

11.00-11.45

China/Emerging Markets: Cyclical And Structural Opportunities And Risks



ARTHUR BUDAGHYAN

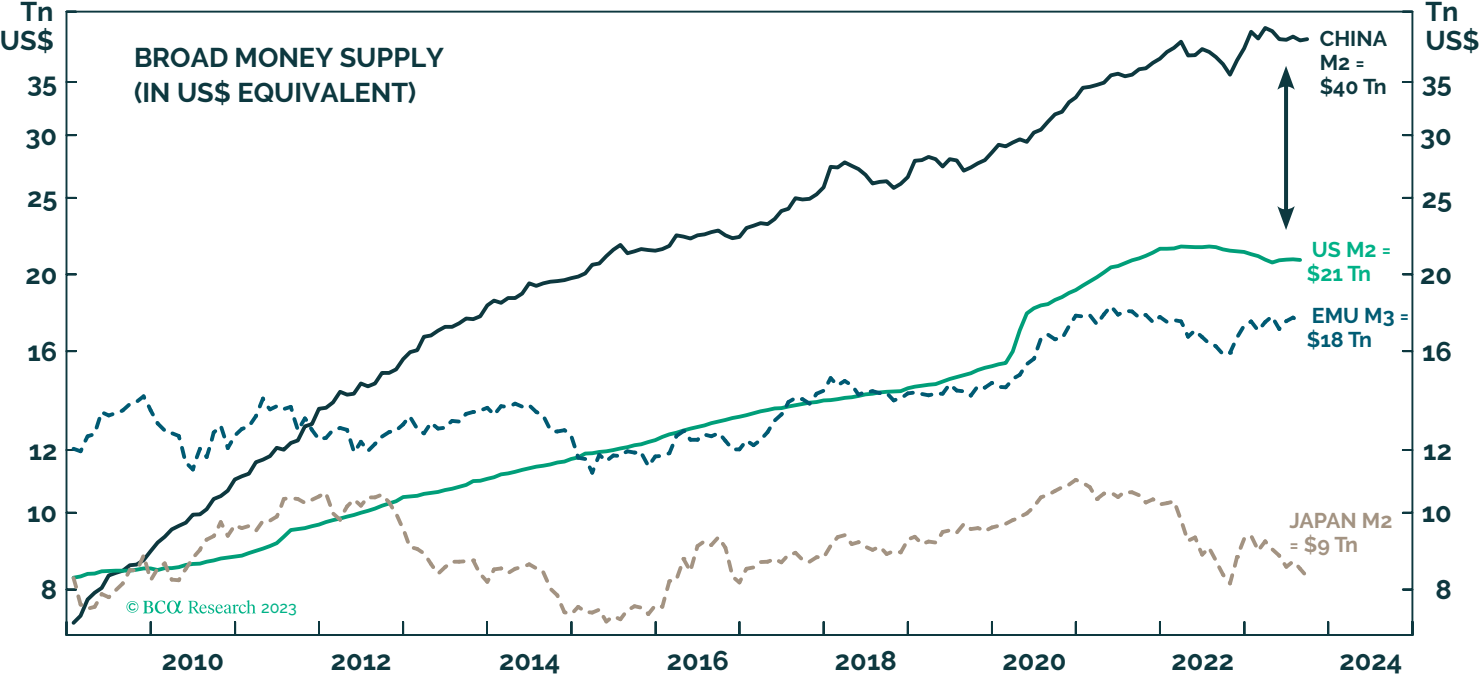
Chief EM/China Strategist

BCA Research

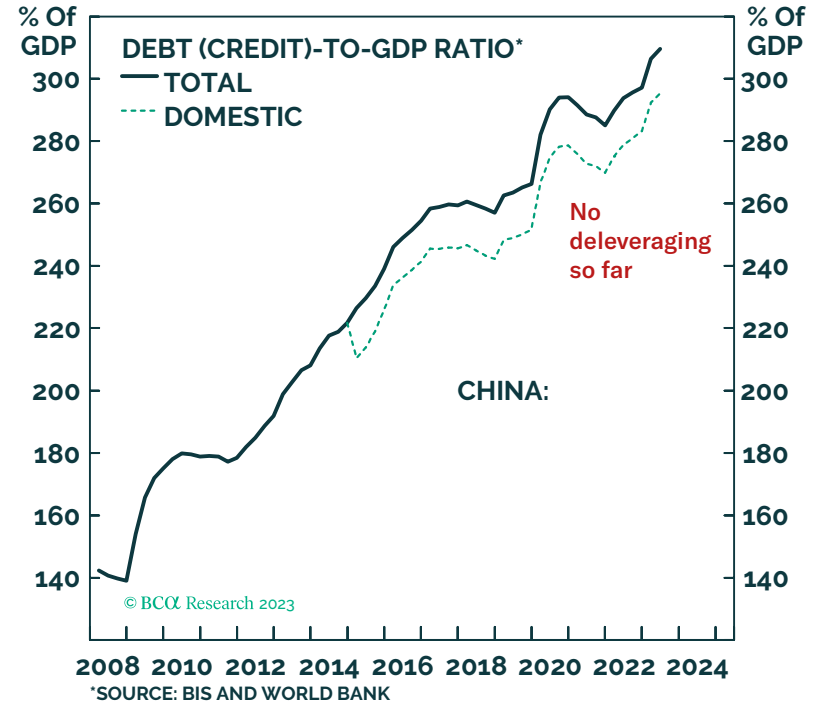
Key Points

- Beijing is not paralyzed. Policymakers have made a conscious decision to hold out on providing “irrigation-style” stimulus for as long as possible.
- China is experiencing full-fledged debt deflation and some sort of balance sheet recession. The outcome is a liquidity trap.
- The multi-year outlook for EM equities is neutral at best. Near-term risks are tilted to the downside.
- Select EM domestic bonds present a good risk-reward profile, especially after the current phase of US dollar strength runs its course.
- Mexico, Chile, India, and Vietnam offer the best investment opportunities.

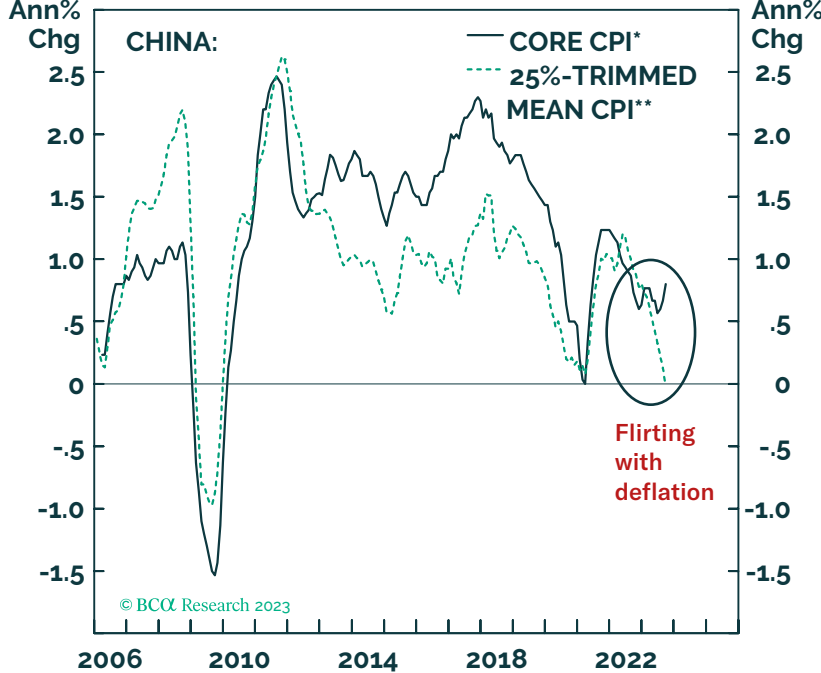
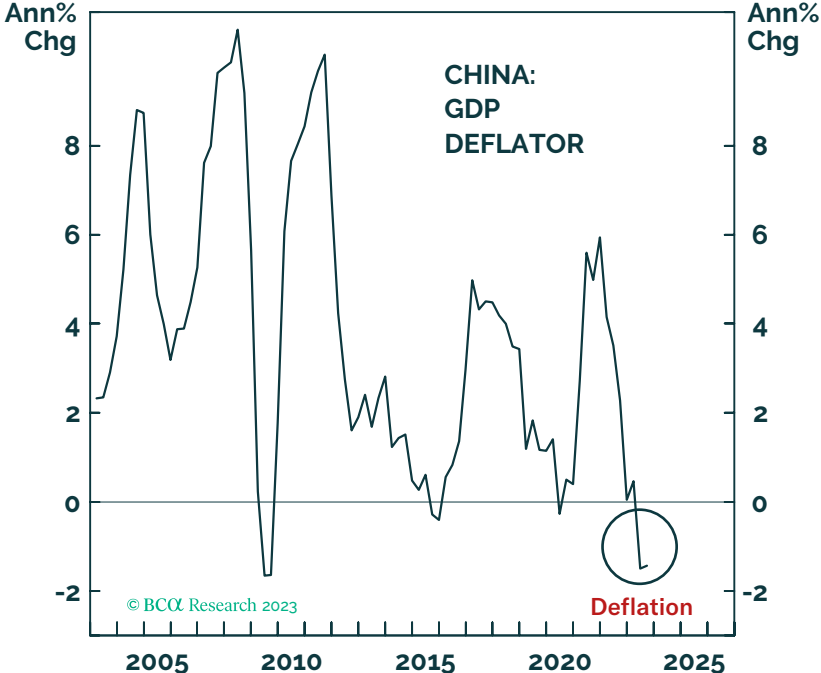
Money Excesses In China



China Is Struggling Despite 10% Credit Growth

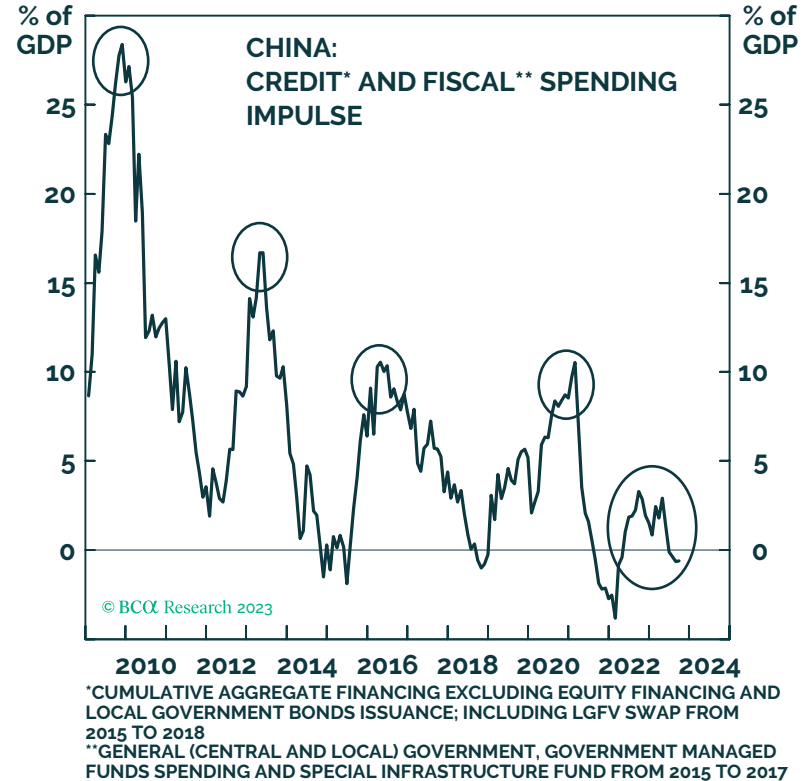


Deflation Is Widespread In China

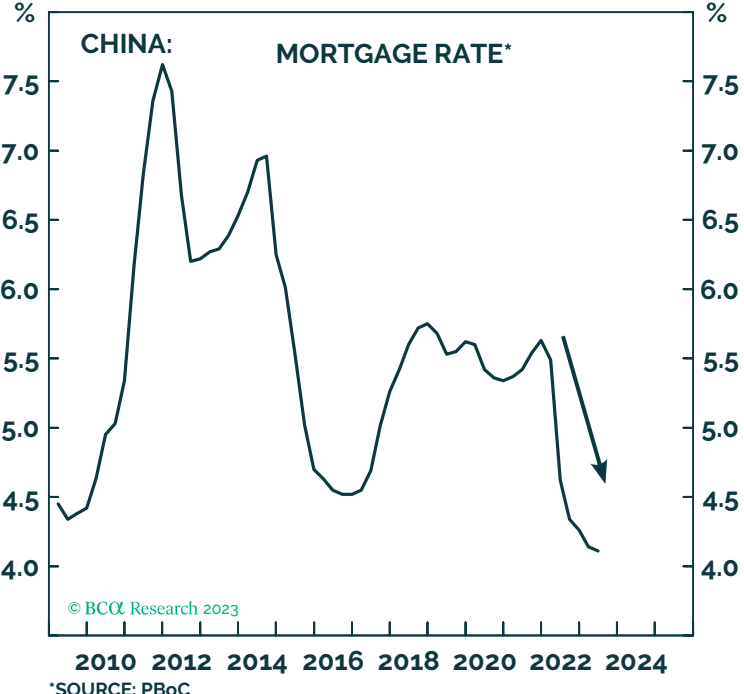
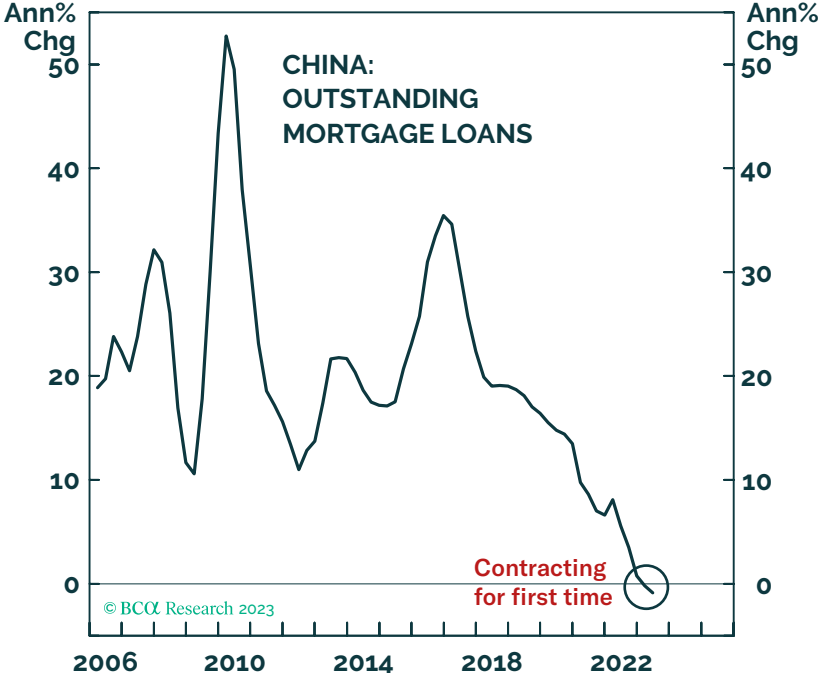


*SHOWN AS A 3-MONTH MOVING AVERAGE
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SOURCE: BCA CALCULATION

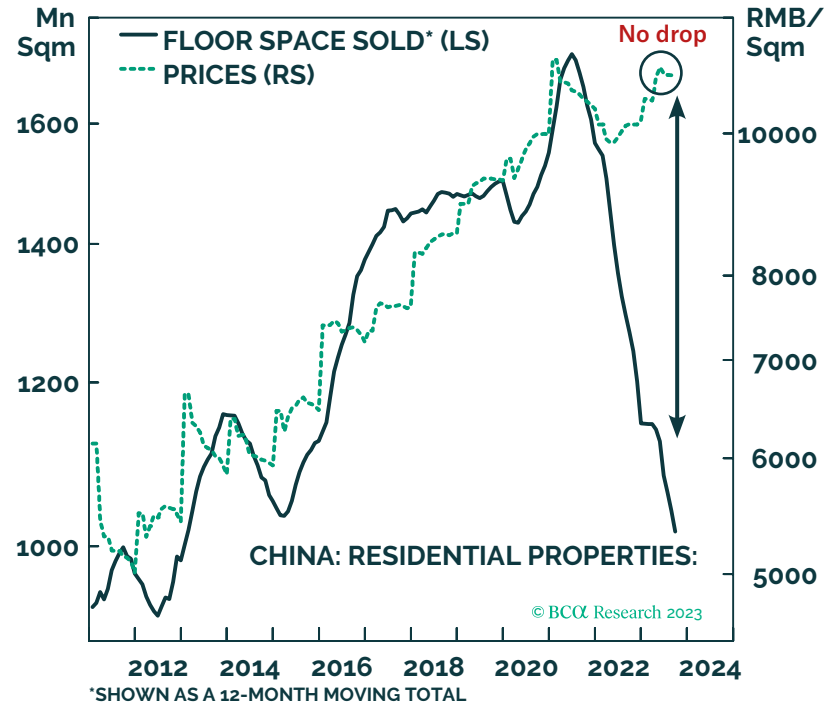
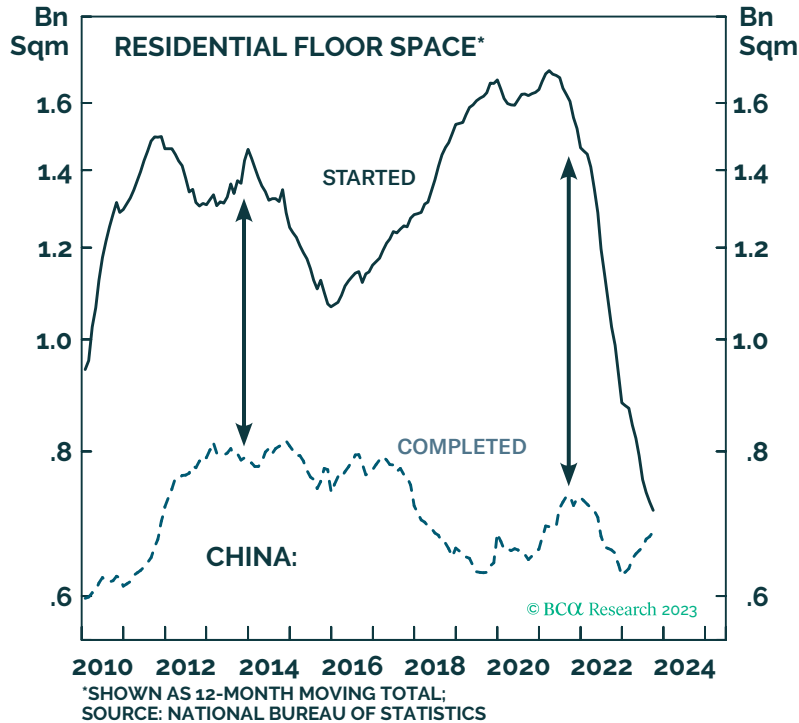
China: A Large Stimulus Is Needed



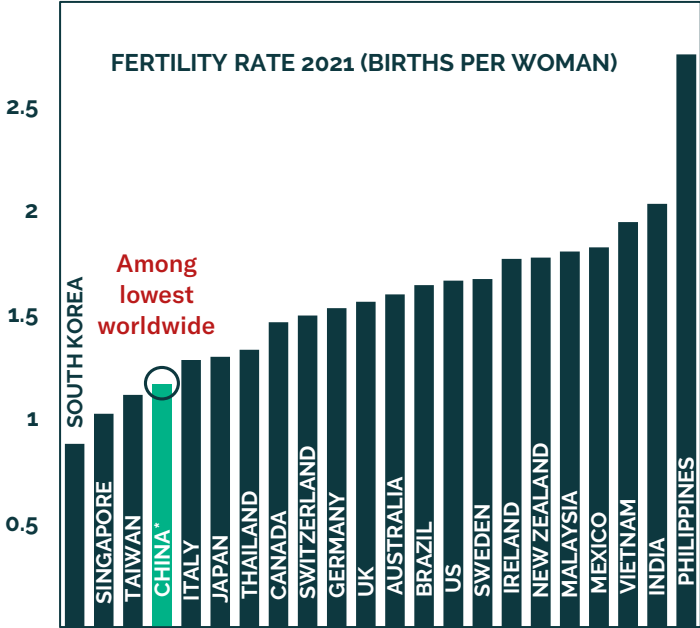
Households Are Paying Off Mortgages



The World's Largest Carry Trade

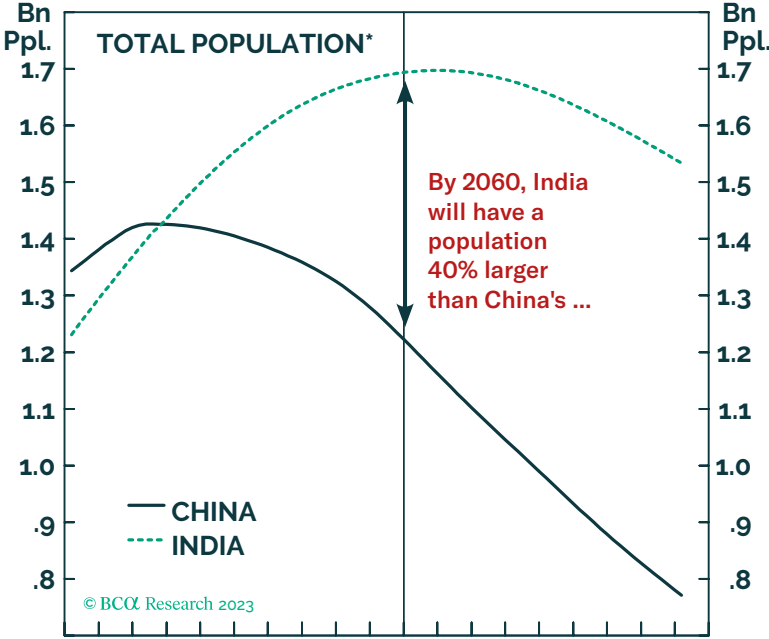


Demographic Crisis In China



*CHINA DATA IS BCA ESTIMATE.
SOURCE: WORLD BANK.

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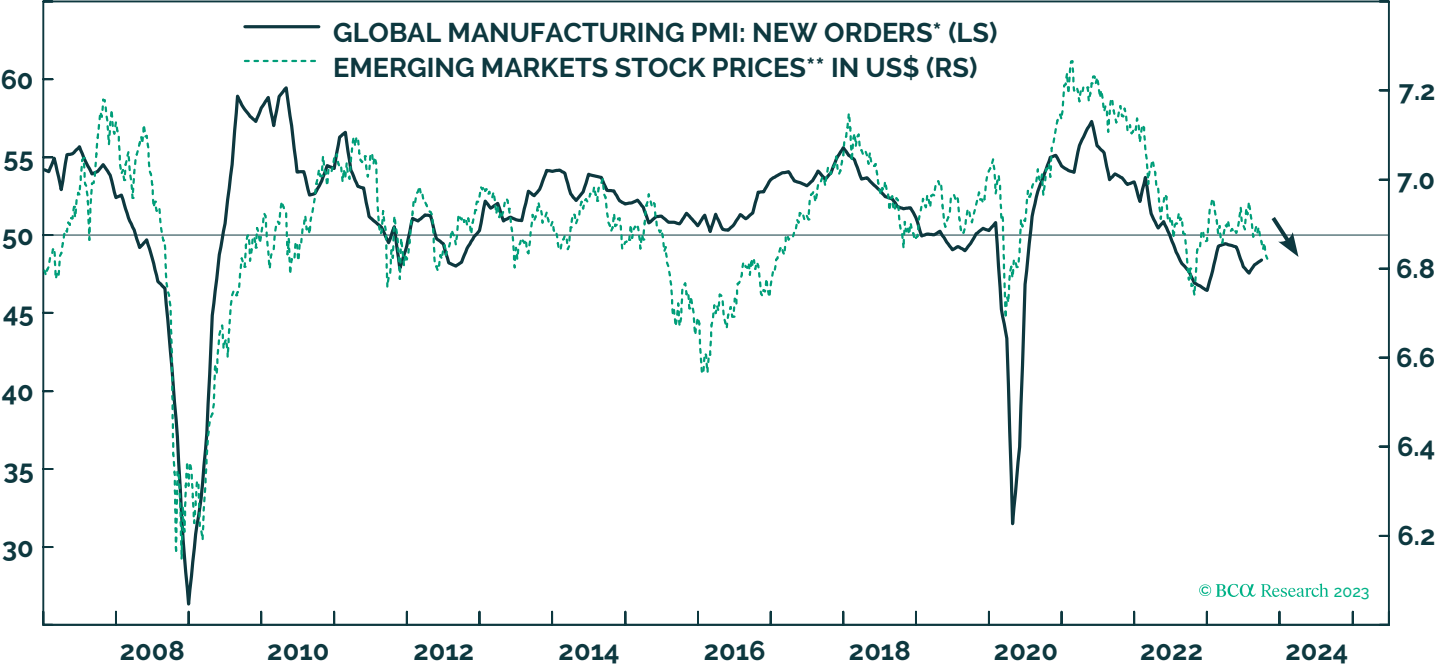
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*SOURCE: THE UNITED NATIONS

A Rise In US Bond Yields Ends With A Financial Accident



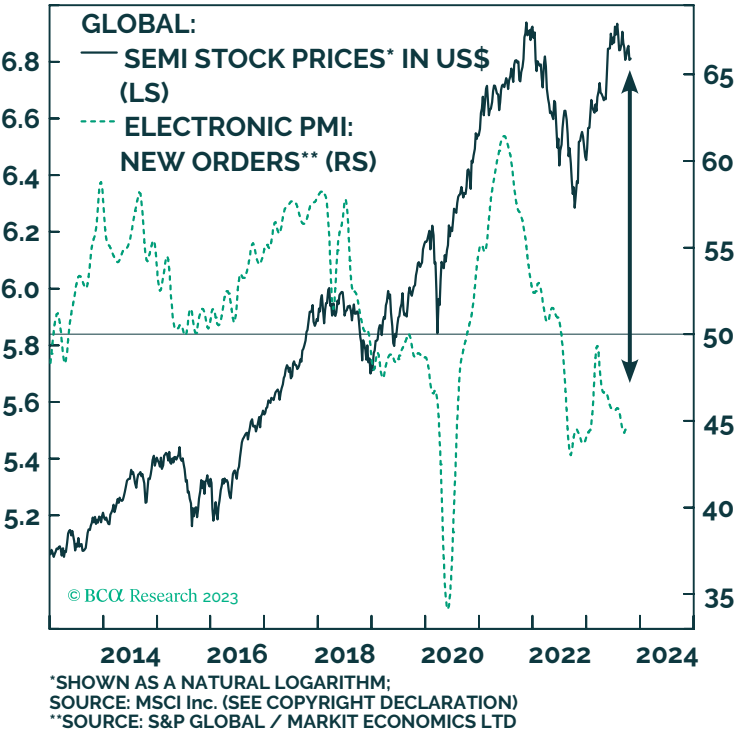
EM Stocks Correlate With Global Manufacturing Cycle



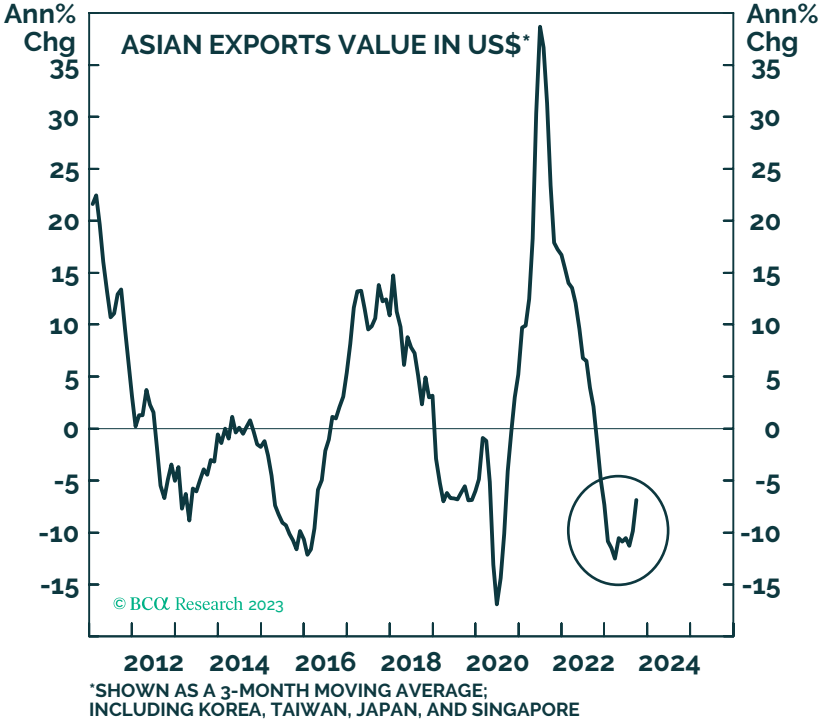
*SOURCE: S&P GLOBAL / MARKIT ECONOMICS LTD
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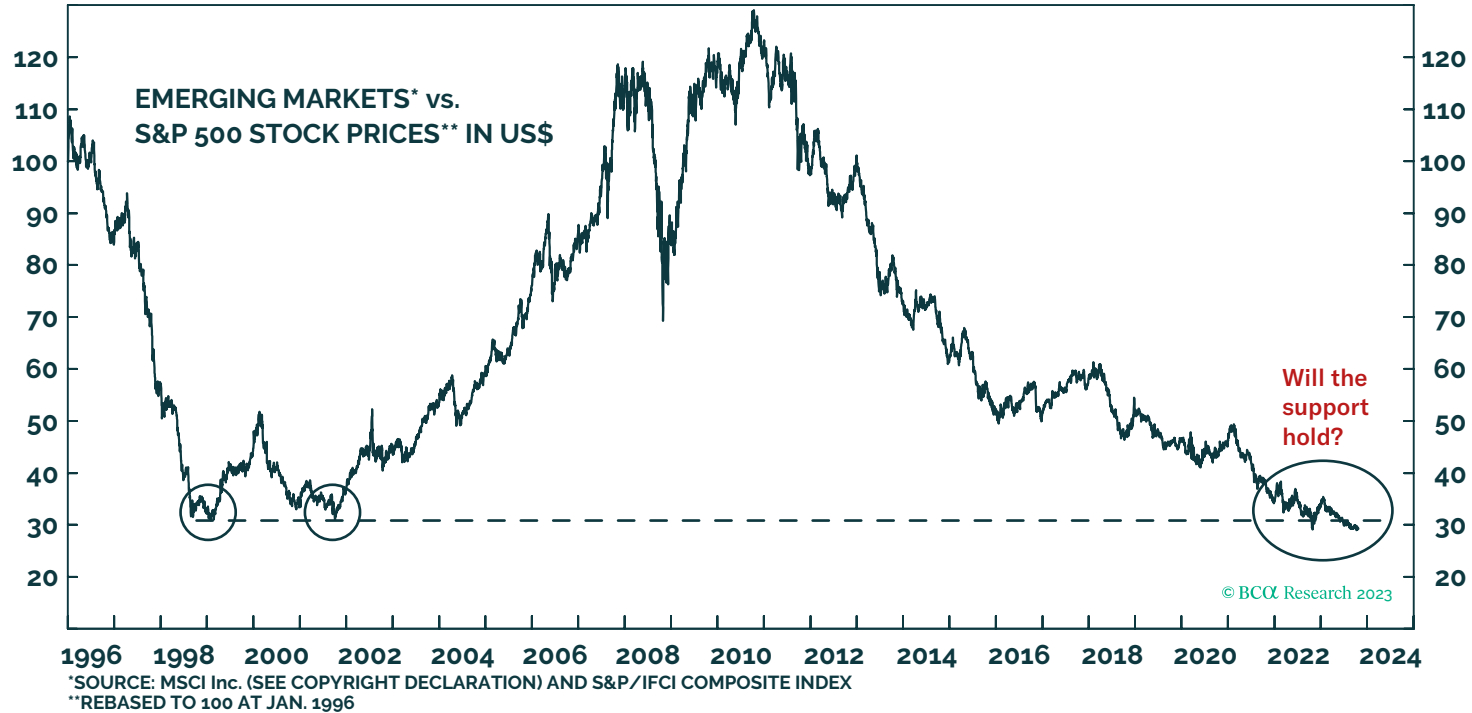
Global Trade Will Continue Shrinking



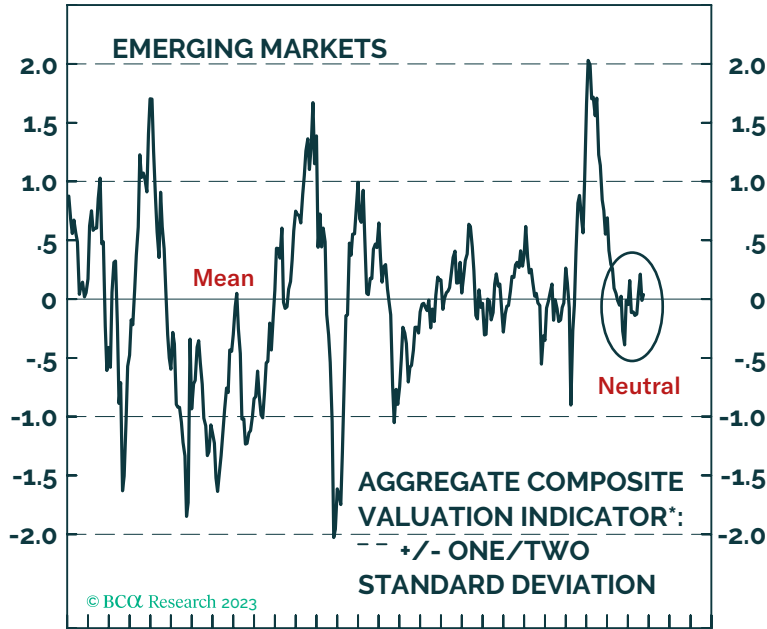
Asian Exports Will Continue Shrinking



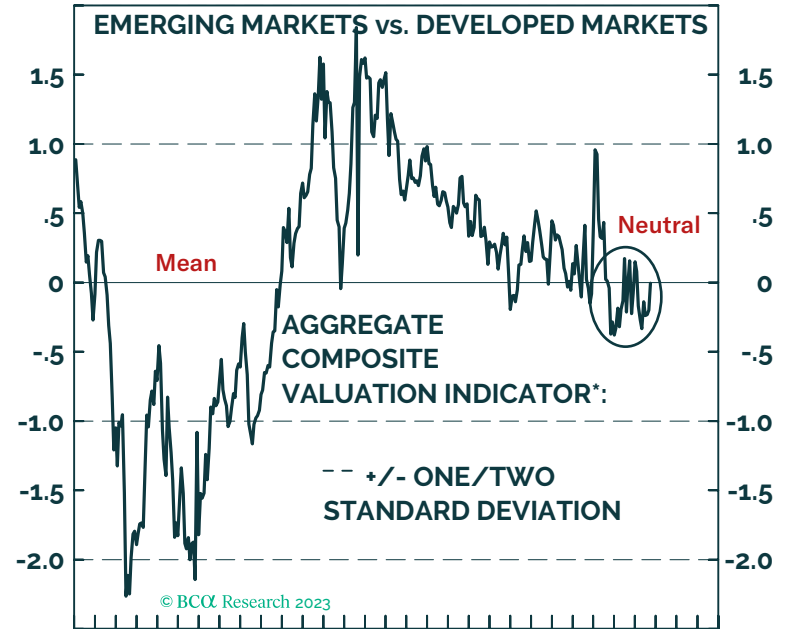
EM vs. US: Relative Stock Prices



EM Equity Valuations

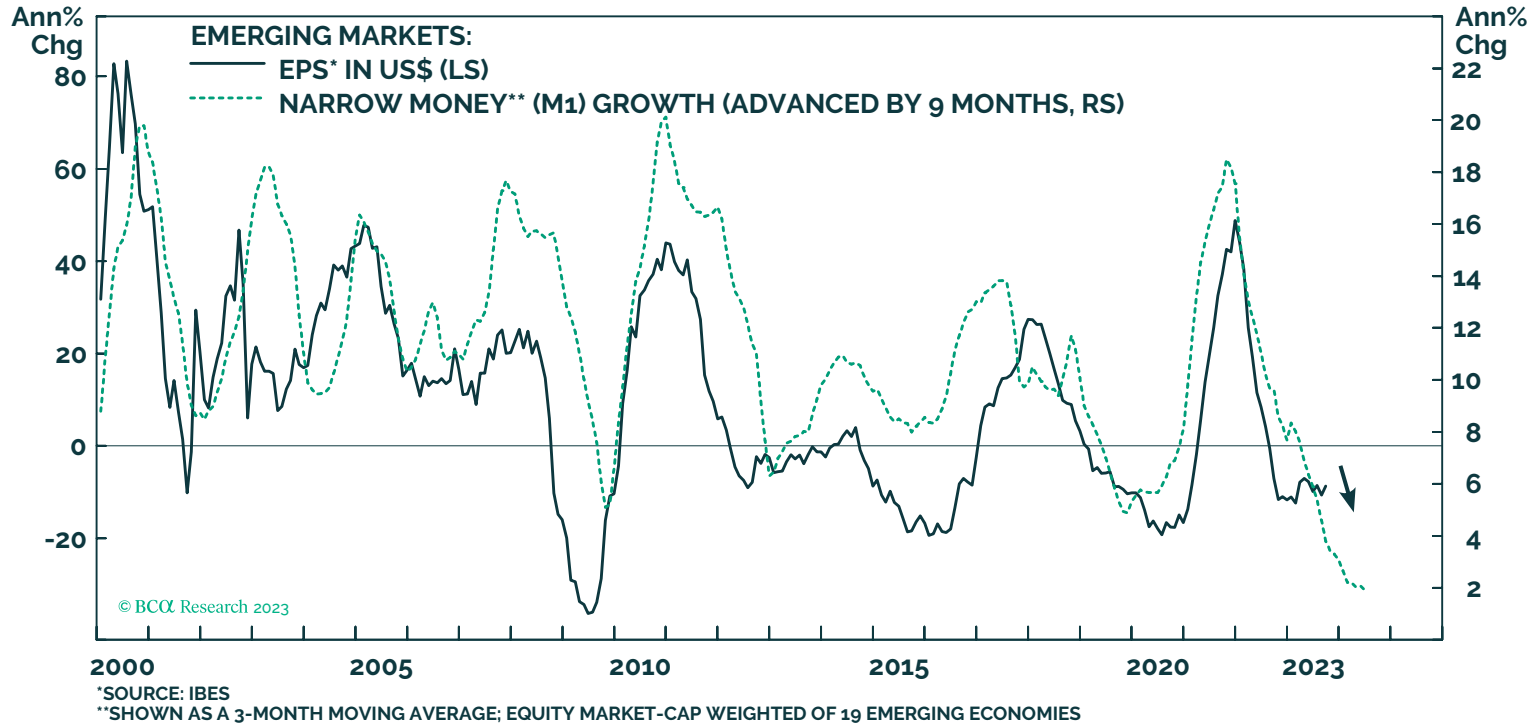


1996 2000 2004 2008 2012 2016 2020 2024
 *BASED ON AVERAGE OF EQUAL-WEIGHTED, MEDIAN AND 20% TRIMMED MEAN COMPOSITE MULTIPLES INDICATOR;
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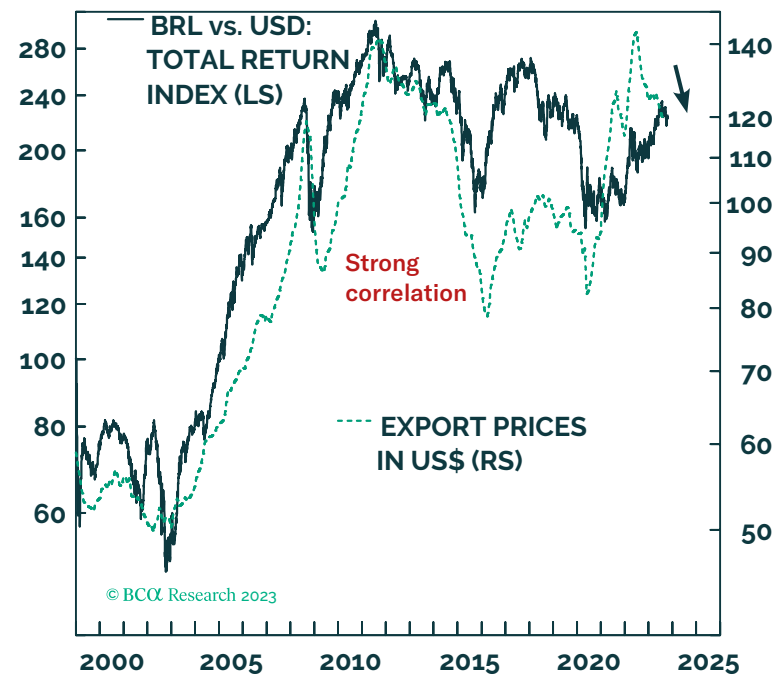
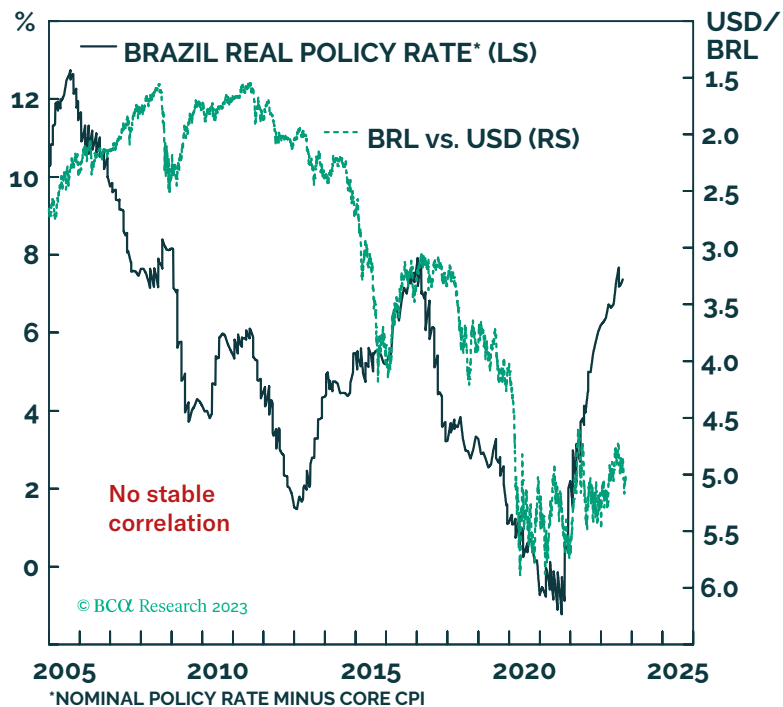


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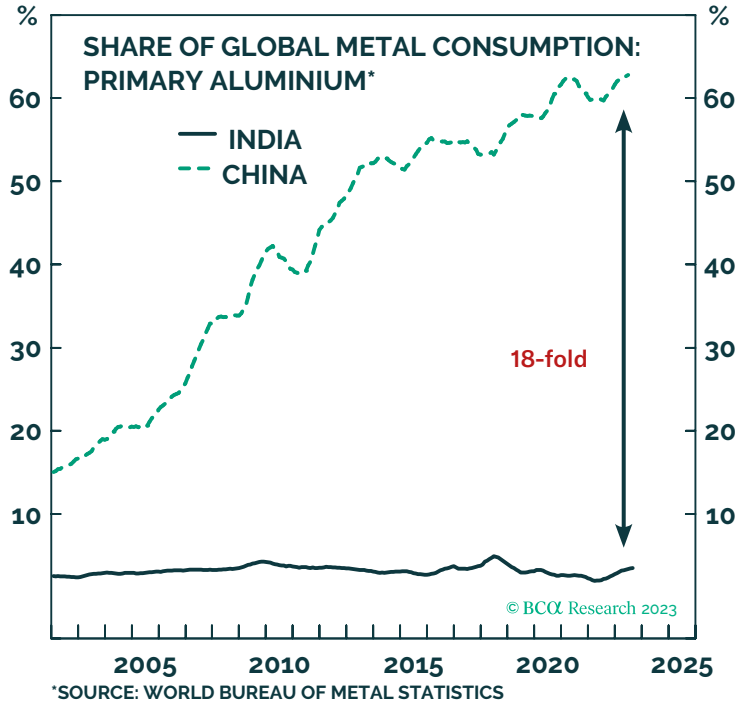
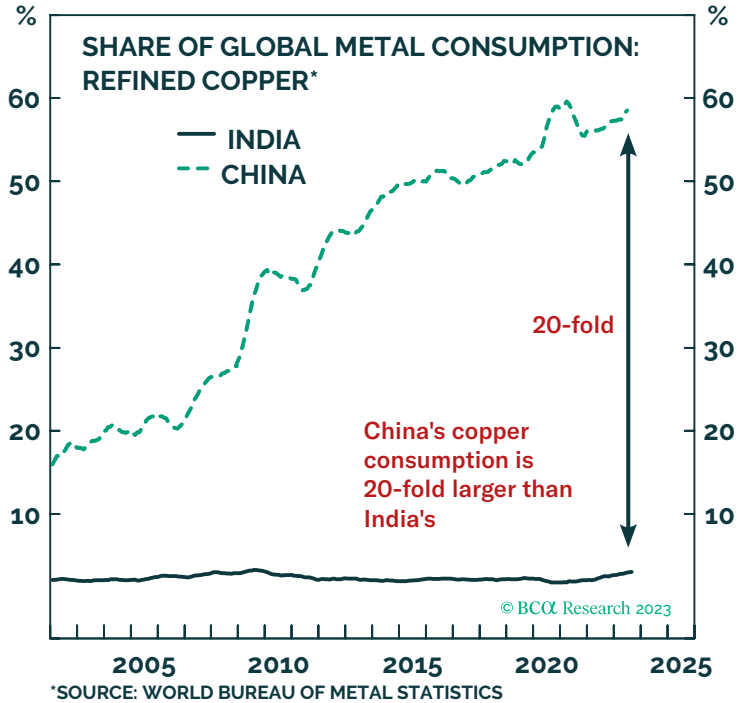
EM EPS Outlook



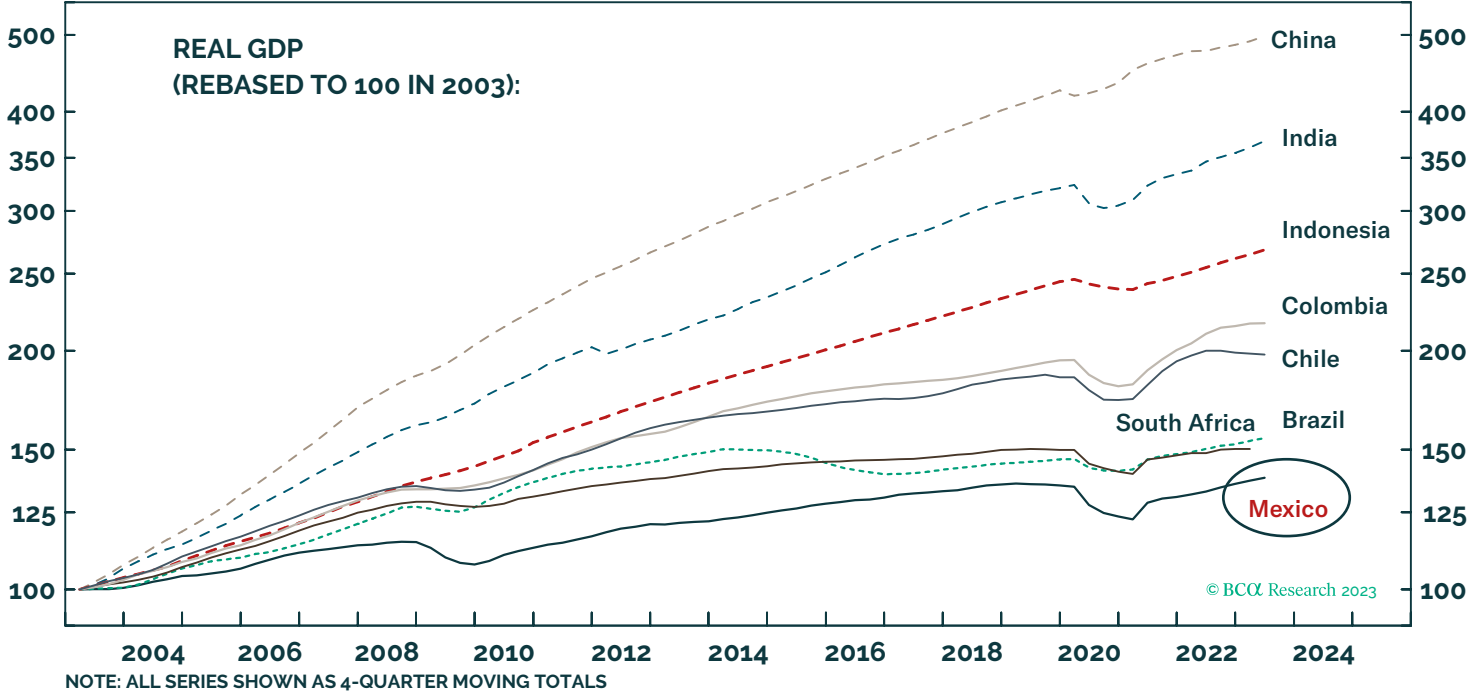
What Drives Brazilian Real?



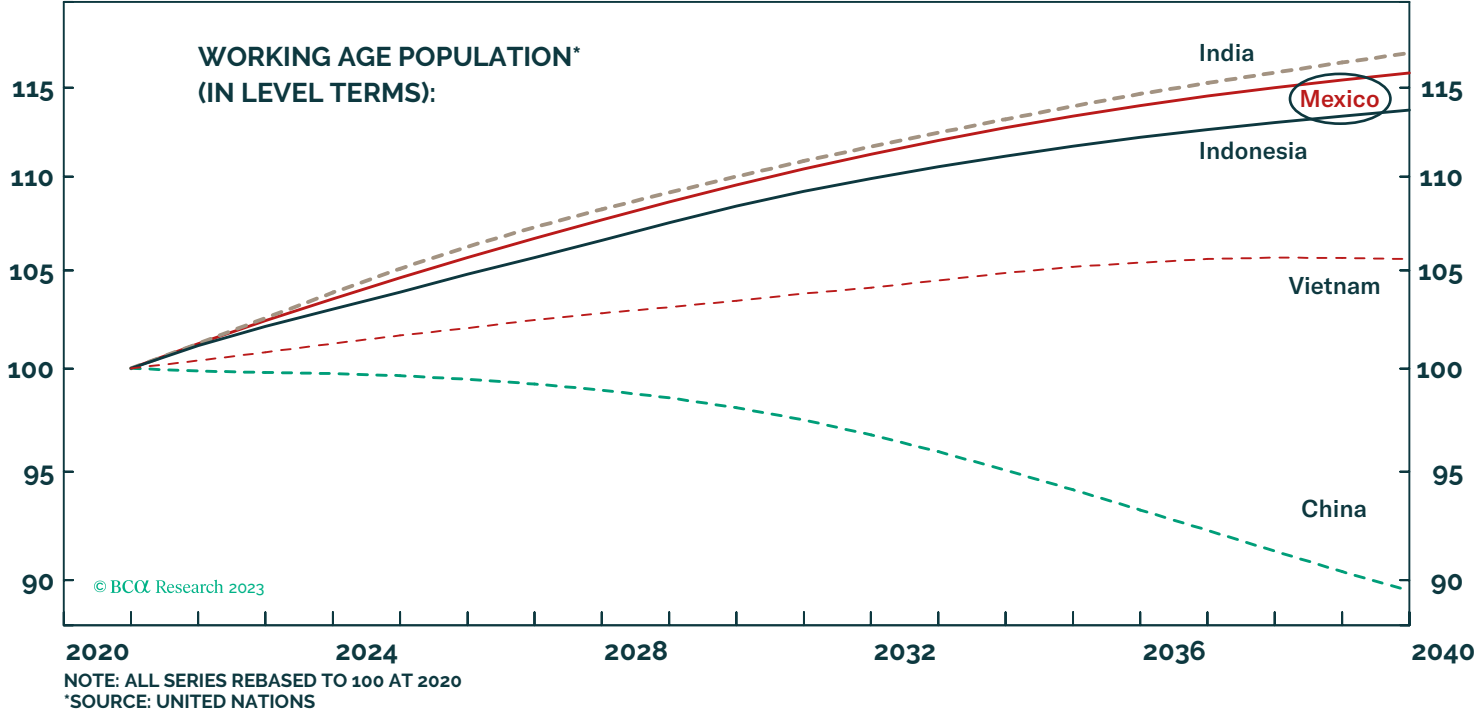
India vs. China



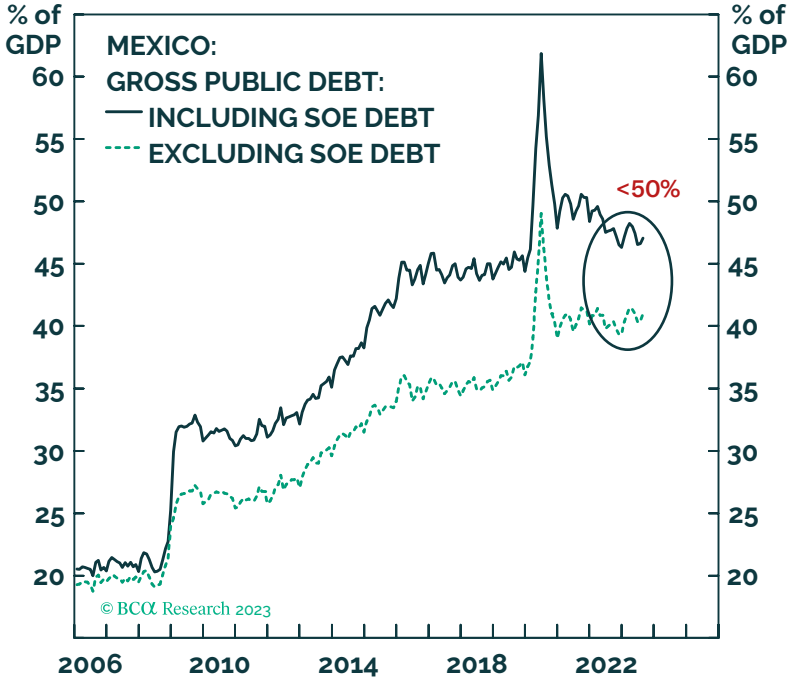
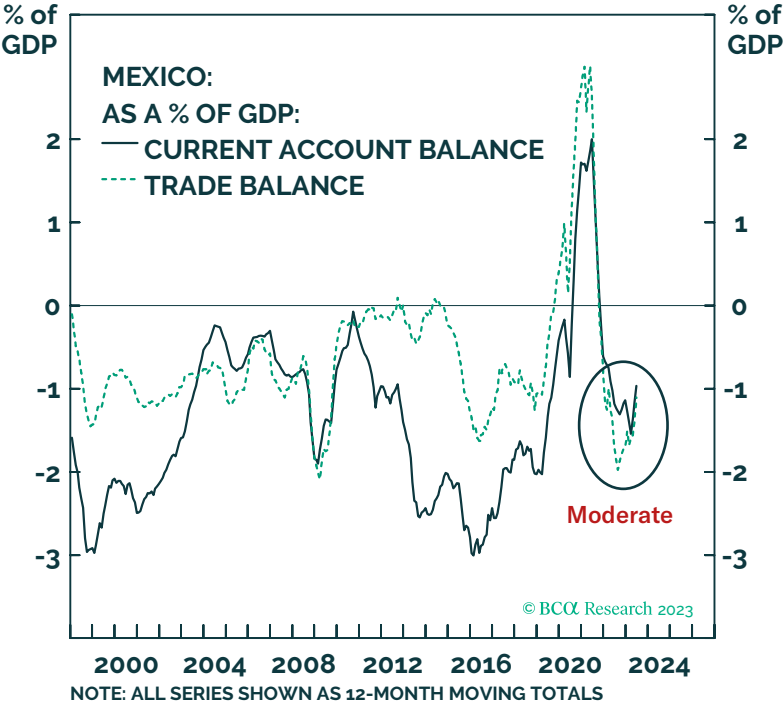
Mexican Economy Underperformed In The Past 20 Years



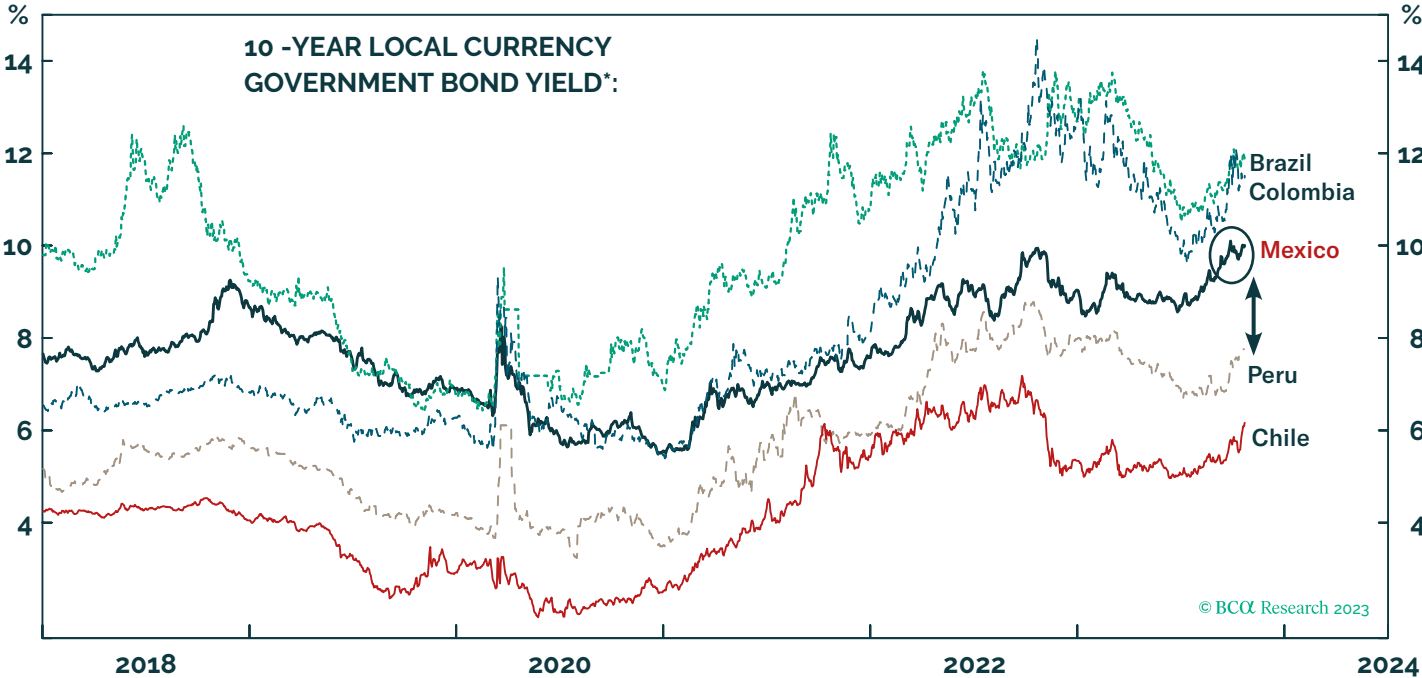
Mexico's Demographics Are Positive



Mexico: Current Account And Fiscal Positions Are Benign



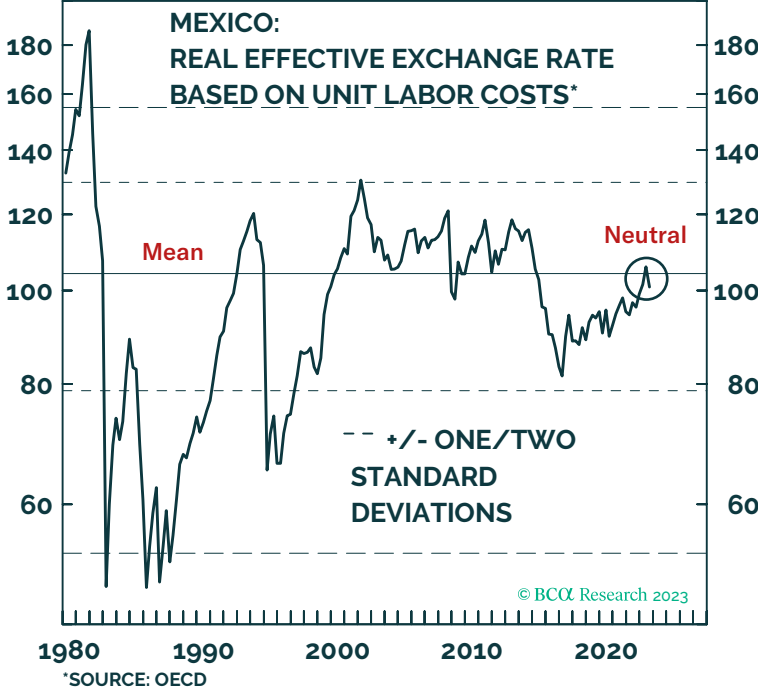
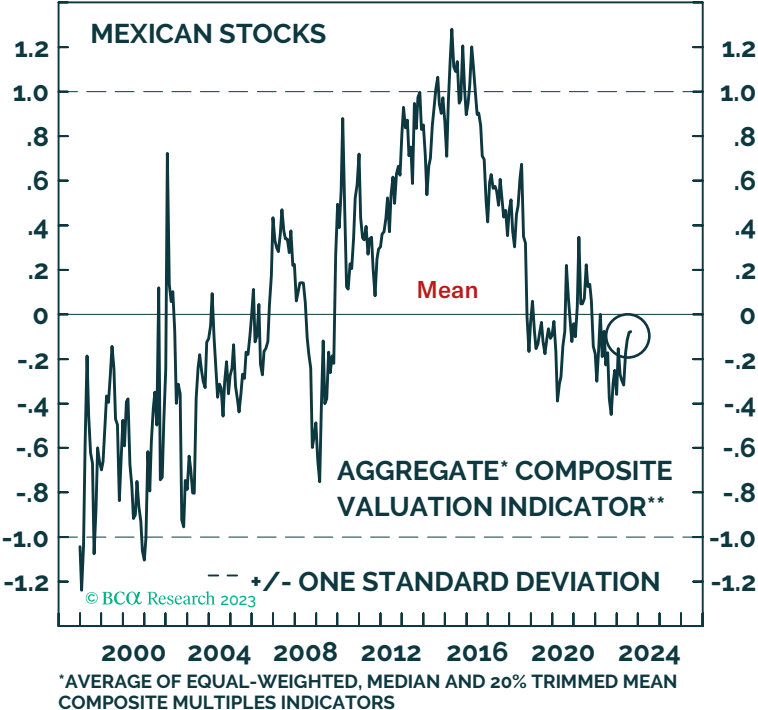
Mexican Domestic Bonds Offer Good Value



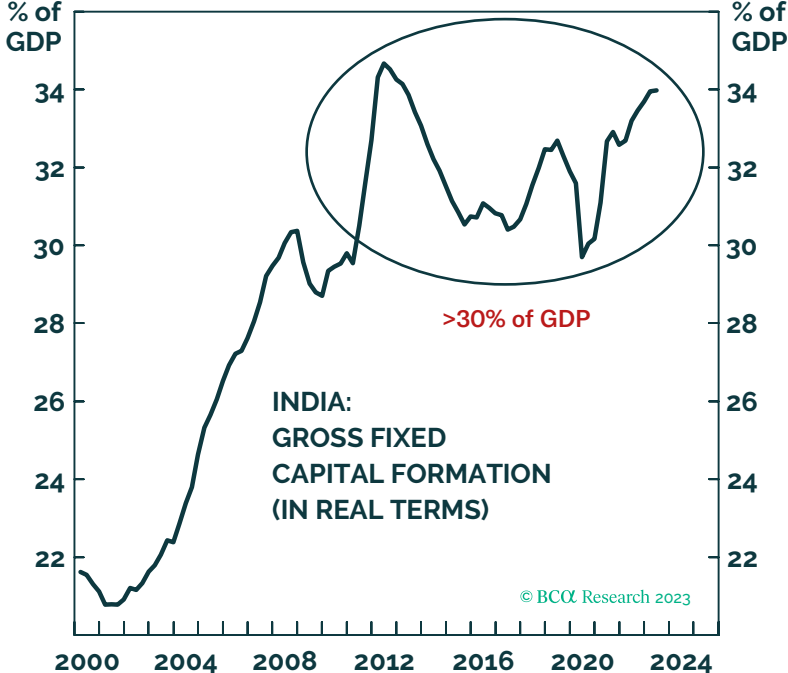
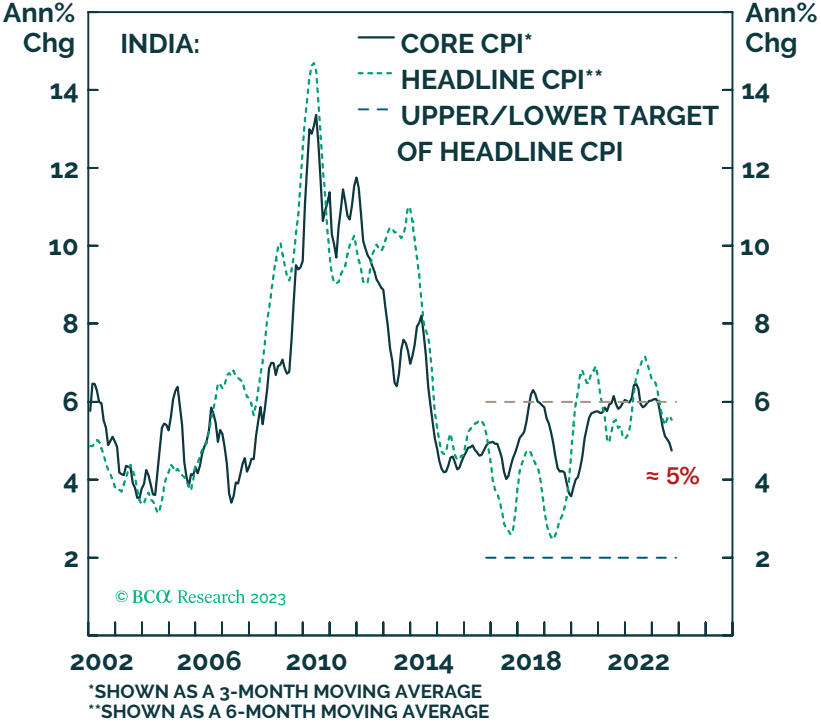
*J.P. MORGAN GBI-EM GLOBAL DIVERSIFIED BOND INDEX;
SOURCE: J.P. MORGAN CHASE & Co.

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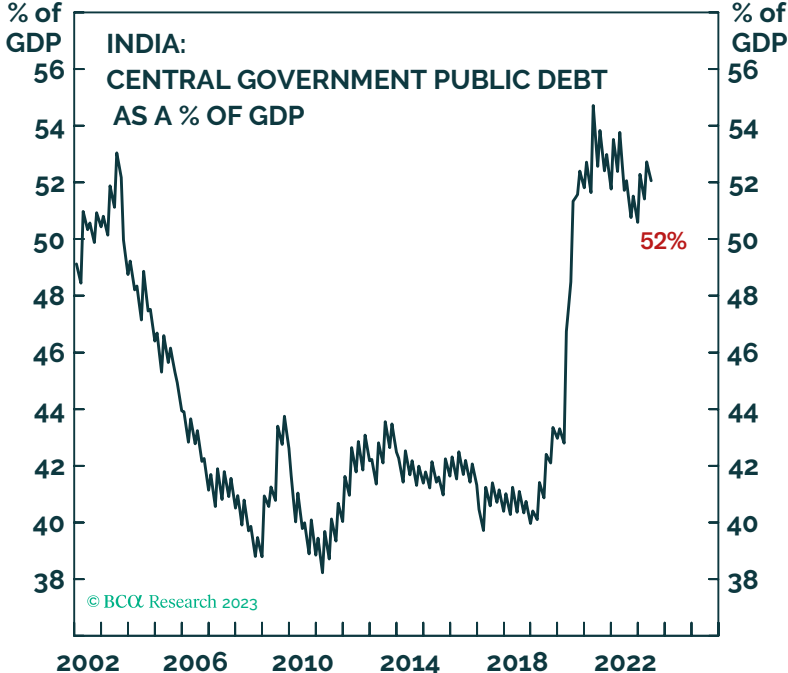
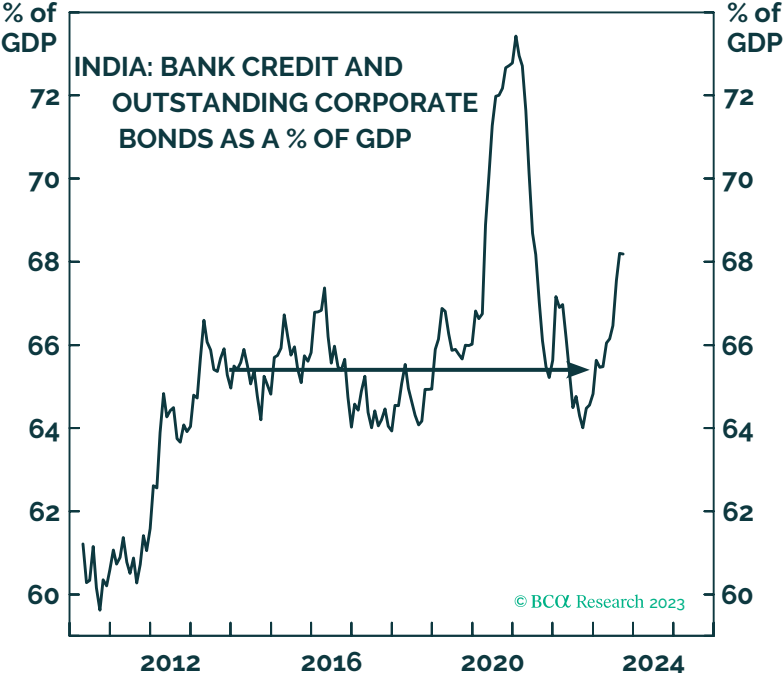
Mexican Valuations



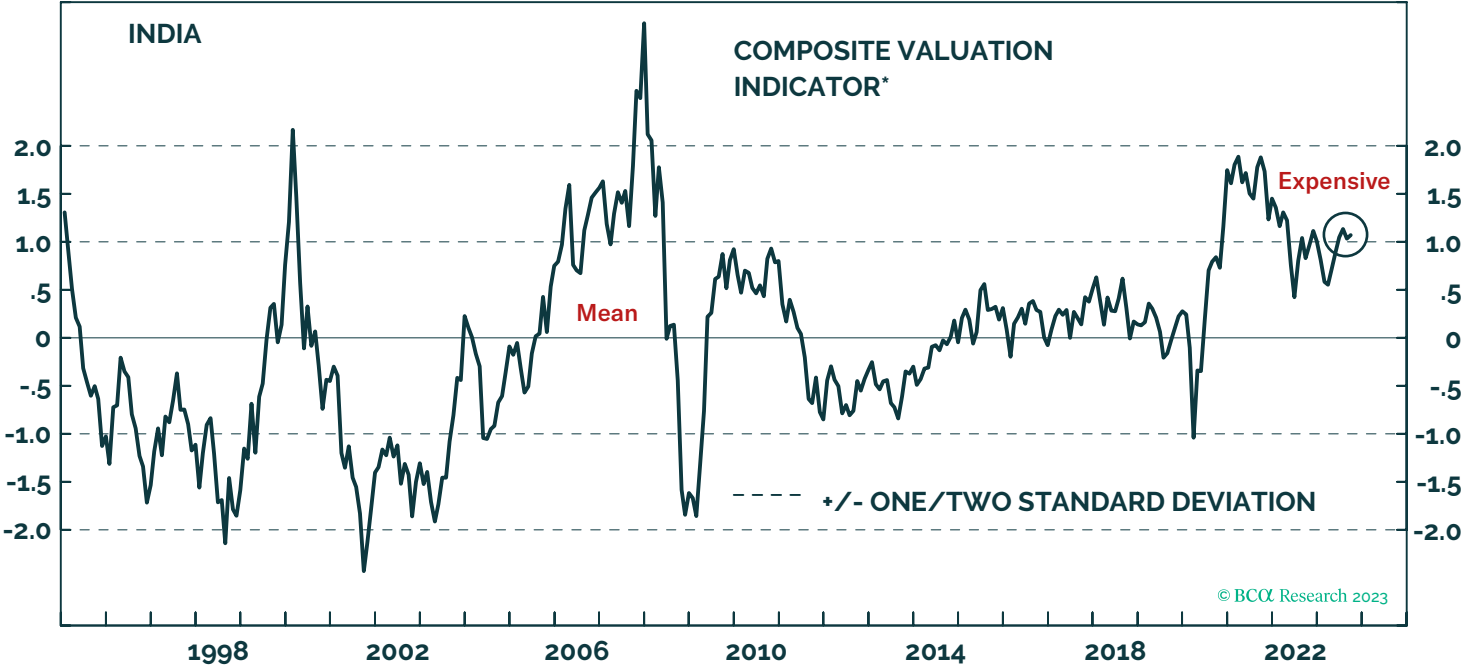
India: Macro Fundamentals Are Positive



India: Credit Penetration And Public Debt Are Not Excessive

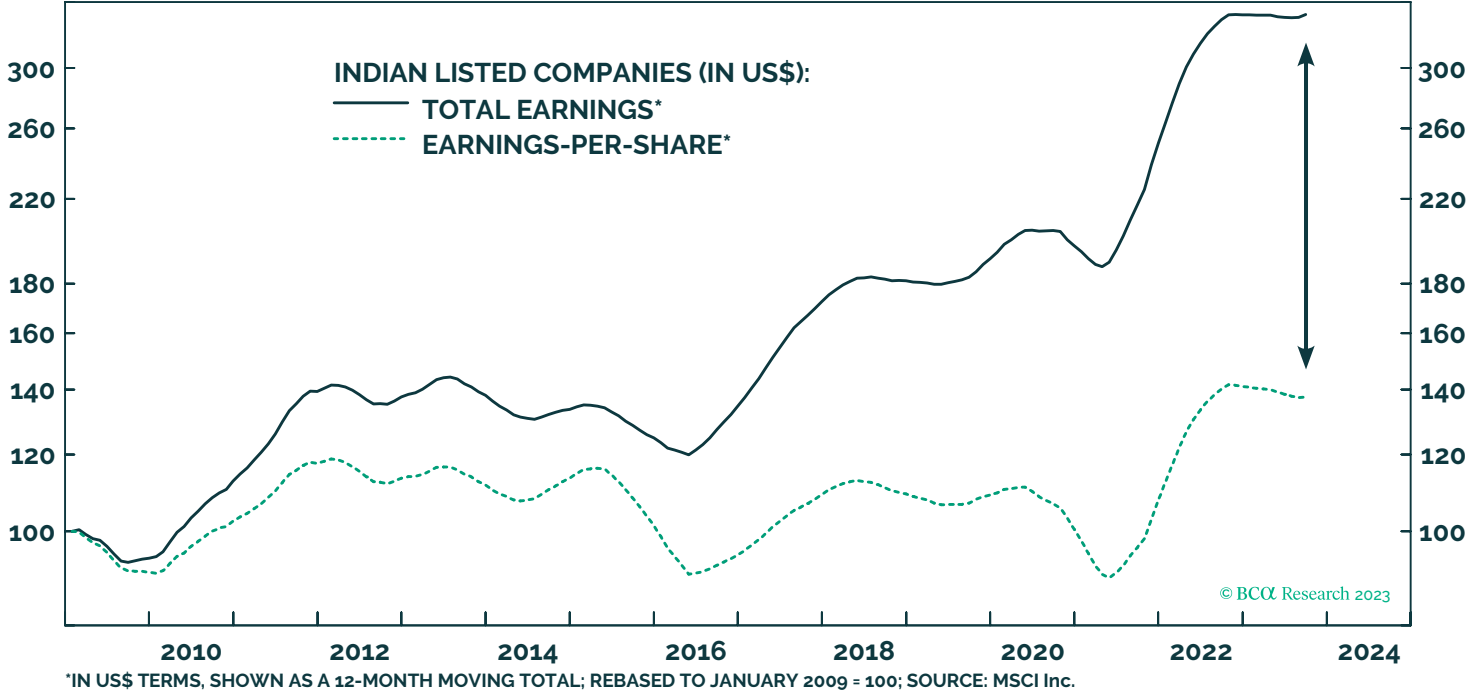


Indian Stocks Are Expensive



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India: Beware Of EPS Dilution



Investment Conclusions

- Global manufacturing will continue contracting. *This is bearish for EM and bullish for the US dollar.*
- *Chinese stocks and China-related plays remain at risk* as Chinese growth continues to underwhelm.
- Remain *underweight EM stocks* in a global portfolio and stay short the EM equity index.
- In the medium to long term, *Mexican, Chilean, Indian, and Vietnamese stocks and select EM local currency bonds* offer the best investment opportunities.
- Investors should *buy Mexican 10-year domestic bonds on weakness.*