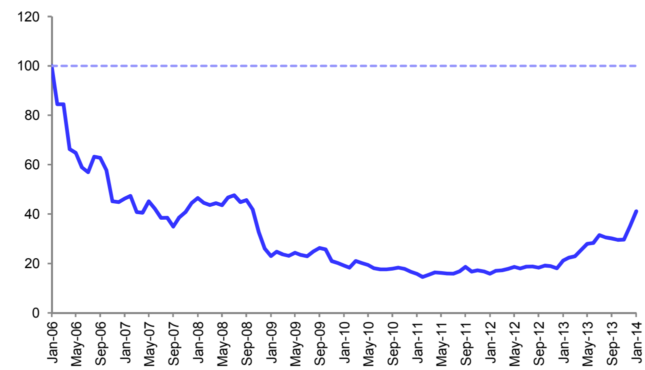
Country performance versus EM

Figure 123: 12-month total return of UAE equities relative to EM, USD (rebased at end- January 2013)



Source: Deutsche Bank, Bloomberg Finance LP

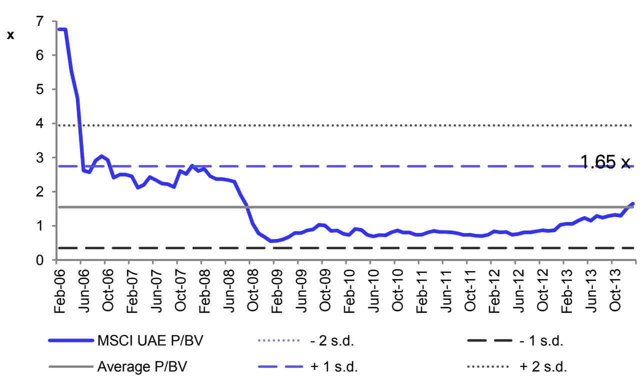
Figure 124: Total return of UAE equities relative to EM since 2006, USD (rebased at January 2006)



Source: Deutsche Bank, Bloomberg Finance LP

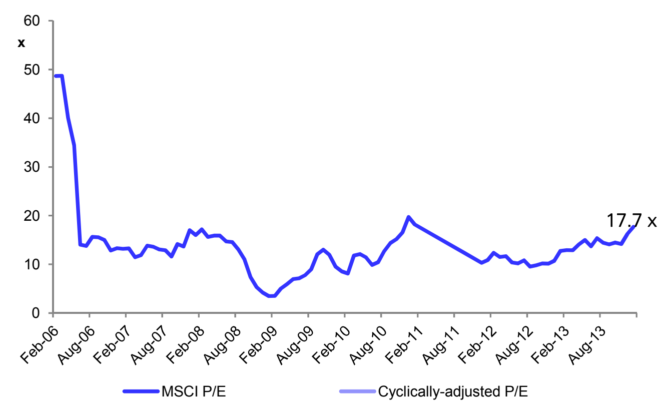
Valuation

Figure 125: MSCI UAE - P/BV (x) since 2006



Source: Deutsche Bank, Bloomberg Finance LP

Figure 126: MSCI UAE - P/E (x) since 2006



Source: Deutsche Bank, Bloomberg Finance LP

Appendix 1

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    Buy: Expected total return (including dividends) of 10% or more over a 12-month period
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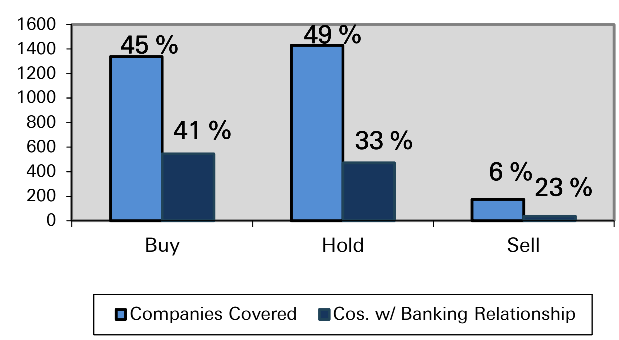

Global Universe

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