

focuscapitalTM

absolute returns from emerging markets

Emerging markets emerge from the global recession

Quarterly Update

July 2009

Emerging markets share as % of
world total, June 2008



emerging market investment strategies

Overview

BULLISH

“ More than 75% of global GDP growth in 2009 is likely to come from emerging markets. Recent growth numbers from a number of emerging economies are provoking upward revisions from a number of economists and global investment banks. Elsewhere tentative signs that the global economy is bottoming are providing some cause for investor optimism, but surprises are likely to keep volatility prevalent. We believe returns in selective emerging market assets should trend higher as sentiment increasingly improves in developed markets. ”

Long Only Equity

BULLISH

“ The MSCI World index rose in 13 out of the 14 weeks to mid June, the best sequence since December 1999. We may have seen the worst of the recession in the first half of the year. Since the recent crisis was one that primarily caused distortions in the debt markets we feel that equities will continue to outperform going forward. We therefore believe that increased investor risk appetite should provide further upside to emerging market equities whilst stronger economies could provide some downside resistance. ”

Long Only Bond

CAUTIOUS

“ External debt has rallied significantly from its lows however it has still significantly underperformed emerging market equities on the rebound in absolute terms. This also makes external relatively expensive. Performance figures would suggest that many managers have a mixture of sovereign and corporate exposure – and whilst the former may perform in the short term the latter could dictate performance in the second half of the year. Such uncertainty is why we remain cautious on emerging bond strategies. ”

Long\Short

BEARISH

“ Most Long\Short strategies in emerging markets have struggled to either deliver positive returns over the past months or necessarily outperform their markets. Uncertain returns are likely to keep investors wary of such strategies in the foreseeable future. This combined with concerns about the industry, reduced leverage conditions and fund redemptions are causing some funds to modify structures and others to close. Given this uncertainty, until the dust settles on the challenges for long\short strategies in emerging markets, we remain bearish. ”

things to think about now in emerging markets

Emerging Market Growth

BULLISH

“ Emerging markets will account for over 75% of world GDP growth over the next two years. Domestic stimulus packages, and increasing consumption by the burgeoning middle class of the emerging world, will become ever more important to global growth. Consider that China has over 100 car manufacturers and that car sales there, could exceed US car sales, for the first time in 2009. The IMF currently estimates the BRIC economies alone will contribute close to 70% of world GDP growth in 2010, while the United States will only contribute 5%.

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Manufacturing Bounce

BULLISH

“ According to JP Morgan, global manufacturing output is expected to rise at an 8% annualized pace over the coming 6 months, rivaling the strongest gains in over two decades. Already well underway in Asia, output in China up 36%, while some of the region is up even more, with larger gains in Korea, Taiwan, and Singapore. Even in Japan, manufacturing output in the last quarter through May was up 30% over its first quarter level. These gains reflect a strong upturn in exports, increases in consumption, and a more moderate pace of destocking.

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Governments Supporting Economies

BULLISH

“ Government support for the global financial system has recently been at unprecedented levels. Estimates suggest that between December 2007 and March 2009, the combined fiscal and monetary stimulus in the USA will account for more than 29% of domestic GDP. Add this to the sizeable responses that have taken place elsewhere in the world, not least the US\$586bn Chinese stimulus package announced in Q4 2008, and the effects will now become increasingly apparent. Economic and political pressures will keep governments focused on stabilizing markets.

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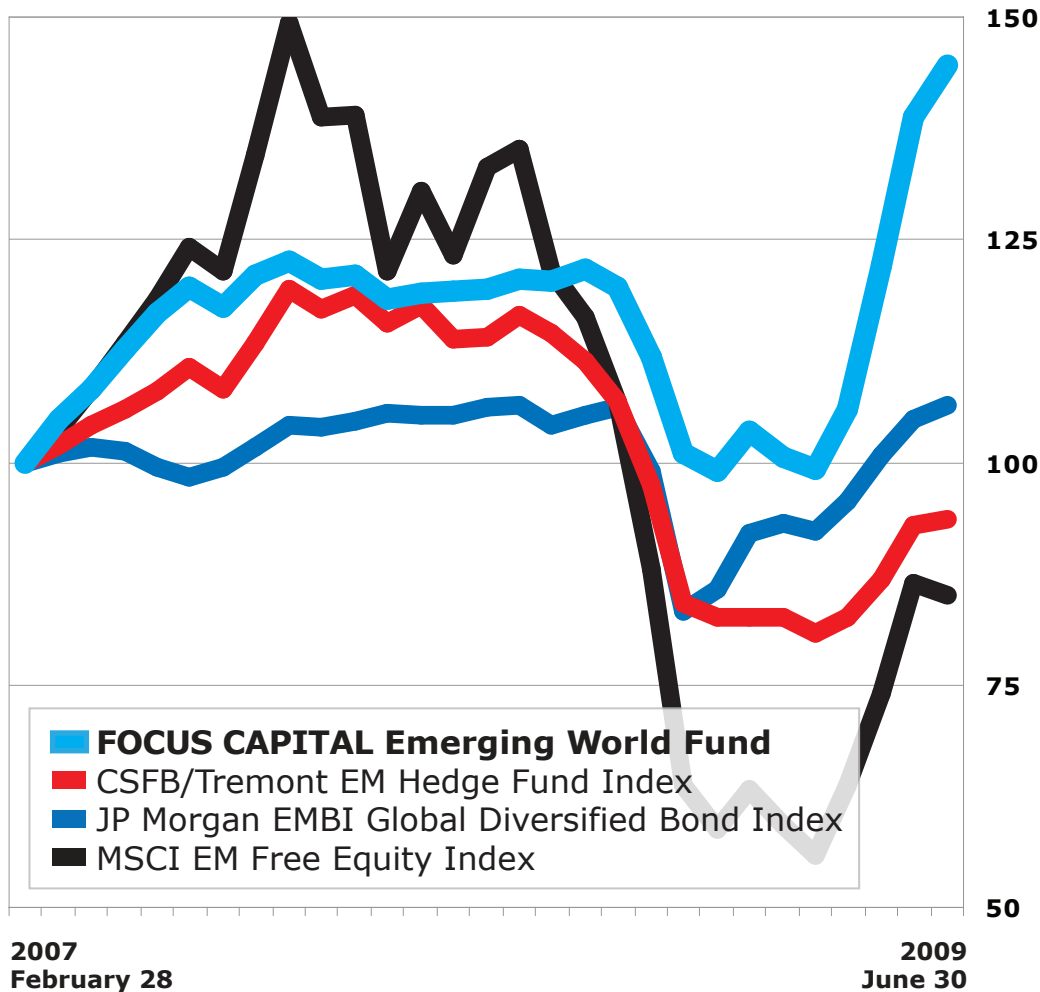
The Worst May Be Over

CAUTIOUS

“ The latest report on the global economy from the OECD suggests we are near the bottom of the worst recession in post-war history. Although some of the developed nations' economies are likely to shrink further, there is evidence of stabilisation. We may be seeing the peaks of unemployment claims and consumer confidence could improve across the globe. The steadying of financial markets is crucial in reviving confidence, via beneficial impacts on both personal and corporate sector balance sheets. Meanwhile news is increasingly positive from emerging markets.

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monthly performance



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