



**NEDGROUP**  
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# NEDGROUP INVESTMENTS GLOBAL EMERGING MARKETS EQUITY FUND

Quarter Three, 2019

For the period ended 30 September 2019

# NEDGROUP INVESTMENTS GLOBAL EMERGING MARKETS EQUITY FUND

Commentary produced in conjunction with Sub-Investment Manager, NS Partners Ltd

## Executive Summary

Global emerging markets were weaker in Q3 against a backdrop of slowing global economic activity and downgrades to earnings estimates. The MSCI Emerging Markets (EM) index fell 1.93% in local currency terms and 4.11% in US dollars. Taiwan was the strongest major market, rising 5.87%, while South Africa was the weakest falling 12.22%. IT was the only sector to make gains over the period (up 5.9%), while materials was the weakest (down 10.53%).

Our liquidity analysis has suggested that global economic momentum would bottom in Q3 and stay weak into 2020. With the Federal Reserve cutting interest rates, our strategy has focused on being underweight cyclical markets, Brazil, Korea and Indonesia for example, and overweight liquidity-sensitives, such as Thailand, China and Chile. Consensus profit growth estimates were revised lower in Q3 across regions as the global economy slowed and analysts returned from their holidays and slashed numbers. The MSCI EM revisions ratio – upgrades minus downgrades expressed as a proportion of the total number of estimates – fell to a new low for 2019. Global narrow money growth is likely to have picked up sharply in September based on data for the US and several other major economies. We expect the global economy to remain weak through Q1 2020 but prospects are improving for later in the year. The case for EM and a portfolio rotation would be strengthened by confirmation of a rise in global real narrow money growth, which would support a 2020 economic recovery scenario.

At the time of writing, an interim trade agreement between China and the US appears close as both sides want to avoid another round of tariff hikes, scheduled for October 15th. There is a desire to “reset” the talks ahead of a potential November meeting between Presidents Trump and Xi. The Trump administration has raised the possibility of restrictions on portfolio flows into China, but US direct investment has grown this year and companies are expanding to second and third-tier cities. There has been no significant recovery in Chinese narrow money growth, but domestic policy easing has been well calibrated to ensure recession forces have been held at bay. More decisive monetary policy easing may be required but the authorities are constrained by rising food prices and a weaker RMB in Q3. Inflation has been boosted by the rising cost of pork which counts for 60% of meat consumption. China’s pig population has been cut by 39% in response to swine fever epidemic. There remain long-term challenges for the Chinese banks after a long period of loan expansion due to GDP targeting and inefficient capital allocation. This will lead to lower interest rates longer term to relieve the nation’s debt servicing burden and lower net interest margins for the banking sector. The escalation of civil unrest in Hong Kong has been shocking and fortunately the Chinese government has been showing restraint so far. The prolonged disorder has negative implications for certain sectors notably global luxury where Hong Kong ranks in the top three cities for sales.

Elsewhere in Asia, the diplomatic and trade dispute between Japan and South Korea continues with many Japanese products being boycotted. Taiwan held its national day celebrations in early October, soon after China marked the 70th anniversary of the founding of the People’s Republic and Communist party rule. Beijing continues to put pressure on the independent republic to acknowledge future reunification. In India, attention has been focused on the government revoking the long-standing political autonomy of the Kashmir region bringing the country into conflict with neighbouring Pakistan. Meanwhile Mr Modi is proceeding with the liberalisation of the economy, cutting the corporate tax rate from 30% to 22% and making plans to privatise some of India’s biggest public sector companies. The economy has been slowing but is largely immune from trade tensions. Indonesia and Vietnam with their youthful demographic stand to benefit from any trade war as FDI continues to shift.

Brazil has been the target of international condemnation after fires ravaged the Amazon region. Meanwhile the Brazilian economy avoided falling into recession as GDP grew 0.4% in Q2. In Mexico, interest rates have been cut in response to lower inflation, slowing growth and Fed easing. President Obrador has surprised many by pursuing tighter fiscal policy, cutting government spending. There are signs of hope in the South African economy as recession was avoided during Q2, the economy growing 3.1% on an annualised basis. Power outages have reduced in recent months but Eskom, the state electricity monopoly, continues to struggle with aging coal-fired power plants and high cost replacements.

Transactions over the period have reduced exposure to staples in Taiwan and raised the weighting in IT. Both country and stock selection were positive. Being underweight or zero weighted the poor performing markets of Argentina, Saudi Arabia and South Africa added value. Stock selection was notably strong in China. Chinese sportswear group Li Ning had another strong quarter gaining 22% and the off index position in Vietnam performed well.

## Performance Attribution and Comment

3 Months to September 30, 2019	Allocation (%)	Stock Selection (%)	Net Impact (%)
<b>Total</b>	<b>0.29</b>	<b>0.23</b>	<b>0.51</b>
Emerging Market Asia	-0.08	0.61	<b>0.53</b>
China	-0.01	0.84	<b>0.83</b>
Korea, Republic of	0.06	-0.19	<b>-0.14</b>
Taiwan	0.05	0.53	<b>0.57</b>
India	-0.06	-0.76	<b>-0.83</b>
Malaysia	0.00	0.18	<b>0.18</b>
Thailand	-0.01	0.03	<b>0.03</b>
Emerging Markets Europe, Middle East and Africa	0.04	0.01	<b>0.05</b>
South Africa	0.16	0.06	<b>0.21</b>
Russian Federation	0.00	-0.05	<b>-0.04</b>
GCC (Saudi Arabia, Qatar, UAE)	0.11	0.00	<b>0.11</b>
Emerging Market Latin America	0.12	-0.39	<b>-0.27</b>
Brazil	0.02	-0.35	<b>-0.34</b>
Mexico	-0.02	-0.04	<b>-0.06</b>
Frontier Markets	0.15	0.00	<b>0.15</b>
Cash	0.06	0.00	<b>0.06</b>

Q3 was a challenging quarter for emerging market investors as the MSCI benchmark return was a disappointing decline of 1.93% in local currencies and 4.11% in US\$ terms. The fund outperformed as positive country selection and positive security selection worked in our favour. The fund's sector selection was also positive over the quarter. The best performing sector and the only one to post a positive return for the quarter was IT (+5.69%) where our overweight was helpful. The worst performing sector was materials which declined 10.55% the underweight was also a positive contributor.

At the country level the best performing country was Turkey which gained 11.65% while the worst was Argentina declining 46.8%. We had zero exposure to both markets and the boost from avoiding Argentina more than offset the impact of the Turkey underweight. The Turkish market benefited as the central bank reduced interest rates. The new Governor of the Central Bank was appointed in July by President Erdogan and inflation has moderated since then to a still high 9.3%. The decline in inflation has allowed successive interest rate cuts totaling 7.5 percentage points to 16.5% highlighting the untenable levels both had reached in the prior year. We have no exposure to the market as twin deficits and an authoritarian administration do little to build our confidence that current policies are sustainable. In Argentina the market turmoil was prompted by an unexpectedly poor result for President Macri in the primary vote held in August. Persistently high inflation of over 55% coupled with high unemployment and a recession left Macri trailing the Peronist opposition candidate Alberto Fernandez by 15% leaving a recovery by the favoured market candidate very unlikely. Investor experience and memories of prior profligate Peronist administrations prompted a collapse in the peso and the slim prospect of a Macri recovery would likely involve a shift to even less sustainable fiscal policies. Further positive country allocation returns were generated by the underweights in Saudi Arabia (-9.85%) and South Africa (-12.65%). South Africa continues to struggle with policy stasis within the Ramaphosa government whilst the national power company Eskom hits the headlines for all the wrong reasons delivering power cuts and requiring further state support. Saudi Arabia has now completed its inclusion process to the MSCI Emerging Markets Index but had a disappointing first full quarter. Weak energy markets have not helped sentiment and the attack on the country's largest oil processing plant mid-September didn't prevent a

7.5% decline in oil prices despite a 20% spike upwards on the day. The fund's overweight in Vietnam also contributed positively to performance as the market posted a gain of 3.78%.

Security selection was positive over the quarter with strong positive contributions in Asia from China, Taiwan and Malaysia. India and Brazil were notable detractors. In both countries exposure to financials was unhelpful but with different drivers for the positions. In India there has been an ongoing liquidity problem in non-bank housing finance. Companies have been undercapitalised and are not allowed to directly access deposits from the public. This has resulted in a funding model dependent on wholesale markets which in turn has left the sector vulnerable to a liquidity crunch as banks and other financial institutions have lost confidence in reporting standards for loan quality and capital adequacy. All this points to a regulatory failure by the financial authorities which is the main reason for the underperformance of Indian financials. The fund's overweight in HDFC was negative for performance as despite the high reputation of the group and its sound financial metrics the shares declined 11.5% underperforming the market if not the sector in this case. In consumer discretionary Lemontree Hotel had a second disappointing quarter with a decline of 16.9%. Lemontree is a midcap hotel operator with a target market of domestic business and leisure travellers. The disappointing economic backdrop coupled with low business confidence has resulted in a difficult trading environment for a cyclical business. We like the company for the structural aspects of the strategy but these are overshadowed at present by the cycle. Warburg Pincus, a private equity investor, sold its final 12.4% stake during the quarter further pressuring the share price.

In Brazil our holdings in the private sector banks Bradesco and Itau were a drag on performance as the entire sector lagged the broader Brazilian market. Brazilian banks are very profitable and risk aware businesses and despite continuing solid results sentiment has succumbed to fear that investments in financial technology companies will structurally undermine margins particularly in high fee business lines. The banking market has always been competitive and undoubtedly margins are high and likely to decline over time but the change will be gradual and the profitability will be sustained in our view. Slow economic recovery is preventing a stronger earnings recovery for the banks but there is little evidence of margin erosion to date. In consumer staples our position in cash and carry operator Atacadao declined 11% despite good operating performance in Q2 results. The company made a non-cash provision for a previously disclosed tax liability which hit Q2 profits. We remain positive on the business which is well suited to a struggling consumer in Brazil where unemployment remains elevated and consumer confidence weak.

In Asia security selection was positive in China, Taiwan and Malaysia. In China Q2 was another strong quarter for Li Ning (+21.7%) as results continue to impress. The company has been our best performing security and we have reluctantly reduced the position to finance higher IT exposure in Taiwan where we have become more constructive on the market. We remain positive on Li Ning so this adjustment balances our conviction in the name with the higher valuations that have developed as the shares rerated. In consumer discretionary we added the auto component manufacturer Minth Group which gained 25.7% over the quarter. H1 results were in line with market expectations but the positive outlook for growth in battery pack production in particular was well received by investors. Minth delivers a strong and improving ROIC and we preferred the business to the more cyclical Geely Automobile. In IT strong performances by Hangzhou Hikvision (+12.7%) and Venustech Group (+14.4%) boosted performance as did the underweight in public sector banks.

In Malaysia the domestic brewer Heineken Malaysia gained 5.3% as results were positive due to strong demand for new higher margin products including new low-alcohol premium lagers. In Taiwan, IT was the biggest contributor to relative performance. Our overweight in index heavyweight TSMC (+19.5%) worked well as Q2 results were a small beat on consensus. The cautiously positive tone of the earnings call further built confidence and the just released Q3 sales report confirms the positive trend (+22% QOQ revenues and +13% YOY based on strong smartphone and 5G infrastructure silicon demand). Mediatek (+21%) in fabless semiconductor design also boosted returns in Q3 winning further contracts from Huawei in China for its 5G solutions as an alternative to US based providers. Accton (+28%) delivered better than anticipated results with good indications for a new suite of network interface cards targeted at datacentre server optimisation. Accton's earnings estimates are being upgraded and reinforce the high and improving ROIC profile which attracted us to the business.

## Recent Activity

### Top 10 Purchases

Country	Security	Sector	%
Hong Kong	Minth Group Ltd	Consumer Discretionary	1.48%
Korea, Republic of	Sk Hynix Inc	Information Technology	1.23%
Taiwan	Taiwan Semiconductor Manufac	Information Technology	1.01%
China	Hangzhou Hikvision Digital-A	Information Technology	1.00%
China	Midea Group Co Ltd-A	Consumer Discretionary	0.84%
Taiwan	Mediatek Inc	Information Technology	0.84%
Taiwan	Accton Technology Corp	Information Technology	0.82%
Taiwan	Airtac International Group	Industrials	0.74%
China	Hangzhou Robam Appliances-A	Consumer Discretionary	0.69%
Thailand	Tisco-F Financial Group	Financials	0.63%

### Top 10 Sales

Country	Security	Sector	%
China	Li Ning Co Ltd	Consumer Discretionary	1.48%
Taiwan	Uni-President Enterprises Co	Consumer Staples	1.21%
Taiwan	Makalot Industrial Co Ltd	Consumer Discretionary	1.14%
Taiwan	Tci Co Ltd	Consumer Staples	1.07%
Taiwan	China Life Insurance Co Ltd	Financials	0.94%
China	Geely Automobile Holdings LT	Consumer Discretionary	0.80%
Thailand	Tisco Financial Group Pcl	Financials	0.70%
China	Tencent Holdings Ltd	Communication Services	0.63%
China	Wuliangye Yibin Co Ltd-A	Consumer Staples	0.58%
Mexico	Walmart De Mexico SAB de CV	Consumer Staples	0.51%

There were few significant changes to country or regional allocation over the period but we have moved the portfolio overweight IT and added to communications while reducing consumer staples. In Chinese auto parts we have purchased Hong Kong listed Minth. The company has been expanding outside of China and improving efficiency at plants in Mexico and Thailand, while lower procurement costs and renminbi depreciation have offset average selling price pressure and US tariffs. New product development remains key for Minth to boost growth and improve competitiveness - management believes it has a technological edge in its battery pack business in aluminium and surface treatment while high technical and safety requirements will act as a barrier to entry. We have also added Hangzhou Robam Appliances which manufactures and sells household electrical kitchen appliances. Management is more upbeat about the second half as B2B accelerates potentially overtaking sales to the consumer. Sales to property developers are lower margin but



management still achieved an all-time operating margin high of 19.4% thanks to lower SG&A expenses. Lower raw material prices and a VAT reduction will help future cost control. Similarly we have purchased Midea Group which also manufactures, markets and installs household electrical appliances as well as providing services in IT. The company's multi-brand portfolio and direct to consumer strategy will support growth while margins are expanding and market share in white goods is rising.

In IT we have re-introduced Korean semiconductor manufacturer SK Hynix as we may be close to or at the bottoming of the memory cycle with the debate being how much will demand and prices recover in 2020. DRAM demand from PC and mobile is trending better with inventory about seven weeks which should decline as capacity cuts are implemented. Also in IT we have bought Accton Technology and Mediatek both in Taiwan. The former develops, manufactures and markets computer network system products while the latter operates as a fabless semiconductor maker for wireless communications and digital multimedia solutions. Chinese hyperscale capex benefits Accton and is growing at over 20% this year and we hope to see telecom data centres upgrading ahead of 5G deployment to support virtualised networks. Mediatek also has a solid position in 5G which will make it a structural beneficiary when the adoption accelerates rapidly next year. The company benefits from smartphone demand in China but margins should improve with the launch of new products, softer competition and growth from internet of things applications. We have also significantly added to Taiwan Semiconductor (TSMC) which should, after the completion of inventory digestion, deliver double digit earnings growth over the next two years benefiting from industry trends in 5G and HPC. TSMC should capture much of the growth in silicon demand including that from the 5G market through its leading technology, including smartphones and infrastructure.

Airtac International, which specialises in flow control equipment, has been purchased in industrials. The Chinese machine tool market should improve in 2020 as demand for new equipment for the new iPhone/5G smartphone supply chain picks up. Airtac will be an early beneficiary from the cycle turning due to lower inventory levels at machine toolmakers and short lead times.

In financials, we have bought China Merchants Bank (CMB), which we see as well positioned competitively for the long term. We appreciate the long-term challenges for the Chinese banks after a long period of loan expansion in China due to GDP targeting and inefficient capital allocation, which will lead to lower interest rates longer term to relieve the nation's debt servicing burden. Banks like CMB that have a strong retail funding franchise can offset some of the margin pressure from lower rates through cheap funding and fee income opportunities. Current trading is solid with mortgage demand ahead of expectations with the regulator guiding banks to control property lending. Expense growth has accelerated due to high IT investments but the bank is in the sweet spot of being a large rational player with independent commercially minded management outside of the big four state owned banks.

On the sell side, we have taken profits in staple companies TCI and Uni-President in Taiwan and clothing maker Makalot in consumer discretionary to fund the increase in IT where we believe capital is better allocated at present. We have reduced long-term winners Li Ning in sportswear and beverage maker Wuliangye Yibin and reduced the active weight in Varun Beverages in India. We have significantly reduced China Life in Taiwan after an unconvincing meeting with management and exited Geely Automobile in China where we judged a shift back to cyclical premature.

## Portfolio Strategy

Global emerging markets were weaker in Q3 against a backdrop of slowing global economic activity and downgrades to earnings estimates. The MSCI Emerging Markets (EM) index fell 1.93% in local currency terms and 4.11% in US dollars. Taiwan was the strongest major market, rising 5.87%, while South Africa was the weakest falling 12.22%. IT was the only sector to make gains over the period (+5.93%), while materials was the weakest (-10.53%).

The portfolio has a small underweight in energy with exposure focused in Russia and Asia. The oil price fell 7% over the period, as measured by Brent, despite a spike of nearly 20% to over \$70 in response to attacks on two key facilities in Saudi Arabia. Production has been restored and the supply of oil and gas remains abundant, as does competing energy supply notably solar. Meanwhile the long awaited stock market listing of Saudi Aramco will add supply to a sector already under pressure from poor fundamentals and the shift to socially responsible investing although the Saudis might try to get the oil price higher pre listing. At the UN, 66 nations have pledged to reach 'net zero' carbon emissions by the year 2050, hardly an encouraging backdrop for demand for fossil fuels. We favour upstream plays and companies like Oil & Natural Gas, which stands to benefit from Indian oil price reform; we also like Reliance Industries, which has sold a 21% stake in one of its major refineries, improving the strength of its balance sheet. The portfolio is significantly underweight materials, where exposure is focused on Chinese construction through Conch cement, which has one of the highest returns in the industry globally.

Elsewhere, we favour consumer areas, focusing on companies that stand to benefit from improving GDP per capita and incomes across a range of markets. In consumer discretionary the main active internet exposure is through Alibaba, where we expect the company to enjoy sustainable e-commerce growth and the benefits of cloud computing rising as a proportion of revenues. We remain upbeat about sportswear and are exposed to the consumer theme via Li Ning in China and Lemon Tree Hotels listed in India. The former is an aspirational brand leader in athleisure in Asia while the latter is developing a large capital light portfolio of managed hotels for the growing middle classes. In staples, we like drinks companies, such as Heineken Malaysia, a maker of non-alcoholic stout, popular in the domestic market, and Varun beverages, which is the leading bottler of Pepsi in India and has good growth and operating metrics.

The portfolio remains overweight financials but underweight Chinese banks where we prefer the non-state owned operators with independent dynamic management. Two of our largest active positions are in insurance: AIA, listed in Hong Kong, operates in 17 countries across Asia and the Pacific and is growing rapidly through its extensive network of agents, partners and employees across the region; Ping An, is the number one private insurance company in China in a strong position to grow its franchise. Our financials are focused on Brazil and other Latin America countries.

In IT, the focus has shifted back to semi-conductor makers with a significant active position in Taiwan semi-conductor and recent purchases of Accton Technology and Mediatek. Semi-conductor companies offer good value at what may be the low of the cycle. The digital revolution and transition away from industries with moving parts favours electronic companies. The portfolio is underweight in communications, where we still favour gaming company CD Projekt, which is a distributor of games and multimedia software in Poland supplying directly all major retail chains and independents. The company develops, publishes, and distributes games and is currently focused on an action role-playing game, to be launched in 2020, for which we have high expectations. We also own China Mobile, the largest mobile company in the world with the best network facilities in China - a major attraction for business users. The company is now selling the iPhone and the increasing penetration of smartphones is driving data demand and leading to a recovery in revenue growth after a few dull years.

In utilities, the major position is in Guangdong Investment, which operates water supply, power and electricity, and infrastructure businesses. In real estate, we like China Overseas Land and Investment, which specialises in high-rise apartment buildings and commercial structures, operating in 48 major cities across China.

Active country positions are modest at present with overweights in India, Thailand and China when including stocks listed in Hong Kong. The portfolio continues to have off-index exposure in Vietnam and we are seeking opportunities to add to smaller markets in Latin America, such as Peru and Colombia. Our focus remains on identifying companies that have higher and/or improving returns on invested capital with high barriers to entry, financial strength and good cash generation.

## Asset Allocation

Region	Portfolio (%)	Benchmark* (%)	Deviation (%)
Emerging Markets Asia	70.42	72.52	-2.10
China	30.28	31.89	-1.62
Korea, Republic of	9.63	12.15	-2.53
Taiwan	11.34	11.48	-0.14
India	11.88	8.86	3.03
Emerging Markets Europe, Middle East & Africa	11.33	15.48	-4.15
South Africa	3.27	4.72	-1.45
Russian Federation	3.95	3.96	-0.01
Emerging Markets Latin America	9.97	12.00	-2.03
Brazil	5.73	7.55	-1.82
Mexico	1.90	2.51	-0.61
Frontier Markets	1.07	0.00	1.07
Developed Markets	4.83	0.00	4.83
Cash	1.87	0.00	1.87

Sector	Portfolio (%)	Benchmark* (%)	Deviation (%)
Energy	6.37	7.67	-1.30
Materials	2.50	7.34	-4.84
Industrials	2.52	5.42	-2.90
Consumer Discretionary	21.09	13.05	8.04
Consumer Staples	7.63	6.90	0.73
Health Care	0.40	2.60	-2.20
Financials	28.45	24.69	3.76
IT	19.45	15.08	4.37
Communication Services	5.90	11.56	-5.65
Utilities	2.30	2.82	-0.53
Real Estate	1.52	2.86	-1.35
Cash	1.87	0.00	1.87

\*Benchmark: MSCI Emerging Markets



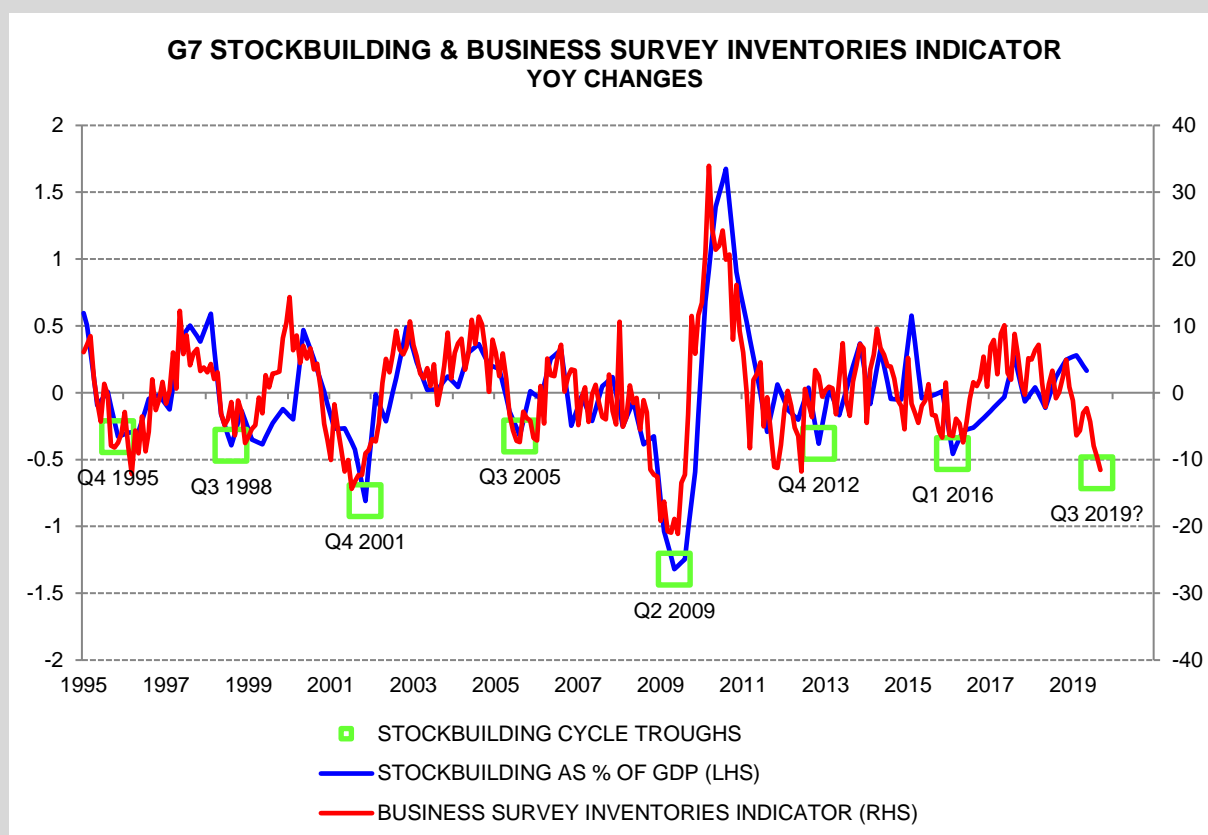
## Review and Outlook of Liquidity Trends

Previous quarterly commentaries suggested that global economic momentum would fall into a low around Q3 2019. Recent news is consistent with the scenario but money trends have yet to give a clear signal of economic recovery. A bottoming of momentum, however, may be sufficient to warrant increasing exposure to “cyclical” assets, including emerging market equities.

The expectation of a Q3 momentum low was based on monetary and cycle analysis. Global six-month real narrow money growth bottomed in late 2018 and leads economic momentum by nine months on average. The global stockbuilding cycle, meanwhile, last bottomed in Q1 2016 and has an average length of 3.5 years, suggesting another low in Q3 2019.

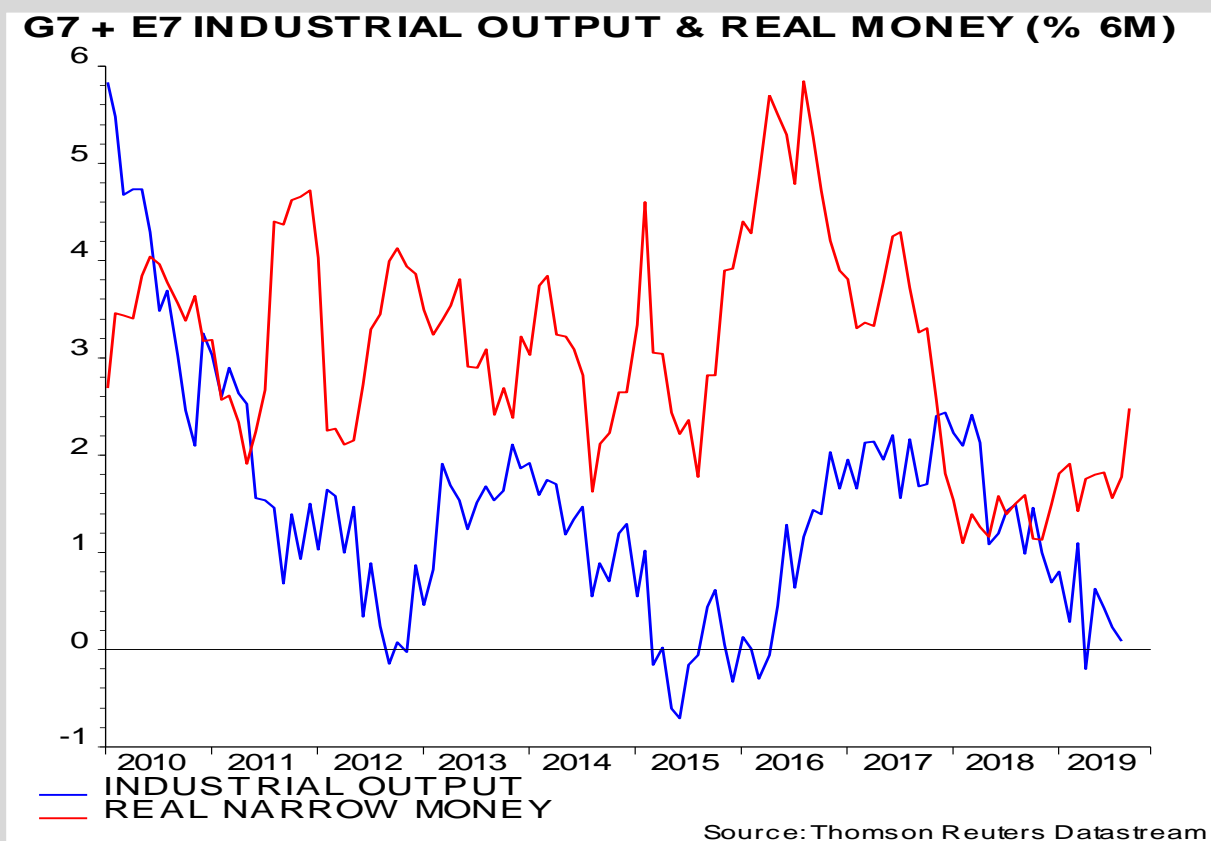
Incoming business survey data are consistent with the forecast. The global purchasing managers’ manufacturing new orders index recovered to a four-month high in September, while a survey-based indicator of the rate of change of G7 stockbuilding reached a seven-year low, consistent with the cycle being at or near a trough – see first chart below:

Chart 1



Economic momentum may be bottoming but money trends argue against a significant near-term recovery. Global six-month real narrow money growth remained below 2% through August compared with a post-GFC average of 3.4% (i.e. over 2010-17). Preliminary data suggest a pick-up in September but this is unlikely to be reflected in economic activity until mid 2020, based on a historical average nine month lead – second chart below:

Chart 2



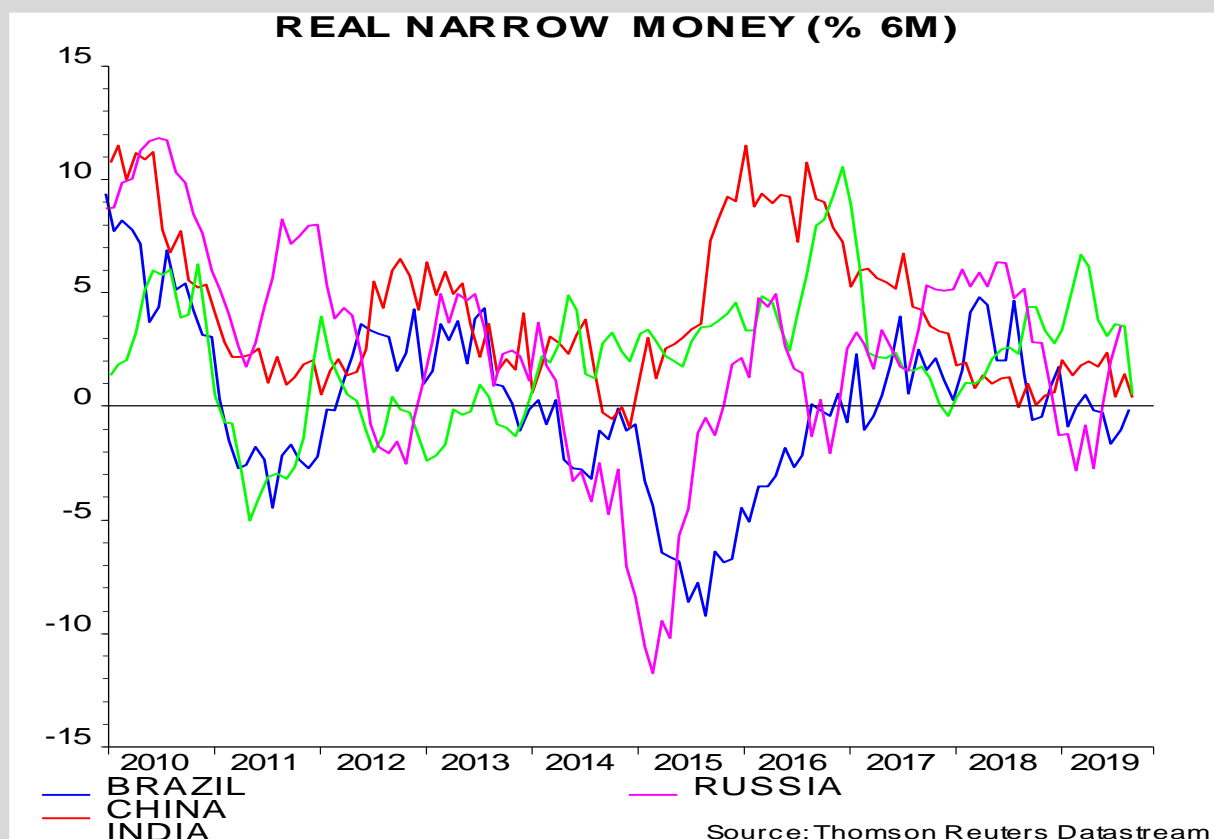
From a cycles perspective, a prospective turnaround in the stockbuilding cycle may be offset by further weakness in the business investment cycle, which may not trough until early 2020 – the last bottom was in Q2 2009 and the cycle can stretch out to 11 years.

The baseline scenario is that economic momentum will remain weak into Q1 2020 before picking up more convincingly around mid-year. The latter forecast requires confirmation from a further rise in real narrow money growth. Cycle analysis suggests that the global economy will grow solidly in H2 2020: the business investment cycle as well as the stockbuilding cycle should by then be in a recovery phase, while the upswing in the longer-term housing cycle is likely to have regained momentum in response to falling mortgage rates in 2019.

The above scenario suggests that an increase in EM exposure will soon be warranted. EM performance relative to developed market equities correlates with the global stockbuilding cycle, which drives commodity prices and – as discussed – may already have hit bottom.

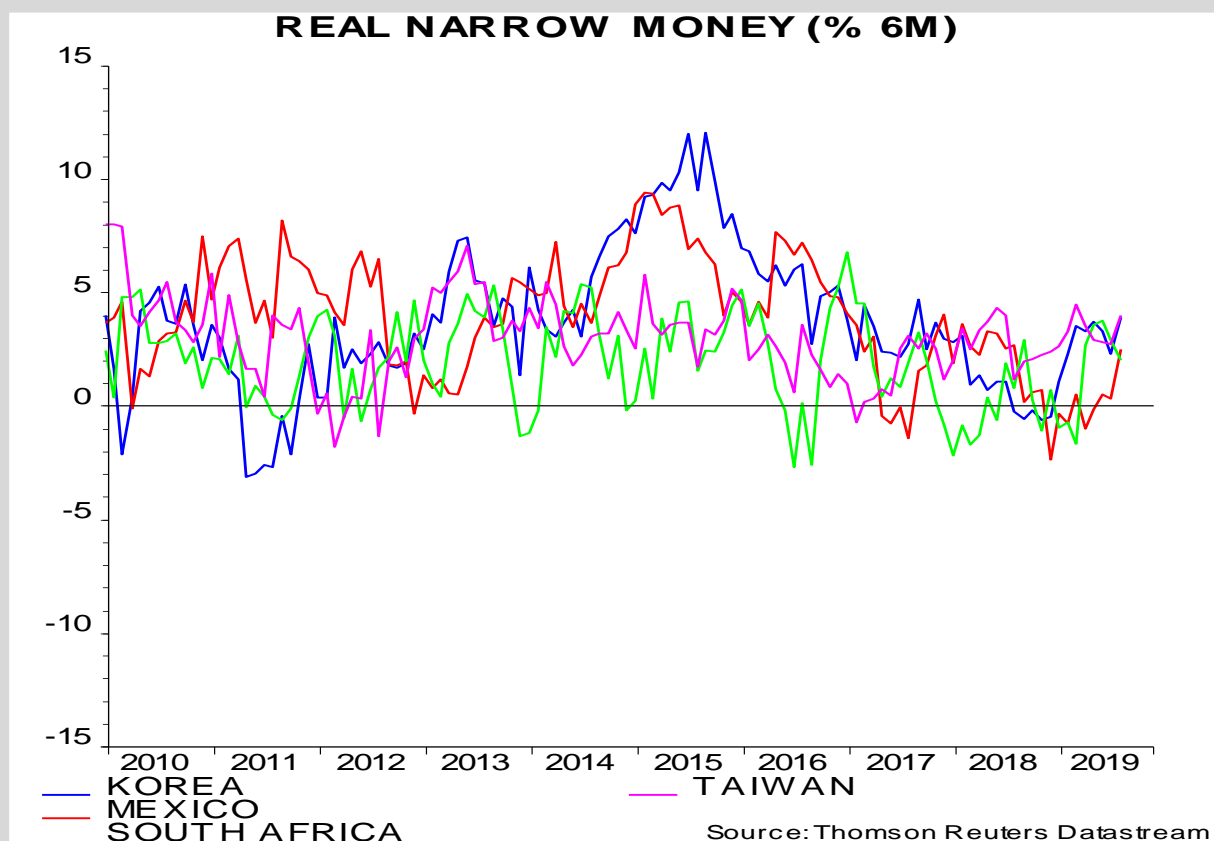
The case for raising EM exposure would be strengthened by a pick-up in Chinese real narrow money growth – third chart below. A recovery in nominal money growth appeared to be under way in early 2019 but stalled after the failure of Baoshang Bank in May, which disrupted interbank funding and credit supply to private firms. A food-driven inflation spike has dragged down real growth more recently, though is likely to reverse in late 2019.

Chart 3



Money trends are mixed in other emerging economies. Rate cuts have contributed to a pick-up recently in Russia and Mexico – third and fourth charts. By contrast, Indian six-month money growth fell sharply during Q3, although this appears to reflect pay-back for a temporary surge ahead of the April-May election, suggesting a rebound in late 2019. The recent corporate tax cut package, amounting to 0.7% of GDP, was a positive surprise.

Chart 4



Brazil remains a negative outlier – real narrow money contracted in the six months to September, suggesting a need for further rate cuts. By contrast, money growth is booming in Chile, where the economy and stock market could also benefit from a stronger copper price as the global stockbuilding cycle moves into an upswing. Numbers have also picked up in Colombia and Peru.

The baseline scenario of a global economic recovery unfolding during 2020 would argue for increasing exposure to “cyclical” markets at the expense of “liquidity-sensitive” markets that could suffer relatively as Fed easing comes to an end and Treasury yields rebound. This favours Korea and Taiwan, which are sensitive to global activity but also enjoy a positive monetary backdrop currently. Korean relative performance has tracked the fall in the global manufacturing PMI, which may be at or close to bottom.

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