Eye of the **Tiger**

2022 Emerging Markets Outlook

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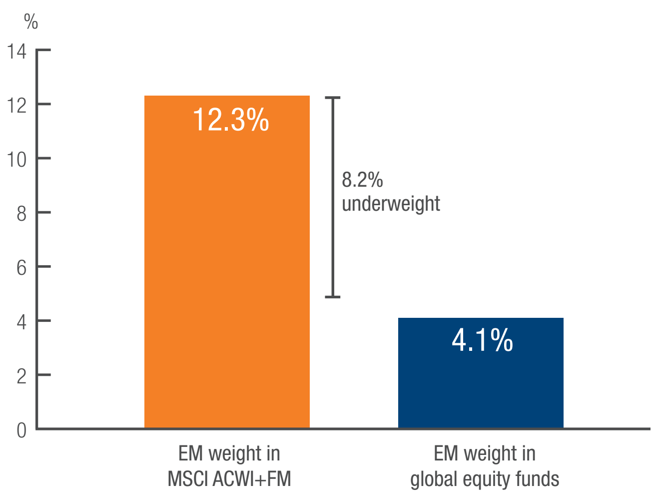
Executive Summary

Coming out of 2021 and into the Lunar Year of the Tiger, there are three areas in which we believe Emerging Markets (EM) are ahead of the pack creating a foundation for opportunities within the asset class in 2022:

1. *Vaccination rates in key EM countries, such as China, Taiwan, South Korea, and most of Latin America, are well ahead of the US.*
2. *Chinese regulations startled markets in 2021, but we believe similar rules are yet to come across US and European markets.*
3. *Several EM central banks (Russia, Brazil Chile, Colombia, Mexico, Peru, the Czech Republic, Hungary, Poland, Korea, and South Africa) began raising interest rates well ahead of the US and Europe in 2021.*

The performance spread between Emerging Market (EM) and US equities has hit multi-decade highs. Global institutional investors are now over 800 basis points (bps) underweight EM equities, and the asset class appears ripe for new allocations. EM presents a notably different environment going into 2022 than Developed Markets (DM). While DM vaccination rates taper off, EM vaccination numbers continue to improve.

Global Funds are Underweight EM



Source: EPFR Global, Thomson Reuters Datastream, HSBC calculations, Mirae Asset, data as of October 31, 2021.

EM Central Banks are already in the second half of their rate hiking cycles, whereas the US has not yet begun. Unlike US equities, which have remained supported by easy fiscal and monetary policy, EM has had to stand on its own two feet. Though regulations hit many Chinese companies in 2021, fines have been manageable and companies seem to be adapting quickly. US companies could still see future tax increases and new regulatory measures.

Even as many countries within EM face various headwinds, as active managers, we are finding attractive opportunities within the asset class. The growth differential versus DM is increasing, return-on-equity (ROE) ratios are converging, multiples remain suppressed, and allocators continue to look for opportunities outside of a concentrated US market. Other anticipated key catalysts for EM performance in 2022 include inflation moderation, improving US/China relations, and a weaker US dollar (USD). Structurally, the asset class looks attractive, as EM has benefited from a powerful consumer-driven domestic demand story. Cyclically, we believe EMs are coming out of the "hope" phase of the investment cycle and moving into "growth."

On a regional basis, we continue to favor a domestic secular-driven growth story in China and companies that have benefited from the structural reforms in India. Current macroeconomic conditions lead us to remain optimistic on South Korea and Vietnam as we look ahead. We see Latin America and Eastern Europe, Middle East and Africa (EEMEA) as under-owned regions. The average global equity investor has approximately a 4% weighting to EM and Asia represents roughly 80% of the asset class, which means the average investor has only around 1% allocated to Latin America and EEMEA combined.[1] This underweight creates a significant moment for stock pickers assessing overlooked and inefficient regions. We see particularly attractive opportunities in Greece, Mexico, Brazil, and Russia.

[1]EPFR Global, Thomson Reuters Datastream, HSBC calculations, Mirae Asset, data as of October 31, 2021

Past performance does not guarantee future results. There can be no guarantee that any strategy (risk management or otherwise) will be successful. All investing involves risk, including potential loss of principal.

Emerging Market Themes 2022 and Beyond

STRUCTURAL THEMES	FINANCIAL INCLUSION	HEALTHCARE ACCESS	EDUCATION FOR ALL	DISCRETIONARY SPENDING
Accelerating Drivers	Digital Banking & Online Brokerage	Telemedicine	Virtual Learning	Online Shopping
STRUCTURAL THEMES	MOBILITY	GOODS & SERVICES	PROFESSIONALIZING MANAGEMENT	BASIC CONNECTIVITY
Accelerating Drivers	Ride Sharing	Gaming & Experiences	Growing Governance Focus	Social Networking

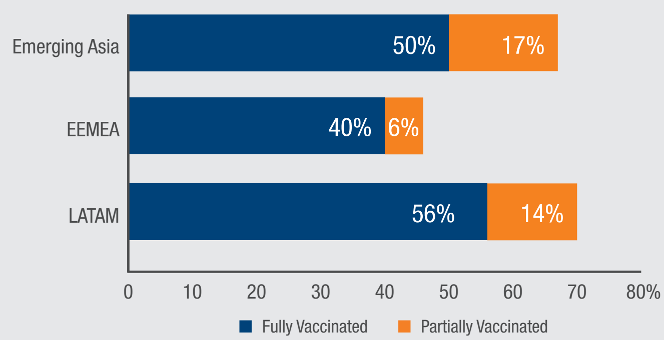
Note: Representative sample of themes. Themes are subject to change.

COVID-19 Update

COVID-19 continued to impact markets through 2021. Many countries in EM experienced multiple waves of the virus, which resulted in record daily new cases and deaths. With the recent emergence of the Omicron variant in South Africa, it is clear we will continue navigating these unprecedented times throughout 2022. However, with the acceleration of vaccine rollout programs and reopenings, it seems we are turning a corner.

Source: Our World in Data, as of November 30, 2021.

Vaccination Rates Across Emerging Markets



Key Events & Trends

The Next Stage of the Cycle

Emerging Market equities are moving into a new phase of the investment cycle. In *The Long Good Buy,* Peter Oppenheimer breaks down a typical investment cycle into four stages.

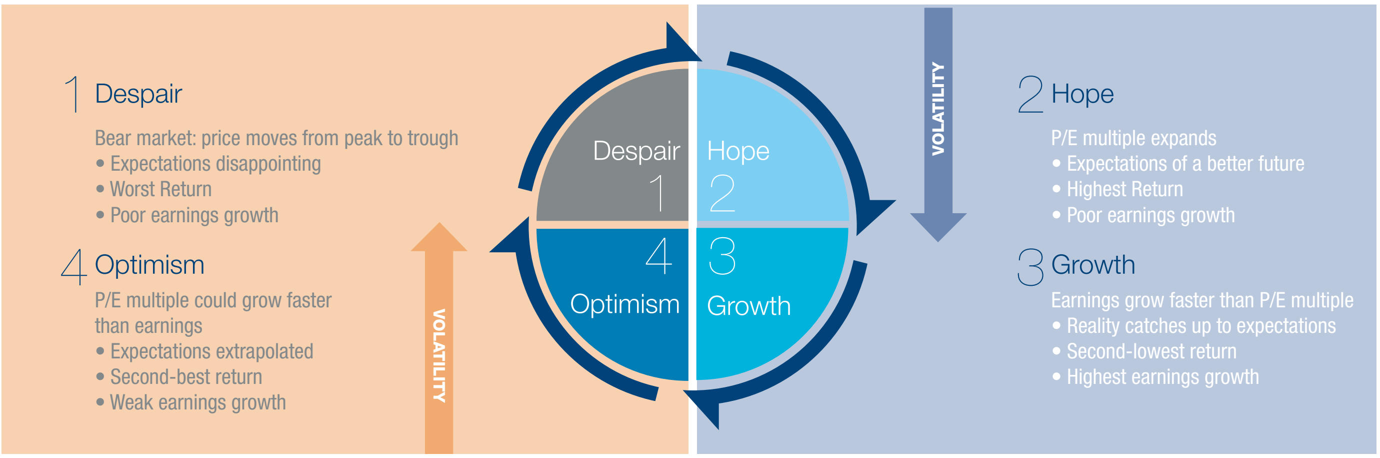
The MSCI Emerging Markets Index fell roughly 34% between February 18th and March 19th of 2020, with the onset of the COVID-19 pandemic. Uncertainty skyrocketed, investors priced in worst-case scenarios, and risk assets felt the brunt of the pain. This period represented "despair," the first and worst-performing stage of a typical cycle. EM equities then rallied a robust ~72% between March 19th, 2020 and November 16th, 2021. Easy monetary policy, fiscal expansion, and expectations for a full COVID-19 recovery fueled the rally. Multiples expanded as prices increased faster than earnings, and investors rode the second stage, "hope," for profits. In this stage, cumbersome asset-heavy companies benefitted from the prospects of improving demand on business models with operational leverage. Highly indebted companies also benefitted from abnormally dovish monetary policy. Some investors characterized this period as a "low-quality bounce."

With central banks normalizing, economies reopening, and fiscal stimulus waning, we anticipate the market to shift into the 3rd stage of the typical investment cycle, "growth." In this period, earnings growth should normalize and catch up to price-to-earnings (P/E) multiples. Thus, investors likely will once again focus on earnings growth and potential compounding returns.

Last, the market will eventually grow into expensive territory as P/E multiples expand faster than fundamentals. This is a period of "optimism" where investors extrapolate expectations. In the "optimism" stage, investors should focus on quality companies that can deliver on real earnings rather than future promises.

Looking into 2022, it is worth noting that after energy, industrials, and materials led 2021 performance, analysts expect consumer discretionary, consumer staples, and information technology to lead earnings growth for the year and energy and materials to lag.

Stages of an Investment Cycle

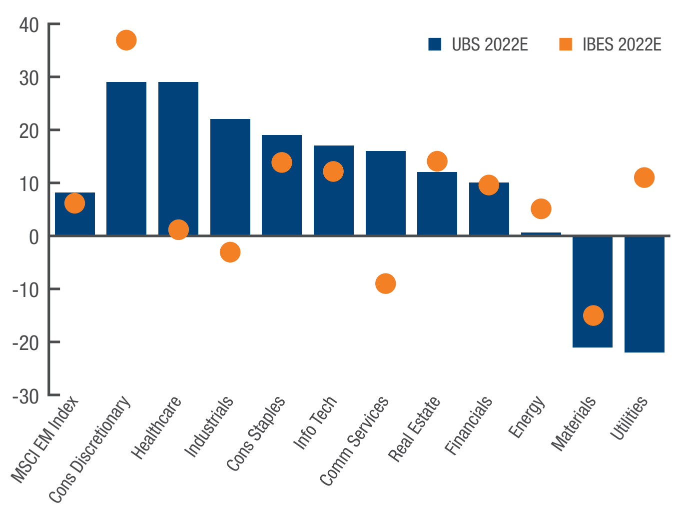


This visual is for illustrative purposes only. The investment stages mentioned are all different and it is not a given that all stages described will occur.

We recognize that stocks traditionally classified as "value" had a strong run in 2021. This performance can be associated with the run in commodities, significant monetary stimulus in 2020, and the pricing in of increasing capacity utilization. With normalization of demand, asset-heavy companies should either see margins taper as they run out of capacity or commit themselves to capital expenditure programs to increase supply if they believe their demand is sustainable. Both situations could create headwinds for stock prices.

In the "growth vs. value" debate, we remember that nobody looks to buy overvalued companies. The question is how to define intrinsic value. We believe that focusing solely on low absolute multiples in EM can be an unsafe strategy. A company is more than a multiple, and there are various examples of companies trading at cheap multiples that remain depressed for good reasons. EM is largely represented by either asset-heavy and highly cyclical commodity or manufacturing businesses, state-owned enterprises (SOEs), or both. Combining these traits within a cyclical asset class could lead to a "value trap." While many goods and services are pure substitutes, others are not. Would you buy any bike helmet, a piece of fish, or a fire extinguisher just because it is "cheap"? Of course not. At the same time, growth alone is not helpful either. You wouldn't want to pay up for growth if earnings were being reinvested in dilutive projects. Growth creates value when the business model boasts a difference between its economic returns and its cost of capital. The larger the spread, the more sensitive to changes in expected growth rates. Bottom line, we believe that investors must balance valuation multiples with the company's prospects for both earnings growth and reinvestment rates.

EM Sectors 2022E Growth

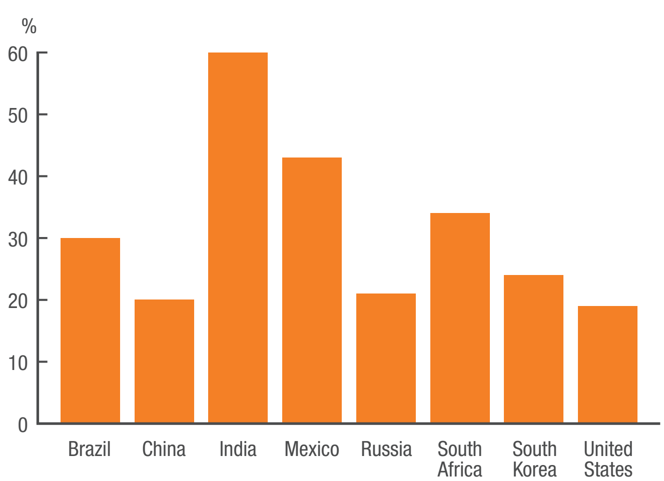


E= Estimate. Source: IBES, MSCI, Datastream, UBS estimates. November 2021.

Female Driven Growth

As EM economies grow and strengthen, women are attaining higher levels of education, participating in the workforce in greater numbers, and seeing improvements in the wage gap. In the US, women control 85% of consumer spending through their buying power and influence.[2] This pattern is anticipated to grow exponentially in EM, where increased purchasing power and market access will augment the financial decisions women currently make for themselves and their families. Looking beyond labor force participation, other drivers will likely improve female economic status. Much of this should come from improvements in corporate behavior, such as paid parental leave, schedule flexibility, and enforceable environmental and social policies — specifically regarding diversity and gender pay gaps. In addition, due to structural, secular, and even religious shifts, women are marrying later in life, if at all. The result of this trend is that more women are working longer, have increased purchasing power, and will have greater amounts of discretionary income to spend on themselves and family members. We anticipate that over 70% of the countries in EM should see female spending-to-local economy GDP shares rise over the next decade. Russia, Colombia, India, China, Poland, Chile, and Indonesia are projected to see increases in their shares of female spending to GDP of greater than 100 bps. Russia, Colombia, and India may see gains exceeding 350 bps.[3] This is especially important as we see female spending, as a share of regional GDP, decline across developed markets.

Potential Economic Gains if Women's Participation is Fully Equal To Men



Source: Council on Foreign Relations, 2021.

Growing China's Middle Class

With the combination of the Chinese government's investments into value-add industries, support for small & medium enterprises (SMEs), and an expected 10.76 million university graduates in 2022 (more than the US, Germany, and Japan combined), we see Chinese labor moving rapidly up the value chain. This labor force development should advance the younger generation into the middle class, potentially driving growth in consumer spending, especially for new products and services. In turn, this could create demand for more high-tech manufacturing businesses which would further develop the labor force and create a self-fulfilling cycle. This shift should also benefit from the government's adjustments to social subsidies, allowing an easier transition from rural to urban centers. China's urbanization rate is around 61% compared to 87% in Brazil, 81% in South Korea, and over 90% in Japan.[4] Considering urban disposable income is over 2.6 times higher than the rural level,[5] this is an apparent additional layer of support for middle-class growth.

China's middle class represents 400 million people, almost 29% of China's population and larger than the entire US population.[6] Assuming 6.5% growth in annual income, which seems achievable with 5-6% GDP growth, the middle class will represent over 45% of China's population by 2035. The government's "common prosperity" campaign that aims to lower inequality should also help momentum. If China's Gini coefficient moves from its current level of 0.47 to close to 0.40, the middle class would grow to around 50% of the population. As China's middle class expands to 50% of its population,

Considering urban disposable income in China is over 2.6 times higher than the rural level, this is an apparent additional layer of support for middle-class growth.

[2] HSBC Global Research, Women, Asians and the Young: Tomorrow's Consumers, April 2019.

[3] Morgan Stanley, The SHEconomy, August 2019.

[4] The World Bank, World Urbanization Prospects 2020.

[5] HSBC, October 2020.

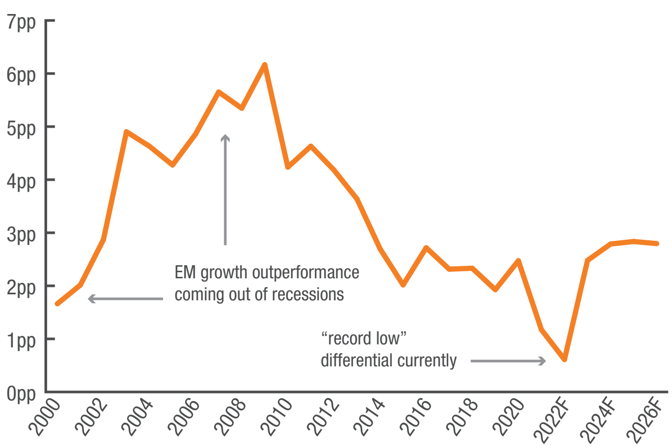
[6] McKinsey, December 2019.

private consumption should contribute close to 60% of GDP, a big leap forward from the current GDP contribution of 35%. This shift in private consumption changes the GDP equation and creates profitable and sustainable growth going forward — similar to the US.

EM Fundamentals

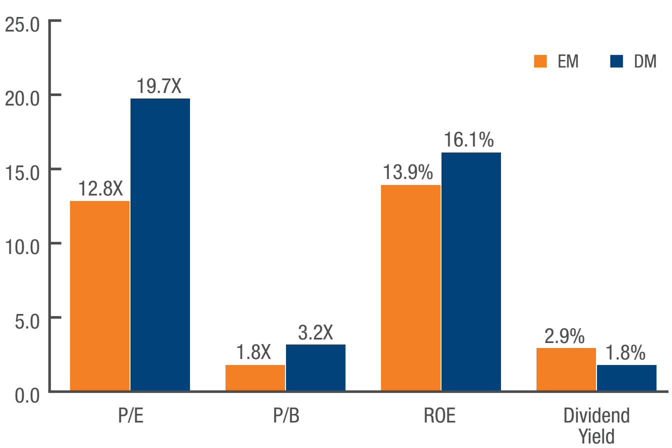
Today, EM offers higher GDP growth rates, higher earnings-per-share (EPS) growth, higher dividend yields, and similar returns at a significant discount versus DM. On a price-to-book (P/B) basis, EM equities are trading at a 45% discount to their DM peers.[7] This number is more than one standard deviation below its 10-year historical average. We believe this presents an opportunity for active managers to find securities trading below their intrinsic values

EM vs DM Growth Differential



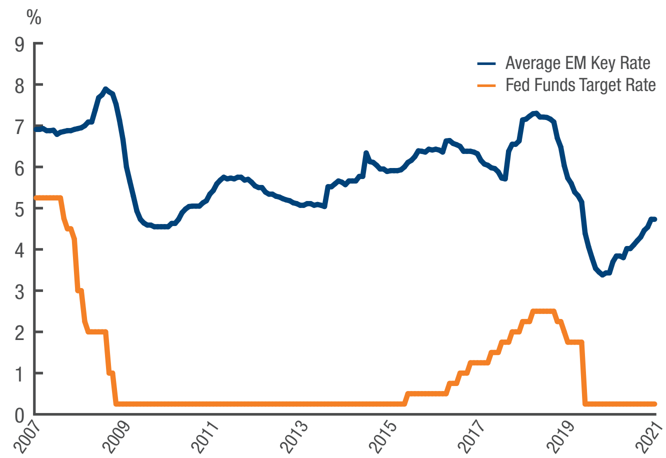
Source: IMF, World Economic Outlook Update October 2021.

EM vs DM Valuation and Return Metrics



Source: Factset, based on 12-month forward multiples. As of 11/30/20. EM is represented by the MSCI EM Index, DM is represented by the MSCI World Index.

Interest Rate Differential



Source: Bloomberg, as of 11/30/21.

The Fed's Hawkish Pivot

In December, Fed Chair Powell made a hawkish pivot saying that the central bank would begin to discuss tapering. While it may be easy to assume that rising rates are a negative for Emerging Markets. We believe that the real effect really depends on why this rate hike is happening. If the Fed and global central banks begin raising rates due to steady growth and normalization of economic policy, as in 1998 and 2004, that is positive for EM because it means we're seeing synchronized growth and positive demand. In this scenario, EM should outperform DM and cyclicals should do well across the board. If the Fed and global central banks begin raising rates due to an overheated economy and inflation fears, as in 1994 and 1999, this is generally negative for EM relative to DM. Recent rhetoric about rate hikes seem to stem from inflationary concerns, but we are encouraged to see that many EM countries like Russia, Brazil, Chile, Colombia, Mexico, Peru, the Czech Republic, Hungary, Poland, Korea, and South Africa have raised rates ahead of the US. This means they have an attractive interest rate differential, which potentially creates a carry trade and could attract flows into these countries, which supports the currency and may curb inflation.

[7]Bloomberg, Mirae Asset. As of November 30, 2021.

Regional Overview

Asia Pacific

Similar to the rest of the world, Asian capital markets continued to experience volatility in 2021 due to the ongoing COVID-19 pandemic. Relative to Western developed markets, most Asian countries' vaccination programs lagged, leaving their populations more exposed at the height of the Delta-variant outbreak. Mobility restrictions impacted production, leading to various shortages along the supply chain and contributing to the global inflation trend. We expect markets to take a breather in the near term as inflation figures remain elevated and we begin to see a shift in monetary policy. However, high vaccination rates, improving mobility metrics, and policy shifts to a "living with COVID" approach are all positive signs supporting a post-pandemic reopening. We anticipate Asian economies to benefit from a rebound in domestic consumption as well as exports in 2022. Current macroeconomic conditions lead us to remain optimistic on India, South Korea, Vietnam, and select (but significant) opportunities in China as we look ahead.

Latin America

We expect Latin America to balance political uncertainty with supportive commodity prices and economic reopenings across the region. Strong demand from DMs and recovering demand from China could lead to continued strength in energy, materials, and agriculture, which would improve current account and fiscal balances. Brazil faces a polarizing presidential election in 2022 that will dominate headlines through most of the year. The market seems to have already priced in negative scenarios, and positive catalysts could lead to lower risk premiums and a market re-rating. Colombia will also host a presidential election in 2022, but the country should see an improving economic backdrop with tax reforms behind it and higher oil prices seeping into the real economy over time. Mexico presents various opportunities as a combination of US economic strength, near-shoring from China, and domestic political gridlock could allow companies to perform well. In Chile, the presidential election in December 2021 led to a leftist victory, which could translate into increased government spending, market intervention, and less foreign investment, which could drag growth prospects for 2022. Peru looks attractive from a valuation perspective but maintains a political overhang as long as President Castillo attempts to intervene in private markets. Lastly, Argentina's forecast remains clouded due to concerns over a return to subsidy-led wealth distribution and conflict with the International Monetary Fund (IMF).

Emerging Europe, Middle East and Africa (EEMEA)

Emerging Europe has some of the most attractive valuations across global equities. Russia, Saudi Arabia, and much of the Middle East appear well-positioned to benefit from high energy prices along with an improving global geopolitical picture in 2022. South Africa should be a key beneficiary of China's recovery story and marginal improvements in its political outlook. In Turkey, we remain concerned about Central Bank independence and orthodoxy, but the sentiment could improve quickly with any signs of political change. We believe that Central Europe's outlook heavily relies on the economic picture in Western Europe. Overall, the region trades at depressed multiples with realistic near-term catalysts to drive re-ratings.

We anticipate Asian economies to benefit from a rebound in domestic consumption as well as exports in 2022. Current macroeconomic conditions lead us to remain optimistic on India, South Korea, Vietnam, and select (but significant) opportunities in China as we look ahead.

Headwinds and Tailwinds Across the Emerging Markets

Headwinds

- Faster-than-expected US tapering
- A stronger USD
- US-China tensions as a power struggle between the two nations continues
- Sharp spike in US bond yields

Tailwinds

- The tapering of EM inflation
- Higher vaccination rates, fewer lockdowns
- An economic recovery in China
- Valuations

Asia

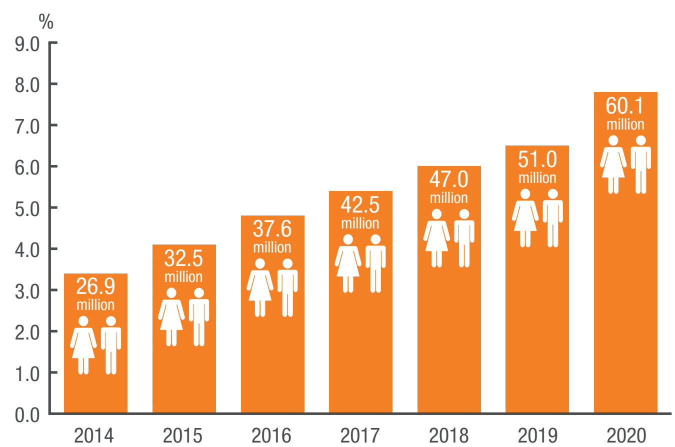
General Overview

We remain constructive on the Asian economic recovery and outlook. Despite currently elevated inflation levels, we believe that Asian policymakers are moving deliberately slowly in a bid to kick start the investment cycle and boost nominal GDP growth. Compared to the ‘taper tantrum’ of 2013, we don’t expect US Fed tapering to negatively impact EM economies as severely, given real yield differentials of most EMs versus the US are much higher now than back in 2013. A critical risk is that central banks could actually overtighten or withdraw support too early due to inflation scare. That aside, we have started to see signs of an investment cycle pick up in the US and across Asia as corporates seek to build surplus capacity to alleviate shortages and begin investments to fulfill climate change commitments. This climate focus will likely lead to an upgrade of legacy infrastructure, requiring annual capex spend estimated to be double that of 2016-20. Current macroeconomic conditions lead us to remain optimistic on India, South Korea, Vietnam, and select (but significant) opportunities in China as we look ahead.

China

In 2021, we saw the adverse side effects of regulatory crack-downs in China outweigh the positive benefits to sectors where there was government endorsement. “Common prosperity” is now widely regarded as the key policy motivation behind the unprecedented regulatory changes that came down on internet and gaming companies, after-school education, and the real estate sector. As we move into 2022, we believe this imbalance will even out as the government focuses on stabilizing the economy and promoting greater social equality and welfare. China has delivered significant economic achievements over the past 30 years, so we see recent efforts to iron out excesses and stabilize its financial system as positive steps to establish-ing a foundation for longer-term sustainable growth.

E-Commerce Employment as Percentage of Total Workforce



Source: Ministry of Commerce, CEIC, UBS. November 2021.

On a geopolitical front, tensions continue to persist between US and China. However, these tensions do not appear to be trade related but rather focus on concerns around national security and tightening restrictions on Chinese ADRs. As part of the US Holding Foreign Companies Accountable Act (HFCAA), the SEC recently finalized rules that would allow it to de-list foreign firms that fail to comply with audit requirements. This law applies to all 250+ Chinese ADRs. The impact of ADR’s de-listed by this new act could materialize by 2025, following three consecutive years of non-compliance, starting in 2022. As such, investors looking for exposure to China while minimizing risk exposure to US-China tensions are likely to favor Hong Kong-listed Chinese stocks and A-shares.

Despite China being one of the first countries to curb the initial spread of COVID-19, the Delta variant has proven to be more persistent, and each sequential wave has been met with targeted measures to contain the outbreak.

Consumption has come under some pressure from COVID-19-related restrictions; however, we anticipate a rebound post-February, when China hosts the 2022 Winter Olympics and the government is expected to relax mobility restrictions relating to domestic travel.

We see green shoots for significant opportunities in select areas of China's market. The Chinese government understands that it must move its economy up the value chain, create higher-paying jobs, grow its middle class, and improve growth via consumption. This process starts with transitioning capital allocations away from real estate and low-level manufacturing to higher value-add production.

China is now the second-largest spender on research & development (R&D) in the world, behind only the US, and accounts for over 20% of global R&D spending.[8] China plans to increase its R&D spending by more than 7% per year between 2021 and 2025. The country has topped the rankings in global patent filings since 2019 and now ranks 15th in the global innovation index. The share of the population with a university degree exceeded 15% in 2020, almost double the amount ten years ago, with most of those graduates in science, technology, engineering, and math (STEM) fields.[9] Investment is not stagnant but is shifting towards innovation in higher-end manufacturing and green projects. Combine this with the rapidly expanding middle class, and we expect China to sustain 5-6% GDP growth in the coming years.

China's growth is evolving, but this is still the most potent story globally. We are witnessing a population of 1.4 billion people moving from simple manufacturing to innovation, technology, and services. This powerful transformation should drive the Chinese economy for generations to come.

Despite fears of a global semiconductor downturn, we expect secular and structural demand for technology to persist from multiple sources, including 5G penetration, cloud computing, AI, and EVs.

Northern Asia

Compared to their Southeast Asian counterparts, Northeast Asian countries, including South Korea and Taiwan, made early progress in controlling the COVID-19 outbreak, thus allowing various industries within the region to resume operations just ahead of the global surge in demand. We anticipate robust exports, particularly for tech-related goods, capex growth potential, and faster growth in consumption given further reopening to sustain this growth momentum into 2022.

In South Korea, some uncertainty on overall policy direction remains as the country heads into its election season set for March 2022. Though online companies came under regulatory scrutiny in 2021, we believe the worst is now past and maintain a positive outlook for internet and e-commerce companies going forward. Unlike China, the South Korean internet landscape appears much more fragmented, with no clear leaders claiming the majority market share. Regulatory talks regarding South Korea's internet sector are much less structural in nature and pose less risk when compared to that of China. We are, however, cautious about the volatility of the South Korean market, where there may be impacts from global macro conditions given the country's strong correlation with the global market. As valuations in South Korea have come down close to their 10-year historical averages, we expect the market to gain attractiveness once participants sense comfort around the global policy stance.

Valuations in Taiwan appear to be more expensive than South Korea, but there are select plays that we believe provide favorable risk/return characteristics. Despite fears of a global semiconductor downturn, we expect secular and structural demand for technology to persist from multiple sources, including 5G penetration, cloud computing, artificial intelligence (AI), and electric vehicles (EVs). This demand should provide strong tailwinds for Taiwanese industry leaders and incentives to boost capex for aggressive capacity expansion.

[8] UNESCO Institute for Statistics, September 2021.
[9] National Bureau of Statistics of China, May 2021.

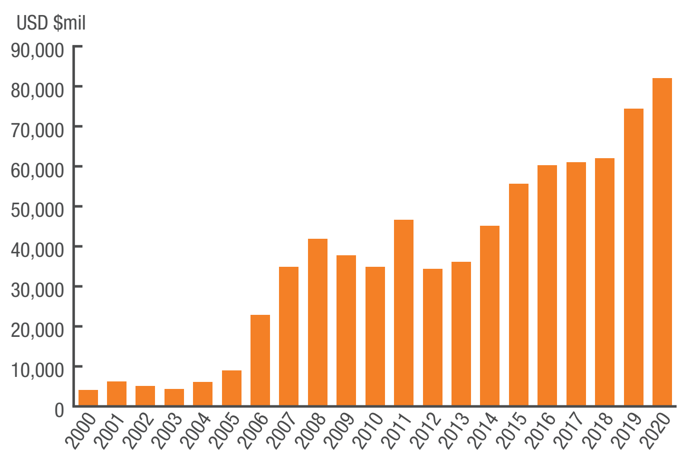
India

Despite India undergoing one of the most severe COVID-19 outbreaks, Indian equities delivered some of the strongest returns in the region in 2021. Daily new COVID-19 cases have continued to trend down from peaks of around 400,000 in May to less than 9,000 by the end of November. The improvement was supported by the country's impressive vaccine rollout, which at one point saw up to 10 million vaccines administered per day. The government demonstrated a measured response concerning fiscal stimulus last year and instead focused on extending its Production Linked Incentive (PLI) scheme to promote domestic manufacturing. This prudence has proved to be the right move, and its success is now manifesting in the form of substantial foreign direct investment (FDI) flows and job creation. By early 2022, we expect vaccination rates in India to reach critical mass and recovery to gather further strength at this time.

India has now set a target to achieve net-zero emissions by 2070 — the first time the country has made such a pledge. Despite the extended timeline versus peers, the commitment is seen as in the right direction and will allow India to balance its climate ambitions while pursuing economic growth. Another area where we see long-term opportunity is in India's internet sector. We believe the industry is now at an inflection point and about to witness hyper-growth in the coming years as tech companies continue to disrupt traditional services. The COVID-19 disruptions throughout 2020-21 have provided significant tailwinds for internet companies. As many of these digital businesses come of age, we see exciting opportunities in the robust pipeline of Indian technology IPOs, especially within key internet verticals such as fintech, food delivery, and e-commerce.

While other leading economies face the issue of managing an aging population, India has one of the youngest populations globally. We expect this large working population to provide a tailwind for strong economic growth over the coming decades. As urbanization rates continue to rise along with strong wage growth, we believe India's rising aspirational consumer class will likely lead to sustained growth in discretionary consumption. We already observed the start of this trend in 2021 when new housing registrations in Mumbai reached a 10-year high in October, indicating positive signs for a recovering market and likely demand for other consumer durable goods. Housing affordability, which has consistently improved since 2013, has also supported this trend. Overall, we believe there are limited historical excesses which, coupled with low levels of household leverage, should enable rapid and ongoing recovery well into 2022.

Annual FDI Inflows to India Continued to Grow at Significant Rate (USD$mil)

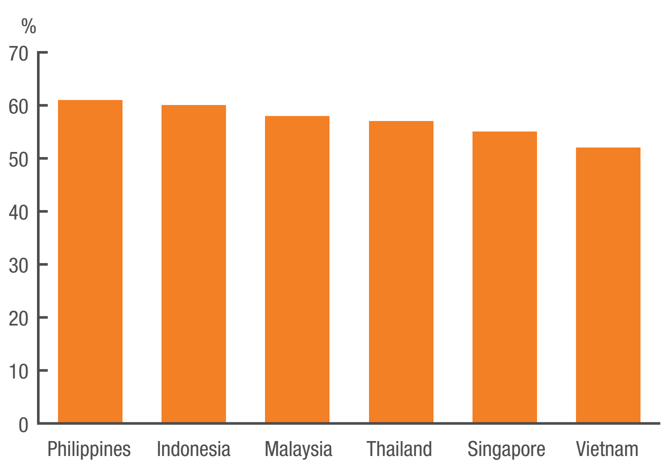


Source: Government of India, June 2021.

The Association of Southeast Asian Nations (ASEAN)

In 2021, Southeast Asian countries lagged in containing the Delta-variant outbreak, leading to a halt on growth across the region. Vietnam, for example, saw its labor-force participation rate fall to a 10-year low while the unemployment rate reached 10-year highs due to COVID-19 related restrictions in the third quarter. Vaccination programs were initially slow to roll out within ASEAN countries. However, vaccination rates have since expanded to be on par with other Asian countries, enabling policymakers to focus on reopening their economies. Moving into 2022, we are optimistic about the rebound of ASEAN countries as 1) reopenings should promote a recovery in domestic demand, and 2) reopenings will allow workers to return to work, lifting production levels and, subsequently, help alleviate supply-side constraints. Increased production will allow these economies to participate more meaningfully in the global export boom, especially in the lead-up to the Regional Comprehensive Economic Partnership (RCEP), which comes into force in January 2022. The RCEP is set to be the world's largest trade bloc (covering China, South Korea, Japan, Australia, New Zealand, and the 10 ASEAN countries), accounting for 30% of the world's population and output and more than a quarter of global trade. This trade agreement is a positive catalyst for ASEAN equities, particularly in Vietnam, Malaysia, and Indonesia. We believe these countries are well-positioned to potentially benefit from the increasing supply chain shift to the region. An increase in manufacturing jobs should drive income growth and urbanization, creating further opportunities for consumer sectors.

ASEAN Trade with RCEP Countries



Source: CEIC Data, JP Morgan December 2021.

Latin America

General Overview

Latin America's 2022 outlook rests on the balance among political uncertainty, global demand, and higher commodity prices. Higher US interest rates and a stronger USD pose a headwind to the region, but a recovery in global activity led by COVID-19 vaccinations could translate into foreign direct investment and jobs growth. Brazil's outlook depends on both the current administration's commitment to fiscal orthodoxy and the outcome of the 2022 Presidential election. Mexico should benefit from the continued US recovery, while Colombia's outlook relies on energy prices and the outcome of May's elections. Chile and Peru could both benefit from strength in metals prices which could lead to increased investment and GDP growth; however, both countries continue to digest recently elected and controversial Presidential mandates. We believe Argentina will face significant challenges for several years until elected officials shift back to economic orthodoxy.

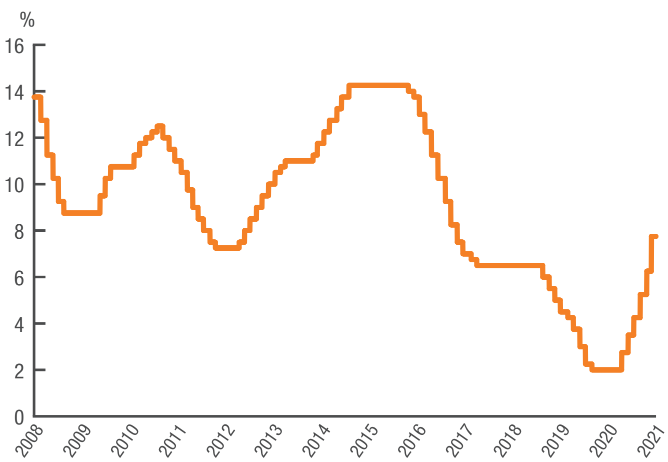
Brazil

Though Brazil faces a precarious 2022, risks appear priced into valuations. Despite climbing almost 15% in the first half of 2021, the MSCI Brazil Index is now down 20.85% year-to-date as of November 30th and has shown some of the worst performance across EM. Brazilian asset prices have fallen due to a combination of factors, including:

1. *A polarizing 2022 Presidential election leaving the door open for a potential return of former President Lula and the Worker's Party*
2. *Alteration of the spending cap signaling that the current administration has abandoned its commitment to fiscal orthodoxy*
3. *An economic slowdown in China leading to less demand for Iron Ore and agricultural products*
4. *Increasing inflation leading to an early rate hiking cycle from the Central Bank.*

The above factors led to a significant market correction, and Brazilian equities now trade at roughly 7.4x earnings, which is over two standard deviations below its historical average of 11x P/E. This correction makes Brazil the third cheapest country in EM behind Russia and Turkey.

Brazil Selic Target Rate



Source: Bloomberg, as of 11/30/21.

At the same time, the expected ROEs for Brazilian equities have hit 5-year highs, above 21% as of November 30, 2021. In terms of politics, we see two main risks. The first is that President Bolsonaro continues spending to raise his popularity ahead of the presidential election. The second risk is a Lula victory in October and the former President taking fiscal orthodoxy off the table. Current President Bolsonaro and former President Lula appear most likely to reach the second round of the election, and having locked in their respective voter bases, they should begin to appeal to the center. We have already seen Lula look incrementally pragmatic, showing concern around inflation and distancing himself from the economic proposals of the Worker's Party, which is a positive catalyst. An outside candidate progressing to the second round would also help sentiment, but this is a low probability scenario. The economic landscape could present another positive catalyst as well. Brazil's Central Bank has been a first mover, tightening interest rates since March. This timeline means the inflection of interest rate flattening could happen in Brazil first as well. Once inflation subsides, the conversation could turn to lower rates and falling risk premiums. All of which we believe would be positive for equities.

From a COVID-19 perspective, Brazil has turned the bad numbers around and has joined the leaders across EM with close to 80% of Brazilians having received at least one dose of vaccine and 63% fully vaccinated as of November 30th, 2021. Brazil is ahead of the US in the share of fully vaccinated people and has surpassed Germany, the United Kingdom, and Israel in terms of partially immunized citizens. Overall, Brazil should face a volatile 2022. Valuations are pricing in negative scenarios, but positive catalysts could change sentiment quickly.

Expected
ROEs for
Brazilian equities
have hit 5-year highs,
above 21%

Mexico

Mexico has outperformed the MSCI EM and the MSCI Latin America Indices year-to-date as of November 30th, 2021. The country's robust fiscal performance versus other EM countries and its strong ties to the US economy have driven outperformance. We anticipate this trend to extend into 2022 as Mexico continues to see positive tailwinds from a robust US economy and more expected near-shoring from China. As global supply chains move towards normalization, we should see a boost to auto and electronic manufacturing sectors, followed by a combination of wage growth and foreign direct investment. Politically, we saw Mexico's legislative elections in 2021 as a positive sign for President Lopez Obrador going into the second half of his mandate. This political solidarity should reduce the risk of market-unfriendly policies. However, potential electricity and infrastructure reform and institutional erosion remain concerns moving into 2022.

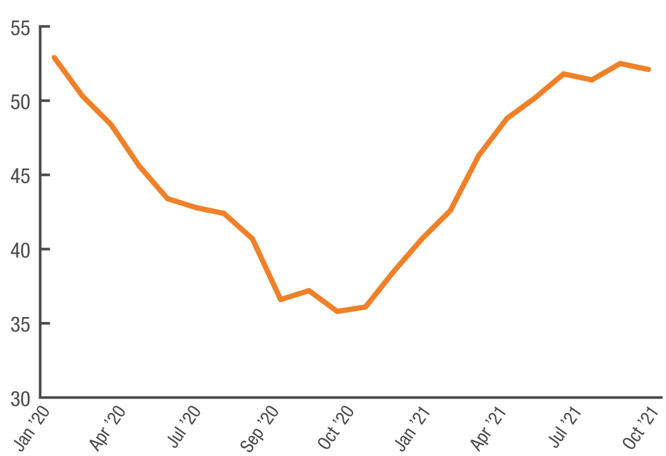
Andean Region (Colombia, Peru, Chile, and Argentina)

Big picture, a rebound in global demand and strong commodity prices could support the Andean region, but political changes should create both risks and opportunities in each country.

Argentina, which was recently removed from the Emerging Markets Index, stands at an interesting juncture. November's mid-term elections showed the worst result in Peronism's history, with voters unsatisfied with the government's response to the COVID-19 pandemic and its lack of fiscal restraint. Although we see this as a positive overall step for the country's governability, we remain cautious that the Fernandez-Kirchner leadership might use the setback as a catalyst to double down on populism to garner more votes two years from now. In addition, with an uncertain IMF negotiation looming, inflation near 50%, and a large fiscal deficit, Argentina still presents an unstable investment landscape.

The Peruvian economy rebounded strongly in 2021, but we see political uncertainty as a significant risk in 2022. President Castillo, the left-wing candidate elected in mid-2021, continues to suggest further government regulation, especially in Peru's metals and mining industry. Furthermore, tensions between Congress and the Presidential office remain, with the opposition in Congress introducing a motion to impeach the President. On the positive side, Peru's Central Bank has begun hiking rates to protect the currency and limit the risk of high levels of inflation. In terms of fundamentals, high copper prices should boost economic growth, as economic activity tends to lag price increases by eighteen months.

Argentina Consumer Price Index Year-Over-Year (%)



Source: Bloomberg, as of 10/31/21.

After Chile's presidential election in December 2021, we see President Boric's victory translating into increased government spending, market intervention, and less foreign investment, which could drag growth prospects for 2022. However, GDP should benefit from higher consumption due to elevated consumer savings rates following the recent pension withdrawals. Although COVID-19 restrictions remain, the vaccination rate in Chile is high with 85% of the population fully inoculated as of November 30, 2021, which should allow the Chilean economy to further reopen in 2022, sparking growth in the services sector.

IIn Colombia, we believe the economy should benefit from recent fiscal reforms along with higher energy prices. Still, the outlook remains uncertain ahead of the presidential election in May. The fiscal deficit, which remains above 8% of GDP, continues to limit fiscal stimulus and, therefore, economic growth. However, higher oil prices should help alleviate fiscal pressure and attract foreign investment. Furthermore, Colombia's Central Bank has been raising their key rate, supporting the currency and limiting upside pressures to inflation. However, as a result of the political situation, we remain cautious despite the improving fundamentals.

EEMEA

General Overview

EEMEA boasts a wide range of opportunities based on discounted multiples, strong demand for natural resources, improving geopolitical rhetoric, and sound domestic consumption stories. We are most optimistic about Greece due to the combination of a stable economic backdrop, market-friendly political leadership, a healthy banking sector, and the tourism-led recovery. We also see opportunities in Russia driven by attractive valuations and macroeconomic tailwinds. The Middle East, benefitting from higher energy prices and USD currency pegs, looks healthy in the current cycle. Turkey's political and monetary uncertainty translates into a difficult investment scenario. South Africa remains structurally challenged, but we believe the market could rally as flows move back into more cyclical countries. Lastly, we believe that Poland, Czech Republic, and Hungary, have strong domestic structural stories, but the lack of stability around the European Union (EU) looms over their outlooks.

Russia

Russia boasts, arguably, the best fundamentals in EM. High oil prices have allowed the country to maintain its substantial fiscal and current account surplus while the Finance Ministry's "Budget Rule" provides a stable currency regardless of external factors. Unemployment and inflation rates remain in the mid-single digits and the Central Bank was one of the first to begin hiking interest rates this cycle, putting Russia ahead of the curve in controlling higher prices.

Russia faces headwinds as well. Although we believe the Biden administration wants to ease relations between the two countries, Ukraine-related tensions remain elevated heading into 2022. COVID-19 remains another uncertainty in Russia, with only one third of their eligible population fully vaccinated, despite the widespread availability of the Sputnik V vaccine. The population's reluctance to get vaccinated could result in decreased levels of tourism as well as further COVID-19 restrictions and lockdowns, which would weigh on future economic growth.

Despite these risks, Russian equities should have the capacity to withstand market volatility. Russian equities trade at roughly 6x earnings and 1x book value, with a 9.2% dividend yield and average debt-to-equity levels below 25%.[10]

South Africa

After benefitting from a cyclical rebound in 2021 driven by higher prices in key materials, South Africa's outlook for 2022 appears less certain. As an importer of energy, the country faces a weaker trade deficit, when imports exceed exports, translating into a weaker Rand. Currency weakness could lead to higher inflation and more interest rate hikes, slowing 2022 growth prospects. South Africa's GDP also suffers from ongoing load shedding, which are state-sanctioned regional power blackouts, as the country awaits more meaningful energy reforms. From a monetary policy perspective, the Central Bank kicked off its policy rate normalization cycle in November with a 25bp hike. We see this as a prudent move to stay ahead of inflation, but also as a headwind for growth. On the positive side, the Medium Term Budget Policy Statement (MTBPS) showed a good balance between spending recent gains and retaining a consolidation path to eliminate the primary deficit within two years. However, we see additional funding needs for state-owned enterprises (SOEs), significant unemployment challenges, and structural issues facing education, inequality, and corruption as notable headwinds.

Russia's population's reluctance to get vaccinated could result in decreased levels of tourism as well as further COVID-19 restrictions and lockdowns, which would weigh on future economic growth.

Turkey

Turkey continues to face a challenging environment as political interference with the Central Bank, rising inflation levels, and geopolitical tensions continue to weigh on the country's growth outlook. President Erdogan's recent appointment of three new members to the Central Bank and the subsequent interest rate cuts amid a high and rising inflationary environment caused the currency to depreciate to all-time lows against the USD. Then, in December, President Erdogan replaced the country's Finance Minister with Nureddin Nebati, a strong supporter of the President's low interest rate drive. Geopolitical tensions have also weighed on the currency amidst Turkey's ongoing dispute with Greece and diplomatic spats with many Western countries presenting additional risks for Turkish assets. We do not expect a significant shift in Turkey's foreign policy in 2022, with the next Presidential election set to take place in 2023. On the positive side, high vaccination rates have sparked a rebound in the tourism industry, which should continue to improve the current account balance despite elevated oil prices (Turkey is an energy importer).

[10] MSCI Russia Index. Bloomberg, as of December 17, 2021.

Middle East and Northern Africa (MENA)

The Middle East presents a solid economic backdrop going into 2022 for two reasons. First, most of the region benefits from the current high oil price environment. Second, most currencies in the region are pegged to the USD, meaning those countries should benefit from a stronger USD and their bank-heavy markets should see margin improvements with higher interest rates.

The Kingdom of Saudi Arabia largely benefited from the strong rise in oil prices in 2021. The government has also remained fiscally restrained and committed to its reform agenda regardless of higher oil prices, which should present a clear path for longer-term sustainable growth. Fundamentally, strong commodity prices and the government's push into the tourism sector will support the current account balance and the country's investment case. We anticipate the United Arab Emirates (UAE) to benefit from the mentioned economic backdrop and the resumption of tourism across the Middle East and Asia. The UAE boasts significant traffic from all continents and should be a key beneficiary from the reopening. Despite its recent upgrade from the MSCI Frontier to Emerging Market Index, Kuwait remains a niche investment case. In Northern Africa, Egypt stands out as an attractive investment case with tailwinds from a potential recovery in tourism. However, the country's low vaccination rate will continue to limit demand from international tourism.

Emerging Europe

We remain optimistic on Greece moving into 2022 as the government continues with its growth-oriented reform agenda. This agenda includes measures such as lowering the corporate tax rate from 24% to 22% in 2022 and lowering the sales tax on many goods and services until June to help households offset the expected rise in food and power costs. Even after several positive revisions to its 2021 GDP growth estimates, Greek GDP for 2022 is estimated to grow at a 4% growth rate in 2022, as Greece's largest industry, tourism, continues to recover. After several years, the country's financial sector has also seen notable improvement with banks nearing single-digit nonperforming exposure (NPE) ratios. The sector's focus is now turning towards driving sustainable growth and returns. Lastly, Greece has navigated EU politics well and should continue to see Recovery Fund disbursements throughout the year.

Greek GDP 2022

is estimated to grow at a

4% growth rate

as the tourism industry continues to recover

The CE3, which includes Poland, Czech Republic, and Hungary, has shown proactively frontloaded policy responses to high inflation rates. Though these bank-heavy markets have benefitted from the higher associated yields, higher rates ultimately create a burden on growth. On the positive side, the prudent central bank responses should lead to lower inflation towards the back half of 2022. In addition, these countries should benefit from forthcoming EU Recovery Fund disbursements. We anticipate Poland to maintain its robust 5% growth in 2022 as investment growth should offset slowing consumption growth while inflation converges towards the Central Bank's target. Hungary's more open economy exposes it to current supply chain disruptions, which may impact growth in the first half of 2022. However, loose fiscal policy ahead of this spring's general elections coupled with a 20% increase in the minimum wage should support consumption despite the tighter financial conditions. Supply chain constraints have impacted the Czech Republic but a recovery in export growth in 2022 should help deliver support to the economy even as domestic demand moderates due to the increased savings rate. Despite the positive outlook for the region, we continue to monitor for headwinds around nationalism, immigration policies, and political instability, which might create volatility for the region's structural growth.

About Mirae Asset Global Investments

Mirae Asset Global Investments manages investment strategies for clients across the globe. With over $228 billion in total assets under management, and over 800 employees, including 209 dedicated investment professionals,[11] Mirae Asset offers a breadth of emerging markets expertise. Mirae Asset's offices are located in Australia, Brazil, Canada, China, Colombia, Hong Kong, India, Japan, South Korea, the U.K., the United States and Vietnam.

We focus on actively managed emerging market-focused 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[12] 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 understanding of companies and the cultures in which they operate.

[11]As of November 30, 2021.
[12]Investments and Pensions Europe, 2021.

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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.

Book value of a company is the net difference between that company's total assets and total liabilities.

Budget Rule is a financial rule adopted by the Russian monetary authorities in 1961 to reduce the negative consequences of oil price volatility on the Russian economy. The 'Budget Rule' imposes a long-term restriction on fiscal policy through quantitative restrictions on budget indicators.

Capital expenditure (CapEx) is a payment for goods or services recorded on the balance sheet instead of expensed on the income statement.

Carry Trade is a trading strategy that involves borrowing at a low-interest rate and investing in an asset that provides a higher rate of return.

Compounding Returns is the process in which an asset's earnings, from either capital gains or interest, are reinvested to generate additional earnings over time.

Current Account Balance of payments is a record of a country's international transactions with the rest of the world.

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

Debt-to-equity (D/E) ratio compares a company's total liabilities to its shareholder equity and can be used to evaluate how much leverage a company is using.

Dividend yields is a financial ratio that tells you the percentage of a company's share price that it pays out in dividends each year.

Dollar Pegged Currency is when a country maintains its currency's value at a fixed exchange rate to the US dollar.

Earnings Per Share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability.

EBITDA or earnings before interest, taxes, depreciation, and amortization, is a measure of a company's overall financial performance.

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

GINI coefficient is a measure of statistical dispersion intended to represent the income inequality or the wealth inequality within a nation or a social group.

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.

Growth investing is an investment strategy that involves finding stocks that are expected to grow at above-average rates compared to the broader market.

International Monetary Fund (IMF) is an international organization that promotes global economic growth and financial stability, encourages international trade, and reduces poverty.

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. You cannot invest directly into an index.

MSCI Emerging Markets ESG Leaders Index captures large and mid cap companies across 26 emerging market countries with high Environmental, Social and Governance (ESG) performance relative to their sector peers. You cannot invest directly into an index.

MSCI Russia Index is designed to measure the performance of the large and mid cap segments of the Russian market.

Near-shoring is the transfer of business processes to companies in a nearby country.

Net Debt-to-EBITDA Ratio is a debt ratio that shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.

Nonperforming exposure (NPE) is a loan in which the borrower is default and hasn't made any scheduled payments of principal or interest for some time.

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.

Selic Rate the weighted average interest rate of the overnight interbank operations carried out at the Special System for Settlement and Custody in Brazil.

Standard Deviation measures the dispersion of a dataset relative to its mean and is often used as a measure of the relative riskiness of an asset.

Spread refers to the difference between two prices, rates or yields.

State-owned Enterprise (SOE) is an entity formed by the government for the purpose of engaging in commercial activities

Taper Tantrum refers to the 2013 collective reactionary panic that triggered a spike in U.S. Treasury yields, after investors learned that the Federal Reserve was slowly putting the brakes on its quantitative easing program..

Value is the monetary, material, or assessed worth of an asset, good, or service.

Value investing is an investment strategy that involves picking stocks that appear to be trading for less than their intrinsic or book value.