

EMERGING MARKETS**BRAZIL: 3.5 STARS – ATTRACTIVE**

- Manufacturing PMI stood at 50.5 in Jun 17, down from 52.0 in May 17
- Services PMI came in at 47.4 in Jun 17, down from 49.2 in May 17
- Composite PMI was recorded at 48.5 in Jun 17, down from 50.4 in May 17
- Retail sales rose by 2.4% y-o-y in May 17, up from a 1.7% y-o-y increase in Apr 17
- Industrial production rose 4.0% y-o-y in May 17 after a -4.3% y-o-y decrease in Apr 17
- IPCA inflation came in at 3.0% y-o-y in Jun 17, easing from a 3.6% y-o-y increase in May 17
- Selic rate at 10.25% as of 24 July 2017

RUSSIA: 4.0 STARS – VERY ATTRACTIVE

- Industrial production grew 3.5% y-o-y in Jun 17, down from a 5.6% gain in May 17
- CPI came in at 4.4% y-o-y in Jun 17, up from 4.1% y-o-y in May 17
- PPI came in at 2.9% y-o-y in Jun 17, easing from a 5.9% increase in May 17
- Retail sales at 1.2% y-o-y in Jun 17, up from a 0.7% increase in May 17
- CBR rate at 9.00% as of 24 July 2017

MARKET OUTLOOK

Through the course of July as of 24 July 2017, the 2017 earnings estimates of Brazilian companies were revised downwards by -1.4% while the 2018 earnings estimates of Brazilian companies remained unchanged. 2017 earnings estimates over in the heavy weight materials sector saw mixed revisions over the month, with steelmaker Usinas Siderurgicas de Minas Gerais SA and major eucalyptus pulp producer Fibria Celulose SA leading earnings upgrades amid rising prices of steel and iron ore and recent strong demand for pulp respectively. Contrastingly, steel manufacturer Gerdau SA and iron ore producer Vale SA were amongst companies in the materials sector which saw the largest 2017 earnings downgrades on the back of a year-on-year and quarter-on-quarter drop in 1Q 17 revenues and recently lower production respectively. On average, companies in the materials sector still saw the largest earnings upgrades over the month while companies in the energy and utilities sectors saw the largest earnings downgrades over the month.

Month-to-date as of 24 July 2017, the 2017 earnings estimates of Russian corporations were revised upwards by 7.7%, reversing the -6.3% downgrade over the course of the month before; while their 2018 earnings estimates were revised upwards by 6.8%, partially reversing their -13.7% downgrade over the course of June. As of 24 July 2017, the earnings of Russian companies are forecasted to grow 13.3% and 11.7% in 2017 and 2018 respectively. Companies that saw the greatest earnings upgrades over the month include the country's largest sea port operator, Novorossiysk Commercial Sea Port PJSC; power company ROSSETI PJSC; as well as VTB Bank PJSC. Meanwhile, companies which saw the greatest earnings downgrades over the month include oil and gas company Surgutneftegas OJSC as well as fertiliser producers PhosAgro PJSC and Uralkali PJSC. On average, the industrials sector saw the greatest earnings upgrades over the month, largely due to that stemming from Novorossiysk Commercial Sea Port PJSC, while the heavy weight energy sector saw one of the greatest earnings downgrades over the month (despite oil prices having ticked higher by 0.65% to USD 46.34 as of 24 July 2017) on the back of lingering concerns over global oil production.

In South America, Brazil's June Markit Manufacturing PMI came in at a 50.5 reading, down from the prior month's 52.0 reading. The figure however, has continued to come in above the 50.0 neutral reading for the third consecutive month, signalling continued manufacturing expansion and a strong quarter for the country's manufacturing sector. The demand for manufacturing goods had continued to improve in June, though the rate of increase for both new orders and output had eased from May's high. Manufacturing costs, however, had increased in June, primarily due to the continued weakening of the BRL against the USD. June's purchasing price inflation had also accelerated from May's 16-month low, contributing to the upward pressures on cost. In June, consumer price inflation came in at 3.0% year-on-year, down from May's 3.6% and was slightly below the consensus estimate of 3.05%. While the recent increase in PPI signals possible upward pressures on the country's CPI in the coming months, at this juncture, the country's CPI for the year can still reasonably be expected to come in near the central bank's target 4.5%, which would still give rise to good room for further rate cuts over the coming quarters. While political stability in the economy has weakened, multiple economic indicators have continued to point towards a gradual turnaround and it remains likely that Brazil's economy would see positive growth for the whole of 2017.

Over in Russia, June's industrial production rose 3.5% year-on-year, on par with market expectations and easing from prior month's 5.6%, which was the highest year-on-year growth rate in more than 5 years. Broken down by sectors, the mining sector saw the largest increase in output year-on-year (5.2%) in June, while the water supply, sewerage sector saw the weakest growth year-on-year (-0.3%). Russia's manufacturing PMI has dipped from its high in February 2017 to 50.3 in June, its lowest reading in its current 11-month sequence of expansion. This trend signals a slowdown in manufacturing activity, which would likely adversely affect industrial production numbers in the coming months. A look into other economic data released over the month revealed a slight increase in CPI to 4.40% year-on-year in June from 4.10% in May amid the increase in the prices of vegetables. Nonetheless, core CPI has continued its downward trend, reaching 3.50% year-on-year in June from 3.80% the month before, signalling a continued fall in the prices of less volatile items. Real retail sales data improved in June, coming in at a 1.2% year-on-year up from May's 0.7% year-on-year increase. Year-to-date, retail sales data have been on an uptrend, suggesting that the domestic economy in Russia has gradually improved from last year. While some economic indicators had dipped in June, it remains likely that the country's economic growth would turn positive this year.

Over the course of July, as of 24 July 2017, the Bovespa Index has risen 3.5% in local currency terms and currently trades at estimated PE ratios of 12.3X and 10.9X for 2017 and 2018 respectively as compared to its fair PE ratio of 11.5X. Continued signs of recovery as well as a stabilisation in commodity prices and China's economy have led us to be less pessimistic about the Brazilian economy. As such, **we believe that a star rating of 3.5 Stars "Attractive" continues to be warranted for Brazil's equity market at this juncture.** On the other hand, the Russian equity market rose 1.3% in RUB terms month-to-date (as of 24 June 2017), trading at estimated PE ratios of 6.7X and 6.0X for 2017 and 2018 respectively relative to its 7.0X fair PE ratio. **We retain Russia's star ratings at 4.0 Stars "Very Attractive".**

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