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# WisdomTree Europe

## Emerging Markets Could Be Buoyed By Chinese Stimulus Alongside Higher Commodity Prices

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# Emerging Markets could be buoyed by Chinese stimulus alongside higher commodity prices

May 2022

# A Paradigm Shift

- Higher inflationary environment in Developed markets (DM) has caught central banks off guard in 2022
- DM Central Banks are more hawkish on monetary policy compared to last year
- This sharp hawkish pivot led by the Federal Reserve in the US is leading to a paradigm shift:
  - Bonds Yields are rising
  - Total outstanding amount of negative yielding debt is declining
  - Commodity prices are rising sharply
- This paradigm shift has been reflected in via a sharp rotation out of growth into value stocks.

# Implications of the Russia – Ukraine war

## Pre-War global economy

- + Huge amount of global savings had no place to be deployed, productively or unproductively, which led to lower interest rates on a global basis.
- + Globalisation has also been a source of lower rates



## Post-War global economy

- Increased global defence spending at a level not seen in a few decades.
- The conflict exacerbates the case for globalisation to take a back foot. Europe is unlikely to be this dependent on Russian Gas ever. In a similar vein, the US is unlikely to be this dependent on Asian semiconductor chips. This inescapable trend is building the case for a revival of value.

# Why Emerging Markets now?

## EM Macro Landscape



**Accommodative Monetary policy in China**



**Rising Inflation & Higher Commodity Prices**



**Attractive Valuations**



**Weaker long term US Dollar**

Source: WisdomTree data available as of May 2022

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**China**

# China Dashboard

Growth Indicators	1 Year	6 Months	3 Months	3 Month Moving Average	Trend
GDP Growth (% y-o-y)				4.8	●
Keqiang Index*	10.7	8.4	3.8	6.4	●
Industrial Production (% y-o-y)	8.8	3.8	4.3	4.7	●
Manufacturing PMI (Level)	51.0	50.1	50.1	49.9	●
Retail Sales (% y-o-y)	12.4	3.9		-7.3	●
Fixed Asset Investment (ytd % y-o-y)	15.4	5.2		9.4	●
<b>Trade, Reserves, Money and Inflation</b>					
Trade Balance (US\$ bn)	43.3	71.8	85.1	38.9	●
Exports (% y-o-y)	27.7	21.7	24.2	10.5	●
Imports (% y-o-y)	52.0	31.4	19.9	5.2	●
Foreign Exchange Reserves (US\$ tn)	32.2	32.2	32.2	31.7	●
M1 Money Supply (% y-o-y)	6.1	3.0	-1.9	4.8	●
M2 Money Supply (% y-o-y)	8.3	8.5	9.8	9.8	●
CPI Inflation (% y-o-y)	1.3	2.3	0.9	1.5	●
CPI Non Food Inflation (% y-o-y)	1.6	2.5	2.0	2.2	●
PPI Inflation (% y-o-y)	9.0	12.9	9.1	8.4	●
<b>Interest and Exchange Rates</b>					
Policy Interest Rate: Lending (%)	4.4	4.4	4.4	4.4	●
Policy Interest Rate: Deposit (%)	1.5	1.5	1.5	1.5	●
7d Repo Rate (%)	2.2	2.5	2.4	2.1	●
3m SHIBOR (%)	2.6	2.4	2.5	2.3	●
5yr Bond Yield (%)	3.0	2.8	2.6	2.5	●
Sovereign 5yr CDS Rate (bps)	38.3	45.4	40.1	62.5	●
CNY/USD	6.48	6.39	6.36	6.43	●
Effective Exchange Rate	121	126	129	130.1	●
<b>Property Indicators</b>					
Residential Building Sales (% y-o-y)	20.1	-17.2		-29.1	●
Total Building Sales (% y-o-y)	52.4	8.5		-21.0	●
70 City Residential Price (% y-o-y)	4.5	2.4	1.7	0.9	●
Aggregate Finance (CNY bn)	1952	2598	6177	2265.2	●
<b>Equity Index Performance</b>					
MSCI China A Share Index	4%	1%	-9%	-2%	●
MSCI World Index	-1%	-3%	-6%	0%	●

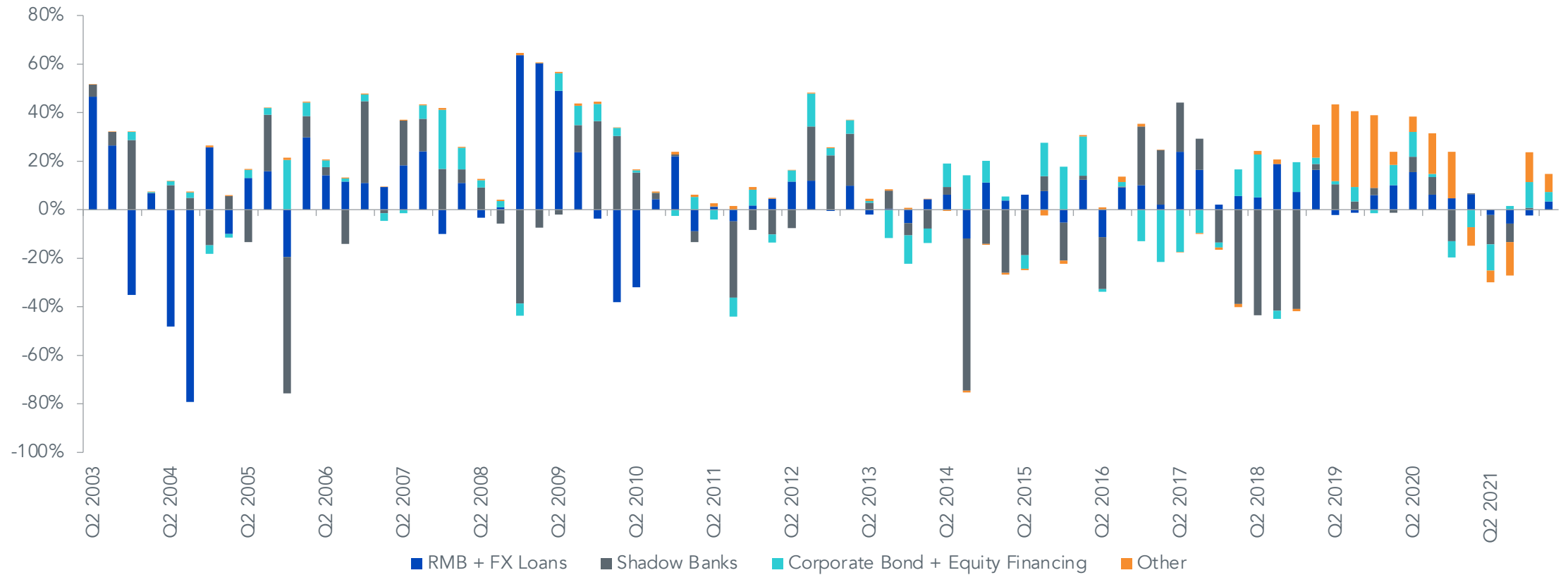
Source: Bloomberg, WisdomTree as of 30 April 2022

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# China's contribution to financing growth rebounds



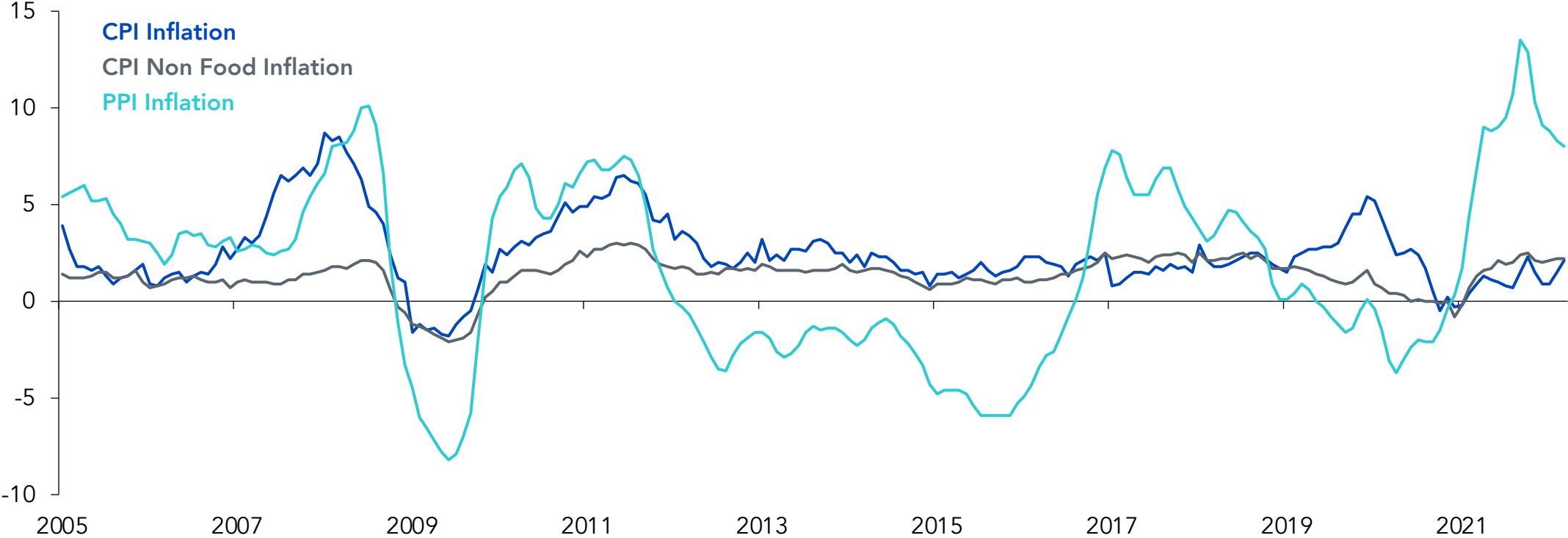
Source: Bloomberg, WisdomTree, data available as of close 31 March 2022

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WisdomTree Global Quality Dividend Growth UCITS ETF

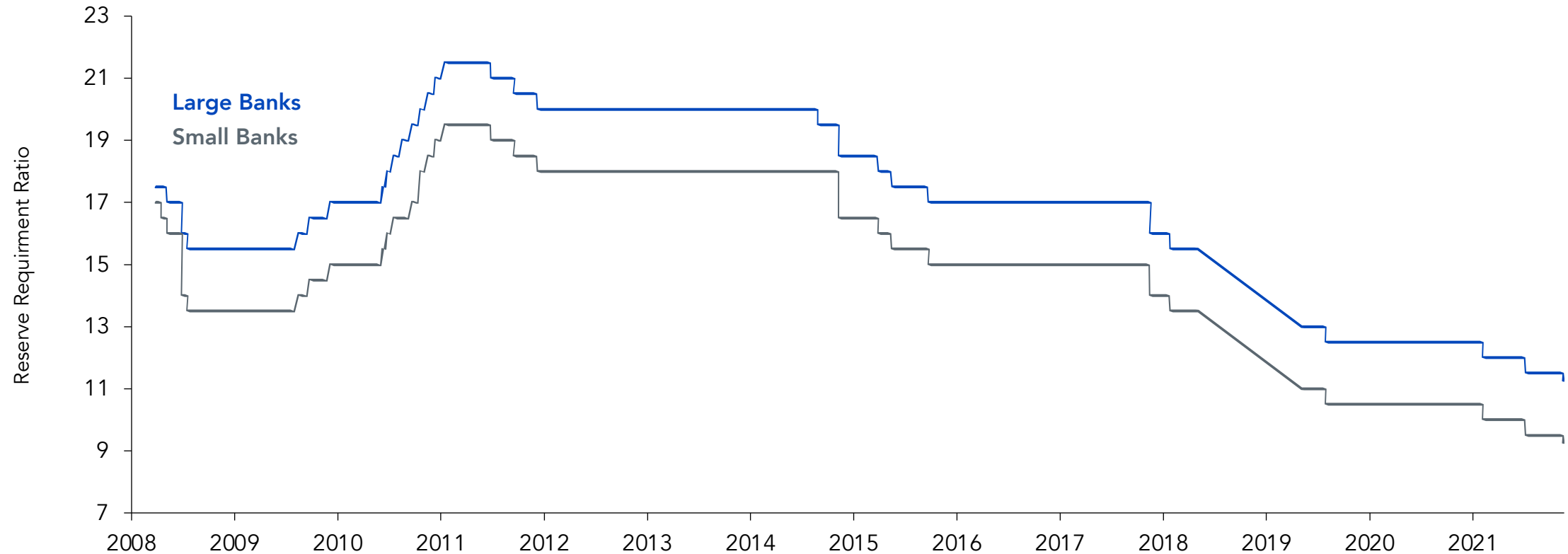
# Low inflationary pressure provides room for further monetary accommodation



Source: Bloomberg, WisdomTree as of 30 April 2022. Please note : PPI is defined as producer price index, it is a measure of inflation on input costs to producers and CPI is defined as Consumer price index, it is the changed in the prices of a basket of goods and services that are typically purchased by specific groups of households.

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# PBoC TO balance growth and inflation

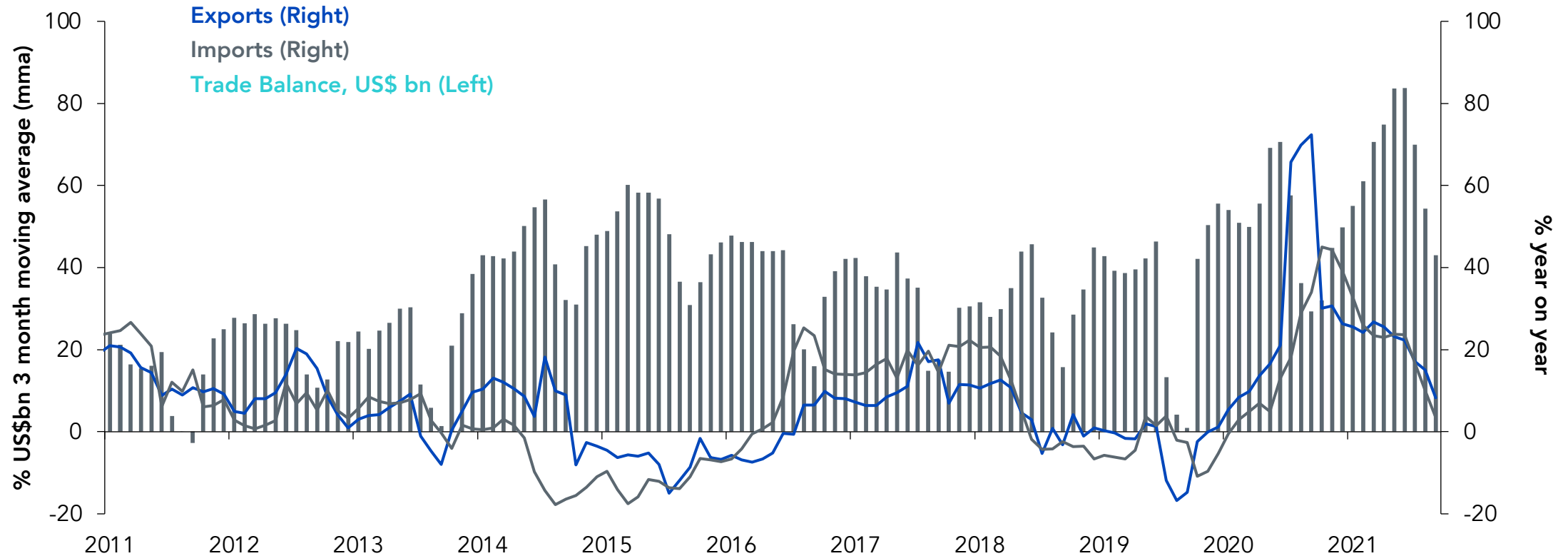


Source: Bloomberg, WisdomTree as of 30 April 2022

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# Impact of lockdowns being felt in the trade data but the effects are likely to be short-lived

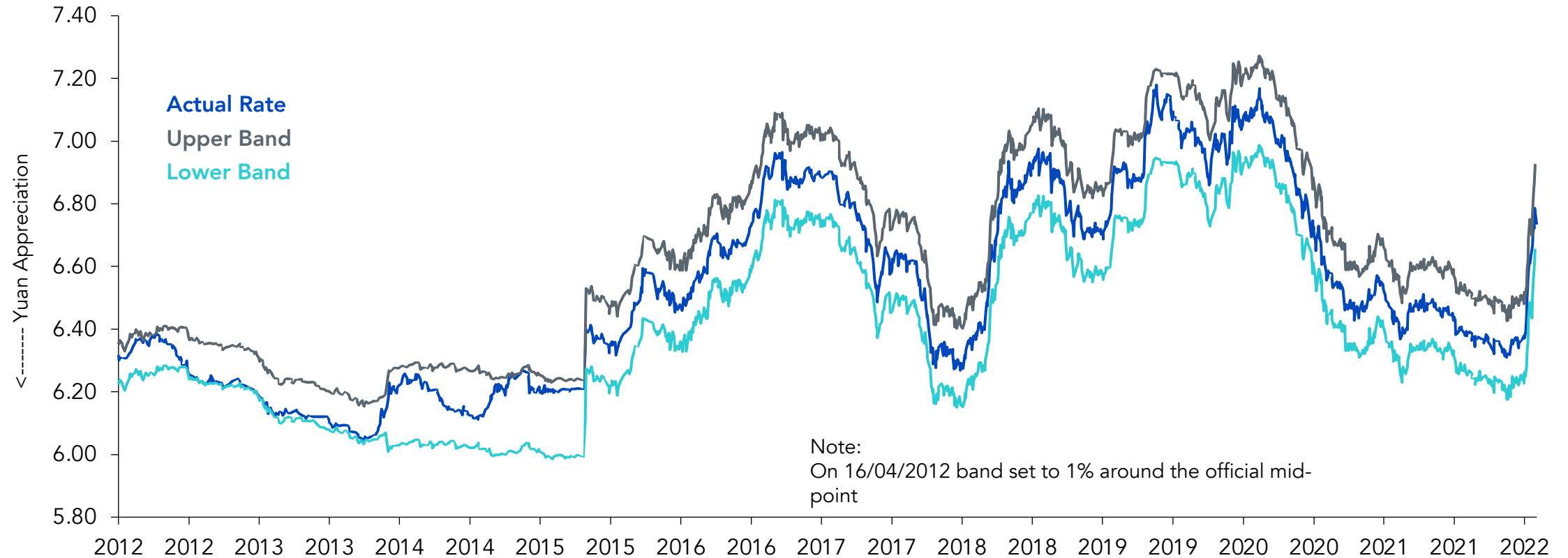


Source: Bloomberg, WisdomTree as of 30 April 2022

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# PBOC restrains from aggressive stimulus amidst the Renminbi's depreciation

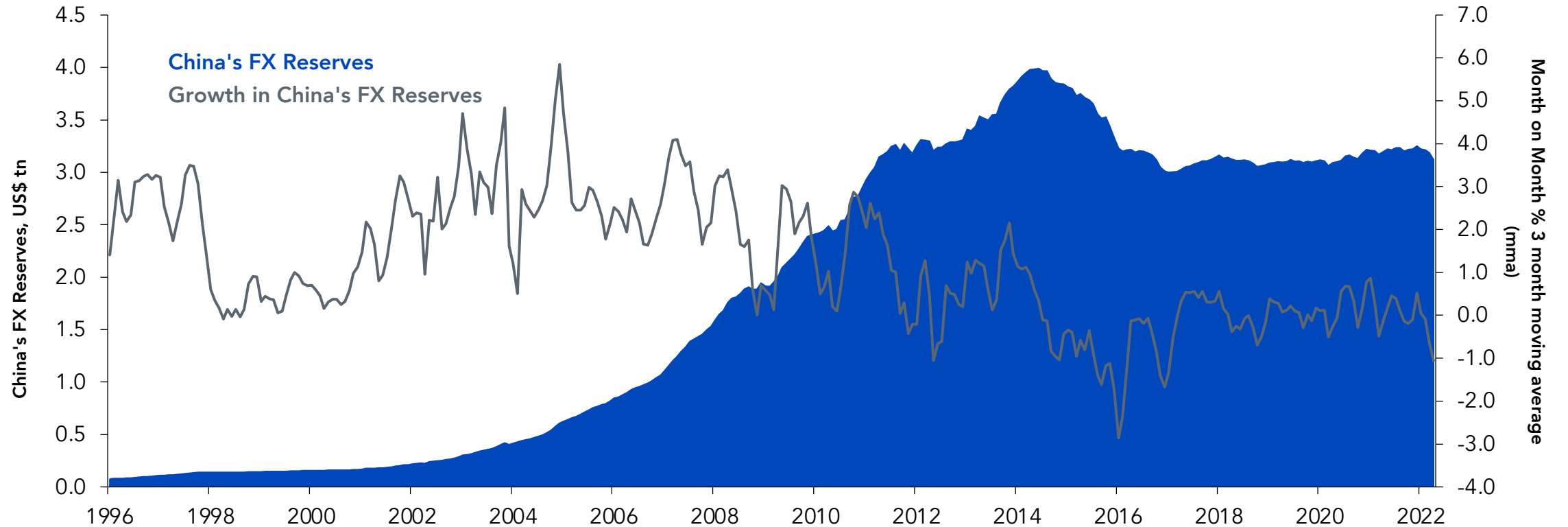


Source: Bloomberg, WisdomTree as of 16 May 2022

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# China's FX reserves have suffered outflows in 2022



Source: Bloomberg, WisdomTree as of 30 April 2022

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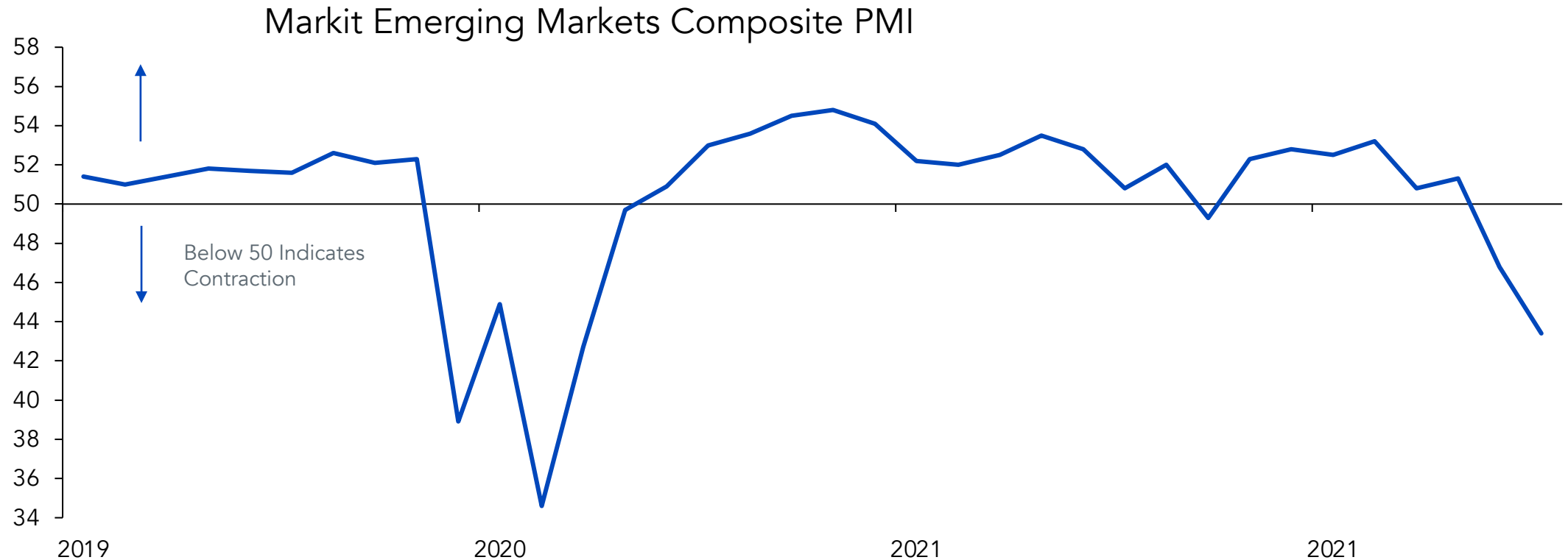
## Clearest positive stance on property at Politburo Meeting

### Key property-related messages were:

- (i) Support local govts to fine-tune local policies based on actual local conditions
- (ii) Optimize pre-sales escrow supervision
- (iii) Support basic and upgrading housing demand
- (iv) Promote stable and healthy development of the property market
- (v) Reiterated “houses are built to be inhabited, not for speculation”

The **Central Financial and Economic Affairs Commission (CFEA)** called for "comprehensively advancing infrastructure investment" on April 26, 2022. This was the first time the commission sent a clear signal to boost cyclical growth.

# Leading Economic Indicators are signaling a contraction



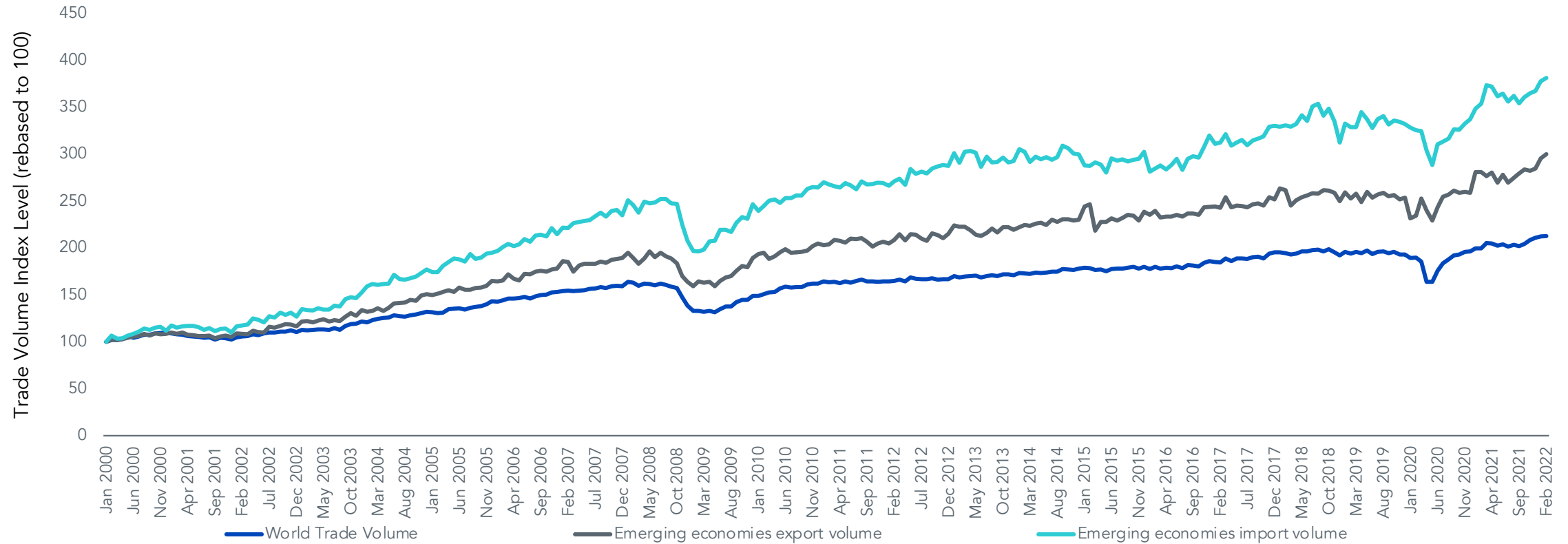
Source: Bloomberg, WisdomTree data available as of 30 April 2022. Please note: PMI : Purchasing Managers Index (PMI)

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# Emerging Markets exports continue to trend higher

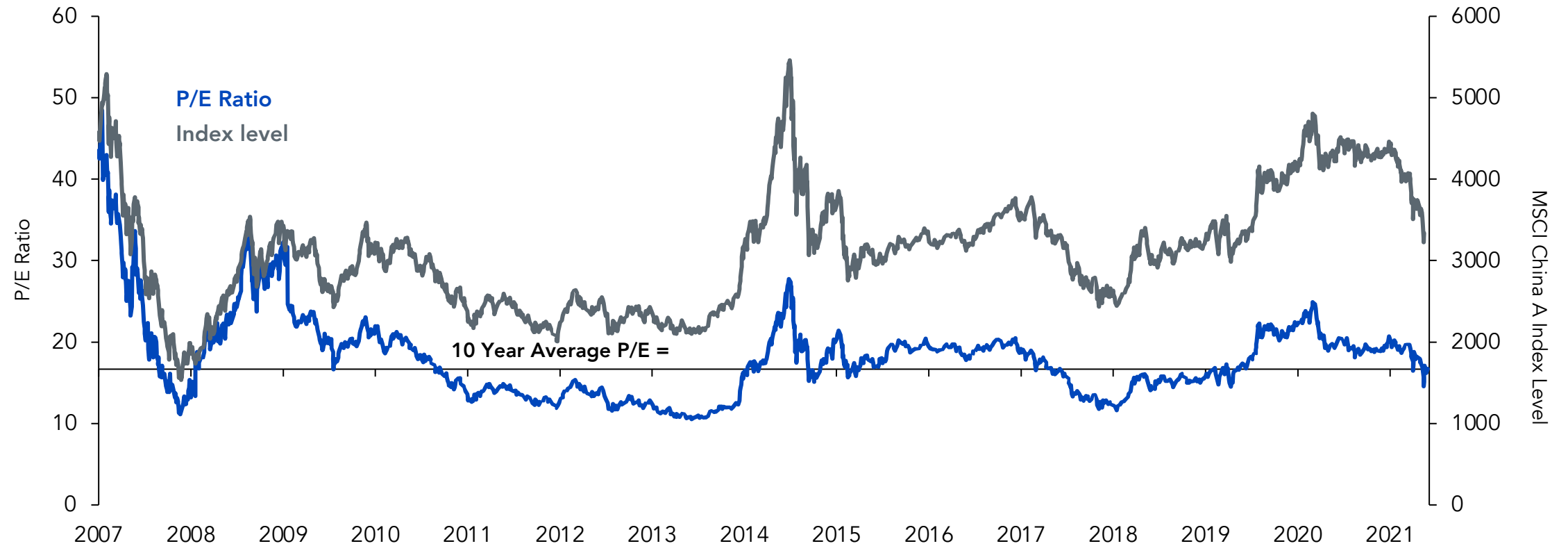


Source: Bloomberg, WisdomTree data available as of 28 February 2022

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# MSCI China A shares index trading in line with long term average

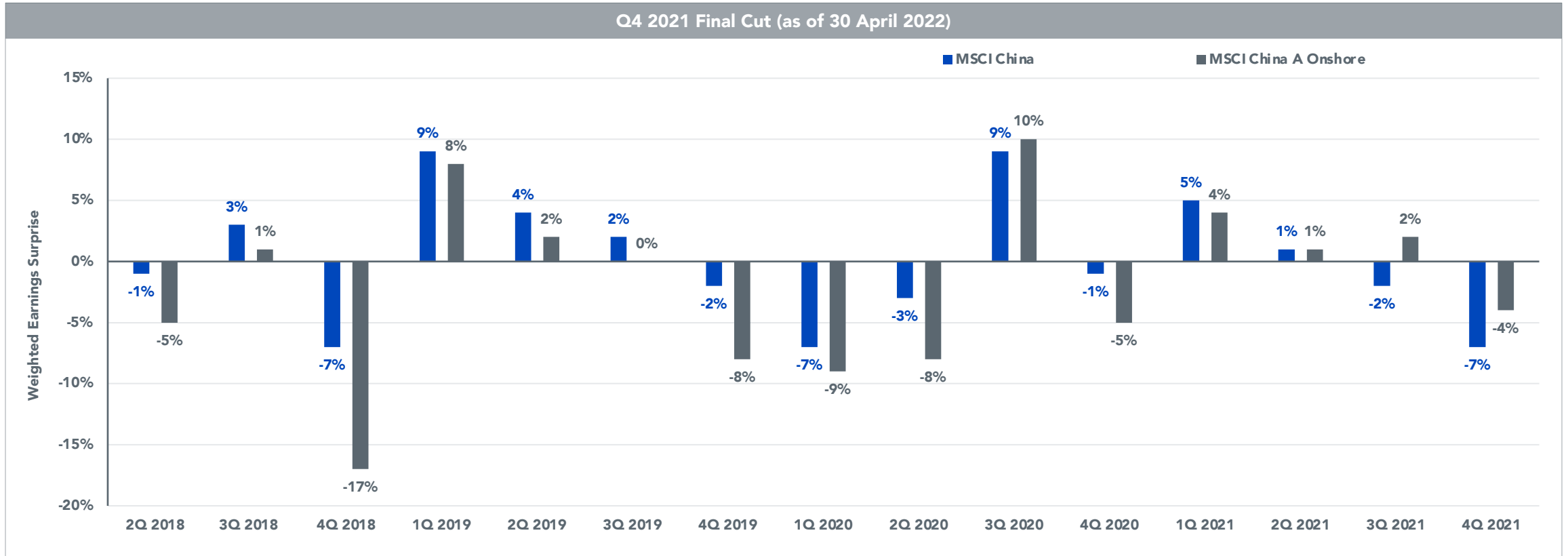


Source: Bloomberg, WisdomTree data available as of 16 May 2022. Please Note: PE stands for Price to Earnings Ratio.

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# History of China equity market quarterly earnings surprises by weighted surprise – reaches second worst for MSCI China since the COVID outbreak

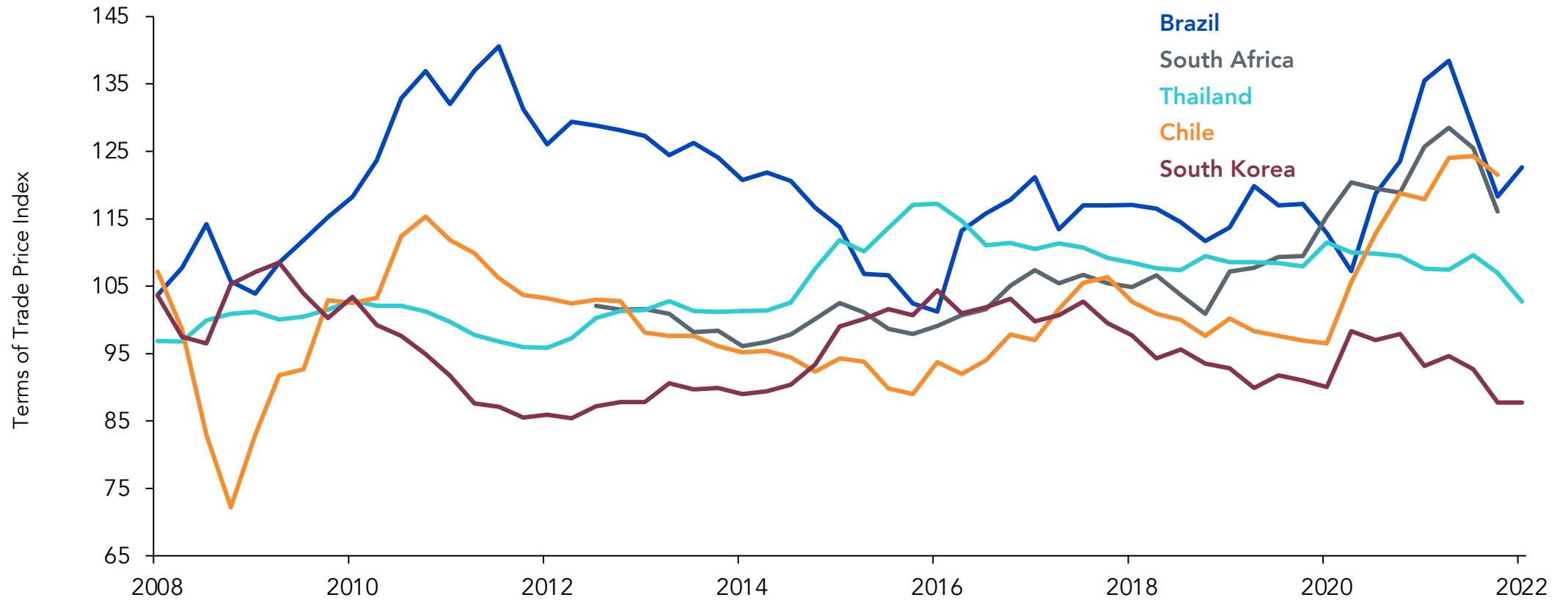


Source: MSCI, Morgan Stanley Research, WisdomTree as 30 April 2022

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# Terms of Trade for commodity exporting Emerging Markets are improving amidst a high commodity price environment

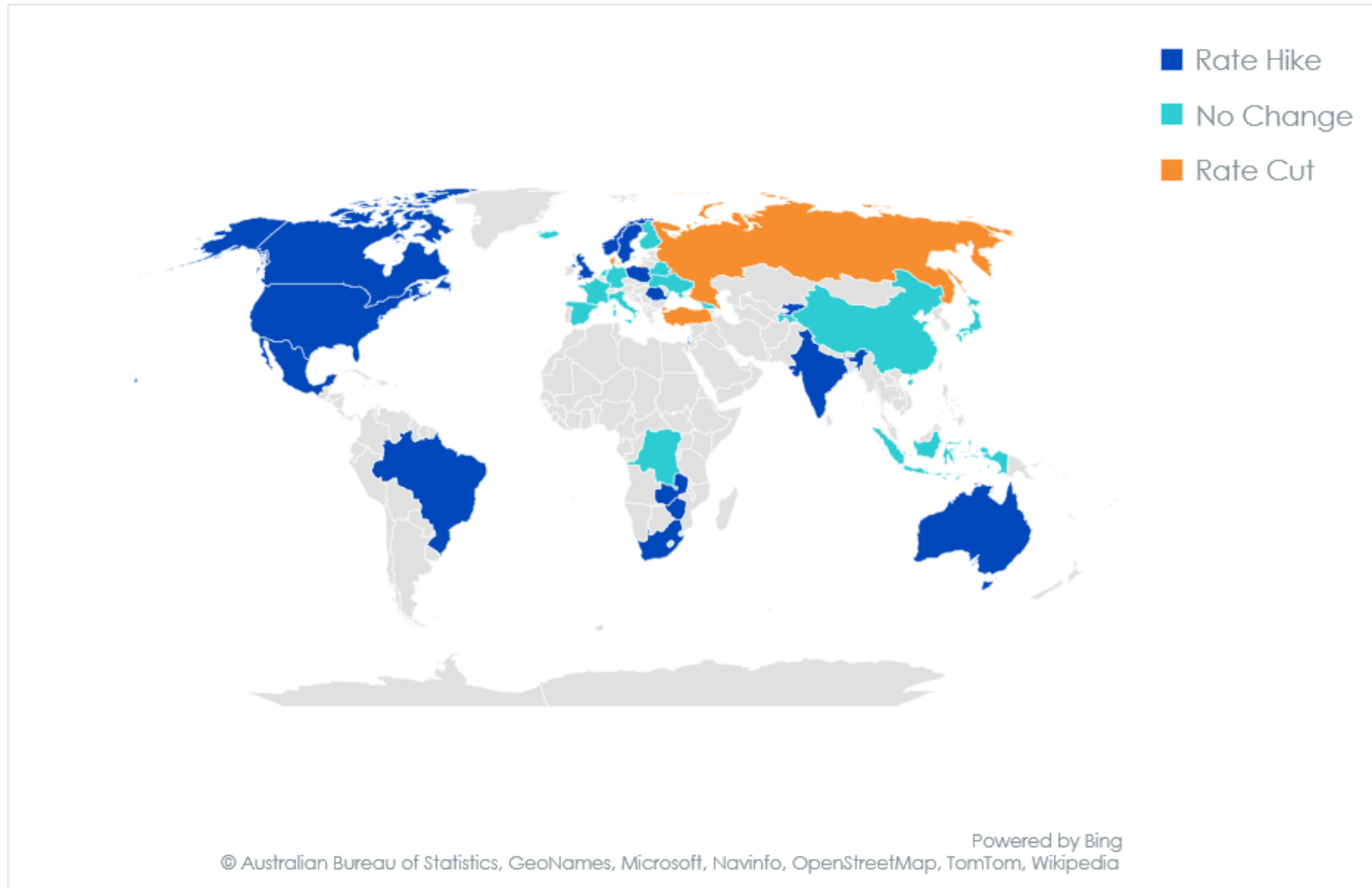


Source: Bloomberg, WisdomTree data available as of 31 March 2022. Please Note : Terms of trade (TOT) represent the ratio between a country's export prices and its import prices. The ratio is calculated by dividing the price of the exports by the price of the imports and multiplying the result by 100

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# Global Central Banks – Easing or Tightening ?



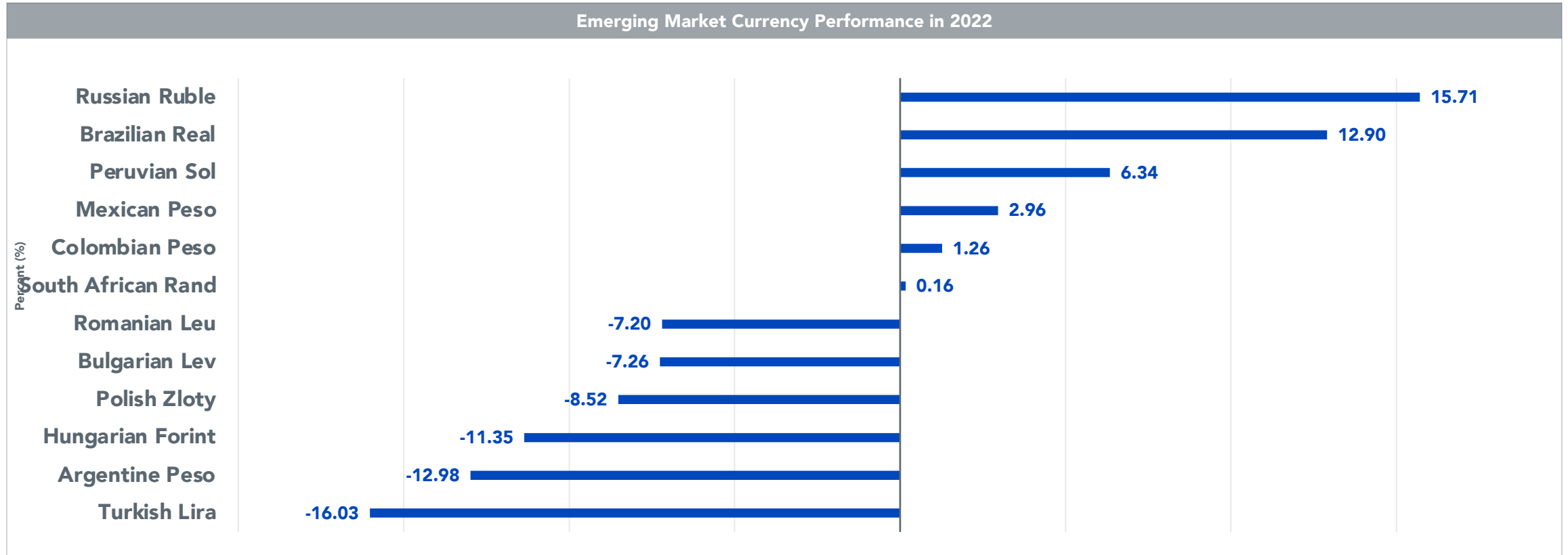
Its important to remember that in the last extended EM bull market the Fed hiked 17 times — from 1% to 5.25% — without stopping the strong returns from EM equity as an asset class.

Source: Bloomberg, WisdomTree as of 30 April 2022

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# Not all emerging markets are the same

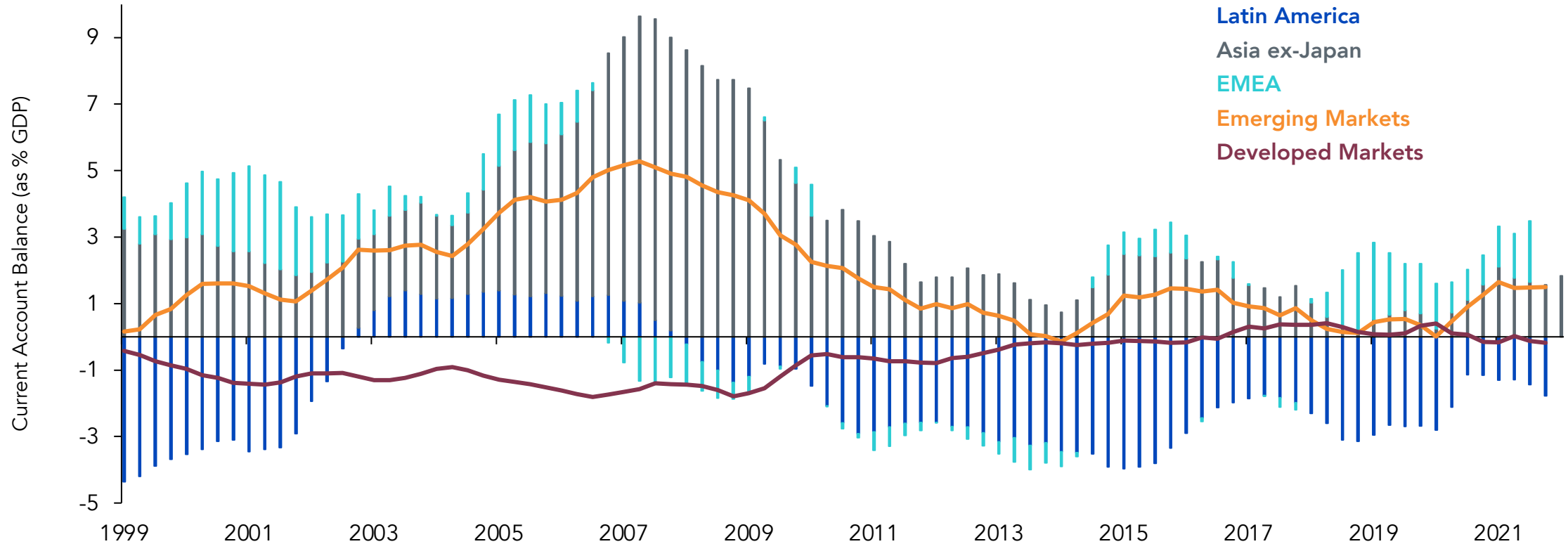


Source: Bloomberg, WisdomTree from 31 December 2021 to 16 May 2022

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# Balance of Payments for Emerging markets are above that of Developed markets

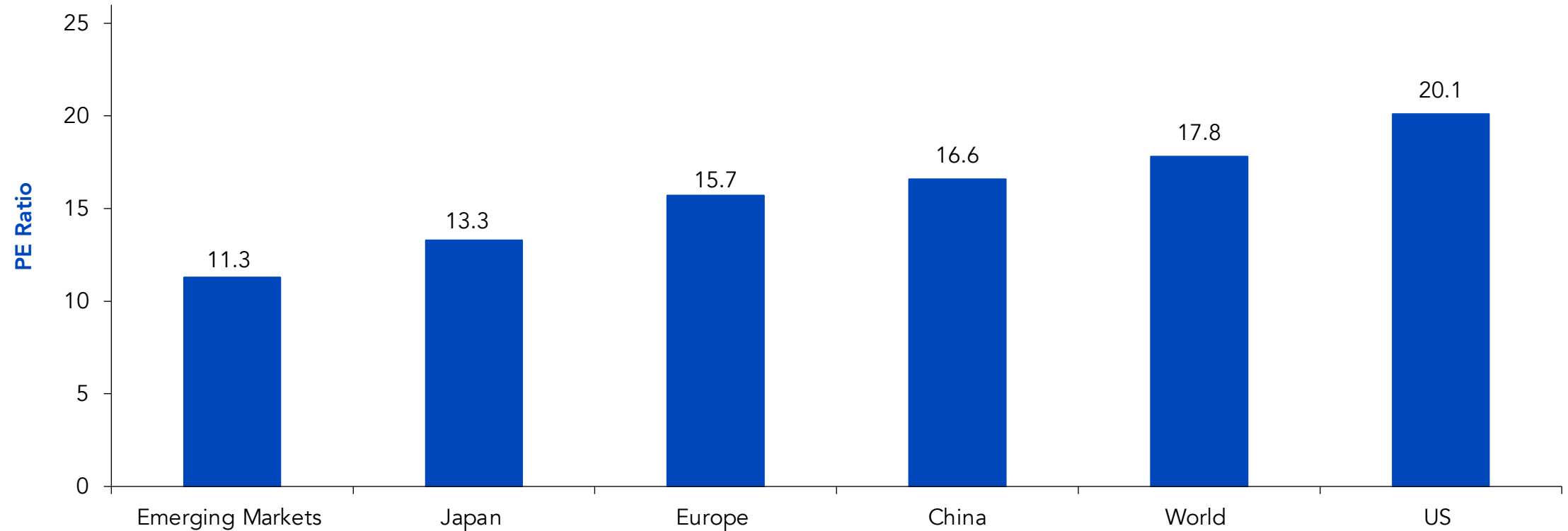


Source: Bloomberg, WisdomTree data available as of 31 March 2022. See appendix 1 for further details on calculation.

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# Emerging markets valuations are low relative to the rest of the World



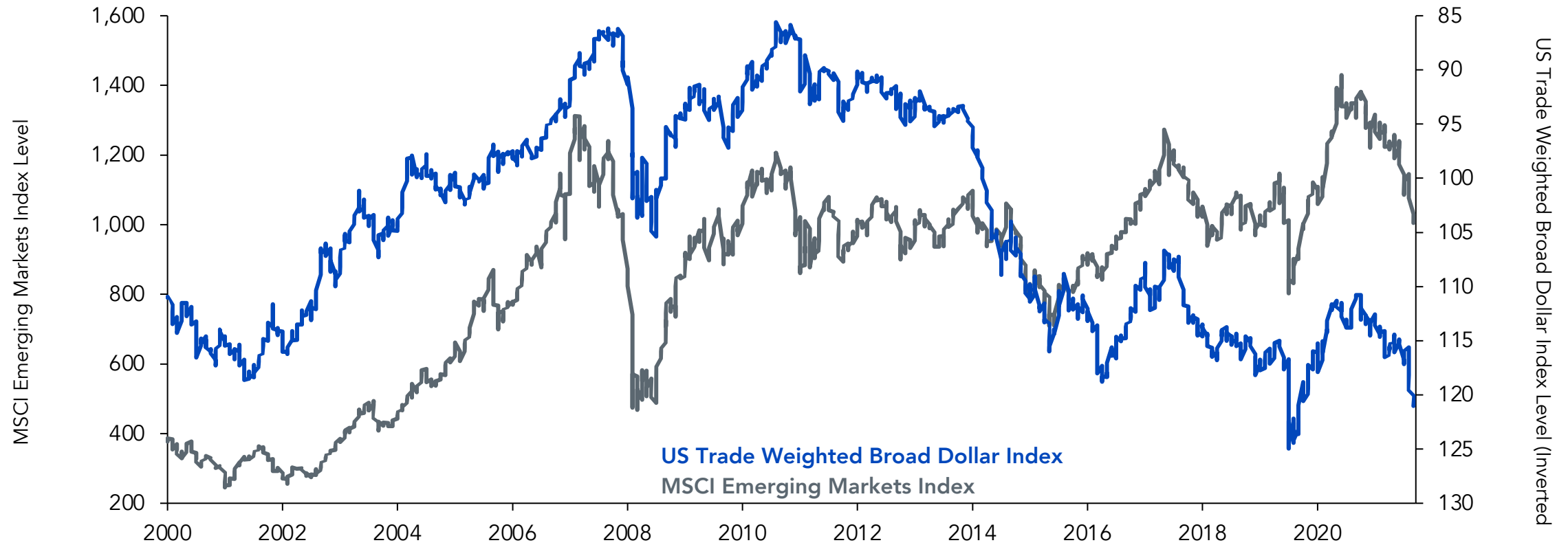
Source: Bloomberg, WisdomTree data available as of 16 May 2022. Please Note: PE stands for Price to Earnings Ratio.

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# Stronger US dollar continues to weigh on Emerging Market equities

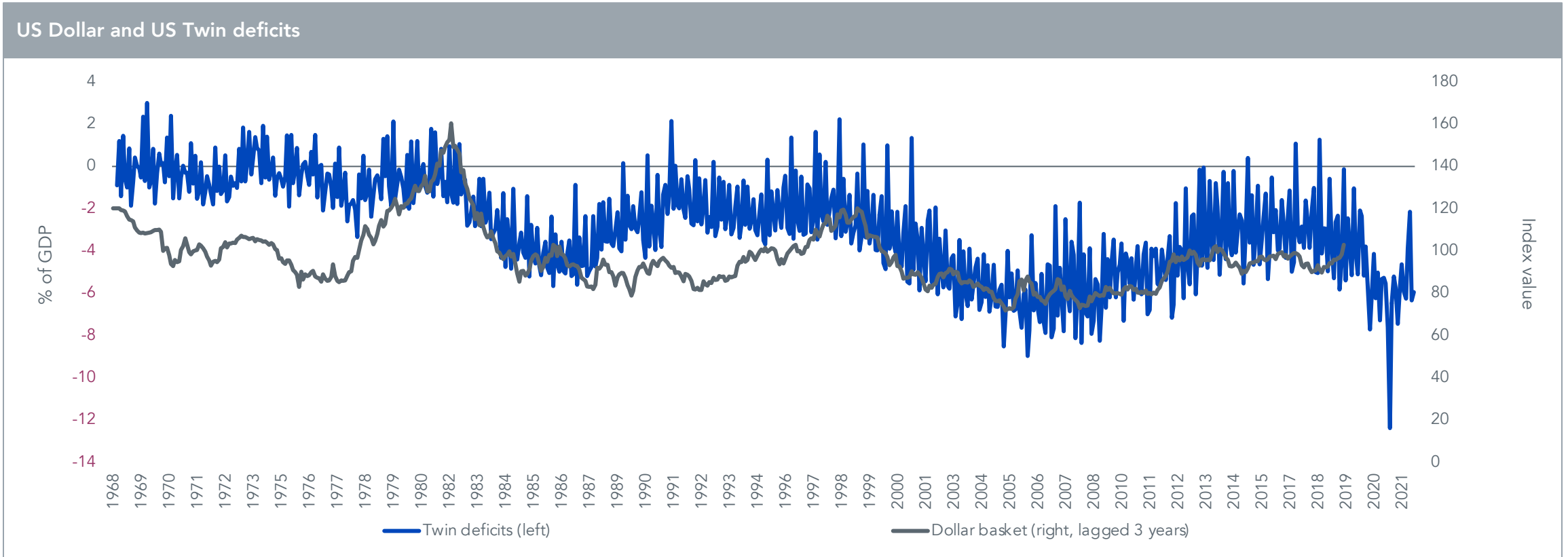


Source: Bloomberg, WisdomTree data available as of 13 May 2022

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# US “Twin” deficit suggests further US dollar weakness lies ahead



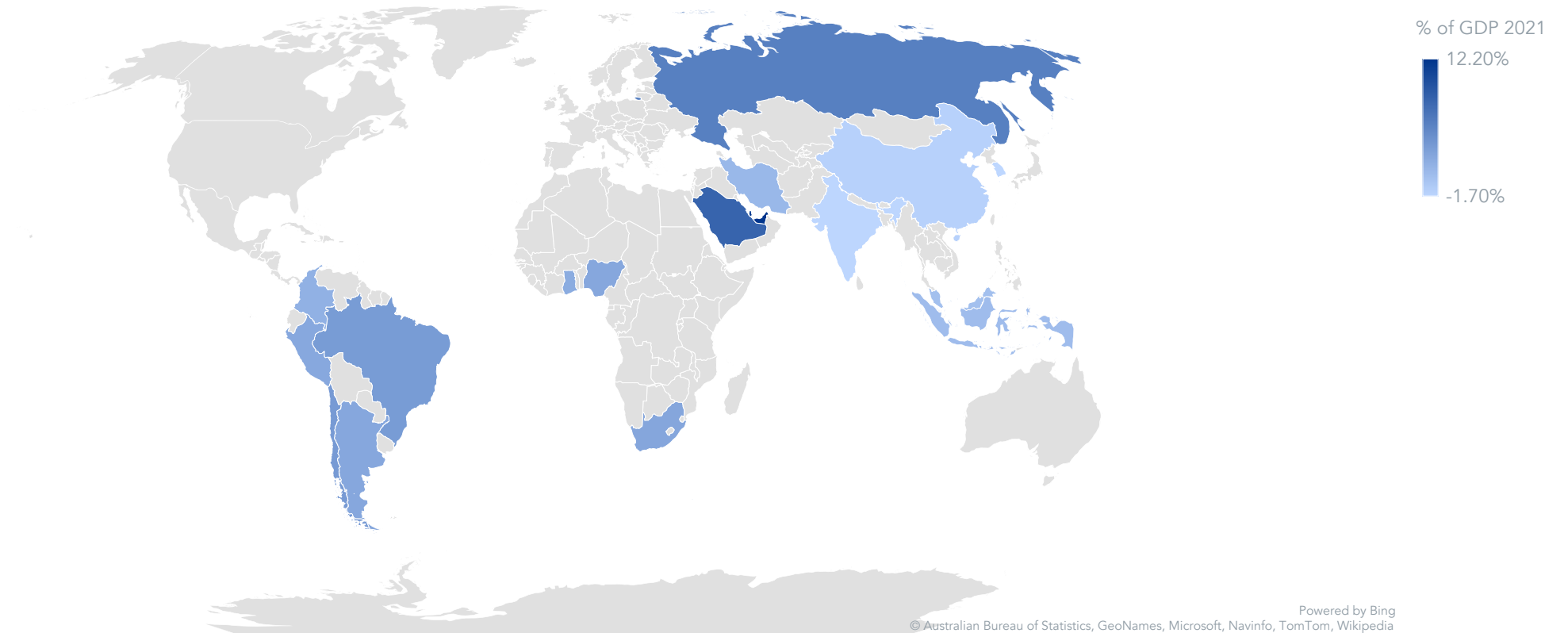
Source: Bloomberg, WisdomTree data available as of 30 April 2022. The US “Twin” deficit represents the Current Account Balance and the Federal Budget Balance as a % of GDP.

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# Higher commodity prices benefit the commodity exporting EM economies

EM is a net commodity exporter to the tune of 2.6% of GDP while developed markets are a net commodity importer to the tune of 1.6% of GDP

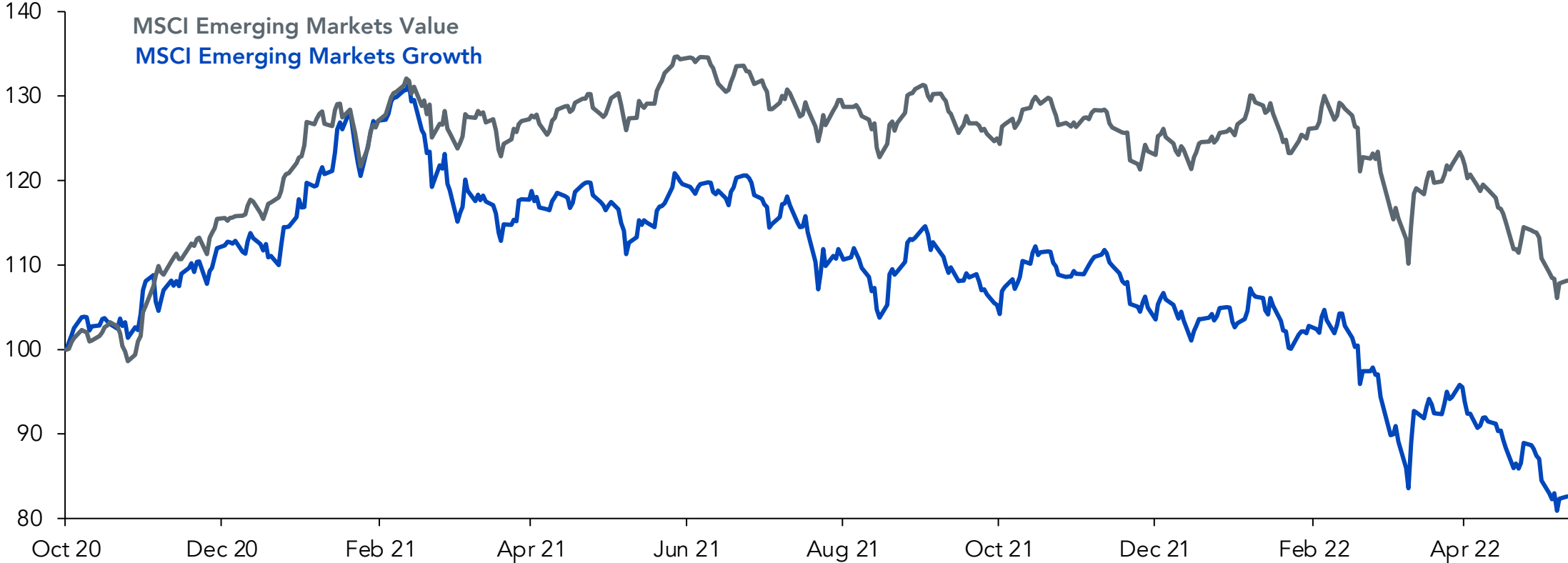


Source: Bloomberg Economics, WisdomTree as of 31 January 2022

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# Value continues to outpace growth within Emerging Markets



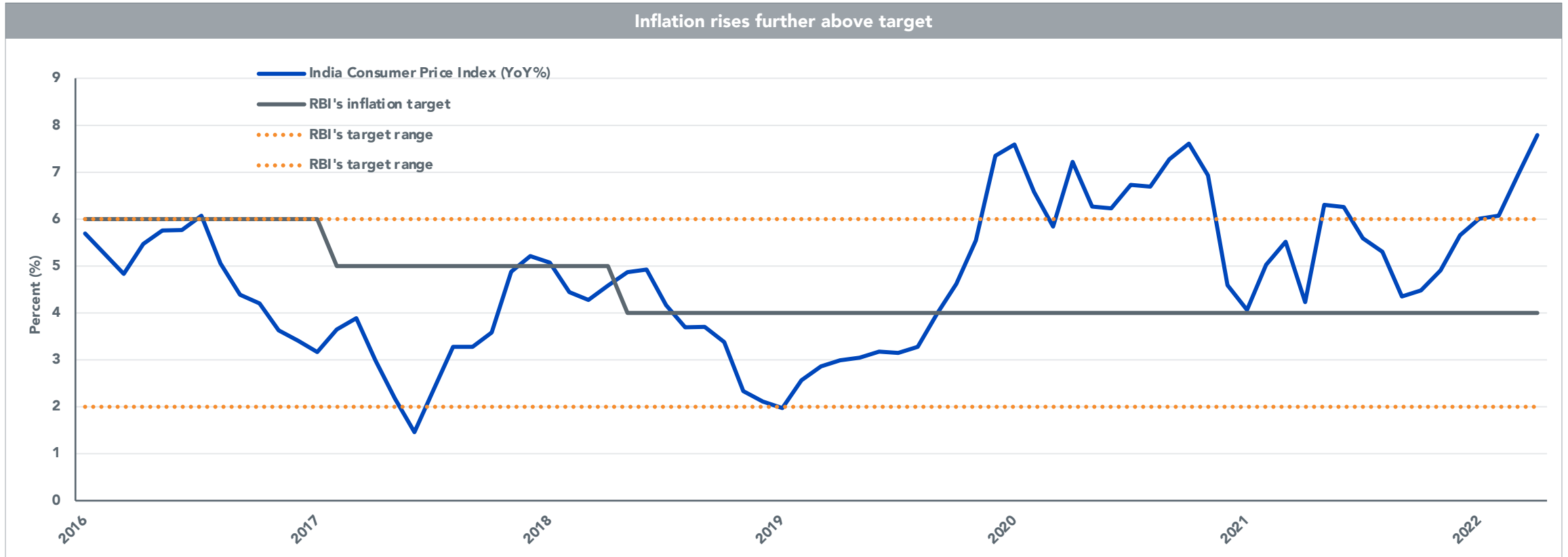
Source: Bloomberg, WisdomTree as of 16 May 2022

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**India**

# India's inflation rises further above target

Inflation rises further above target

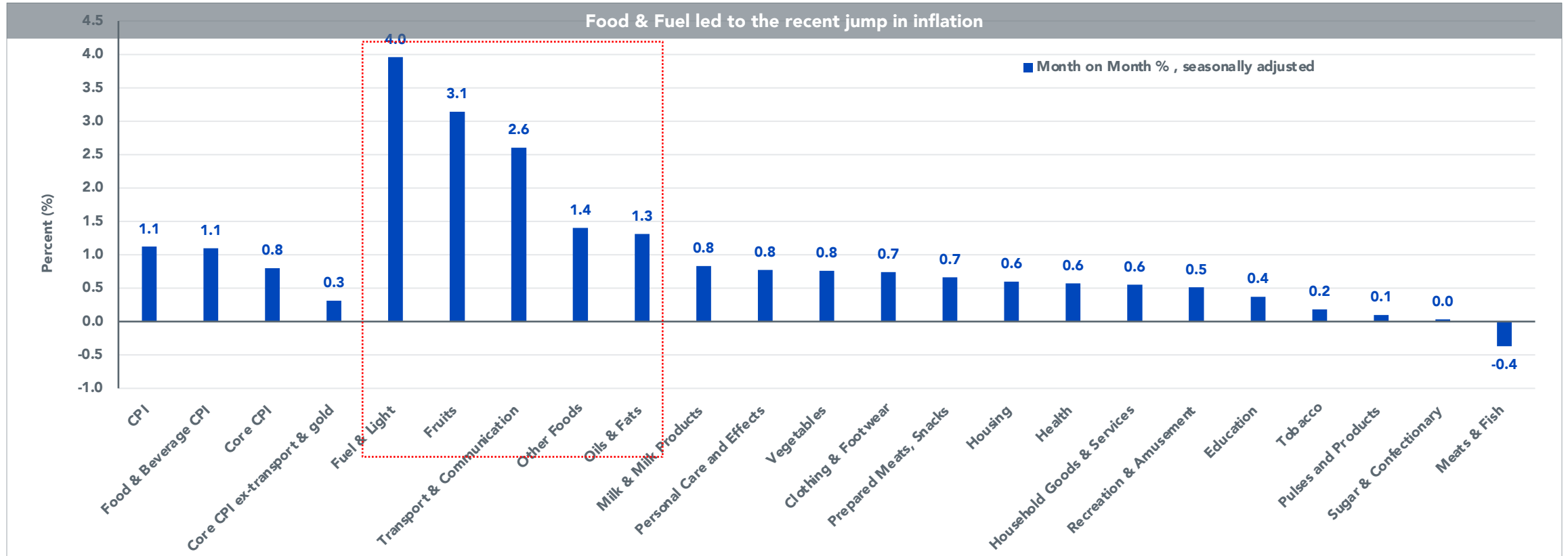


Source: Ministry of Statistics and Programme Implementation (MoSPI), WisdomTree as of 30 April 2022

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# Food & Fuel led to the jump in India's April CPI

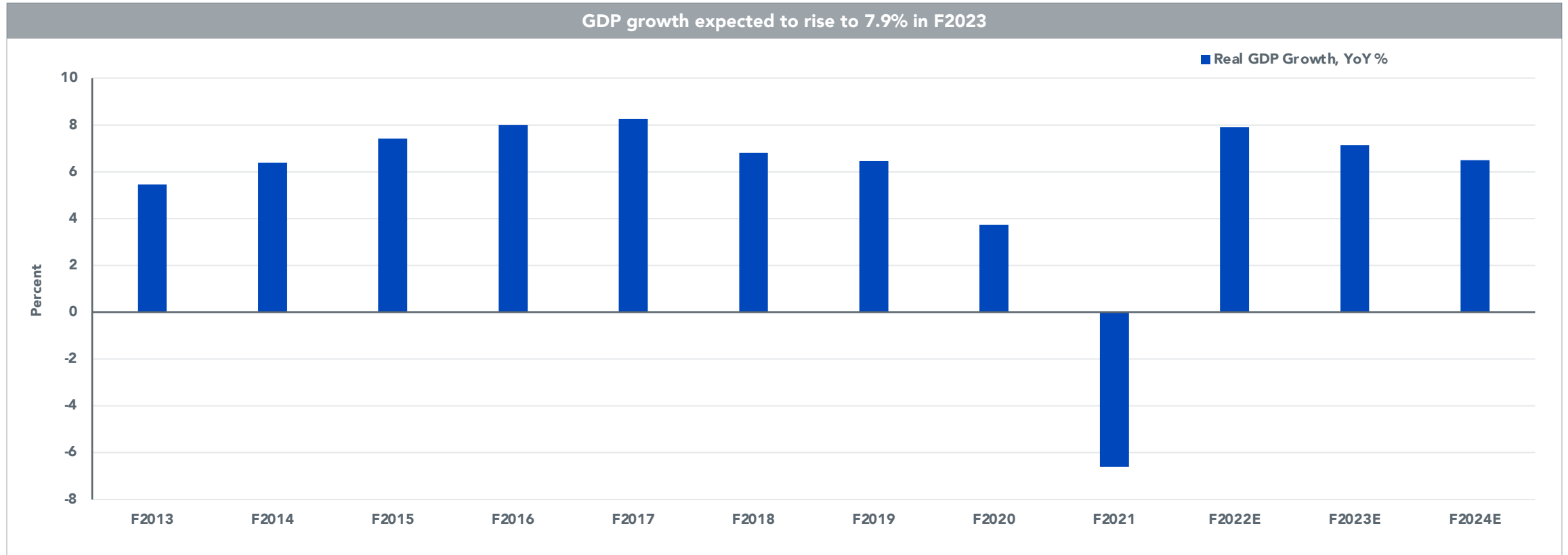


Source: Ministry of Statistics and Programme Implementation (MoSPI), WisdomTree as of 30 April 2022

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# India's GDP growth expected to bounce back in 2022, with risks skewed to the downside



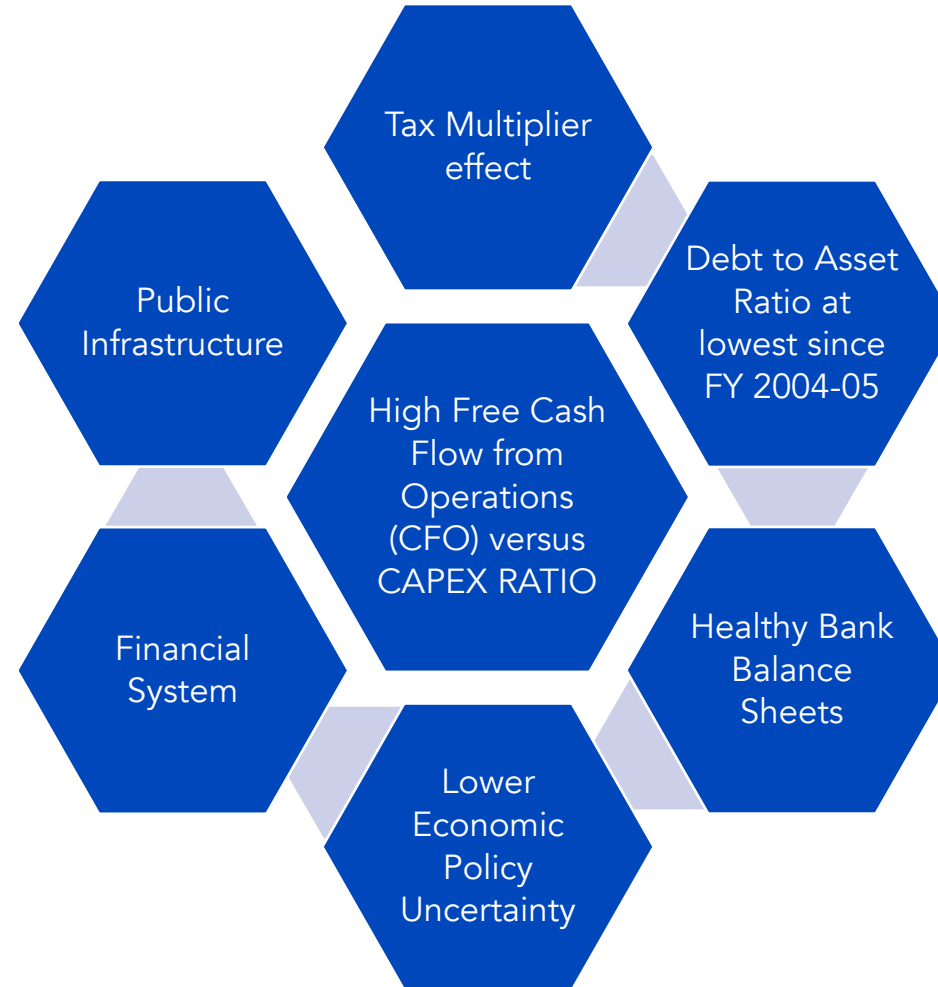
Source: Bloomberg, CEIC, WisdomTree as of 31 March 2022

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# Key Themes likely to drive growth in India's capex recovery



Source: WisdomTree as of May 2022

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