MIRAE ASSET
Global Investments


Kuala Lumpur, Malaysia

2020 Emerging Markets Mid-Year Outlook:

Emerging Market Opportunities in a Post Covid-19 World

About Mirae Asset Global Investments

Mirae Asset Global Investments manages investment strategies for clients across the globe. With over $129 billion in total assets under management, and over 800 employees, including 191 dedicated investment professionals,[1] Mirae Asset offers a breadth of emerging markets expertise. Mirae Asset's offices a relocated i n Australia, Brazil, Canada, China, Colombia, Hong Kong, India, Japan, Korea, the U.K., the United States and Vietnam.

Mirae Asset's active management teams focus on emerging market portfolios through a bottom-up investment process rooted in on-the-ground research. Mirae Asset Global Investments is recognized as one of the world's largest emerging market equity investment managers[2] and has one of the largest teams of investment professionals dedicated to emerging markets. Our worldwide team of portfolio managers, analysts and strategists maintains proximity to the investment opportunities that we research, allowing a deep understand-ng of companies and the cultures in which they operate.

[1]As of March 31, 2020.
[2]Investments and Pensions Europe, 2019.

Executive Summary

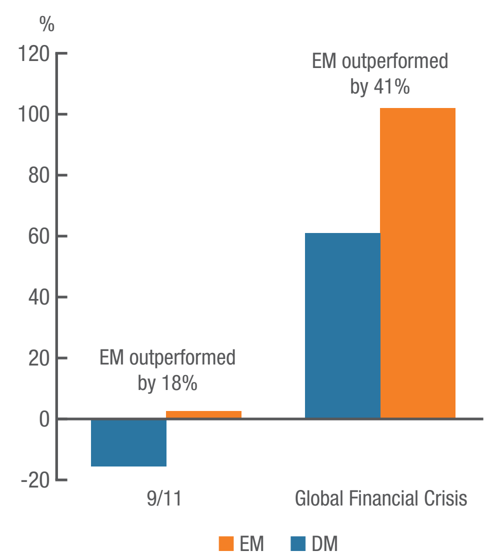
We believe that emerging market (EM) economies should show more resilience to the Covid-19 health and economic crisis than developed market (DM) economies. This view stems from our understanding of the timing of the virus' transmission, demographics in EM, the role of weather on the virus, and more. From a historical perspective, we have seen EM rebound more sharply and quickly than DM following a crisis. Twelve months after 9/11 and the global financial crisis, EM outperformed DM by 41% and 18%, respectively.[1] We see two key catalysts that should help drive strong EM equity performance in the second half of the year. First, Covid-19 stabilization and the opening of the US economy. Economic normalization will likely drive strong global demand just as the world has been doing everything in its power to taper supply. This dynamic could drive asset prices higher across the world, but we believe that EM would see the most significant positive impact. The second catalyst should come in the form of a weaker US dollar. Not only are EM currencies currently trading at historical lows vs. the US dollar, but the fiscal and monetary stimulus measures to counteract the economic impact of Covid-19 are ultimately inflationary, the US fiscal deficit continues to grow, and the US faces an uncertain election period in the second half of the year.

We firmly believe that active management has unique advantages in the EM asset class, as analysis presents a wide range of risks and opportunities across the developing world. We continue to focus on finding quality management teams focused on building sustainable businesses that take advantage of an expanding middle class, market formalization, and evolving domestic consumption patterns.

In emerging Asia, we have taken advantage of the sell off to increase exposure to leading companies in underpenetrated segments of e-commerce, food delivery, education and discretionary consumption. We believe that as the lockdown ends and normalcy slowly resumes, these companies by virtue of their strong brand and omni-channel presence should emerge stronger. In the absence of significant job losses in the white-collar space, consumption revival may exceed low expectations in the coming quarters.

In Latin America and Eastern Europe, the Middle East & Africa (EEMEA), we have taken advantage of market dislocations to increase positions in high quality companies in these regions. Though volatility remains in the near term, we believe that activity normalization in China, followed by the US, should help drive market rebounds in Latin America and EEMEA. Both regions are coming from low earnings bases, which creates opportunities for strong year-over-year growth rates.

EM and DM Returns After 9/11 & GFC



Source: Bloomberg, DM =MSCI DM Index; EM = MSCI EM Index. 9/11: percent change from 9/10/01 to 9/10/02. Global Financial Crisis (GFC): percent change from 3/2/09-3/2/10.

[1]Source: Bloomberg, DM =MSCI DM Index; EM = MSCI EM Index. 9/11: percent change from 9/10/01 to 9/10/02. Global Financial Crisis (GFC): percent change from 3/2/09-3/2/10.

Key Events & Trends

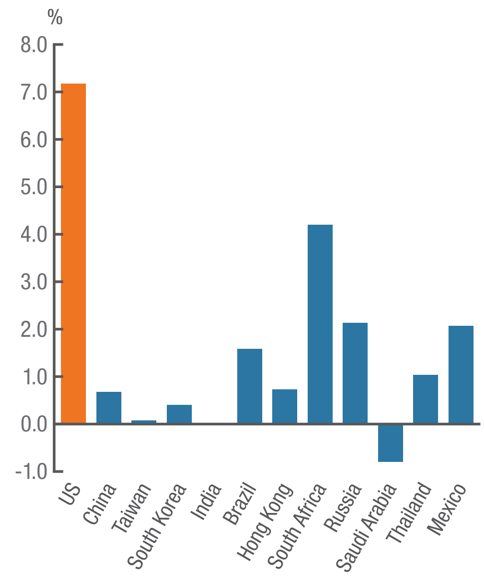
EM in a Post Covid-19 World

In regard to EM and Covid-19, we believe that countries within the asset class have shown relative resilience against the virus for various reasons. China, Taiwan, and South Korea, making up roughly 65% of the asset class by market capitalization, have already moved beyond contagion and lockdown stages. This means that EM should return to growth before developed markets. The International Monetary Fund (IMF) expects EM GDPs to decline by only 1% compared to a contraction of 6.1% for DM in 2020. On the upside, in 2021, the IMF forecasts EM economies to grow 6.6% vs. only 4.5% for DM.

EM countries also benefit from having younger populations that are less inclined to get severely infected and have a higher probability of recovering faster from Covid-19. The average age in Africa is 19.7 years, 26.8 years in MENA (Middle East & North Africa) and India and 31.0 years in Latin America, while the average age in Europe and the US is 43.1 and 38.2 years, respectively. Weather is another important factor. Most emerging market countries experience higher average temperatures and correlation figures show that heat and humidity may reduce COVID-19 infection rates. The Department of Homeland Security Science and Technology reports that sunlight destroys the virus very quickly, within approximately 2 minutes. In addition, research has shown a statistically significant relationship between BCG (Bacillus Calmette-Guérin) tuberculosis vaccinations — which are prevalent in emerging economies — and the reduction of both COVID-19 infection rates and fatalities.[2]

EM economies are likely to reopen faster as most of these countries do not have the strength of the US's credit ratings or the ability to keep printing money, which means their governments cannot keep businesses shut while still supporting their voter base. 93% of the world's informal (unregulated) employment also comes from emerging and developing countries,[3] and employees can continue working at their own discretion. Consensus forecasts for increases in unemployment rates in 2020 also seem to draw the same conclusion. As such, we expect to see EM spending and consumption recover faster than the US.

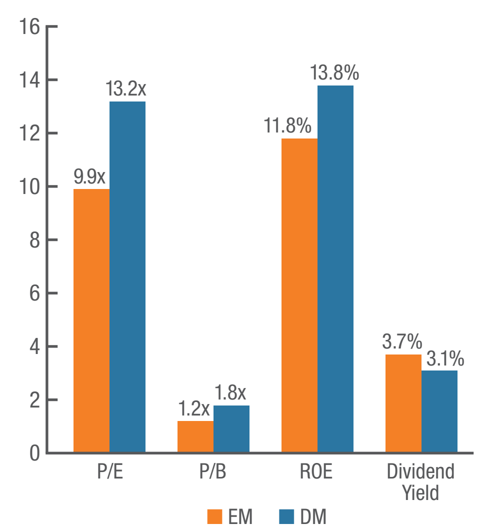
Consensus Forecast Increases in Unemployment Rates



Source: Bloomberg, as of May 2020.

In our view, EM equities are well positioned to rally in a post Covid-19 world. From a valuation perspective, the asset class is offering higher expected growth, similar ROEs, higher dividend yields, and significant valuation discounts.

EM vs DM Valuation and Return Metrics

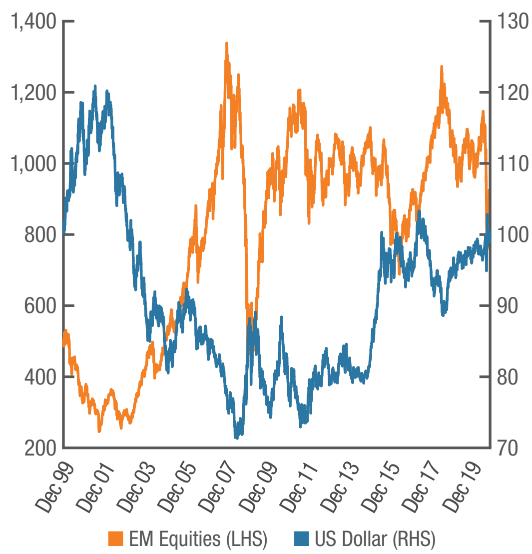


Source: Factset, based on 12-month forward multiples. As of 3/31/20. EM = MSCI EM Index, DM = MSCI World Index.

[2] JP Morgan Research, April 2020.
[3] International Labor Organization, 2018.

China coming out of the Covid-19 lockdown first, along with the country's monetary easing and fiscal stimulus, should provide an advantage to other EM economies. In addition, EM countries should benefit from historically low interest rates in the US and Europe, leading to a carry trade, and lower inflation risks. DM countries are implementing massive economic stimulus programs, which should not only spur growth (global demand), but also prove inflationary and weaken their currencies vs. EM currencies. Historically, there has been a strong inverse relationship between the US dollar and EM equities.

Relationship Between EM Equities and the US Dollar

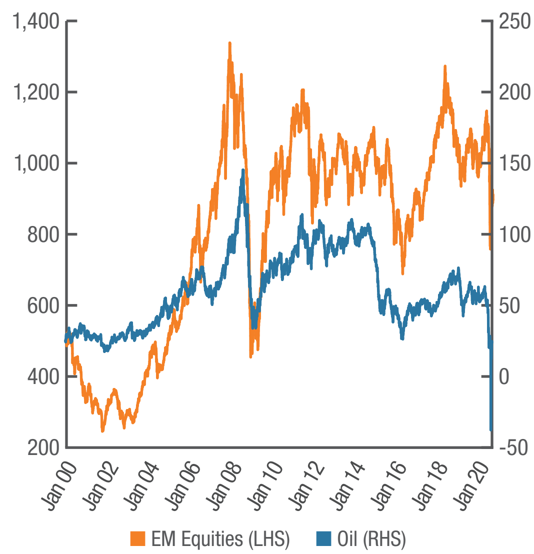


Source: Bloomberg, as of May 2020. MSCI EM= EM Equities; DXY= US Dollar. RHS= Right Hand Side; LHS= Left Hand Side.

Energy

There is a counterintuitive positive correlation between EM equities and oil prices. The relationship is surprising considering oil importers make up a larger percentage of the EM index than oil exporters. That said, this relationship is more about the US dollar than oil as EM companies have historically taken advantage of US capital markets to fund their dynamic growth opportunities, so when the US dollar strengthens, it can add pressure to their balance sheets and earnings expectations. Tying this to oil, commodity prices also show a strong negative relationship with the US dollar, as a weaker US dollar generally means a strong global, and thus EM, economy and improving demand dynamics.

Correlation Between EM Equities and Oil



Source: Bloomberg, as of May 2020. MSCI EM= EM Equities; Oil- West Texas Intermediate (WTI). RHS= Right Hand Side; LHS= Left Hand Side.

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On April 12th, OPEC+ countries reached an agreement on a 10 million barrel per day production cut in May-June and continued cuts through 2022. This is a step in the right direction, but does not make up for the supply glut coming from a lack of global demand. In addition, we question whether the multi-year agreement is sustainable since it depends on a shaky coalition that includes the US, Russia, Iran, Saudi Arabia, Mexico, and others remaining on the same page. Demand declines have also continued to outpace said supply cuts, and we believe this dynamic is likely to remain for the short term. We believe oil prices may begin to rise in the second half of the year as production cuts, smaller producers falling offline, and the slowing spread of Covid-19 (which will allow people to drive, fly, and produce again) may coincide in the same period.

US-China Relationship

Tension has reemerged between the US and China as (1) the US has recently criticized China's handling of the Covid-19 crisis, (2) China proposed a national security law that may be enacted in Hong Kong to prevent and punish subversion of state power, terrorism, separatism and foreign interreference, and (3) the global economic slowdown may make it more difficult for the two countries to fulfil their Phase 1 trade deal requirements. However, we believe that the trade war matters more to confidence than it does to the actual numbers. China is a US$14 trillion dollar economy, but the country only exports US$500 billion to the US (3.5% of China's GDP) and the US only exports US$400 billion to China (this includes domestic subsidiary sales). More importantly, we continue to see China as one of the most compelling structural stories in the world. The country is a 1.4 billion person population moving from a manufacturing economy to one driven by innovation and services. This powerful transformation should propel China's economy for generations to come. China is growing patents far quicker than the US and leads the world in AI related patent application and Scientific Journal publications. The country also produces more graduates with bachelor's degrees in science and engineering than the US. This means that innovation and services (Mirae Asset's investment focus) should continue to grow as trade becomes less relevant.

US Elections

At the time of writing, we believe that EM equities could benefit from either party winning the 2020 US presidential election. A Republican win would most likely signal more isolationism, higher tariffs, lower US unemployment, and ultimately more inflation — which should weaken the US dollar and present a boost for EM equities. A Democratic victory, however, could imply a return towards more free trade, cross boarder opportunities, improved government relationships, and better sentiment across EM economies. We note that both parties have a short-term incentive for more hawkish rhetoric towards Russia and China ahead of the US election. Russia may return to the headlines for election interference and sanctions risk may increase (though this is not our base case) while China may be further criticized for Covid-19 and recent actions taken in Hong-Kong.

We continue to see China as one of the most compelling structural stories in the world.

Headwinds and Tailwinds Across the Emerging Markets

Headwinds	Tailwinds
• Second waves of Covid-19	• A weaker US dollar
• Deterioration in trade relationships	• Relative Covid-19 resilience
	• An under-owned asset class

Asia ex-Japan

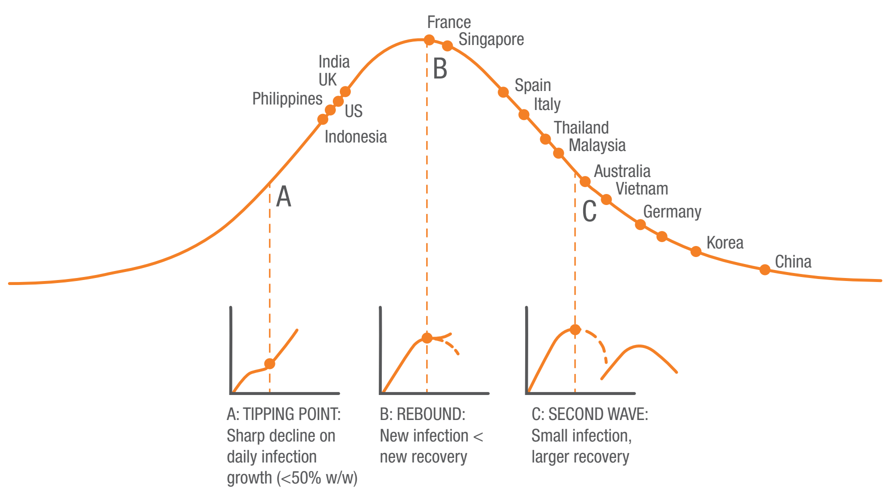
General Overview

Emerging Asia started 2020 on a strong note due to improved global growth and a truce in US-China relations post the Phase 1 trade deal. The positive sentiment was negatively impacted by the spread of the coronavirus in China in late January. The markets stabilized in mid-February as the virus peaked in China. However, markets took another downturn as the virus spread outside of China and investors grappled with the collateral damage of lockdowns across large economic regions. The "do whatever it takes" measures by policymakers and central banks in the US and Europe mitigated the risk of asset prices deteriorating further despite the lengthy global lockdown.

China, South Korea, Vietnam and Taiwan were the first countries to impose quarantines and lockdowns. These countries are recovering and moving towards economic normalization with upstream and industrial activities seeing the fastest rebound. In recent weeks, with fewer new Covid-19 cases, consumers have started going back to malls and restaurants. With more tests and gradual openings, we believe that the rest of the South and Southeast Asian economies should follow the same path of normalization.

In the aftermath of Covid-19, EM countries are likely to increase their healthcare spending, which should boost demand for hospitals and pharmaceutical companies. In addition to healthcare, opportunities also exist in high-quality multiyear stories across e-commerce, entertainment, and education. Over the last few years, these companies by virtue of their strong data analytics and focus on hyper-personalization have been gaining market share and the shift towards online post Covid-19 will likely be accentuated.

Relative Infection Over Population



Source: JP Morgan, estimates as of May 2020.

China

Chinese equities have rebounded sharply from the lows of early 2020 as the pandemic came under control and, to date, there has not been a large scale second wave of infections. The Chinese government has been pragmatic in dealing with the pandemic and subsequent economic stimulus. China's central fiscal deficit for 2020 is targeted at around 3.6% of GDP and the government will issue special purpose municipal and treasury bonds to boost the economy through infrastructure spending.

In the medium term, China is focusing on "Urbanization 2.0" and reforming state-owned enterprises to spur productivity for the next decade. Recent announcements include the trading of land use rights and promoting the free flow of workers via hukou[4] reforms.

These reforms, coupled with rising aspirations, stable incomes and increased digital awareness, should create investment opportunities across the e-commerce, online entertainment, food delivery and education sectors.

The Chinese consumption market, with large populations across various age groups and income levels, offers a uniquely large and attractive opportunity for different consumption categories.

	URBANIZATION 1.0	URBANIZATION 2.0
POLICY FOCUS	Regional Rebalancing	Hub cities and City Clusters
LAND USAGE	Relatively light land supply for urban expansion in large cities	Free up land supply for urban expansion in major advanced city clusters
LABOR MOBILITY	Strict Hukou policy to avoid massive population inflows to big cities	Relaxing Hukou policy nationwide (except for Beijing and Shanghai to facilitate freer labor mobility toward more advanced regions
ASSET ALLOCATION	Policy-oriented investment	More market-oriented investment
INFRASTRUCTURE	Physical infrastructure (roads, railways and highways)	New infrastructure (5G, IIoT, AI and big data center, UHV, HSR, EV charging stations)
KEY INITIATIVES	Western Development Northeast Revitalization	Yangtze River Delta Integration Greater Bay Area Blueprint

Source: CEIC, Morgan Stanley, April 2020.

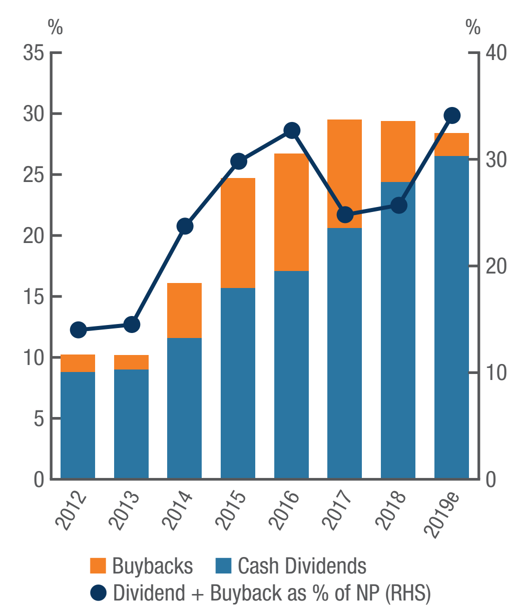
Though the US-China rhetoric may weigh on market sentiment in the near term, it may also provide an opportunity for strong Chinese brands to make further inroads with domestic consumers and gain market share from their foreign competitors.

Northeast Asia

We are increasingly becoming more positive on South Korea as it emerges as an unlikely beneficiary of the technology race between the US and China. With more Chinese and Taiwanese companies being deprived of access to US technology, Korean technology giants are likely to fill the void in the smartphone, memory and chip segment catering to both Chinese and European markets.

Large European stimulus with a focus on eco-friendly technologies may also benefit Korean battery makers who are among the top three manufacturers globally. This, coupled with improved governance and higher payout ratios, should lead to a re-rating for leading Korean corporates.

Korea Total Shareholder Return Trend



Source: Bloomberg, Mirae Asset. E=estimate. NP= Net profit. RHS = Right hand side.

[4] Hukou is a governmental household registration system used in China.

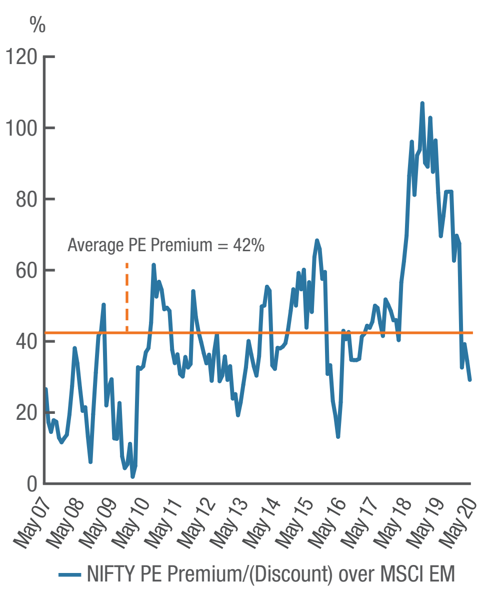
India

The Indian economy was on a recovery path prior to the Covid-19 outbreak. Despite having one of the most severe lockdowns, the pandemic has hit the country hard. The government has supported small businesses with incremental credit lines, and interest and principal repayment moratorium for six months. We believe that the key to the recovery would be the pace of normalization as the economy opens up.

The Reserve Bank of India has provided adequate liquidity support to the financial system and reduced repo rates by 115 basis points since mid-March. The Indian government has used the Covid-19 crisis to implement much needed labor and agriculture reforms, along with a strong push to the "Make in India" campaign through easier clearances, land availability and lower taxes, all of which should help usher in an investment-led recovery in 2021. As companies seek to diversify their operations by developing a "China plus one" strategy for sourcing, countries like India should benefit from higher foreign direct investments in coming years.

Indian equities are currently trading at a low premium compared to its EM peers, offering an attractive risk reward opportunity. We believe that with the ramp up in Covid-19 testing and stricter localized containment measures, the Indian economy should normalize in 4-6 months.

Indian Equities PE Premium Over EM Equities



Source: Bloomberg, as of May 2020.

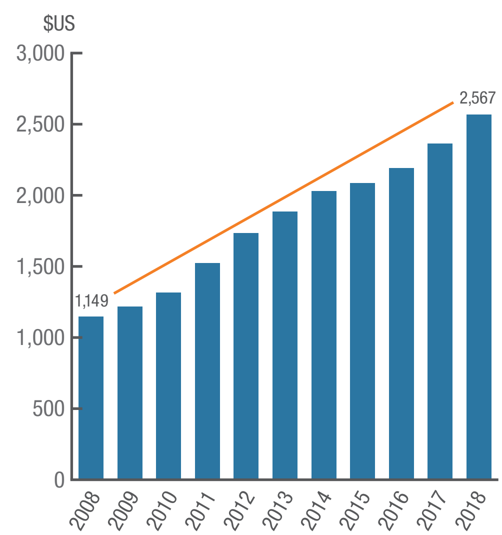
The Association of Southeast Asian Nations (ASEAN)

The ASEAN region tends to be particularly hard-hit when there's uncertainty and the Covid-19 outbreak was no different as investors doubted the local governments' ability to manage the pandemic and sought refuge in more liquid North Asian markets. Some of the countries in the region like Vietnam have handled the crisis better than others, leading to faster economic normalization, while others like Indonesia have been impacted more severely.

We continue to be stock specific in the region, preferring consumption driven names in staples, discretionary, healthcare and financials. These names have corrected by nearly 30-40% from their February highs and are attractive in the medium term as they operate in countries with low debt and have a young population with rising aspirations.

As investors look to potentially diversify from China as a result of trade war ambiguities, these markets may be attractive when risk aversion normalizes and investors recognize the value of high-quality companies in the region.

Vietnam: GDP Per Capita has Doubled in the Last 10 Years



Source: World Bank, VCSC Research, July 2018.

Latin America and EEMEA

General Overview

Though the Covid-19 situation should improve in Asia first, we believe that the cyclical nature of various countries in EM outside of Asia could translate into strong performance in select regions. From a stock picking perspective, we see Latin America and EEMEA continuing to present various high growth, quality business models. We highlight encouraging signals from key countries within these regions and believe our actively-managed portfolios can continue to generate alpha via rigorous due diligence and stock selection, and by avoiding the various macro headwinds we foresee in certain countries.

In our view, Brazil, Peru, and Russia present the most attractive investment opportunities through the second half of 2020. All three countries are coming from a historically low base, and should be able to take advantage of "low hanging fruit" as the global economy normalizes and commodities see incremental demand. These three countries also have low inflation rates, which allows their central banks to cut interest rates, increase borrowing, boost consumption, and drive growth. On the negative side, we see political and structural challenges in South Africa and Turkey that limit our ability to find strong bottom up opportunities.

Overall, we believe that the combination of a low base for earnings, attractive valuations, and high growth rates create strong prospects for select companies in both Latin America and EEMEA.

Latin America

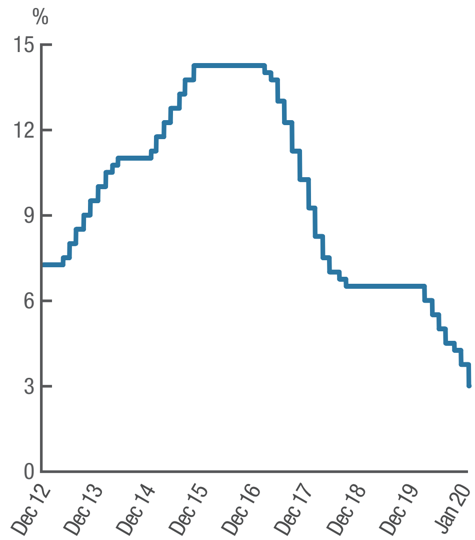
Latin American countries have recently faced headwinds from various directions. Not only are the countries balancing the best way to open their economies while keeping their citizens safe, but, as commodity exporters, they have also suffered from steep drops in demand and prices for oil, copper, and iron ore. In addition, the political situation across various Latin American countries has begun to swing back to less market friendly leadership. In Mexico, President Lopez Obrador maintains his populist approach. Argentina has moved back to a Perronist/Kirchner government and faces a standoff with creditors. In Chile, President Piñera faces political unrest as the population has demanded a new constitution to address inequality. Colombia's right/centered government has also faced similar unrest in recent months. In Brazil, the region's largest country, political and corruption reforms appear to have lost momentum.

Brazil

Brazil's reform program appears more challenging in light of recent turbulence and accusations of presidential interference. We had maintained a strong overweight in the country since the impeachment of former President Dilma Rousseff, based on the view that the country was moving forward with both political and fiscal reforms. Over the past three years, we have seen significant strides on both fronts, but now see a more difficult environment for three reasons. First, the recent resignation of the immensely popular Justice Minister Moro is leading to a significant blow to the credibility of the president. It could also lead to calls for impeachment, which would freeze the government during a challenging period. Second, the country is now providing fiscal stimulus to counteract the economic impact of Covid-19, at a time when the country needs to remain committed to fiscal austerity. This too should lead to questions regarding the credibility of the reform program and the viability of Finance Minister Guedes remaining in office. Third, Brazil has cut its base rate from 14.25% to 3% since the end of 2016. This was a major positive for Brazil when the economy was benefitting from foreign direct investments due to the promising reform program. Now, without the promise of growth and reform, low interest rates may not be enough to keep carry trade investors in the market, and could lead to significant weakness in the currency. In addition, though contagion rates are in-line with the rest of EM, Brazil continues to receive negative press on the spiking number of cases in light of the government's anti-lockdown rhetoric.

On the positive side, Brazilian companies look inexpensive relative to historical averages, the political situation is markedly more market friendly compared to the last decade, and the country could be one of the largest beneficiaries from activity normalization in China and in the US, along with rising oil and iron ore prices.

Brazil's Declining Selic Rate



Source: Bloomberg, as of May 2020.

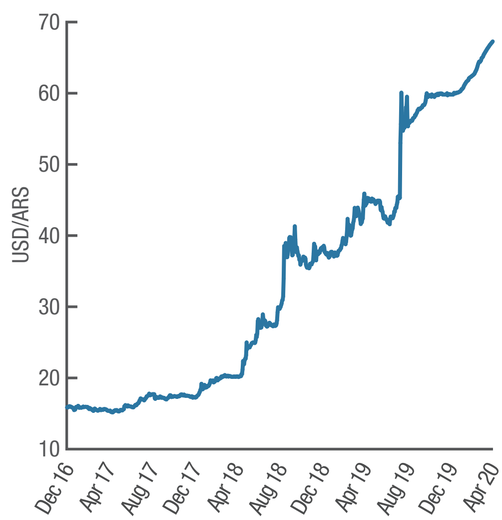
Mexico

We have turned more cautious on Mexico. After a relatively stable start to the year, growth forecasts have collapsed to -7.4% year-to-date.[5] The country had some room to implement fiscal measures at the start of the year after keeping fiscal accounts in check throughout 2019, but the Covid-19 crisis has exacerbated the fragilities in Mexico's macroeconomic framework. PEMEX, the national oil company is facing another debt crisis, and low global oil prices will likely place additional strain on the country's fiscal balances. Credit rating agencies have downgraded Mexico's credit rating, and President Andres Manuel Lopez Obrador's (AMLO') desire to continue working on key flagship projects (e.g. Maya Train, Dos Bocas Refinery) will likely put further pressure on ratings. The Mexican peso, which had been stubbornly strong due to the central bank's reluctance to cut rates, has finally started to depreciate, which should help offset some of the disinflationary effects from lower oil prices. Mexico has also been negatively impacted by the slowdown in the US given the country's large manufacturing base and its reliance on exports. On the positive side, Mexico should have one of the lower fiscal deficits in Latin America by the end of the year. A growth recovery in the US should also provide support for Mexico's economy. We believe Mexico will be a key beneficiary from US companies moving their supply chains and manufacturing away from China.

Andean Region (Colombia, Peru, Chile, and Argentina)

Argentina's equity market has yet to recover from the nearly 40% fall following the presidential primary results in August 2019 which forecasted incumbent President Macri's defeat in October's presidential election. Markets proved prescient as Alberto Fernandez and his running mate Cristina Kircher, the former populist President of Argentina won the election with 48.2% of the vote, which led to the country turning away from the previous administration's unpopular, but much needed, austere economic policies. The Covid-19 pandemic has exacerbated Argentina's debt problems and pushed the country to its ninth default as the government refused to accept the current restructuring proposals on its outstanding debt. Argentina's debt issues have also weighed on the peso, which has depreciated 12.6% year-to-date[6] against the US dollar and driven inflation back above 45%. Furthermore, the stubbornly high inflation and weak peso will likely continue to constrain economic activity in the private sector. Most importantly, however, the future outlook depends on the progress towards a deal between the government and creditors to renegotiate the terms on US$65 billion in overseas bonds.

Argentine Peso Devaluation



Source: Bloomberg, as of May 8, 2020.

[5]Bloomberg, as of May 2020.
[6]Ibid.

We remain positive on Peru for several reasons. First, as an oil importing country, Peru benefits from the decline in global oil prices. Second, the political conflict in the country between Congress and the government has subsided since January's parliamentary elections with both the Fuerza Popular and Accion Popular parties stating that they will support the government's political reforms. However, it remains unclear if President Vizcarra will be able to push through political and judicial reforms before the next Congressional elections in 2021. Peru should also benefit from its exposure to metal commodities, which have been less impacted than energy and other soft commodities. Last, we are encouraged by Peru's conservative fiscal and trade balances, along with the government's quick approach to Covid-19 lockdowns.

Colombia has been negatively impacted by the steep decline in oil prices and the country's outlook is dependent on a recovery in oil prices. Although Colombia was making progress on its fiscal targets, the government's 2020 budget was dependent on a US$60 oil price, so the longer oil prices remain subdued, the greater the pressure on the country's fiscal account, which is already expected to deteriorate to -5.5% this year. We note that every US$10 move in oil impacts Colombia's fiscal balance by 0.2% of GDP. President Duque's government, which experienced protests towards the end of last year, has received a boost in approval polls due to its handling of the Covid-19 crisis, but it remains to be seen what, if any, future reforms could be implemented after the pandemic passes.

Oil's Impact on Colombian Equities

Source: Bloomberg, as of May 8, 2020. Colombian Equities=MXCO Index; Oil-West Texas Intermediate (WTI). RHS= Right Hand Side; LHS= Left Hand Side.

Before Covid-19 impacted Latin America, Chile's equity market was already weakening due to large-scale protests across the country that started on October 19. On the positive side, Chile had one of the earliest and most comprehensive responses in Latin America to Covid-19. Government measures include the US$11.75 billion stimulus plan (roughly 4.7% of GDP) and the postponement of tax collections. These actions have resulted in the lowest mortality rate in Latin America and also boosted President Piñera's popularity. The Constitutional Change Referendum that was expected in April has been postponed until October. Furthermore, we expect Chile to experience a smaller contraction relative to the rest of the region given that the equity market is coming from a low base (Chile is trading around one deviation below its historical P/E average) and the country's conservative fiscal deficit.

EEMEA

General Overview

EEMEA presents a diverse opportunity set going into the second half of 2020. With oil at historically low prices, countries like Russia, Saudi Arabia, and the United Arab Emirates may benefit from improving supply & demand dynamics, which should improve their respective trade balances, fiscal balances, currency dynamics, and equity markets. Greece is another bright spot, where the government has done a sound job of fighting the health and economic impacts of Covid-19. Hungary, Poland, and the Czech Republic each face their own challenges, but could potentially rebound with returning demand from Western Europe. We continue to see structural long term challenges in South Africa and Turkey.

Russia

Despite the decline in oil prices, we remain optimistic on the outlook for Russia going into the second half of the year. Prior to the Covid-19 crisis, both the Russian government and Russian equities had built strong balance sheets with the former achieving a fiscal and current account surplus at the end of 2019, while the latter was seeing increasing dividend payouts and de-leveraging with average debt to equity levels below 20%. The April OPEC+ deal to cut global oil production should help support oil prices and Russian equities as the government budget breakeven oil price remains around US$48 a barrel.

[7] JP Morgan LatAm Research, May 2020.

Russia's autonomous central bank has also been supportive, cutting rates from 17.5% to 5.5% and taking a dovish stance to support lending. Russian companies continue to have strong balance sheets, and we remain optimistic that there will be a recovery in oil demand and prices in the second half of 2020 as the world exits lockdown measures. A rebound in oil prices, coupled with some of the cheapest valuations in EM at 5-7x P/E could lead to strong performance, in our opinion. However, we are cautious of potential incremental negative headlines and sanctions risk between the US and Russia since this is a US election year.

South Africa

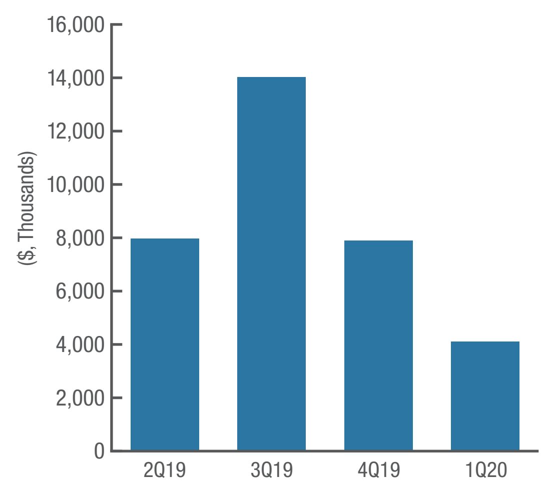
South Africa continues to present a challenging outlook for the remainder of 2020. President Ramaphosa recently announced a US$26 billion stimulus package to support the economy, which will likely drive the country's fiscal deficit above 15%. The country no longer enjoys the benefits of an investment grade credit rating, so financing growth out of the crisis could be very expensive. South Africa was already dealing with economic challenges before the pandemic, including a 30% unemployment rate, empowered unions and an unskilled workforce, and a weak education and healthcare system. On the positive note, Ramaphosa is the most market-friendly president South Africa has seen in years and investors would likely welcome any efforts of fiscal or social reform. Also, if Chinese growth can surprise on the upside, we may see a pick-up in demand for South African products, which should boost both confidence and the economy.

Russian companies continue to have strong balance sheets, and we remain optimistic that there will be a recovery in oil demand and prices in the second half of 2020 as the world exits lockdown measures.

Turkey

Turkey should benefit from the decline in oil prices, given that the country is an importer of oil. The country's current account has improved in recent months, and inflation has also slowed rapidly, creating room for potential rate cuts. Turkey could outperform if the US dollar weakens in the second half of this year due to the country's twin deficits. However, we remain cautious due to the country's continued political and macroeconomic uncertainty. We see a high risk of inflation rebounding in 2021 due to strong monetary stimulus driven by the government's response to Covid-19. Tourism is another major uncertainty as the industry has historically been very important for the country and travel restrictions remain in place. Geopolitical uncertainty regarding actions in Syria between Turkey, Russia, and the US remain a constant concern. Finally, although President Erdogan rules with the absolute powers of an executive presidency, any missteps in the economic front could lead to early elections in the country.

Turkey's Tourism Income Drops Due to Covid-19



Source: Turkish Statistical Institute.

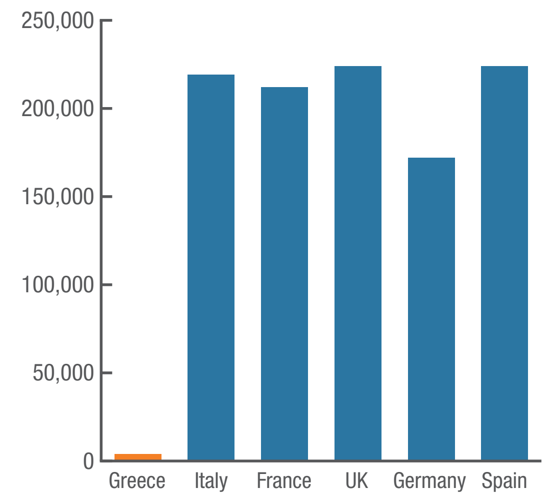
Other EEMEA Countries

In the Middle East and Northern Africa, we see challenging near term headwinds, but attractive medium term opportunities. In Egypt, reserve data confirms that the central bank has been intervening heavily to prop up the Egyptian pound. We do not believe this is sustainable and we are cautious of potential currency depreciation. In addition, a decline in tourism receipts is causing the current account deficit to widen, leading to lower foreign direct investments and additional pressure on the currency.

After a steep drop in oil prices, we see a more promising outlook for Saudi Arabia in the second half of the year. Saudi Arabia should benefit from an incrementally healthier supply and demand oil dynamics as OPEC+ countries follow through with production cuts, marginal higher cost producers fall offline, and the global economy begins to re-open after the Covid-19 lock-down period. Saudi Arabia should also benefit from near 0% interest rates and its foreign exchange peg to the US dollar, which could help stabilize their currency. On the negative side, low oil prices have driven Saudi's finance ministry towards austerity, which will provide short term headwinds to consumption and potential political turbulence. As a region, sentiment depends on a combination of energy prices and geopolitical activity — specifically in regard to Saudi Arabia, Iran, Iraq, Syria, Turkey, Russia, and the US.

We see opportunities in Greece as we believe asset prices have overreacted to the downside as a result of the country's proximity to coronavirus-torn Western Europe. In reality, the Greek government has been extremely active on a number of fronts, which include, quick and draconian lockdowns, financial assistance for private sector employees, self-employed and unemployed citizens, subsidized interest rates for small and medium sized enterprises, and a postponement of various tax liabilities. Going into 2020, Greece was one of the few countries in EM with a fiscal surplus, which puts it in a good position to weather and emerge from the pandemic. Finally, Greece could benefit from the European Union's (EU) recovery fund, which could see 33.4 billion euros allocated towards the country (roughly17.8% of GDP).

Number of Covid-19 Cases in Greece vs Western Europe



Source: Bloomberg, data from 1/21/20-5/11/20.

The CE3 (Poland, Czech Republic, and Hungary) present the brightest demographic based growth stories in Europe, in our view. The Czech Republic faces headwinds due to a sharp decline in exports and services, along with a fairly modest fiscal stimulus package. In Poland, we see a low growth, deflationary environment, which should keep the central bank in a dovish position. Hungarian economic data has been better than peers, mostly due to softer shutdown measures leading to a resilient labor market. These countries present relatively educated population bases with attractive tax rates and low costs of labor, which should continue to attract investment through 2020, but the region depends on the recovering demand picture in Western European along with the divestment of EU infrastructure funds.

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DEFINITIONS

Association of Southeast Asia Nations (ASEAN) is the organization of countries in Southeast Asia set up to promote cultural, economic and political development in the region.

Basis Point (bp) is a unit that is equal to 1/100th of 1% and is used to denote the change in the value or rate of a financial instrument.

Current Account Deficit (CAD) is when a country imports more goods, services, and capital than it exports.

Fiscal Deficit is a shortfall in a government's income compared with its spending.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

MSCI Emerging Markets (EM) Index captures large and mid cap representation across 24 EM countries in Eastern Europe. With 837 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

NIFTY 50 Index is National Stock Exchange of India's benchmark broad based stock market index for the Indian equity market.

OPEC+ is an alliance between the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC producers to rebalance the oil market.

Price-to-book (P/B) ratio is the ratio used to compare a stock's market value to its book value.

Price/earnings (P/E) ratio is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

Return on Equity (ROE) is a measure of profitability that calculates how many dollars of profit a company generates with each dollar of shareholders' equity.