



STAR RATINGS REVIEW

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EMERGING MARKETS (4.5 STARS – VERY ATTRACTIVE)

Why we like it:

1. Relatively Stronger Long-Term Economic Growth Trajectory
 - Healthier demographics, on-going trends of urbanisation and domestic consumption should drive long-term sustainable growth
 - Emerging markets will likely post stronger economic growth compared to their developed market counterparts, which should imply higher rates of earnings growth and stronger market returns
 - Previously extremely reliant on exports for economic growth, emerging countries have been refocusing their economies towards sustainable domestic consumption (e.g. China and India)
2. Attractive Valuations And High Potential Upside
 - The MSCI Emerging Markets Index trades at estimated PE ratios of 12.4X and 11.2X for 2018 and 2019 respectively (as of 28 December 2017); as compared to its fair PE of 13.5X
 - The estimated upside by end-2019 is an estimated 13.1% gain (annualised), representing relatively substantial upside potential that is similar to Asia ex Japan
 - Relatively attractive when compared to their developed market peers
3. Beneficiaries Of A Potential Pick-up In Global Trade
 - An improvement in global trade should see emerging markets pick up steam, with commodity producers such as Brazil and Russia amongst those who should benefit

Why we don't like it:

1. While emerging markets have displayed increased resilience and have become more insulated against negative developments in the developed markets, they are still not immune to developments in the West and are exposed to the weak global trade and low commodity price environment, which has led to downward revisions in their earnings growth estimates
2. Emerging market governments have shown themselves to be unafraid of interfering with free market operations to curb inflation or to implement various policies; interference by governments have led to decreased profitability in various sectors such as utilities, telecommunications and financials, which has negatively impacted equity markets
3. The region still remains susceptible to geopolitical risk, as evidenced by events in Eastern Europe or in Northeast Asia; political woes in South America and tensions in the Middle East also serve as a reminder that geopolitical risks for emerging markets tend to be higher than their developed market peers
4. Trade reliant emerging market countries may be affected should populist Western politicians enact protectionist policies, triggering 'trade wars' between multilateral trade channels

ASIA EXCLUDING JAPAN (4.5 STARS – VERY ATTRACTIVE)

Why we like it:

1. Attractive Valuations
 - Corporate earnings have stabilised since late-2016, and are seeing broad-based recovery across the region year-to-date
 - The estimated upside by end-2019 is 14.2% (annualised) as of 28 December 2017, representing relatively substantial upside potential
 - The MSCI Asia ex-Japan index trades at estimated PE ratios of 13.0X and 11.7X for 2018 and 2019 respectively, below its fair PE ratio of 14.5X (as of 28 December 2017)
2. Global Economic Expansion To Benefit Asian Markets
 - Economic momentum is likely to remain supported by recoveries in Europe and Japan while the US continues growing at a steady pace; and with developed markets remaining supported, global trade could potentially be boosted with positive spill-over effects for Asia
 - Asian exporters and export-oriented economies are poised to benefit from a potential pick-up in global trade, particularly those from North Asia and other open-economies such as Singapore
3. High Potential Upside
 - The high upside potential is a function of the region's heavily weighted underlying markets such as China, which continues to trade at relatively attractive valuations
 - Relatively attractive when compared to their developed market peers

Why we don't like it:

1. While Asian markets have displayed increased resiliency and become more insulated against negative developments in the developed markets, they are still not immune to developments in the West and are exposed to the weak global trade environment which has seen their earnings growth estimates reduced
2. Highly susceptible to capital flows as witnessed during the exodus of foreign capital in 2013 resulting in falling values of financial assets, and while the region's capital flows have since stabilised, susceptibility to foreign capital outflows is a key source of asset price volatility for Asian assets
3. Asian countries that are driven by domestic consumption (which tends to be more resilient than exports) tend to have relatively higher valuations, reducing their attractiveness. On the other hand, Asian countries that are heavily exposed to global trade have seen their exports fall as a result of a sluggish global environment, impacting their valuations. Should global trade fail to pick-up, the export-reliant Asian countries could be set to remain cheap for quite some time

4. Trade reliant Asian countries may be affected should populist Western politicians enact protectionist policies, triggering 'trade wars' between multilateral trade channels

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