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2023 Emerging Markets Outlook:

Preparing for Take-Off

MIRAE ASSET
Global Investments

W. Malcolm Dorson
Senior Portfolio Manager
Mirae Asset Global Investments (USA)

Rahul Chadha
Chief Investment Officer
Mirae Asset Global Investments (Hong Kong)

am.miraeasset.com.hk

Executive Summary

Looking into 2023, we see pockets of significant upside potential within Emerging Market (EM) equities. Broadly speaking, we see three key positive catalysts:

1. The reopening of China's economy: The Chinese Communist Party (CCP) began signaling changes to its zero-Covid Policy in November and continued to loosen controls through the first half of December. We see this as a powerful catalyst for domestic Chinese cyclicals.

2. A turn in US economic data translating into a weaker US dollar (USD): We are keeping a close eye on US unemployment, as any signal of weakness could translate into near term softness in wages and service inflation. This could allow the US Federal Reserve (Fed) to signal forthcoming adjustments to its monetary policy.

3. Incremental GDP growth in favor of EM: A China reopening, rates coming down in Latin America, the Gulf Cooperation Council continuing its IPO surge, all while the US hikes rates into a potential recession should create a powerful backdrop for EM outperformance.

These developments could translate into a significant uptake for EM allocations. Furthermore, EM equities remain significantly under-owned. The MSCI ACWI+FM benchmark has a 11.7% allocation to EM, but global equity investors still carry only 4.7% exposure.[1] We believe this 700 basis points underweight positioning, combined with discounted valuations, higher growth rates, and higher dividends sets up an opportunity for strong inflows in 2023. Note that EM has led other asset classes coming out of the previous four US recessions.

Despite these tailwinds, active management remains vital, as the asset class also carries pockets of risk. We expect performance within EM to diverge, with companies that focus on sustainable returns above their cost of capital, proven management teams, and conservative balance sheets outperforming. Generally, we see opportunities for domestic cyclicals in China, bank and tourism names across ASEAN, sector leaders in India, defensive consumption names in Brazil, and financials and e-commerce across Mexico.

In terms of risks, we note that energy and materials still represent roughly 15% of the MSCI EM Index. Though we see supply side price support for commodities, this could weaken with signals of diplomacy coming out of Ukraine. On the demand side, we see appetite from both the US and Europe continuing to weaken as rates rise and developed economies slow down. This same theme could apply to manufacturers/hardware producers in Northern Asia. These trends can create headwinds for information technology manufacturers as well as commodity exporters. A full rebound out of China would partially offset these headwinds, but we remain wary of the unknown and prefer to focus on domestic structural stories.

EM has led global equity rallies out of US recessions in the 1) early 1990s, 2) 2000s, 3) the Global Financial Crisis, and 4) the pandemic

SECTOR	INDEX	1993	2003	2009	2020	2022
Commodities	Bloomberg Commodity Index	-4.04	22.66	18.72	-3.50	18.12
Dividends	Dow Jones US Select Dividend Index	14.59	30.16	11.13	-4.56	-8.98
Municipal Bonds	Bloomberg Municipal Bond Index	12.29	5.31	12.91	5.21	-11.40
HY Debt	iBoxx USD Liquid High Yield Index	N/A	19.58	44.46	4.66	-13.01
Dow Jones	Dow Jones Industrial Average	16.95	28.25	22.68	9.72	-18.08
EM Fixed Income	Bloomberg EM USD Aggregate Bond Index	37.07	26.93	34.23	6.52	-20.24
IG Debt	iBoxx USD Liquid Investment Grade Index	N/A	7.28	12.79	11.30	-20.98
Small Caps	S&P Small Cap 600 Index	N/A	38.78	25.52	11.24	-21.09
S&P	S&P 500	10.07	28.67	26.45	18.39	-22.70
EM Equities	MSCI Emerging Markets Index	71.26	55.83	78.92	18.79	-25.14
European Equities	MSCI Europe Index	29.28	38.54	35.83	5.38	-28.15
	Start Date	12/31/92	12/31/02	12/31/08	12/31/19	12/31/21
	End Date	12/31/93	12/31/03	12/31/09	12/31/20	10/8/22

Source: Bloomberg.

[1]EPFR Global, Thomson Reuters Datastream, HSBC calculations, Mirae Asset, data as of August 31, 2022.

Past performance does not guarantee future results. Index returns are not indicative of the Funds' performance. For current Fund performance, please call 877-647-2301. There can be no guarantee that any strategy (risk management or otherwise) will be successful. All investing involves risk, including potential loss of principal.

Key Events & Trends

China Reopening

China was the last major economy to emerge from Covid-19 lockdowns and we believe that the recent adjustments in policy represent a key positive catalyst for both China and all EM economies. The CCP has recently began adjusting its language and policies around the containment of COVID-19. In this regard, we note:

- *Chinese authorities released twenty new guidelines for easing zero-Covid policy restrictions, which included reducing the required quarantine period for both positive cases and tourists.*
- *Chinese authorities eased COVID testing requirements across major cities.*
- *Xi Jinping commented that Omicron is less deadly than Delta, which makes the CCP more open to relaxing restrictions.*
- *A quicker-than-expected reopening of Hong Kong.*
- *Macau reopening to mainland Chinese tourists for the first time in almost three years.*
- *Resumption of the Beijing Marathon on November 6th after being canceled for the last two years.*
- *Chinese airlines announced an increase of international flights into year-end.*
- *President Xi planning more overseas trips, including the G20 and APAC summits.*
- *China has announced it will host the Asian Games in 2023.*
- *The National Development and Reform Commission issued "Several Policies and Measures on Focusing on the Manufacturing Industry to Promote the Increase of Foreign Investment, Stabilize the Stock and Improve the Quality". Among them, it proposes to facilitate international business personnel exchanges.*

China's reopening should act as a key tailwind for the asset class, especially for consumption-related names across Asia.

Looking at US Economics

The US consistently reported higher-than-expected inflation data through 2022, which has led to an incrementally more hawkish US central bank. With four consecutive 75 basis point moves, the Fed has hiked interest rates higher and quicker than most economists' initial expectations. We believe that central bank policies are beginning to work, as demand destruction has begun to translate into lower prices in shipping, gasoline, vehicles, and housing. Covid-19 related supply side disruptions are also beginning to fade, which should also lower prices. These are signs that inflation moderation is underway, and could become more evident towards the beginning of 2023. In addition, restrictive monetary policies are affecting the US consumer, which should translate into difficult US earnings, and eventually lead to a looser labor environment. Weaker employment numbers will be key, as this will affect wages, and eventually service inflation. This should be a key driver for softer monetary policy. The Fed is unlikely to cut interest rates anytime soon; however, the key adjustment is the size of the incremental hike, not the direction. Signals of smaller hikes and an eventual pause could act as a key catalyst for a weaker US Dollar and benefit EM equities.

Interest Rates and the US Dollar

To understand why an adjustment to Fed rhetoric should help EM performance, we must first understand why higher rates act as a drag. Higher US interest rates create two challenges for EM equities. First, overall EM equities offer a structural story based on promises of high growth and maturation over a multi-year period. This means high duration. When interest rates move up, investors must revisit their models with higher costs of capital — meaning they are discounting their future cash flows at higher rates, which leads to lower valuations. Second, higher US rates tend to attract flows, which creates a stronger US dollar environment. Historically, EM equities have displayed an inverse relationship to the dollar (gaining roughly 4% for every 1% downwards move of the USD). This correlation is due to both:

- *The inverse relationship between the USD and commodity prices, and*
- *EM countries and the companies within them have historically funded their growth prospects with USD debt.*

Though the USD has strengthened over 11% year-to-date (YTD),[2] we've seen that it is normal for the currency to appreciate in the months leading up to the start of a Fed hiking cycle, but weaken in the months after. Prospects of a weaker USD could signal healthier balance sheets, lower interest expenses, and higher earnings revisions — all positives for EM equities and similar to what we have seen in past cycles. In fact, looking back at data between 1999 and 2022, EM equities have outperformed, on average, by 8% and 10%, the 6 and 12 months after initial Fed rate hikes, respectively.[3]

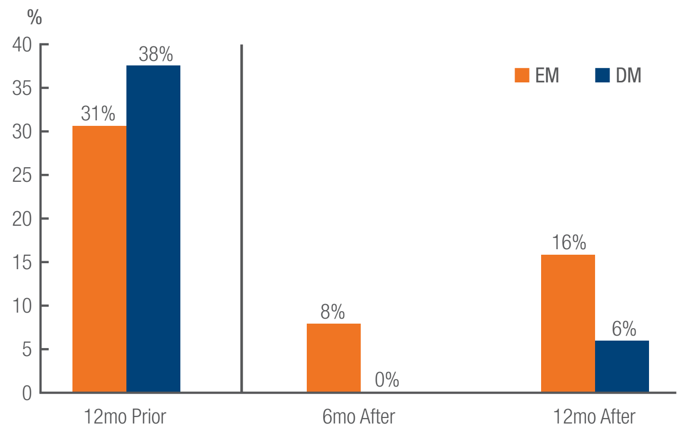
[2]Bloomberg, as represented by the DXY Index. As of 11/15/2022.
[3]Bloomberg, as of 9/30/2022.

Growth to Outperform Value in EM

Looking ahead to 2023, we see growth outperforming value due to differing sector exposures, US interest rates, and politics. First, value companies tend to fall within energy, materials, manufacturing and banks. The first three sectors should benefit from strong developed market economic growth which drive higher utilization rates, and margin expansion. Thus, value companies tend to be more exposed to a potential US and European economic slowdown. In regards to financials, banks face exposure to eventual falling interest rates (especially in Latin America), deteriorating asset quality in Emerging Europe, and state-interventions in China. Second, growth names have recently underperformed due to pressure from inflation-led rising interest rate expectations. However, after the robust magnitude of hikes in 2022, the Fed and most global central banks are nearing the end of their respective hiking cycles. Furthermore, we expect these hikes to start to weigh on US employment, which should diminish the pressure on the service sector and allow the Fed to change their monetary policy. We see this as a key catalyst for growth outperformance. Finally, the EM Value Index has a large share of exposure to state-owned enterprises, which we see underperforming due to increased political intervention, especially with Latin American politics swinging to the left and China's trend towards geopolitical isolation. Politics could also drive growth outperformance if any kind of diplomacy were to be reached in Ukraine (as supply disruptions would slow down and lead to lower pricing), but this is not our base case.

After the robust magnitude of hikes in 2022, the Fed and most global central banks are nearing the end of their respective hiking cycles.

Average Returns for EM and DM Equities Before and After Initial Federal Reserve Rate Hikes 1999-2022



Source: Bloomberg, as of 3/31/22. EM=MSCI EM Index, DM= S&P 500.
12mo Prior (6/30/98-6/30/99; 6/30/03-6/30/04; 12/16/14-12/16/15 3/16/21-3/16/22)
6mo After (6/30/99-12/30/99; 6/30/04-12/30/04; 12/16/15-6/16/16, 3/16/22-9/16/22))
12mo After (6/30/99-6/30/00; 6/30/04-6/30/05; 12/16/15-12/16/16)

Headwinds and Tailwinds Across the Emerging Markets

Headwinds

- Higher than expected US inflation and corresponding monetary policy
- Escalating tension between the US, China, and/or Russia

Tailwinds

- A reopening in China
- A tapering of rate hikes from the US Federal Reserve
- Stable commodity prices

Asia

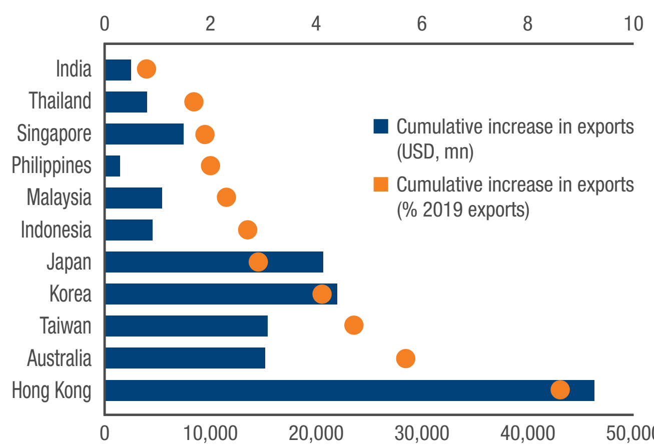
General Overview

While global growth will likely slow in 2023, Asia looks to be a positive counterweight. This is especially true for China, where we see growth accelerating as authorities soften the zero-Covid policy and introduce easing property measures. For the rest of Asia ex-China, although headwinds from external demand still exist, the easing of financial conditions in 2023 should extend the runway for growth in domestic demand, which we expect will drive Asia's outperformance.

Like the rest of the world, emerging Asian economies were not immune to the stagflationary shocks of 2022. However, emerging Asia was better able to weather these shocks, as evidenced by the lower rise in inflation compared to other regions. At the same time, the step down in growth in the region (excluding China) was also more moderate.

We are optimistic about emerging Asian equities going into 2023. On the one hand, the region's earlier start on the rate hike cycle and lower inflation meant that Asian central banks should not need to tighten into deeply restrictive territory. Coupled with the easing of US rate hikes and the peaking of the US Dollar, this should lead to easier financial conditions across Asia next year. On the other hand, China's reopening remains one of the most significant upside opportunities yet to transpire – not just for China but also for the rest of Asia. For example, tourism-driven countries like Thailand and Malaysia have been among the most impacted by China's Covid restrictions, as a fifth of Southeast Asia's pre-pandemic tourists were from China.[4] In addition, a growth recovery in China should have positive spillover benefits via a boost to trade channels, given that China is the largest or second-largest trade partner to almost all economies in the region.[5] For Asia, we favor domestically-driven economies as we enter into 2023, while tailwinds to export-driven economies could appear in the second half due to China's reopening and a pickup in external demand.

China Reopening: Spillover to Asian Goods Exports



Source: General Administration of Customs, NBS, OECD STAN BTDIxE, Morgan Stanley Research, November 2022.

[4]BNP Paribas, November 2022.
[5]Morgan Stanley, November 2022.

China

After a two-year downturn, Chinese equity valuations are trading at near historical lows. At current levels, significant lockdowns seem priced in, and we see the risk-reward profile in China continuing to improve over the next 6-12 months. We believe China is nearing the end of its current earnings cycle and entering a new policy cycle. We've already seen peak regulation in the internet sector and the severe property deleveraging campaign has also ended.

Even more compelling is China's reopening story, which could be the biggest policy stimulus to its economy in 2023. The zero-Covid policy, which had worked so well at the start of the pandemic, became the bane of China's recovery efforts this year. Our base case is that a reopening will be a gradual process to minimize the risk of overloading local healthcare resources or to prevent major disruptions to broader supply chains. Vaccination efforts will be stepped up in the near term, especially for the elderly — a move regarded by experts as crucial for China to reopen fully.

As China reopens, we expect consumption to be the key driver of economic growth. Household consumption growth was sluggish in 2022 compared to pre-Covid levels. However, we anticipate this to rebound strongly after the country adjusts to a living-with-Covid approach, as we've seen from the recovery pathway of other countries. Service-related consumption, such as travel and dining, should see the most immediate boost from a reopening, while online retailers should also benefit from improved e-commerce traffic/volume. However, a full recovery of consumption growth to pre-pandemic trend levels will likely take some time.

The property sector has also seen a slew of new easing measures in recent months. Since August 2022, we've started seeing more decisive and holistic policy approaches from policymakers. For example, regulators are starting to provide a credit enhancement to select developers to support their bond issuance. Policy banks have also launched special funds of 200 billion yuan ($28 billion) to help the ongoing construction of stalled projects, which, combined with other financing support measures, ultimately lowers the chance of potential defaults and risks to the overall financial market. We welcome the policy direction and believe that ensuring housing completions, providing credit support for high-quality developers, restoring confidence in the system, and further stimulating demand to stabilize housing sales are key to averting the current cycle.

Overall, we are now more optimistic about China's market recovery as new measures should support an earnings recovery in 2023. We will remain selective in our positioning.

Northeast Asia

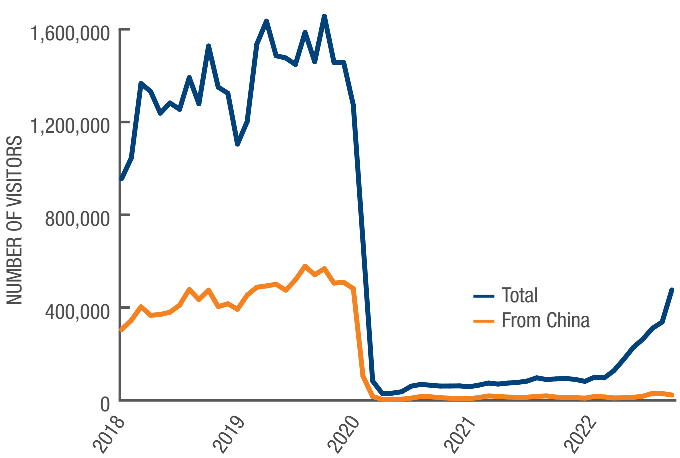
The Northeast Asian region, including South Korea and Taiwan, was battered by its higher sensitivity to the global downturn in 2022. The slowdown in global demand presented headwinds to exports for both countries, especially within the tech sector. However, when considering the longer-term global transition towards digitalization and automation, we believe that the long term structural demand for technology remains well in place. In the near term, we expect both countries to remain range-bound as the semiconductor cycle finds its way to a trough. We could, however, see a more back-loaded recovery in 2023 if external demand conditions improve, especially from China.

In China, service-related consumption, such as travel and dining, should see the most immediate boost from a reopening, while online retailers should also benefit from improved e-commerce traffic/volume.

In South Korea, labor market tightness and wage-price pressures have been more evident than its regional peers, leading to higher inflation levels in 2022. However, slowing global demand and higher interest rates from the Bank of Korea are beginning to decelerate growth and should help tame inflation closer to the central bank's target level in 2023. In terms of upside risks, we believe South Korea will be a key beneficiary of China's reopening. South Korea has a high dependence on China in terms of trade, with 25% of exports (representing 8% of GDP) going to China in 2021.[6] Though export headwinds from developed markets will likely remain in the near term, a better outlook in China could support semi-conductor and auto exports in the second half of 2023. Similarly, inbound tourism to Korea relies heavily on Chinese visitors (31% of total visitors in 2019) but came to a standstill during the pandemic.[7] Thus, we believe China's reopening will be a key bright spot to watch in 2023 to boost South Korean exports, tourism, and consumption growth.

Like South Korea, Taiwan faced headwinds from the slowing tech cycle in 2022. On top of this, ongoing tensions between the US and China have heightened Taiwan's geopolitical risk premium. US House Speaker Nancy Pelosi's visit to Taiwan in August sparked large foreign outflows from both China and Taiwan as investors sought to avoid a Russia-like write-off in their exposures. However, following the November G20 Summit, there's been an apparent de-escalation of tensions between the US and China. While geopolitical tensions have likely peaked in the near term, investors are unlikely to rule out a higher risk premium to account for longer-term uncertainties for Taiwan.

Visitor Arrivals Remain Low in South Korea, but Could Rise as China Reopens



Source: Statistics Korea, CEIC, BNP Paribas, December 2022.

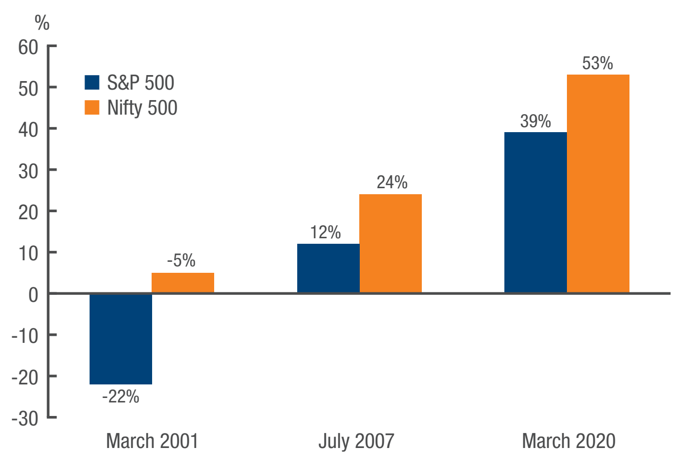
India

Despite the numerous challenges in 2022, India has been an outlier among larger Asian peers in delivering outperformance YTD. Despite this achievement, foreign institutional investors (FIIs) have net sold $18 billion of Indian equities YTD November 2022.[8] As a result, FII ownership of Indian equities (represented by the Nifty 500 Index) is now at a multi-year low of 18%, compared to 23% in 2019.[9] In the interim, domestic institutional investor flows have supported Indian equity markets and are expected to remain sticky due to domestic passive flows.

As global growth slows in 2023, this will undoubtedly have an impact on India's growth as well. However, empirical evidence suggests that India tends to fall less during a US recession and also recovers faster and stronger.[10] India's last three recessions lasted 1-3 quarters, while US recessions were much more protracted, lasting between 2-7 quarters.[11]

Following a Recession, Indian Equities Bounce Back Quicker and Stronger than the US

PERFORMANCE 4Q POST RECESSION



Source: BofA Global Research, November 2022. US Equities= S&P 500, Indian Equities= Nifty 500. Performance 4Q post recesssion.

[6]OECD, World Bank, Macrobond, IMF, UNWTO, WTTC, BNP Paribas, November 2022.
[7]Ibid.
[8]JP Morgan, December 2022.
[9]BofA Global Research, November 2022.
[10]Ibid.
[11]Ibid.

India's resilience amid a weakening global macro environment is driven by the country's focus on building strong foundations for structural growth. Over the last ten years, the Modi government has invested in rural and semi-urban infrastructure such as electrification, road and railway networks, and ensuring financial inclusion. The implementation of goods and services tax, demonetization, and the clean-up of corporate debt over the last 5-7 years, now provides India with a healthy foundation for its new cycle of growth. In addition, the digitalization of payments has led to a material rise in tax compliance and reporting, which continues to see a positive trend in tax collections and creates an efficient means of reinvestment into infrastructure projects. From a consumption perspective, India's per capita income is expected to rise from $1,178 in 2022 to $5,242 in 2031, setting the stage for a discretionary spending boom.[12]

While a global slowdown will also likely taper India's growth, we believe investors will converge to the most resilient option, and India demonstrates a compelling environment. Aside from a significant tail-risk scenario, we continue to remain optimistic on Indian equities and view it as a buy-on-dip market.

The Association of Southeast Asian Nations (ASEAN)

The ASEAN region delivered some of the strongest performance across emerging Asia in 2022, with leading earnings growth and an economic recovery accelerated by each country's respective reopening. Within ASEAN, Indonesia and Thailand have been the leading outperformers YTD, helped by strong trade flows amid geopolitical tensions and global supply issues. Despite the strong performance, the region remains under-owned, with only an average of 2% excess weight to ASEAN by Asia-mandated funds.[13]

Looking ahead, we remain optimistic about the ASEAN region, especially countries that we believe are better placed to generate domestic demand alpha. These include Indonesia and Vietnam, which are expected to be among the top 10 global consumer markets by 2030.[14] For Indonesia, a net commodity exporter, the country has benefited from improving terms of trade from higher coal and palm oil prices in 2022, though we expect this boost to taper somewhat in 2023 as commodity prices stabilize. Still, we see President Widodo's structural reform playbook as a tailwind to economic growth over the coming years, helping with job creation and boosting foreign direct investment inflows to support Indonesia's growing export market share. Strong investment growth and robust private consumption should also see Indonesia better placed amid a global downturn.

Indonesia and Vietnam Among Top 10 Global Consumer Markets by 2030

2021	2030	Mn
China	China	801
India	India	484
US	US	204
Brazil	Indonesia	120
Indonesia	Brazil	104
Russia	Russia	76
Japan	Japan	65
Germany	Mexico	57
Mexico	Bangladesh	54
Turkey	Vietnam	48
UK	Turkey	47
Thailand	Germany	47
Vietnam	Philippines	43
Korea	UK	41
Philippines	Thailand	38
Bangladesh	Egypt	34
South Africa	Korea	31
Egypt	South Africa	27
Nigeria	Nigeria	26
Argentina	Argentina	23
Malaysia	Malaysia	20
Chile	Chile	9

Source: HSBC estimates, November 2022. Mn=millions. 2021 vs 2030, population (mn) with daily income of more than USD20 (2011 PPP).

[12]Morgan Stanley, October 2022.
[13]HSBC, November 2022.
[14]Ibid.

In Vietnam, the story has not been as rosy in 2022. The Vietnam Ho Chi Minh Stock Index has fallen around 30% YTD as of November, despite its resilient economy, which is on track to deliver 7.2% GDP growth this year.[15] Crackdowns on malpractice and corruption among property developers and bond issuances, which remain an overhang on the market, drove the sell-off, while Fed interest rate hikes caused further friction by tightening the liquidity environment. In our view, the market corrections overshot, but we welcome the regulatory scrutiny, which should create a healthier bond market in Vietnam over the long run. Looking ahead, we continue to favor Vietnam as an off-benchmark play as economic fundamentals remain strong. The country is well-positioned to grow as a manufacturing hub within Asia to capture the shift in manufacturing capacity away from China.


Doha, Qatar

Latin America and Emerging Europe, the Middle East & Africa (EEMEA)

General Overview

We believe that both Latin America and EEMEA show pockets of strong performance potential. At 8.7x earnings and 5.5x EV/EBITDA,[16] the EM ex-Asia region screens attractively from a valuation perspective. Both metrics are trading one standard deviation below their historical averages. The region also pays a dividend yield above 5%. Continuation of a tight oil market bodes well for Saudi Arabia, the United Arab Emirates (UAE), Brazil, Colombia, and Mexico. A reopening based recovery to the Chinese demand story would be a powerful boost to South Africa and Latin America. Though we do not foresee it in the near term, an economic rebound in the US and Western Europe would serve as a powerful tailwind for Mexico, Poland, the Czech Republic, Hungary, and Greece. For the medium and long-term, we continue to believe that EM-ex Asia presents a strong growth opportunity due to sound balance sheets, a low earnings base, attractive valuations, and global market positioning. We believe that quality names in the region remain overlooked and that global positioning is ripe for change. This could lead to inflows and a powerful swing for EM ex-Asia. We remain positive on Mexico, as the country should benefit from US companies "nearshoring" away from China. We also see an attractive valuation window in Brazil, particularly in companies with quality business models. We are cautious Turkey in the face of President Erdogan's unpredictable behavior ahead of elections, along with a vulnerable current account deficit. We are carefully monitoring South Africa based on continued structural challenges, and a growing account deficit. We are constructive on stocks that may benefit from an earnings recovery, have quality management teams, and sustainable competitive advantages. We continue to look for opportunities where prices have dislocated from fundamentals. In broad terms, we seek companies offering above average growth at attractive valuations, with preference for high earnings visibility, and proven cash flow generation potential.

[15]World Bank, September 2022.
[16]Bloomberg, MSCI EM ex-Asia Index as of 11/15/22.

Latin America

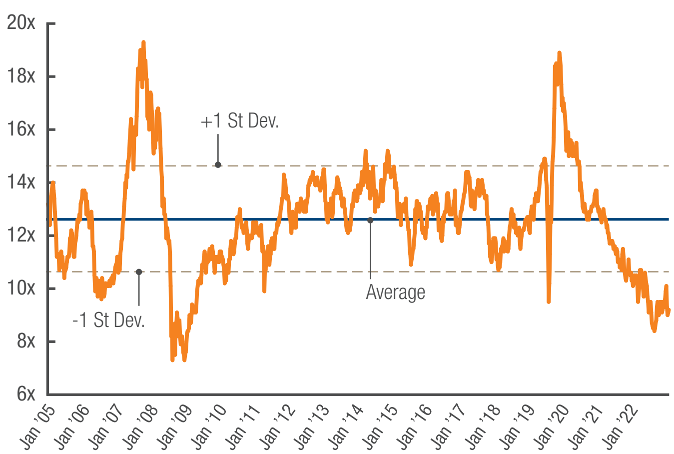
General Overview

As a region, Latin America presents an interesting market landscape. The political pendulum has swung left, as we have seen leaders like Fernandez in Argentina, Castillo in Peru, Lopez Obrador in Mexico, Boric in Chile, Petro in Colombia, and Lula in Brazil emerge with executive power. In normal circumstances, we would see these governments as significant headwinds for financial markets but today's landscape requires a more nuanced approach. Latin America benefits from higher energy prices and oil exports. If we see a strong recovery in Chinese GDP growth, Latin American countries should be key beneficiaries from a price rebound in materials. Perhaps most importantly, central banks in the region have been prudent in raising interest rates to fight inflation well ahead of the Fed. This has created a strong interest rate differential, which has and should continue to protect currencies through global market volatility. From a valuation perspective, we see Latin America as especially attractive with P/E multiples trading at 6.7x, 9.3% dividend yields, and over 20% ROEs.[17] We believe that Latin America presents a dynamic investment landscape where active management, a focus on quality, and sound risk management are paramount.

Brazil

We are constructive on Brazil but take a defensive approach with a negative outlook on state owned enterprises and a positive outlook on defensive consumption stories. Luiz Inácio Lula da Silva won a very close Presidential election, but did so with a much weaker mandate than his previous terms. With the house, senate, and slate of governors favoring more conservative values, the executive branch will have to play towards the center. This somewhat de-risks the potential of irresponsible spending and state intervention. However, volatility should remain elevated around political headlines until President Lula elaborates on his fiscal plan for the next four years. On the bright side, inflation has shown signs of turning and the Monetary Policy Committee (COPOM) has signaled the end of its rate hiking cycle. This has created a powerful real rate situation in Brazil. This positive carry trade, in combination with a steady backdrop for energy, corn, and soy prices has translated into a surprisingly attractive environment for Brazilian assets. Historically, domestic cyclical names have performed well through rate-cutting cycles. These names have lagged commodity benchmark juggernauts in the 2022 rally and could see interesting movements into 2023. We remain vigilant on stock selection as Brazilian equities have historically been a volatile place to invest. The country has seen a minimum drawdown of 17% every year since 2000, even in years when returns were positive.[18] Though Brazil stands out from the rest of the world in the form of valuations, positive real interest rates, and an advanced interest rate cycle, there is still a significant amount of uncertainty in the form of politics, inflation, commodity prices, and inequality. The lack of certainty creates opportunities for stock pickers, and we are optimistic about the prospects for our current holdings.

Bovespa P/E 12M Forward



Source: Bloomberg, XP Investimentos. Excludes Petro and Vale.

Earnings Yield (E/P Minus 10-year Interest Rates)

Source: Bloomberg, XP Investimentos.

[17]Bloomberg, MSCI Latin America Index as of 11/15/22.
[18]FactSet, Goldman Sachs Global Investments, published 4/5/2022.

Mexico

Both the Mexican Peso and the MSCI Mexico Index have remained resilient this year despite the sharp appreciation in the USD, rising interest rates and the uncertainty caused by the war in Ukraine. Mexico has benefitted from an orthodox and proactive monetary policy, with the Bank of Mexico raising its key rate from 4% in 2021 to 10% in November 2022.[19] This has helped contain inflation and created a positive real rate. We also expect continued fiscal discipline from the Lopez-Obrador administration, lending further support to the Peso. Mexico should also benefit from "nearshoring," with many companies opting to relocate their supply chains to the north of Mexico due to their manufacturing sector's clear advantages, such as being a lower cost producer than the US, China, Vietnam and India.[20] Mexico's economy does, however, remain highly linked to that of the US, which represents an estimated 75% of exports and 62% of imports.[21] Therefore, Mexico's economic growth potential is more reliant on the US growth outlook and could be adversely affected by a slowdown in the US. However, the resilience of the US labor market will allow Mexico to continue to benefit from elevated remittance payments, which totaled over $5 billion in September alone.[22] Mexico's proximity to the US has also helped fuel a strong recovery in the tourism sector, with international airline passengers standing well above 2019 levels.

Politics will remain a major topic of discussion in 2023. We anticipate some form of resolution on President Lopez-Obrador's energy reforms but we expect the impact to be mitigated by a gridlocked congress and after the US and Canada requested consultations on the matter. We are also awaiting more clarity on who will supersede President Lopez-Obrador as head of the incumbent Morena party in the 2024 Presidential elections, with Mexico City Mayor Gloria Sheinbaum currently polling as the most likely candidate. Overall, we remain cautiously optimistic on Mexico as continued fiscal restraint, an orthodox monetary policy, and continued gridlock in congress help to protect the country from the impact of a US slowdown.

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

The Andean region remains plagued by political uncertainty, which complicates the already clouded 2023 outlook. In Argentina, inflation should remain elevated unless the government makes sustainable policy changes, which we see as unlikely ahead of the October 2023 elections. While Argentina appears able to meet the International Monetary Fund's (IMF) 2022 fiscal targets, analysts forecast GDP growth to decelerate while disposable income and domestic demand are set to decline in 2023, creating a weak backdrop for domestic equities. However, with the recent conviction against Vice President Krichner, prospects for more market friendly leadership in the 2023 elections appear more likely. In Chile, voters rejected the proposed new constitution with a strong 62% majority during the September Constitutional Referendum. Although this should help drive a more moderate new constitution and temper the risk of more extreme economic reforms from the Boric Government, a widening current account deficit, declining copper prices, and persistent inflation driving restrictive rates into 2023 skew the equity risks to the downside. Furthermore, Chile allowed for the early withdrawal from private pension funds as a means of providing relief for households during the pandemic, which temporarily supported the equity market but created negative financial and confidence consequences that may arise in 2023. In Colombia, twin deficits, uncertainty over new tax reforms, and an unpredictable government policy create a difficult backdrop heading into 2023. Elevated oil prices have typically helped mitigate some of the risks related to external balances but President Petro will continue to test markets with his aggressive reform agenda. Inflation revisions continue to trend higher for 2023, which will also likely drive a higher terminal rate for Colombia's central bank. In Peru, we recently saw the removal of President Castillo, which opens the door for more moderation and less volatility in the Peruvian market. However, growth is also likely to remain below potential in Peru as investment capex has suffered from political and institutional risks. On the positive side, inflation has been declining on a sequential basis heading into 2023 and should continue to decelerate throughout the year. The 2023 Budget Law targets a 2.4% of GDP fiscal deficit with gross debt at only 34% of GDP, which is in-line with current consensus expectations.

[19]Bloomberg, as of 11/15/22.
[20]2019 Boston Consulting Group Global Manufacturing Cost-Competitiveness Index.
[21]Itau Research, Mexico Big Book, as of 4/25/22.
[22]Banxico, Bloomberg.

EEMEA

General Overview

The outlook in 2023 for EEMEA remains divided. The Middle East and North African countries, such as Saudi Arabia, the UAE, and Qatar stand to benefit from elevated oil prices, their USD pegs, and continued social reforms. South Africa's performance is likely tied to both China's reopening as well as commodity prices. We remain cautious on Turkey due to the unorthodox monetary policy in the face of rampant inflation. Greece should be able to better-manage the uncertainty present in the Eurozone due to the continued recovery in the tourism industry and improving domestic fundamentals. Poland, the Czech Republic, and Hungary remain the most affected by weakness in Western Europe and the war in Ukraine.

South Africa

We remain cautious on South Africa as elevated levels of load shedding,[23] political uncertainty and the lack of economic and social reforms continue to limit the country's economic growth potential. State-owned utility company Eskom remains troubled, with their current capacity unable to meet the needs of the grid. In order to address rolling blackouts, President Ramaphosa has outlined a series of reforms aimed at reducing the red tape around private sector energy generation and allowing companies to sell their excess capacity on the grid. Though this is a positive step, we don't expect it to mitigate the electricity supply issues in the short-term. The recent scandal involving President Ramaphosa also brings uncertainty over the future of his status as head of the African National Congress as well as his influence over the party itself. On the positive side, elevated commodity prices, especially for precious and platinum grade metals, should help support the fiscal balance, with mining representing 10% of government revenues in 2021.[24] Furthermore, Inflation remains relatively contained in South Africa, with economist expecting CPI to have peaked at 7.8% year-over-year in July, and to settle back within the central bank's 4-6% targeted range in 2023, reducing the prospect for additional future outsized rate hikes. China remains one of South Africa's largest trading partners, with the country well positioned to benefit from a potential reopening and ending of the zero-Covid policy.

Greece should be able to better-manage the uncertainty present in the Eurozone due to the continued recovery in the tourism industry and improving domestic fundamentals.

Turkey

Although Turkey has stood out as the best performing market in the world this year, we remain cautious given the 80% plus inflation rate, an opaque political outlook, and a lack of independence from the central bank. Local investors have driven this year's rally in an effort to preserve capital in a near hyperinflationary domestic environment. We do not anticipate inflation to materially decelerate given the Turkish Central Bank's commitment to their unorthodox monetary policy, cutting rates in contrast to most global central banks, leading to economists predicting inflation of 40% for 2023. Furthermore, we expect a wide current account deficit and political uncertainty ahead of the 2023 elections to act as headwinds throughout the year. However, we note that pro-growth policies ahead of elections may create opportunities for short-term relief rallies, and current polls show an increasing likelihood that President Erdogan's party will not win parliamentary majorities, decreasing the risk of further constitutional changes.

Greece

We remain positive on Greece going into 2023 despite weakness in the broader Eurozone. Domestic fundamentals have improved, with the Bank of Greece revising growth expectations from 3.2% at the beginning of the year to 6% due to the stronger-than-expected recovery in the tourism industry. The rebound in tourism has also helped the unemployment rate decline back below the 11% level. Furthermore, the banking sector has continued its turnaround, sparking the possibility of the European Central Bank allowing banks to begin paying dividends again in 2023. On the political front, the current market-friendly government will likely have strong tailwinds entering June 2023 elections on the back of well-received policies such as the increase in the minimum wage and their intervention in energy markets to lessen the impact from the war in Ukraine.

[23] Term used in South Africa to describe power being removed from the energy grid.
[24] Morgan Stanley Research 4Q21 Macro Slide Deck, 10/11/21.

CE3 (Poland, Czech Republic and Hungary)

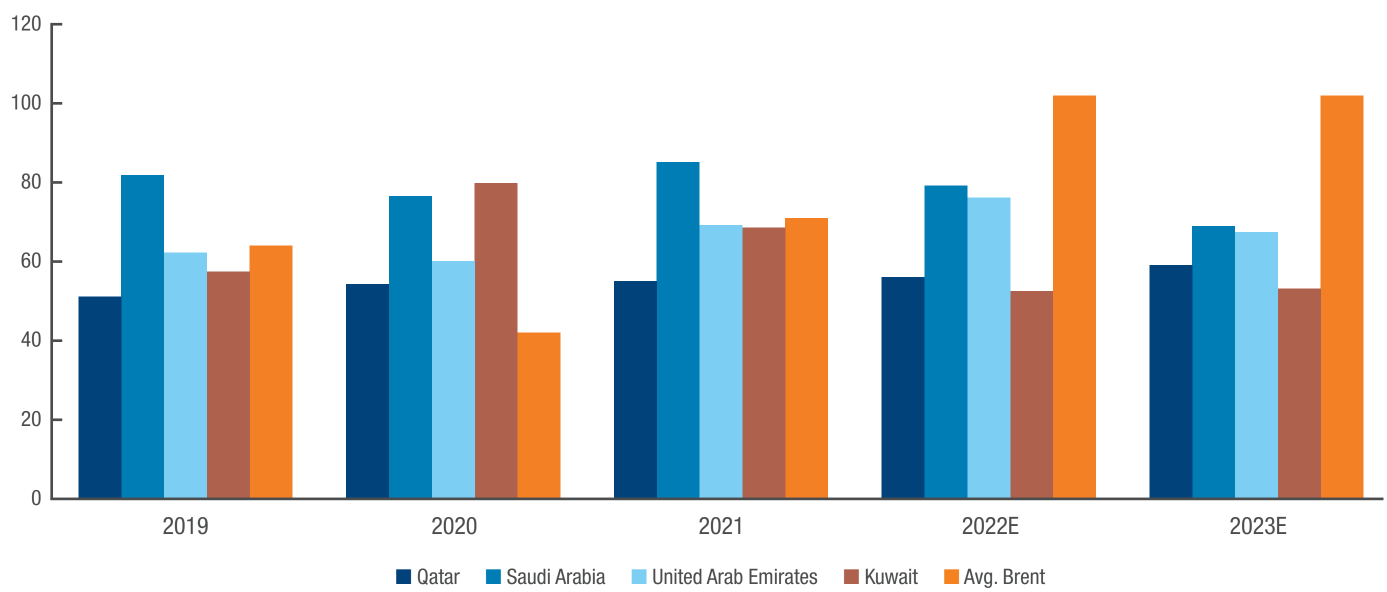
The CE3 region remains fragile as spillover risks from the war in Ukraine remain at the forefront while the EU recovery funds are at risk. Though the CE3 has proactively frontloaded monetary policy in response to the elevated levels of inflation, higher rates for longer will likely weigh on growth but we see opportunities for inflation to ebb throughout 2023. Despite trading more than two standard deviations below its historical P/E of 11.3x,[25] we remain cautious on Poland. In particular, (1) Poland's bank heavy market will be weighed down by the uncertainty over potential legislation on the Swiss Franc mortgages, which still does not have any deadline, (2) potential windfall taxes on both the banking and energy sectors, (3) a possible extension of the mortgage moratorium, (4) increasing unemployment and a weaker consumer environment in the first half of 2023, and (5) the risk of higher fiscal spending ahead of the November 2023 elections. On the positive side, the EU recovery funds remain frozen and any positive developments could act as a catalyst for the domestic Polish economy.

In Hungary, slowing growth in the last half of 2022 and persistently hot inflation, remaining in the 20-30% range (depending on the metric), has pushed the central bank to declare an end to its hiking cycle at 13%. In turn, with a difficult global and regional economic backdrop, and twin deficits domestically, we anticipate the National Bank of Hungary to continue tightening and utilizing less-traditional methods. Given the deep energy terms-of-trade shock, the recent agreement with Gazprom to allow Hungary a delay in payments for Russian natural gas for up to three years should provide some short-term relief. We also expect continued institutional friction between the Orban administration and the EU to remain an overhang. In the Czech Republic, weak wage growth compared to regional peers has driven even deeper negative real wage growth, increasing risks to further GDP deceleration. Changes at the Czech National Bank also brought a more dovish board that put an end to the current hiking cycle.

MENA (Middle East & North Africa)

The Middle East continues to present a solid economic backdrop for 2023 as most of the countries in the region continue to benefit from the current high oil price environment (the MENA region is one of the only direct plays on higher oil in EM after MSCI reclassified Russia to standalone market status) and their currency pegs to the USD. Therefore, we expect these countries to benefit from a stronger USD as oil exporters rebuild fiscal buffers and their bank-heavy markets should continue to see margin improvements with higher interest rates. Importantly, we also continue to see progress made with social reforms, which should help support longer-term growth in the region. The MENA region should continue with its massive IPO pipeline, which will likely increase the region's weight in MSCI indices over time, while providing greater opportunities for active stock selection.

MENA Fiscal Breakeven Oil Price



Source: National Authorities, IMF estimates, IMF Regional Economic Outlook, April 2022. E= estimated. MENA = Middle East North Africa.

[25]Bloomberg, MSCI Poland Index as of 11/15/22.

Saudi Arabia currently benefits from twin surpluses, roughly 8% GDP growth, 2.5% inflation, a financial system positively geared toward higher interest rates, a USD peg, and a government pushing for reforms and privatizations. We remain impressed with the country's surprisingly prudent fiscal diversification policies (Saudi's fiscal breakeven oil price has come down from over $106 to $69 a barrel)[26] and commitment to market improvements. Despite being the largest equity market in the EEMA region (32% of the MSCI EEMEA index) and the 6th largest market in EM,[27] 64% of global equity investors still do not hold a single name in Saudi Arabia. This creates an attractive opportunity for active first movers in a relatively untapped market.

In the UAE, earnings growth should continue to benefit from the aforementioned global economic backdrop along with the recovery of tourism across the Middle East and Asia. In addition, we see a resumption of a third growth driver, namely the push towards another global financial hub in the region along with their own transformational 2030 program, given improving immigration policies (e.g. golden visas) that have simultaneously supported their large real estate sector. The UAE has also benefitted from recent migratory patterns of talent out of Eastern Europe and China.

Qatar also boasts a supportive macro backdrop, with additional tailwinds from the 2022 World Cup. The country is a clear beneficiary of higher gas prices as the world continues to transition to net zero and they continue to increase their LNG (liquefied natural gas) capacity by 40% by 2026.[28]

Kuwaiti equities performed well last year after being upgraded to EM status, driven by high domestic savings, and solid local liquidity. However, opportunities are more limited now due to expensive valuations, and limited structural reform opportunities within the country.

In Northern Africa, Egypt stands out as an attractive window coming out of a new IMF bailout program, and a devalued Egyptian Pound. This opens the door for more foreign direct investment, which could build economic momentum for the country. In terms of energy, the country appears relatively neutral, as it imports oil but produces gas. Egypt should benefit from a recovery of tourism, but higher grain prices will likely remain a headwind.

In Northern Africa, Egypt stands out as an attractive window coming out of a new IMF bailout program, and a devalued Egyptian Pound. This opens the door for more foreign direct investment, which could build economic momentum for the country.

[26]Factset, Morgan Stanley Research, as of June 30, 2022.
[27]Bloomberg, as of 11/15/22
[28]Qatar Petroleum, February 2021.

About Mirae Asset Global Investments

Mirae Asset Global Investments manages investment strategies for clients across the globe. With over USD 187 billion in total assets under management, and over 800 employees, including 234 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 UAE, 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.

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[11]As of September 30, 2022.
[12]Investments and Pensions Europe, 2021.

DEFINITIONS

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta.

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.

Bloomberg Commodity Index (BCOM) is a broadly diversified commodity price index.

Bloomberg Emerging Markets USD Aggregate Bond Index is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers.

Bloomberg Municipal Bond Index serves as a benchmark for the US municipal bond market.

Bovespa Index (Ibovespa) is an index of about 50 stocks that are traded on the Sao Paulo Stock, Mercantile & Futures Exchange.

Cash Flow is the increase or decrease in the amount of money a business, institution, or individual has.

Capital Expenditures (capex) are investments in assets that will have a long life such as property, plant, and equipment.

Consumer Price Index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households.

Current account balance is the sum of net exports of goods and services, net primary income, and net secondary income.

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

Dividend Yield is a financial ratio that measures the annual value of dividends received relative to the market value per share of a security.

Dow Jones Industrial Average (DJIA) is a stock market index of 30 prominent companies listed on stock exchanges in the United States.

Dow Jones U.S. Dividend 100 Index is designed to measure the performance of high-dividend-yielding stocks in the U.S. with a record of consistently paying dividends, selected for fundamental strength relative to their peers, based on financial ratios.

Dow Jones U.S. Select Dividend Index aims to represent the U.S.'s leading stocks by dividend yield.

Duration can measure how long it takes, in years, for an investor to be repaid a bond's price by the bond's total cash flows.

DXY is the US dollar index is a measurement of the dollar's value relative to six foreign currencies as measured by their exchange rates.

EV/EBITDA is a ratio that compares a company's Enterprise Value (EV) to its Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA). The EV/EBITDA ratio is commonly used as a valuation metric to compare the relative value of different businesses.

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.

Ho Chi Minh Stock Index is a major stock market index which tracks the performance of 303 equities listed on the Ho Chi Min and Hanoi Stock Exchange in Vietnam.

Initial Public Offering (IPO) is a company's first sale of stock to the public.

Markit iBoxx USD Liquid High Yield Index consists of liquid USD high yield bonds, selected to provide a balanced representation of the USD high yield corporate bond universe.

Markit iBoxx USD Liquid Investment Grade Index is designed to provide a balanced representation of the USD investment grade corporate market and to meet the investors demand for a USD denominated, highly liquid and representative investment grade corporate index.

MSCI ACWI + FM Index captures large and mid cap representation across developed markets, emerging market countries and frontier markets.

MSCI Emerging Markets Asia Index captures large and mid cap representation across 8 Emerging Markets countries.

MSCI Emerging Markets EMEA Index captures large and mid cap representation across 11 Emerging Markets (EM) countries in Europe, the Middle East and Africa (EMEA).

MSCI Emerging Markets (EM) Index captures large and mid cap representation across 24 Emerging Market countries.

MSCI Emerging Markets Value Index captures large and mid cap securities exhibiting overall value style characteristics across 24 Emerging Markets countries.

MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe.

NIFTY 500 is India's first broad-based stock market index of the Indian stock market. It contains top 500 listed companies on the National Stock Exchange.

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

Purchasing power parity (PPP) is a theoretical exchange rate that allows you to buy the same amount of goods and services in every country.

Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI Index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

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.

S&P 500 Index is a market-capitalization-weighted index of 500 leading publicly traded companies in the U.S.

S&P SmallCap 600 Index seeks to measure the small-cap segment of the U.S. equity market.

Standard Deviation is a statistical measure of volatility and is often used as an indicator of the 'risk' associated with a return series. Standard deviation of return measures the average deviations of a return series from its mean. A large standard deviation implies that there have been large swings in the return series of the manager.

Vietnam Stock Index or VN-Index is a capitalization-weighted index of all the companies listed on the Ho Chi Minh City Stock Exchange.

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Mirae Asset Global Investments (Hong Kong) Limited ▪ 1101, 11/F, Lee Garden Three, 1 Sunning Road, Hong Kong ▪ (852) 2295 1500 ▪ **am.miraeasset.com.hk**