

GLOBAL MARKET UPDATE

BIDEN AND THE VACCINE: A SHOT IN THE ARM FOR EM

The Presidential election in the US arguably kept the global investor community on its toes. The resulting victory of the Democratic Party's Presidential candidate will bring an economic regime change to the US. Mr. Biden chose former Fed Chair, Janet Yellen as his candidate to head the Treasury, who is known for being an advocate of moderate centre-left economic policies and in favour of macro-financial sustainability. In the first half of his term, Mr. Biden will allocate most of his resource to crisis management, which entails drawing up a comprehensive economic relief package. The size of the package, however, hangs in the balance, as President-elect Joe Biden and his administration will need a majority in the Senate to be able to pass a large-scale and comprehensive economic relief package.

Currently, the Republicans control 50 seats, whilst the Democrats have 48 delegates. The state of Georgia will have a special runoff election for two seats on the 5th January 2021. Should we see the same outcome in Georgia as in the first round, each of the parties will secure one seat leading to a slim, 51-49 Republican Senate majority.

In our opinion, this outcome would mean that the Biden administration would have a constrained scope to boost domestic demand through budgetary measures. In this environment the Fed would remain committed to its accommodative monetary policy stance entailing the zero-lower bound and a bloated balance sheet. On the other hand, if the Democrats secure both seats in the Senate, the party will have the voting power to pass a massive economic relief bill. However, Janet Yellen's track record as a Fed Chair and her past remarks both strongly suggest that she will not go down the road of fiscal alcoholism, in our opinion.

Consequently, economic recovery and the subsequent pace of GDP growth in the US would be slower than in Emerging Markets by a wide margin. In our view, the growth differential will trigger a reallocation of capital towards the EM universe given the attractive valuation of the EM equities relative to their Developed counterparts (figure 1).

Figure 1: EM to DM P/BV ratio (+/- 2 standard deviations): Emerging equities remain attractively valued relative to Developed equities



Source: Bloomberg (December 2020)

Furthermore, within EM equities, small caps remain particularly undervalued compared with large cap stocks on a trailing P/BV basis (figure 2) despite the fact that they are among the greatest beneficiaries of the on-going domestic recoveries. The positive news flow related to the vaccine also contributes to the ongoing improvement of global investor sentiment, which we expect to persist into 2021. As the UK's regulator has already approved one of the vaccines, it has become glaringly obvious that it is just a matter of time before other countries follow suit.

Mass vaccination would trigger economic normalisation and a cyclical upswing through retail spending, travelling and hospitality services. We have positioned the Alquity funds for this, through examples such as Minor International (Thailand, a hospitality company operating hotels and restaurants), Bid Corp (South Africa, a food service company focused particularly on developed markets) and ASUR (Mexico, an airport operator particularly exposed to US leisure travel).

Figure 2: EM small cap to broad EM P/BV ratio (+/- 2 standard deviations): small cap equities remain undervalued relative to large caps in EM



Source: Bloomberg (December 2020)

INDIA: THIS IS JUST THE END OF THE BEGINNING

Economic activity in India bounced in 3Q20 led by an unprecedentedly strong rural economy. According to Bloomberg Economics, rural economic activity was 10.3% higher than its pre-pandemic level in February, as tractor sales rose 7.7% YoY and net agricultural exports growth was 102% YoY in September. This growth was a positive surprise to the market, but in line with our views. However,

there were two elements that were even better than our expectations. Firstly, the expansion of the recovery into urban areas which we were not expecting at this stage, and secondly the significant increase in margins which are sustainable in future quarters. We believe that this is not yet understood by investors and thus sets the scene for further strong returns from the market.

ASEAN: DIAMOND IN THE ROUGH

There are two highly underappreciated stock markets in the ASEAN region: the Philippines and Indonesia. Both countries possess a favourable macro backdrop with very strong structural characteristics (i.e. fast population growth, young demographics, etc.), an intention to improve the business environment (e.g. the recent Omnibus labour reform law in Indonesia), low (real) interest rates and a loose fiscal stance. Economic activity picked up considerably since the trough since in 2Q20, as indicated by manufacturing PMIs and mobility gauges.

We see these favourable factors underappreciated by the broad market, which is also reflected in the depressed valuation metrics, such as a compelling price-to-book value in a historical context (figures 3 and 4). As Biden takes office, the population becomes vaccinated and the local lockdowns are soon-to-be fully lifted, we believe that these two countries will attract a meaningful portion of fresh capital flows targeting Emerging Markets due to their standout cheap valuation levels.

Figure 3: P/BV of the Philippine Composite stock index (+/- 2 standard deviation)



Source: Bloomberg (December 2020)

Figure 4: P/BV of the Indonesian Jakarta Composite stock index (+/- 2 standard deviation)



Source: Bloomberg (December 2020)

CALENDAR OF MAJOR FORTHCOMING EVENTS

DATE	COUNTRY	EVENT
December 2020	Brazil	Continuation of 2021 budget talks and then approval
5 January 2021	US	Georgia run-off for 2 seats in the Senate
20 January 2021	US	Inauguration of Joe Biden as President
February 2021	Brazil	Internal elections for the leadership of Congress
March 2021	India	Renewal of the RBI's primary mandate
1Q 2021	Argentina	Negotiations with the IMF continue for a new credit line
1Q 2021	India	Slower inflation may trigger further easing by the RBI
April 2021	Chile	Election of the convention delegated to draw up the new constitution
May 2021	Vietnam	National Assembly election
1H 2021	Indonesia	Implementation of the Omnibus Law on labour and investments
1H 2021	Brazil	Progress on structural reforms, e.g. tax simplification

GLOBAL MARKET DATA

7 DECEMBER

Market Summary

Data:

Last Calendar Week





Equities				Return (USD)				
Name	BBG Code	Country	Price	1 Week	MTD	3M	YTD	1Y
North America and Developed Europe								
S&P 500 INDEX	SPX Index	US	3,696.27	1.67%	2.14%	2.14%	14.50%	18.66%
RUSSELL 2000 INDEX	RTY Index	US	1,895.14	2.00%	3.99%	3.99%	13.42%	17.19%
NASDAQ COMPOSITE	CCMP Index	US	12,523.59	2.12%	2.18%	2.18%	38.91%	45.43%
Euro Stoxx 50 Pr	SX5E Index	Europe	3,525.03	1.89%	2.95%	2.95%	2.20%	6.09%
FTSE 100 INDEX	UKX Index	UK	6,550.89	4.07%	5.47%	5.47%	-11.78%	-6.04%
Asia Pacific								
NIKKEI 225	NKY Index	Japan	26,547.44	0.31%	1.37%	1.37%	18.26%	19.85%
S&P/ASX 200 INDEX	AS51 Index	Australia	6,675.02	1.10%	2.88%	2.88%	5.07%	8.00%
Straits Times Index STI	STI Index	Singapore	2,825.51	-0.24%	1.67%	1.67%	-11.14%	-8.69%
HANG SENG INDEX	HSI Index	Hong Kong	26,506.85	-0.22%	1.90%	1.90%	-4.33%	3.39%
SHANGHAI SE COMPOSITE	SHCOMP Index	China "A"	3,416.60	1.78%	2.29%	2.29%	20.40%	28.13%
HANG SENG CHINA ENT INDX	HSCEI Index	China "H"	10,473.32	-1.53%	0.77%	0.77%	-4.39%	3.97%
Nifty 50	NIFTY Index	India	13,555.75	2.56%	2.56%	2.56%	5.22%	6.54%
TAIWAN TAIEX INDEX	TWSE Index	Taiwan	14,256.60	3.03%	4.25%	4.25%	24.87%	31.62%
KOSPI INDEX	KOSPI Index	Korea	2,745.44	5.63%	7.66%	7.66%	32.56%	45.28%
JAKARTA COMPOSITE INDEX	JCI Index	Indonesia	5,930.76	0.44%	3.66%	3.66%	-9.26%	-6.35%
PSEI - PHILIPPINE SE IDX	PCOMP Index	Philippines	7,203.67	5.12%	5.12%	5.12%	-3.49%	-3.29%
STOCK EXCH OF THAI INDEX	SET Index	Thailand	1,449.83	1.25%	3.38%	3.38%	-8.85%	-6.92%
FTSE Bursa Malaysia KLCI	FBM KLCI Index	Malaysia	1,622.89	1.07%	4.09%	4.09%	2.80%	6.47%
HO CHI MINH STOCK INDEX	VNINDEX Index	Vietnam	1,029.98	1.28%	1.89%	1.89%	6.53%	6.28%
KSE-100 INDEX	KSE100 Index	Pakistan	42,115.31	2.89%	2.30%	2.30%	0.23%	0.61%
DSE 30 Index	DS30 Index	Bangladesh	1,763.21	2.26%	2.41%	2.41%	14.30%	7.62%
Latin America								
BRAZIL IBRX INDEX	IBX Index	Brazil	48,452.66	6.29%	8.45%	8.45%	-23.19%	-15.92%
S&P/BMV IPC	MEXBOL Index	Mexico	43,238.09	6.18%	6.48%	6.48%	-4.29%	1.26%
S&P Merval TR ARS	MERVAL Index	Argentina	54,730.38	-1.97%	-0.14%	-0.14%	-3.66%	13.44%
S&P/CLX IPSA (CLP) TR	IPSA Index	Chile	4,110.13	4.87%	6.98%	6.98%	-9.35%	-6.88%
S&P/BVLPeruGeneralTRPEN	SPBLPGPT Index	Peru	20,642.54	5.46%	4.52%	4.52%	-7.47%	-1.93%
COLOMBIA COLCAP INDEX	COLCAP Index	Colombia	1,339.07	10.62%	10.65%	10.65%	-23.52%	-17.12%
Emerging Europe, Middle East and Africa								
WIG 20	WIG20 Index	Poland	1,958.53	7.15%	8.37%	8.37%	-6.56%	-2.57%
MOEX Russia Index	IMOEX Index	Russia	3,195.08	4.25%	6.03%	6.03%	-12.26%	-5.20%
FTSE/JSE AFRICA TOP40 IX	TOP40 Index	South Africa	54,646.92	3.20%	5.87%	5.87%	-1.24%	8.39%
EGYPT HERMES INDEX	HERMES Index	Egypt	1,138.51	0.89%	1.16%	1.16%	-9.37%	-7.25%
MASI Free Float Index	MOSENEW Index	Morocco	11,011.15	1.84%	1.03%	1.03%	-4.07%	0.49%
NIGERIA STCK EXC ALL SHR	NGSEINDEX Index	Nigeria	35,064.36	-0.10%	-0.15%	-0.15%	21.62%	20.57%
DFM GENERAL INDEX	DFMGI Index	Dubai	2,482.66	-0.02%	0.00%	0.00%	-12.49%	-10.21%
FX (vs USD)				Return +ive=USD Stronger				
Name	BBG Code	Country	Price	1 Week	MTD	3M	YTD	1Y
DOLLAR INDEX SPOT	DXY Index	USD Index	90.77	-1.19%	-1.27%	-2.18%	-5.90%	-6.89%
USD-EUR X-RATE	USDEUR Curncy	Europe	0.82	-1.54%	-1.55%	-2.53%	-7.53%	-8.55%
USD-GBP X-RATE	USDGBP Curncy	Russia	0.75	-1.17%	-0.89%	-1.70%	-1.54%	-2.35%
USD-AUD X-RATE	USDAUD Curncy	Turkey	1.34	-0.60%	-1.05%	-2.08%	-5.53%	-8.07%
USD-JPY X-RATE	USDJPY Curncy	UK	103.99	0.09%	-0.16%	-2.01%	-4.11%	-4.20%
Bloomberg JPMorgan Asia Dollar	ADX Index	Asia USD Index	108.99	0.72%	0.83%	3.86%	3.64%	5.01%
USD-CNY X-RATE	USDCNY Curncy	Australia	6.53	-0.71%	-0.72%	-4.55%	-6.20%	-7.28%
USD-INR X-RATE	USDINR Curncy	China	73.77	-0.32%	-0.32%	0.70%	3.56%	3.55%
USD-TWD X-RATE	USDTWD Curncy	India	28.26	-1.09%	-1.22%	-3.99%	-5.66%	-7.40%
USD-KRW X-RATE	USDKRW Curncy	Japan	1,083.72	-1.81%	-2.10%	-8.81%	-6.06%	-8.76%
USD-IDR X-RATE	USDIDR Curncy	Korea	14,156.00	0.03%	-0.13%	-4.12%	2.14%	0.86%
USD-PHP X-RATE	USDPHP Curncy	Taiwan	48.18	-0.06%	-0.06%	-1.02%	-5.15%	-5.31%
USD-BRL X-RATE	USDBRL Curncy	Argentina	5.06	-3.36%	-3.82%	-2.38%	28.65%	23.51%
USD-MXN X-RATE	USDMXN Curncy	Brazil	19.79	-1.36%	-1.89%	-8.39%	4.73%	2.10%
USD-ARS X-RATE	USDARS Curncy	Chile	81.65	0.72%	0.43%	9.68%	36.38%	36.12%
USD-PLN X-RATE	USDPLN Curncy	Mexico	3.68	-1.89%	-1.79%	-2.47%	-2.95%	-4.45%
Russian Ruble SPOT (TOM)	USD RUB Curncy	Egypt	73.40	-2.80%	-3.35%	-2.02%	19.07%	15.87%
USD-ZAR X-RATE	USDZAR Curncy	Nigeria	15.11	-0.40%	-1.71%	-8.58%	8.59%	3.48%
Commodities				Return (USD)				
WTI CRUDE FUTURE Jan21	CLA Comdty	US	46.04	1.60%	2.03%	12.77%	-17.44%	-14.81%
BRENT CRUDE FUTR Feb21	COA Comdty	UK	49.05	2.07%	2.86%	11.65%	-18.64%	-16.13%
Baltic Dry Index	BDIY Comdty		1,197.00	-2.68%	-2.44%	-12.11%	9.82%	-24.00%
Natural Gas Futures	NGI Comdty		2.41	-9.43%	-10.65%	-0.50%	17.63%	6.10%
Gold Spot \$/Oz	XAU Curncy		1,864.45	2.59%	3.16%	-4.82%	20.45%	24.00%
Silver Spot \$/Oz	XAG Curncy		24.66	6.59%	6.88%	-9.27%	34.37%	41.77%
LME COPPER 3MO (\$)	LMCADS03 Comdty		7,760.50	3.48%	2.38%	15.66%	25.70%	31.80%



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