

EM Equity Strategy

GEM Investors Crowd into India, Lighten in Brazil

Equity Strategy

Emerging Markets

GEM Investors are OW India, Brazil, Turkey, Thailand, Russia, SA

Based on the end-July EPFR Global data, India remains the biggest OW (in bp) held by GEM investors *relative* to the MSCI GEMs benchmark (although the size of this Overweight has fallen from an all-time high earlier this year). The other big OWs relative to benchmark are Brazil, Turkey, Thailand and Russia. Over the past month alone, GEM fund managers raised their OW in India (the market rose by 1.5% in July vs GEMs -7.3%) and Russia (underperformed in July -7.9%). In Brazil, which was the worst-performing EM equity market in July (-12.3%) positioning was reduced last month, but the size of Brazil's relative OW rose. In Turkey and Thailand, two of the bigger OW markets, positioning remained stable last month vs the benchmark.

North Asia (China, Korea, Taiwan) Remains the Big Underweight

In China, with significant underperformance in July (MSCI China -10.9%), EM managers actually reduced the size of their UWs; however, China remains, by far, the biggest UW among GEMs funds. Among other countries, Malaysia saw the biggest fall in relative weight in July, followed by Korea; both markets remain clear UWs among GEM funds. Relative positioning in Poland and Greece was reduced slightly in July; overall, Poland remains a small UW and Greece a Neutral.

Cash Weights Rise but Remain Below-Average

GEM fund managers increased their cash weightings in the month to end-July by 30bp to 2.2% of AUM, as MSCI GEMs fell by 7.3% and underperformed DM by the widest margin (-900bp) since August 1998. However, this cash weight remains slightly below the average since of 2.5%.

UBS EM Equity Strategy: Global Growth Scare Overdone

Despite the top 17 EMs all having negative y/y (smoothed) export growth in nominal terms at present, the recent panic over global growth looks overdone. Growth in the US remains solid and in the Euro Area is improving, while China is still expected to grow at 6.8% this year (albeit with some downside risk to our forecast). Recent data on flows (\$38.2bn of outflows from EM funds this year, close to the full-year record of 2008), momentum (at the end of last week, just 22% of MSCI GEMs stocks were trading above their 200-day moving averages) and valuations (at the recent market trough, 9.8x forward, despite very weak earnings, and 1.27x BV, just 15% above the 2008 low) suggest we have been close to capitulation levels over recent days. We would look to add to India, China, Mexico, Central Europe, especially Poland, and Russia, all of which are Overweights. We are Underweight in Brazil, South Africa and ASEAN.

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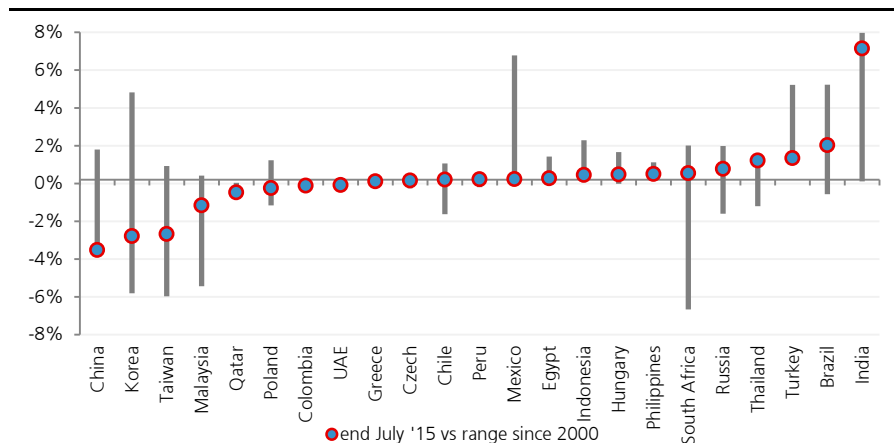
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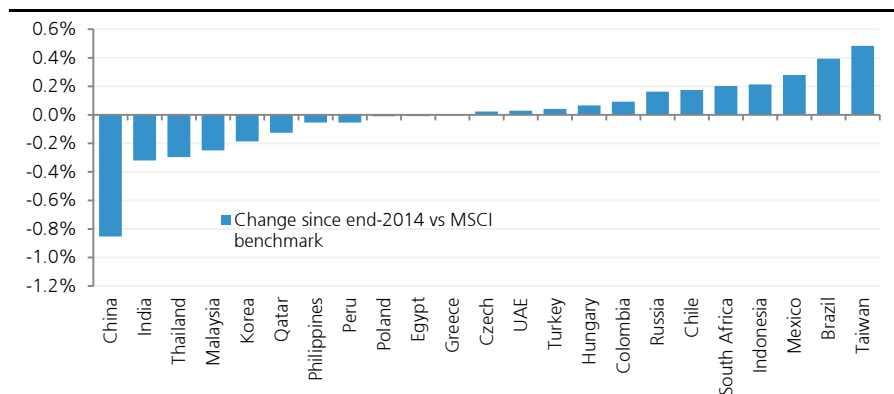
Figure 1: Country Weighting vs MSCI GEMs



Source: EPFR Global, MSCI, UBS. Country weights normalized for cash weightings and country weights outside of MSCI GEMs.

According to EPFR Global, the biggest OW positions of GEM investors at end-July were in India, Brazil, Turkey, Thailand and Russia. The biggest UWs continued to be in China, Korea, Taiwan and Malaysia, followed by small UWs in Qatar and Poland. Positioning in China relative to the MSCI GEMs index remains near a 15-year low as investors have raised their weighting in 2015, but not fast enough to keep pace with the 210bp rise in China's weight in MSCI GEMs.

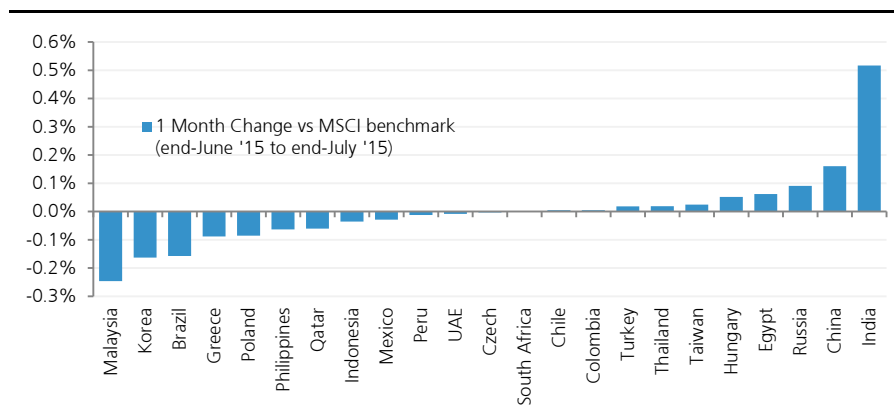
Figure 2: Change in weight vs MSCI GEMs since end-2014



Source: EPFR Global, MSCI, UBS. Country weights normalized for cash weightings and country weights outside of MSCI GEMs.

Aside from China, the biggest falls in weight relative to the MSCI GEMs benchmark this year have been in India, Thailand (in both, investors have cut their OWs slightly) and Malaysia. In relative terms, money has rotated out of India and China this year into Taiwan, Brazil, Mexico, Indonesia and SA. Investors have also shown a slight bias against smaller EM markets (< 3.5% of MSCI GEMs): cumulative investor weights in the fifteen smallest EMs have fallen slightly in 2015.

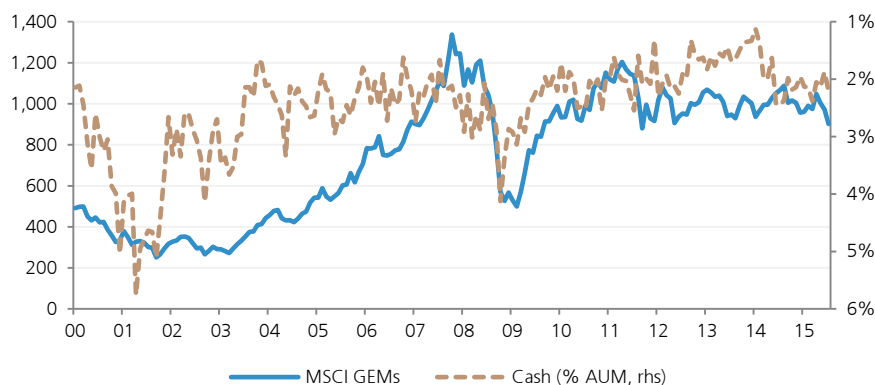
Figure 3: 1 Month Change in weight vs MSCI GEMs (end-June to end-July)



Source: EPFR Global, MSCI, UBS. Country weights normalized for cash weightings and country weights outside of MSCI GEMs.

Over the past month, EM funds have increased their UWs in Malaysia and Korea, while reducing their OW in Brazil. They have also cut weights in Greece (as the market reopened) and Poland. Funds have increased their relative weights over the past month in India (an O/W), China (U/W) and Russia (O/W).

Figure 4: Cash Weight VS MSCI GEMs



GEM investors have held 2.5% of AUM in cash, on average, since 2000. In the month up to end-July, cash weightings within GEM portfolios rose from 1.9% to 2.2%, as MSCI GEMs fell by 7.3% and underperformed DM equities by 900bps – the biggest underperformance since August 1998.

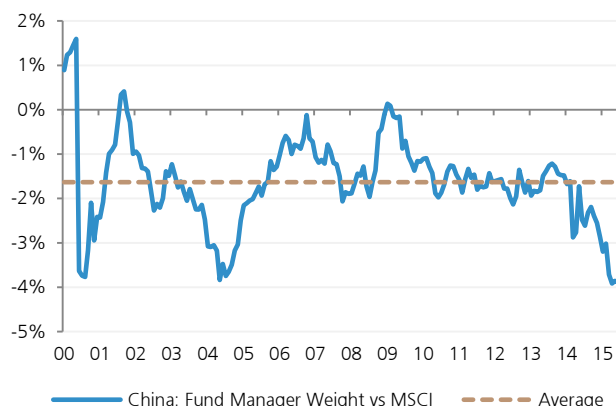
Source: EPFR Global, MSCI, UBS.

Figure 5: China: Fund Weight vs MSCI GEMs



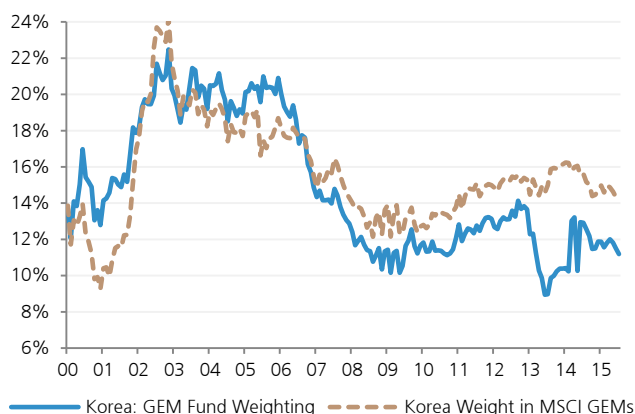
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 6: China: Fund Weight relative to MSCI GEMs



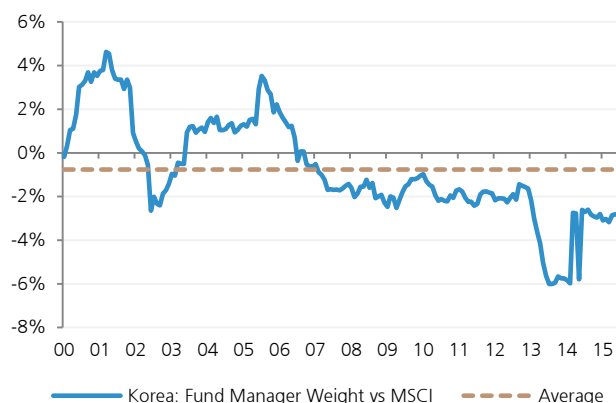
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 7: Korea: Fund Weight vs MSCI GEMs



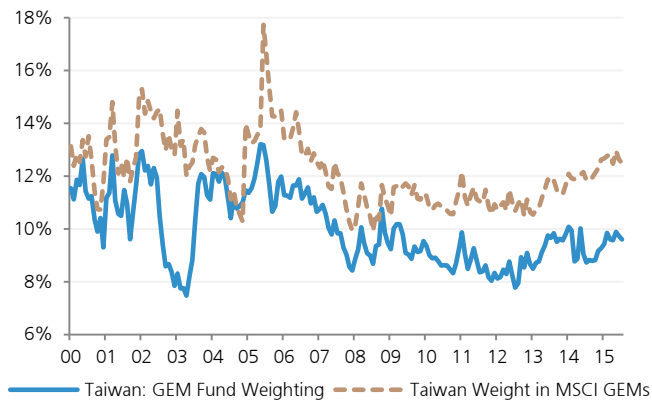
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 8: Korea: Fund Weight relative to MSCI GEMs



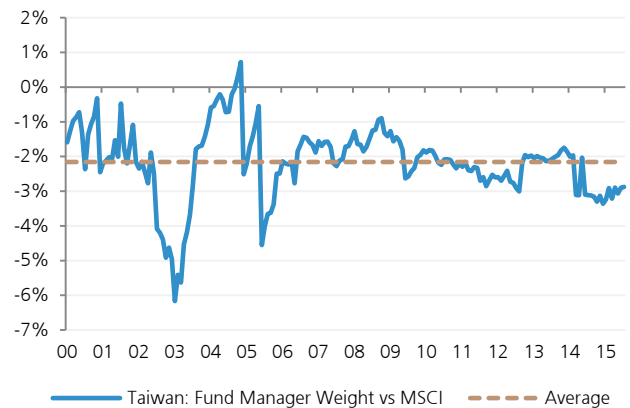
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 9: Taiwan: Fund Weight vs MSCI GEMs



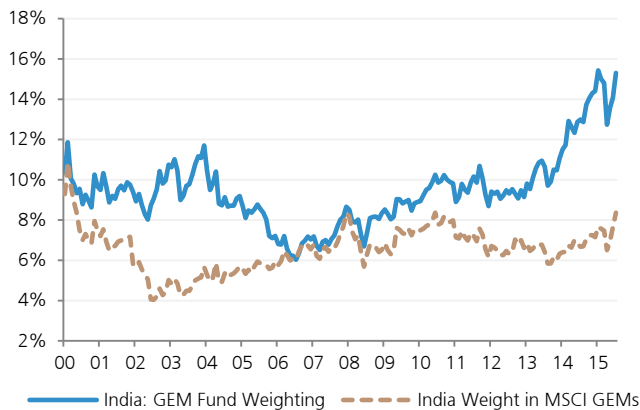
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 10: Taiwan: Fund Weight relative to MSCI GEMs



Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 11: India: Fund Weight vs MSCI GEMs



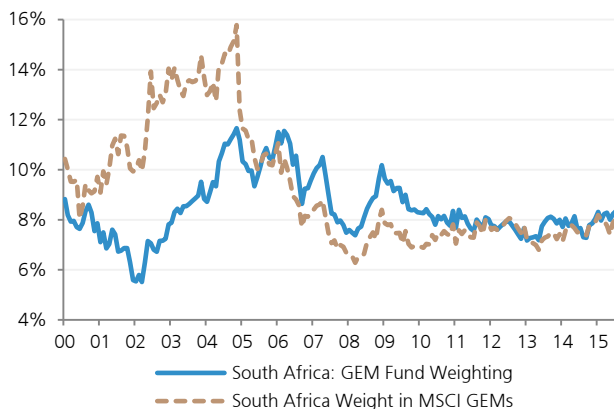
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 12: India: Fund Weight relative to MSCI GEMs



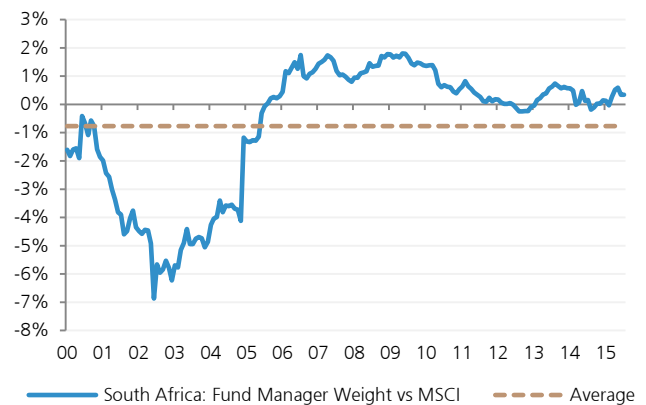
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 13: South Africa: Fund Weight vs MSCI GEMs



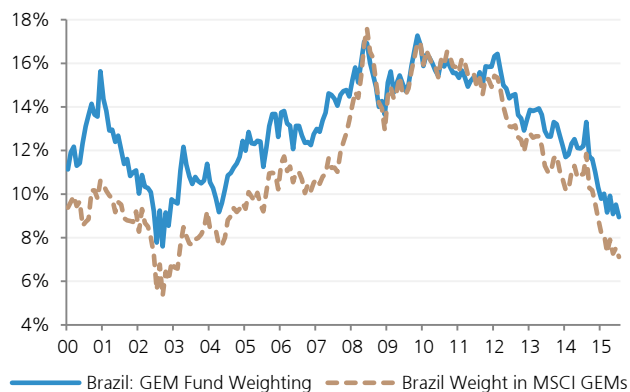
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 14: S Africa: Fund Weight relative to MSCI GEMs



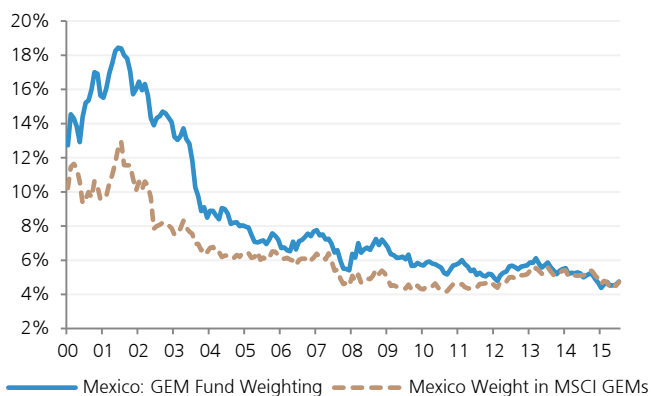
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 15: Brazil: Fund Weight vs MSCI GEMs



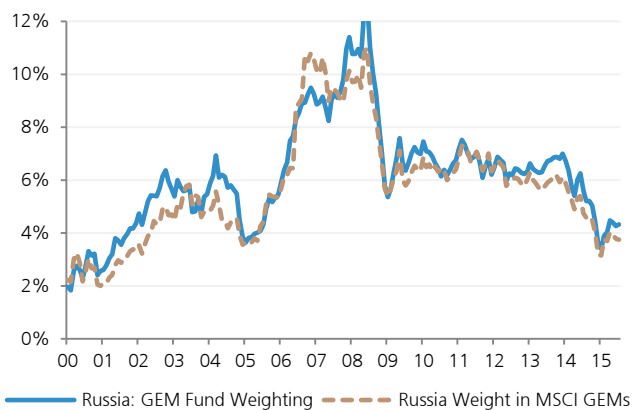
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 17: Mexico: Fund Weight vs MSCI GEMs



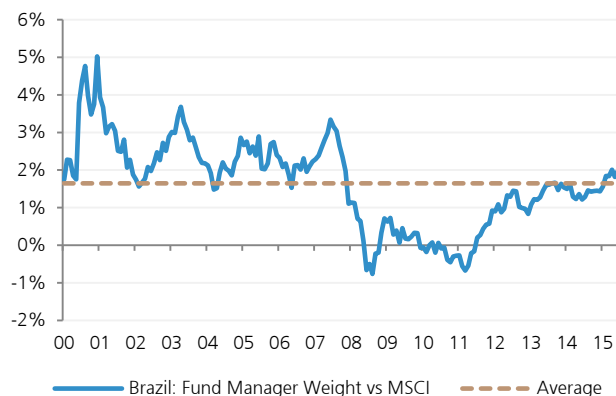
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 19: Russia: Fund Weight vs MSCI GEMs



Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 16: Brazil: Fund Weight relative to MSCI GEMs



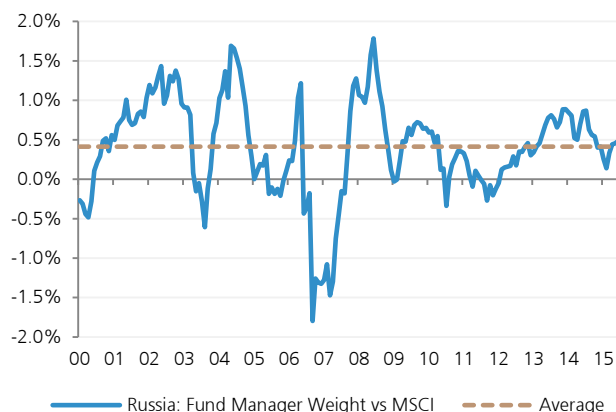
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 18: Mexico: Fund Weight relative to MSCI GEMs



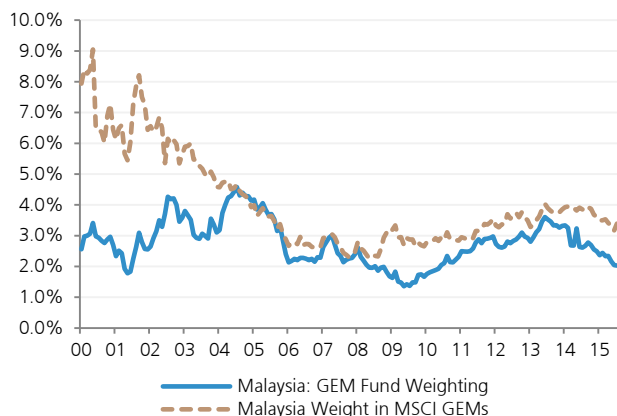
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 20: Russia: Fund Weight relative to MSCI GEMs



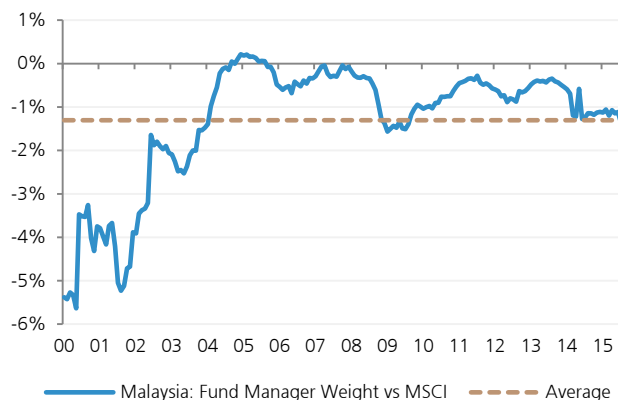
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 21: Malaysia: Fund Weight vs MSCI GEMs



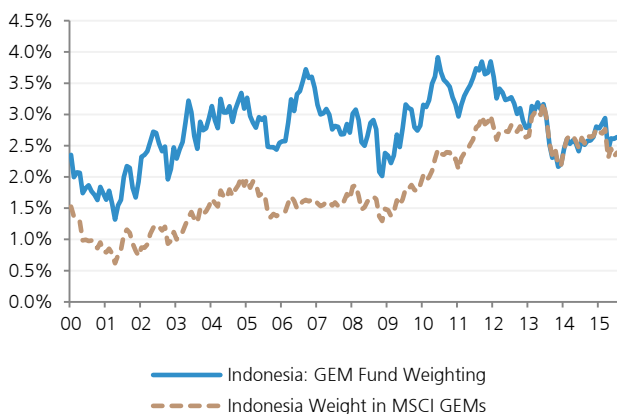
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 22: Malaysia: Fund Weight relative to MSCI GEMs



Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 23: Indonesia: Fund Weight vs MSCI GEMs



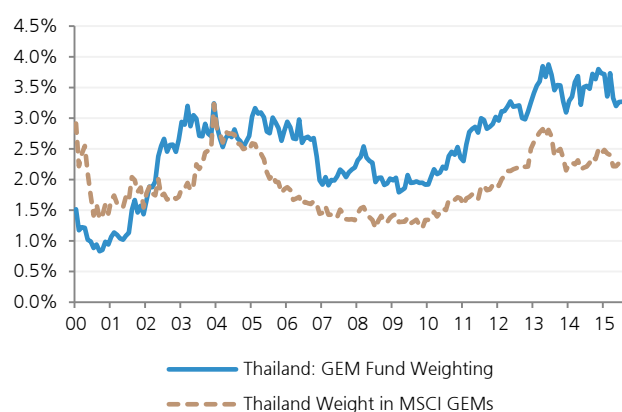
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 24: Indonesia: Fund Weight relative to MSCI GEMs



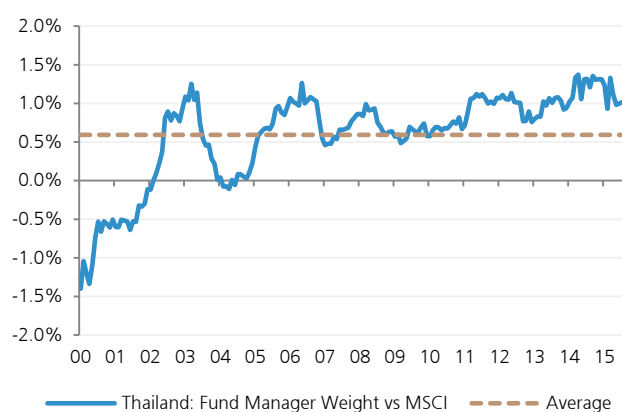
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 25: Thailand: Fund Weight vs MSCI GEMs



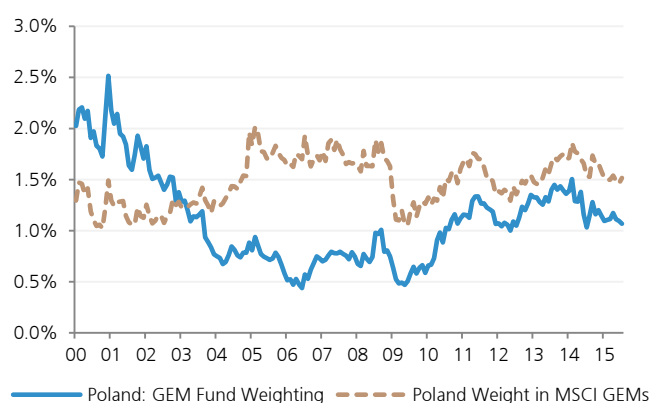
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 26: Thailand: Fund Weight relative to MSCI GEMs



Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 27: Poland: Fund Weight vs MSCI GEMs



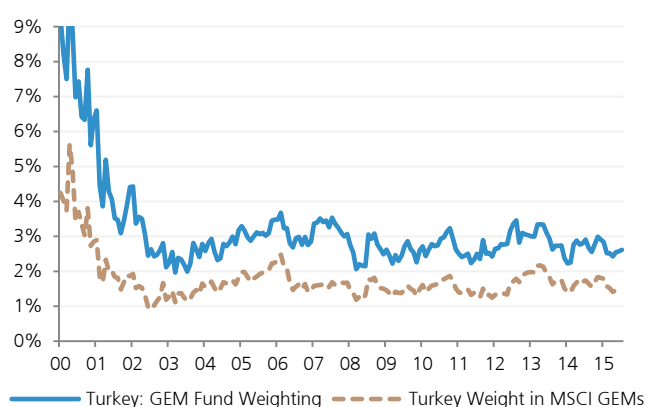
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 28: Poland: Fund Weight relative to MSCI GEMs



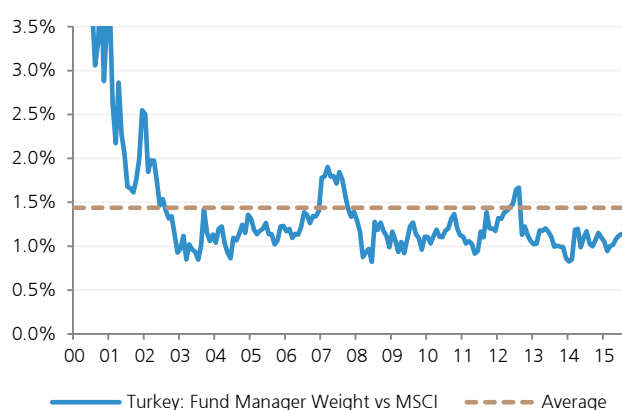
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 29: Turkey: Fund Weight vs MSCI GEMs



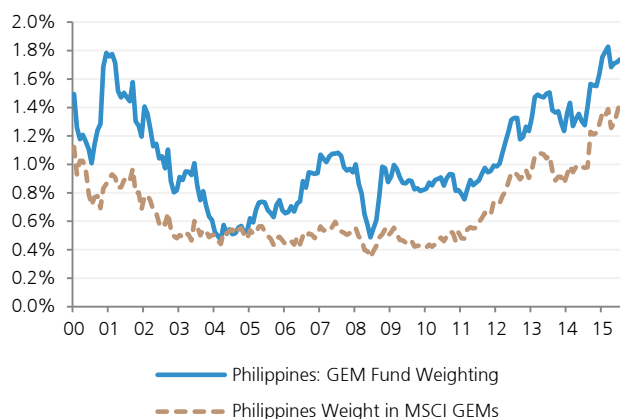
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 30: Turkey: Fund Weight relative to MSCI GEMs



Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 31: Philippines: Fund Weight vs MSCI GEMs



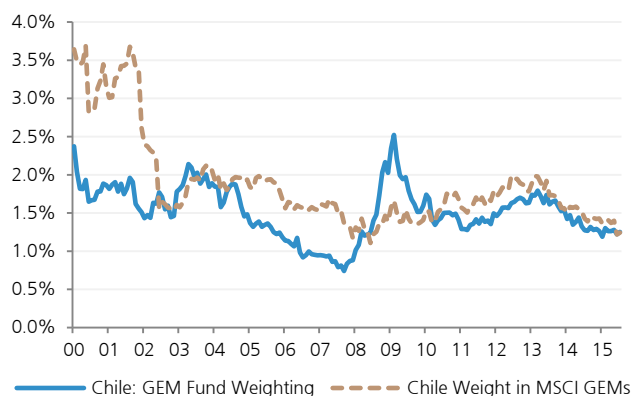
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 32: Philippines: Fund Weight relative to MSCI GEMs



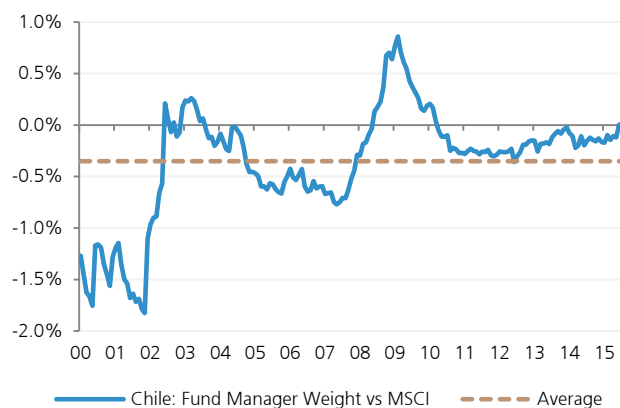
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 33: Chile: Fund Weight vs MSCI GEMs



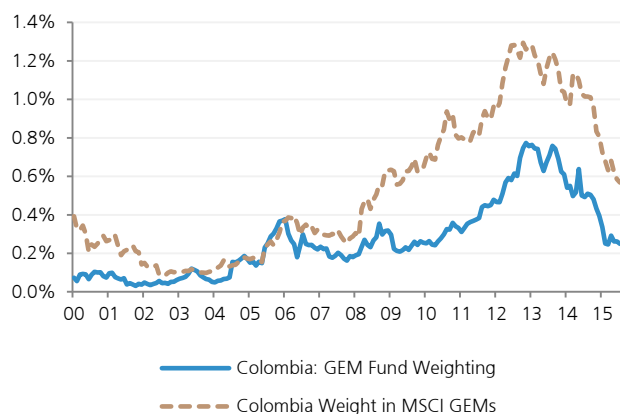
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 34: Chile: Fund Weight relative to MSCI GEMs



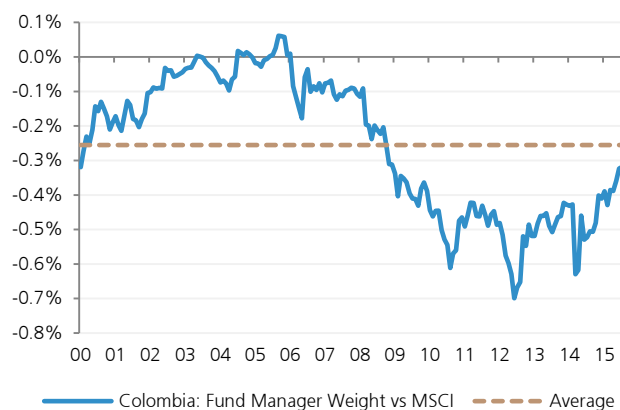
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 35: Colombia: Fund Weight vs MSCI GEMs



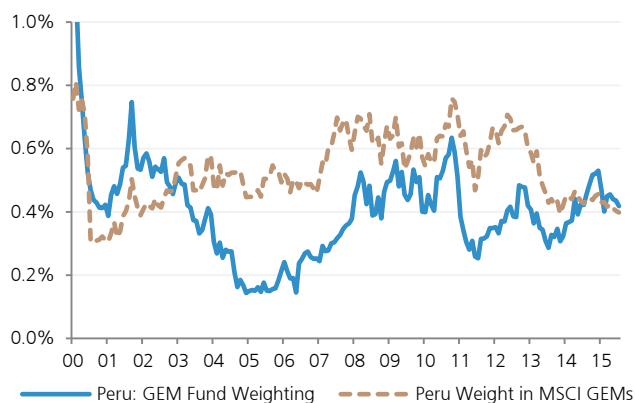
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 36: Colombia: Fund Weight relative to MSCI GEMs



Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 37: Peru: Fund Weight vs MSCI GEMs



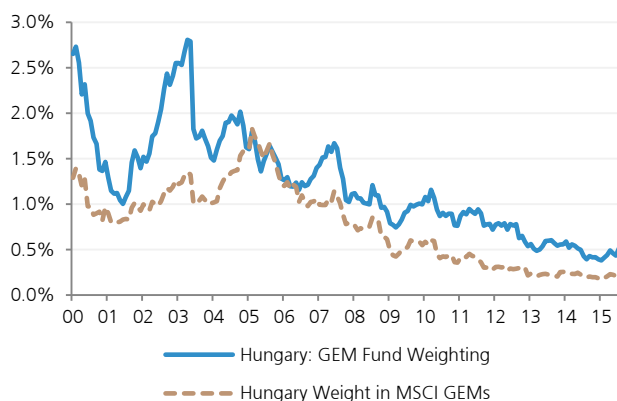
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 38: Peru: Fund Weight relative to MSCI GEMs



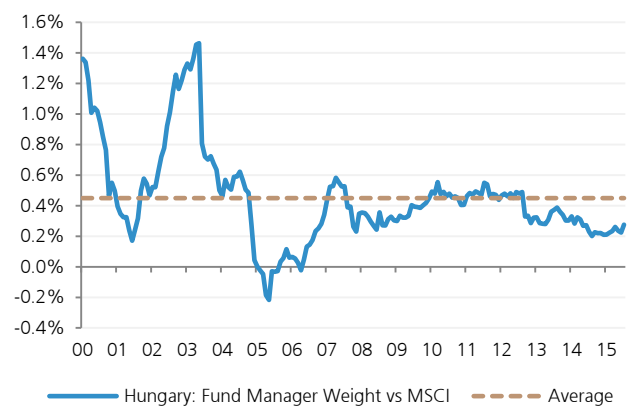
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 39: Hungary: Fund Weight vs MSCI GEMs



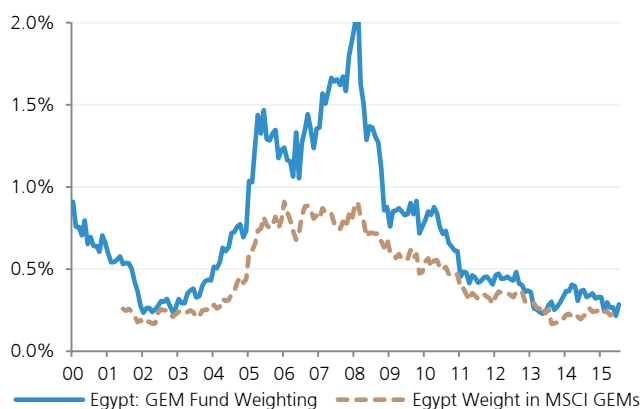
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 40: Hungary: Fund Weight relative to MSCI GEMs



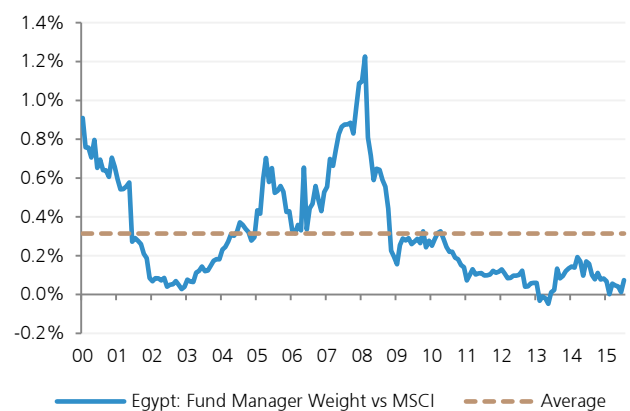
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 41: Egypt: Fund Weight vs MSCI GEMs



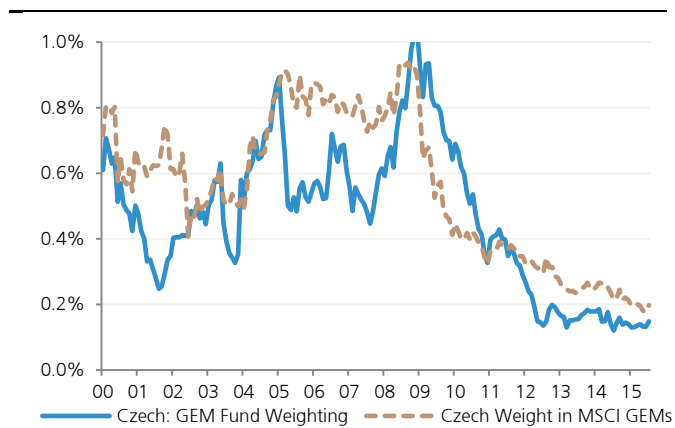
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 42: Egypt: Fund Weight relative to MSCI GEMs



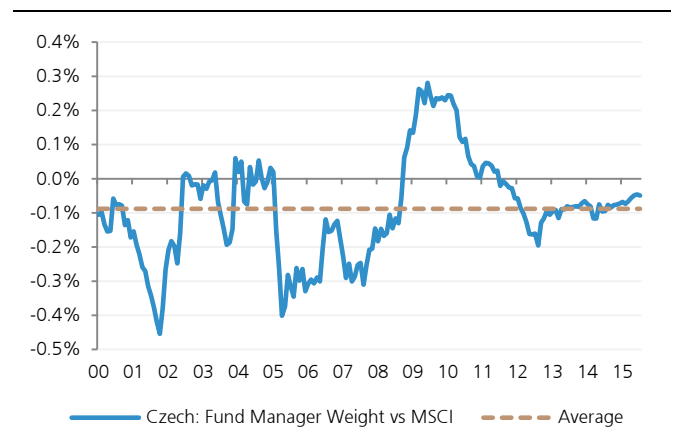
Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 43: Czech Republic: Fund Weight vs MSCI GEMs



Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

Figure 44: Czech: Fund Weight relative to MSCI GEMs



Source: EPFR Global, MSCI, UBS. Country weights normalized on an ex-cash basis.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	45%	36%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2015.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities LLC: Geoff Dennis; Howard Park.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

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