Fisher Investments Europe™

EQUITY OUTLOOK

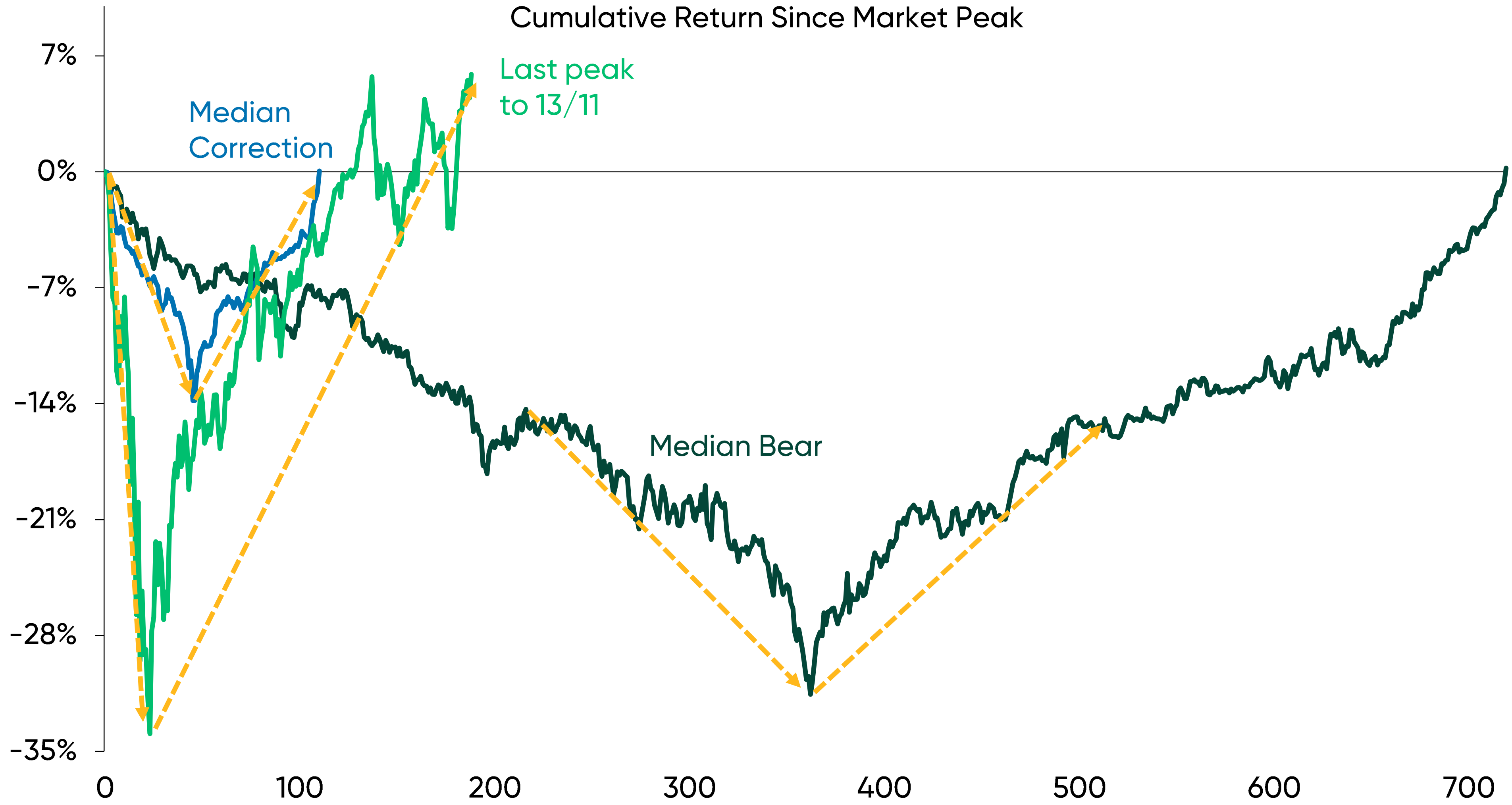
EQUITY MARKETS OUTLOOK

GLOBAL OUTLOOK

- We believe the equity rally since late March marks the start of a new bull market
- However, the market drop and recovery so far are acting more like a massive correction than traditional bear and bull markets, without a lasting style shift
- Economic data is ugly, but investors are beginning to look past short-term economic impacts to a brighter future
- Despite some remaining uncertainty after the November US election, the US political backdrop looks fine for equities
- High-quality growth companies should continue to lead, but investors should be vigilant for changing economic and market conditions that could lead to a leadership shift

ECONOMIC

This downturn has had the magnitude of a bear market but the speed and volatility of a correction. So far, the bounce hasn't featured a significant change in style leadership. The absence of a leadership shift is more consistent with a large correction than a recovery from a traditional bear market.



Source: FactSet, as of 13 November, 2020. Median S&P 500 Price Index correction and bear market returns, daily, October 1937 to November 2020.

ECONOMIC

No matter how long or strong a bear market, the subsequent bull is nearly always longer and stronger, often featuring a big bounce off the bottom.

S&P 500 Bull & Bear Markets

Bear Peak	Trough	Bull Peak	Bear Duration (months)	Bear Cuml. Return	Bull Duration (months)	Bull Cuml. Return	First 3 Months Bull Return	First 6 Months Bull Return	First 12 Months Bull Return
06/09/1929	01/06/1932	10/03/1937	33	-86%	57	324%	93%	53%	121%
10/03/1937	28/04/1942	29/05/1946	61	-60%	49	158%	15%	25%	54%
29/05/1946	13/06/1949	02/08/1956	36	-30%	85	267%	16%	23%	42%
02/08/1956	22/10/1957	12/12/1961	15	-22%	50	86%	6%	10%	31%
12/12/1961	26/06/1962	09/02/1966	6	-28%	43	80%	7%	20%	33%
09/02/1966	07/10/1966	29/11/1968	8	-22%	26	48%	12%	22%	33%
26/11/1968	26/06/1970	11/01/1973	18	-36%	32	74%	17%	23%	44%
11/01/1973	03/10/1974	28/11/1980	21	-48%	74	126%	14%	31%	38%
28/11/1980	12/08/1982	25/08/1987	20	-27%	60	229%	36%	44%	58%
25/08/1987	04/12/1987	16/07/1990	3	-34%	31	65%	19%	19%	21%
16/07/1990	11/10/1990	24/03/2000	3	-20%	113	417%	7%	28%	29%
24/03/2000	09/10/2002	09/10/2007	30	-49%	60	101%	19%	11%	34%
09/10/2007	09/03/2009	19/02/2020	17	-57%	131	401%	39%	53%	69%
19/02/2020	23/03/2020	?	1	-34%	?	?	40%	45%	?
	Average		21	-40%	62	183%	23%	28%	47%

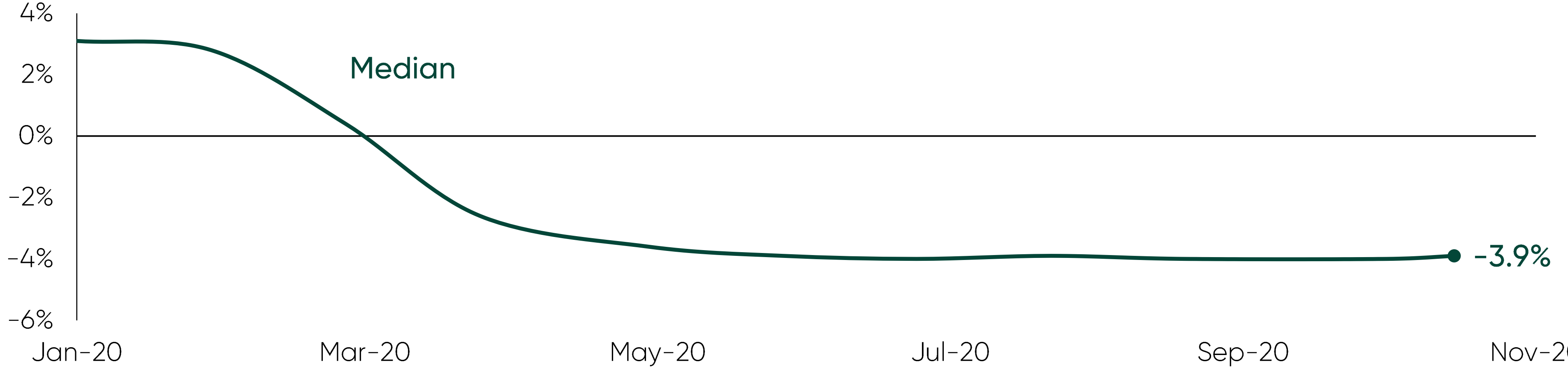
Sources: Global Financial Data, FactSet, as of 13/10/2020. S&P 500 Price Index Level from 6/9/1929-23/9/2020. 23/3/2020 indicates most recent low. Average excludes current bear & bull. Returns are presented exclusive of dividends. For "duration," a month equals 30.5 days.

ECONOMIC

Economic expectations went from steady to steady decline, suggesting equities reflect a lot of pessimism and leaving room for upside surprise.

Firms	31/01	28/02	27/03	24/04	29/05	26/06	24/07	21/08	18/09	02/10	16/10	30/10	13/11
Credit Suisse	2.6%	2.2%	1.0%	-1.5%	-1.5%	-2.5%	-3.8%	-3.8%	-3.8%	-3.7%	-3.7%	-3.7%	-3.7%
Goldman Sachs	3.4%	3.1%	-1.2%	-2.7%	-4.0%	-3.4%	-3.4%	-3.6%	-3.7%	-3.9%	-4.1%	-4.1%	-3.9%
JP Morgan	2.4%	2.2%	-2.4%	-4.8%	-4.7%	-3.9%	-4.2%	-4.2%	-4.0%	-3.9%	-3.9%	-3.9%	-4.0%
Citigroup	2.7%	2.5%	1.3%	-3.1%	-3.6%	-3.5%	-3.7%	-3.3%	-3.9%	-3.9%	-3.7%	-4.0%	-4.0%
Bank of America	3.1%	2.8%	0.3%	-2.9%	-4.3%	-4.0%	-4.0%	-4.3%	-4.0%	-3.8%	-3.8%	-3.8%	-3.8%
Barclays	3.3%	3.0%	0.4%	-2.6%	-3.7%	-3.6%	-3.5%	-3.9%	-3.7%	-3.6%	-3.6%	-3.5%	-3.5%
Deutsche Bank	3.3%	3.1%	2.4%	-2.3%	-5.9%	-5.9%	-5.9%	-4.5%	-4.5%	-3.9%	-3.9%	-3.9%	-3.9%
UBS	3.1%	2.8%	-0.6%	-1.7%	-3.3%	-4.2%	-4.1%	-3.8%	-3.9%	-4.0%	-3.9%	-4.0%	-3.8%
Morgan Stanley	3.2%	3.2%	0.3%	-2.2%	-3.5%	-3.8%	-3.8%	-3.8%	-3.7%	-3.7%	-3.7%	-3.6%	-3.6%
IMF	3.3%	3.3%	3.3%	-3.0%	-3.0%	-4.9%	-4.9%	-4.9%	-4.9%	-4.9%	-4.4%	-4.4%	-4.4%
OECD	2.9%	2.4%	1.5%	1.5%	1.5%	-6.0%	-6.0%	-6.0%	-4.5%	-4.5%	-4.5%	-4.5%	-4.5%
I.H.S.	2.5%	2.5%	0.7%	0.7%	0.7%	-6.0%	-6.0%	-5.1%	-5.1%	-5.1%	-5.1%	-5.1%	-5.1%
Wells Fargo	3.0%	2.9%	-2.6%	-2.7%	-3.8%	-3.3%	-3.8%	-3.8%	-4.3%	-4.3%	-4.0%	-4.0%	-4.0%
Max	3.4%	3.3%	3.3%	1.5%	1.5%	-2.5%	-3.4%	-3.3%	-3.7%	-3.6%	-3.6%	-3.5%	-3.5%
Average	3.0%	2.8%	0.3%	-2.1%	-3.0%	-4.2%	-4.4%	-4.2%	-4.2%	-4.1%	-4.0%	-4.0%	-4.0%
Median	3.1%	2.8%	0.4%	-2.6%	-3.6%	-3.9%	-4.0%	-3.9%	-4.0%	-3.9%	-3.9%	-4.0%	-3.9%

Global GDP 2020 Forecast - Revised/Affirmed

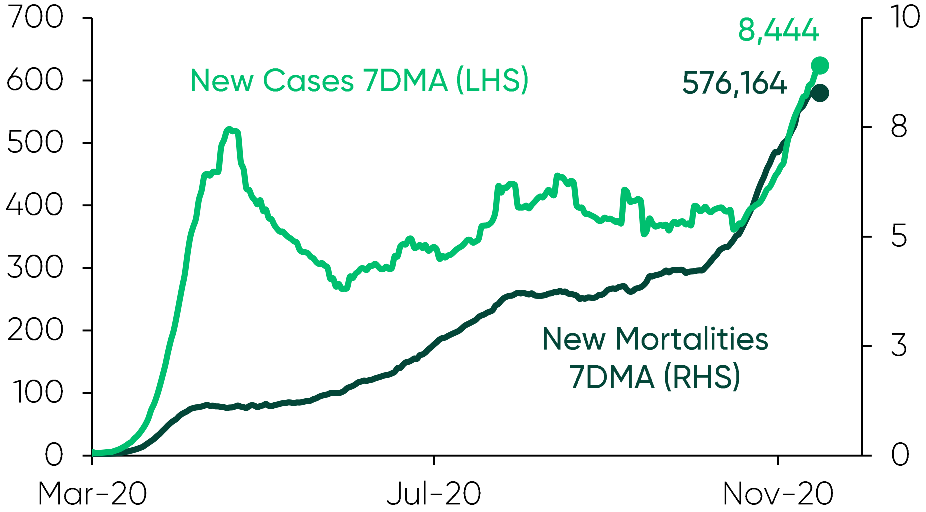


Source: Fisher Investments Research, Credit Suisse, Goldman Sachs, JP Morgan, Citigroup, Bank of America, Barclays, Deutsche Bank, UBS, Morgan Stanley and Wells Fargo. Global real GDP 2020 forecasts from 31/01/2020 to 13/11/2020.

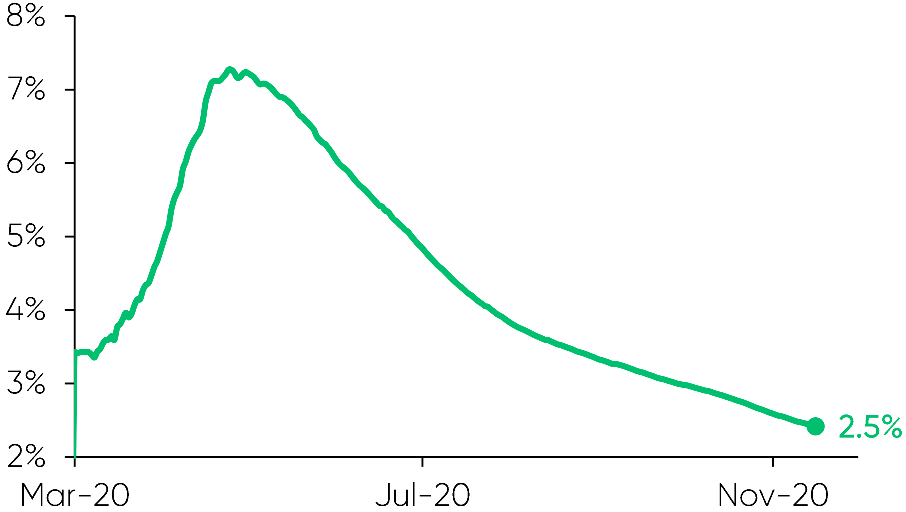
ECONOMIC

New COVID-19 cases are spiking again in some parts of the world, but mortality rates continue to decline.

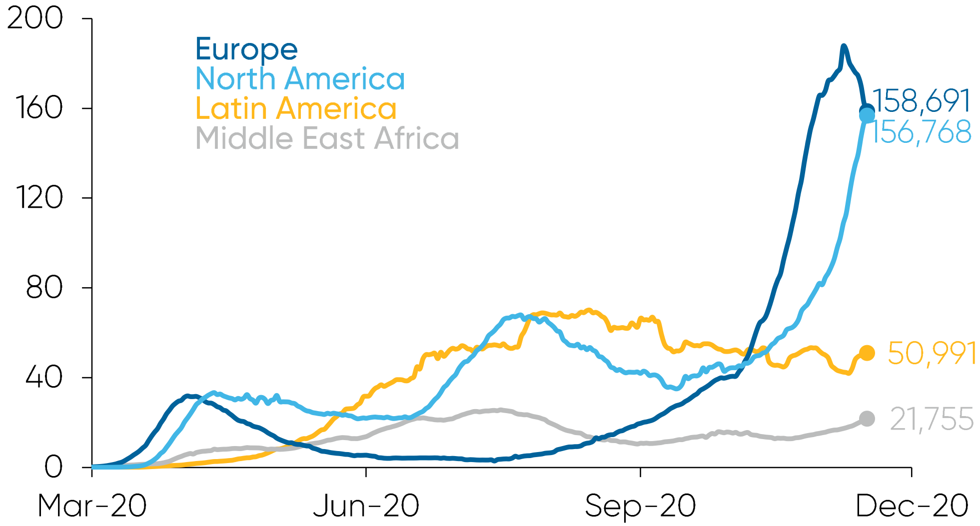
Global New Daily Cases & Mortalities (thousands)



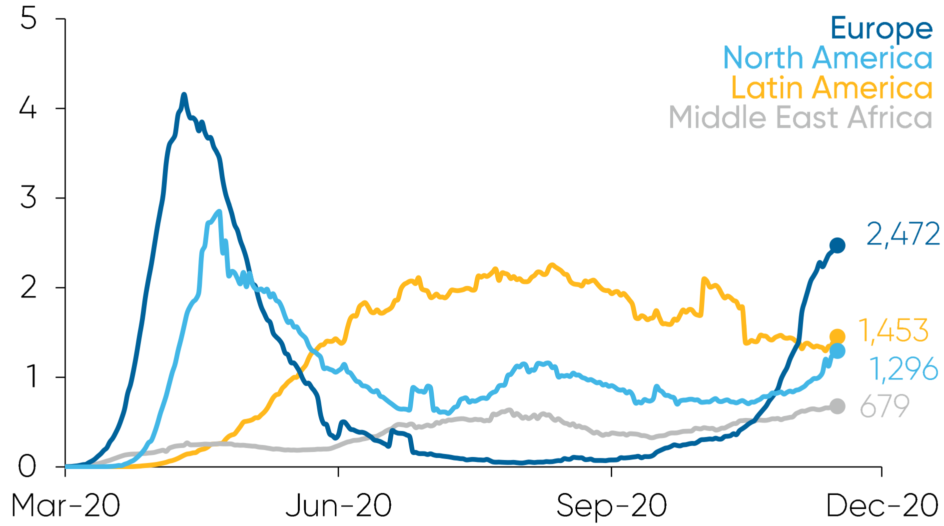
Global Mortality Rate % of Total Cases



New Cases by Region (thousands)



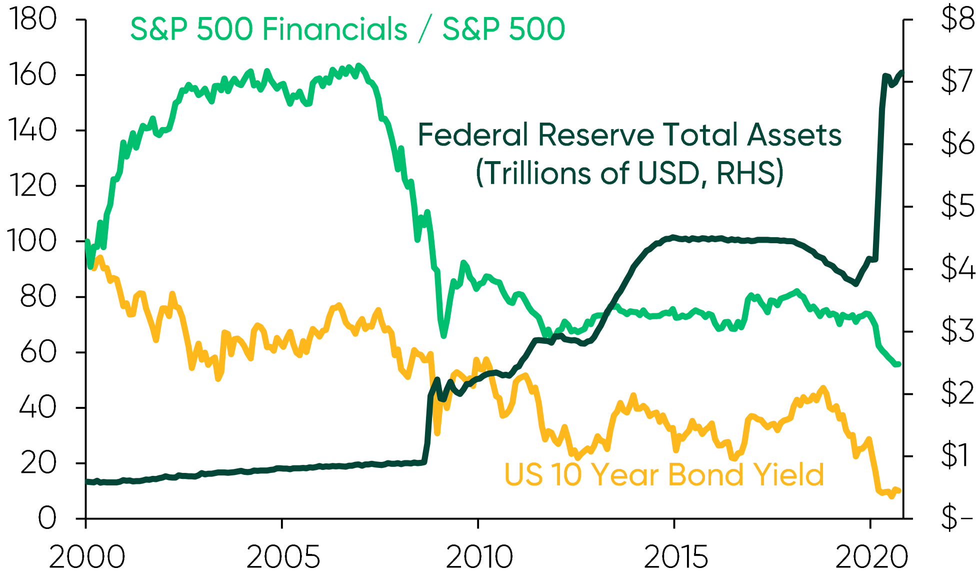
New Mortalities by Region (thousands)

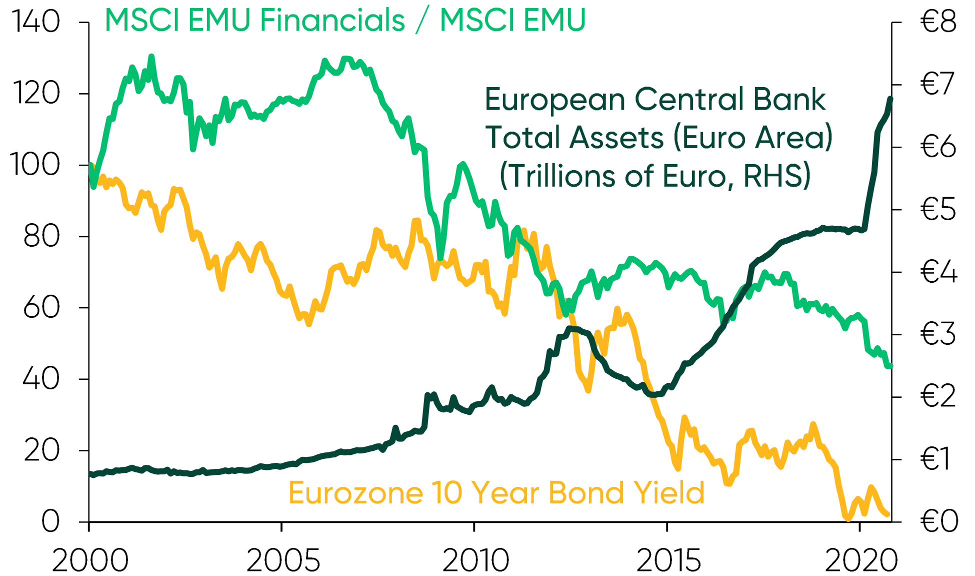


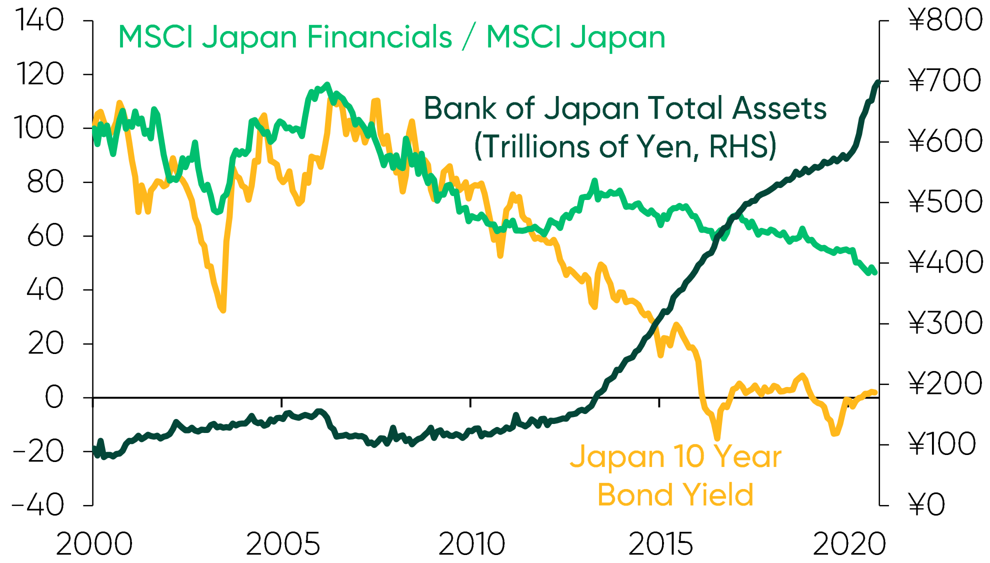
Source: Fisher Investments Research, Johns Hopkins & Our World in Data as of 16/11/2020.

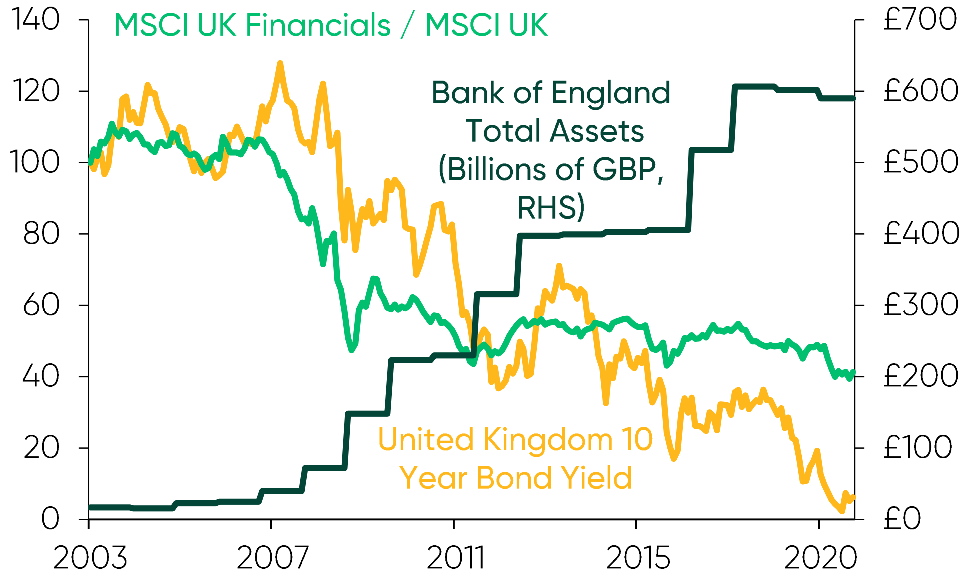
ECONOMIC

Extreme monetary policies like QE and zero or negative interest rates have created unfavorable environments for global banks.





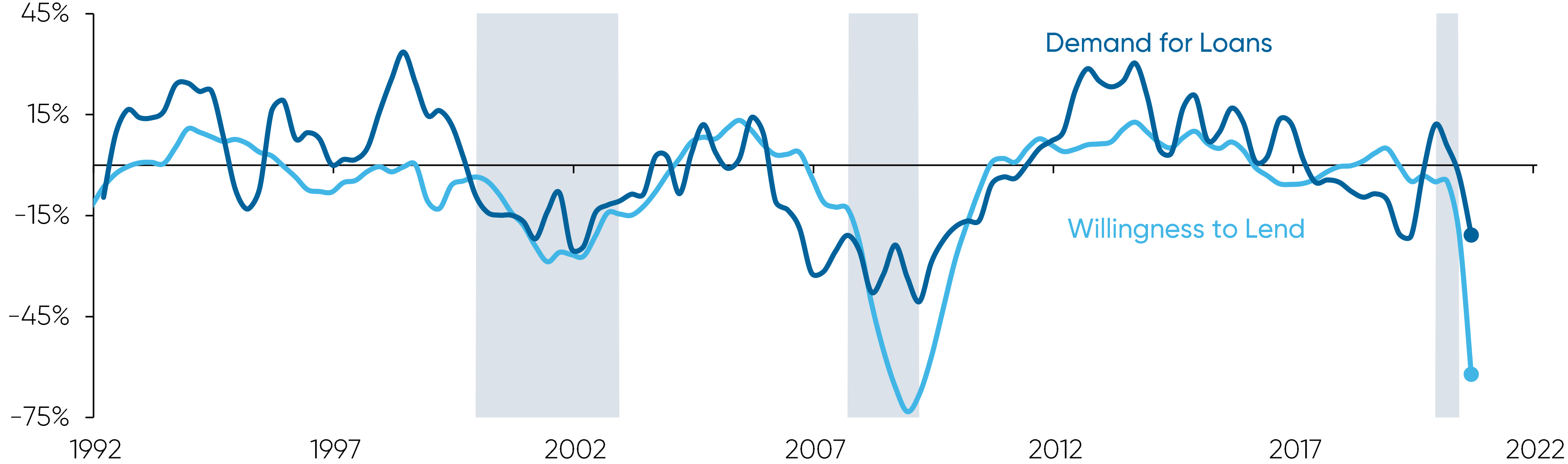


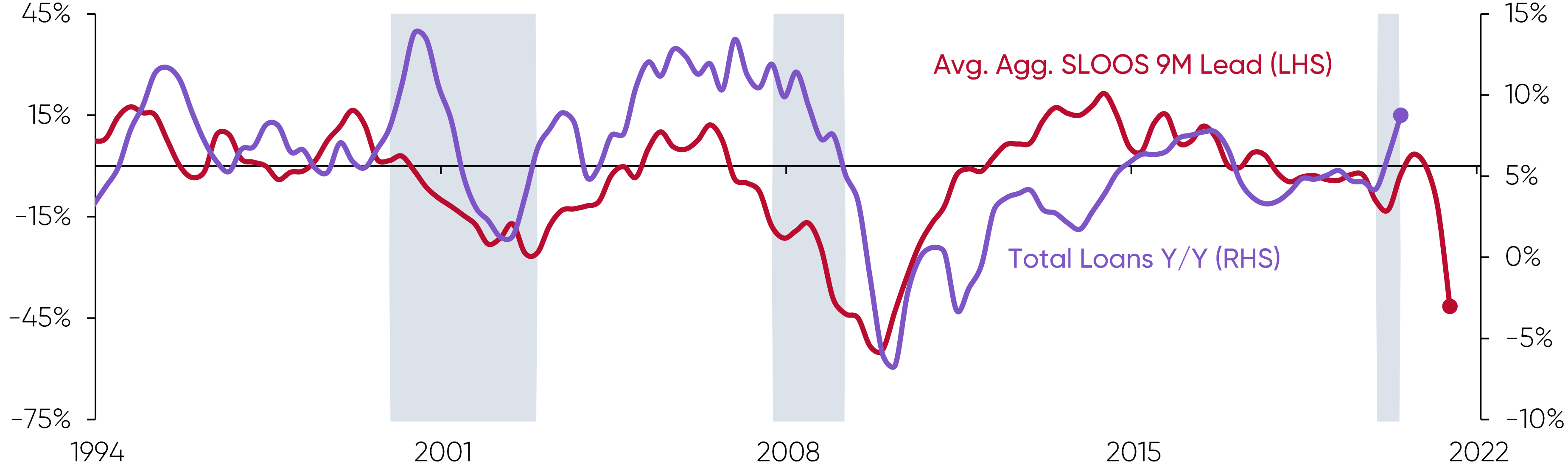


Source: FactSet, Federal Reserve, European Central Bank, Bank of Japan, and Bank of England. Central bank balance sheets based on monthly data to 31/10/2020, save for the UK which is annual to 2019. Relative performance of relevant MSCI country financials vs. headline country index and 10 year country benchmark bond yields indexed to 100 on 31/01/2000 & 31/01/2003 (UK), to 31/10/2020.

ECONOMIC

The velocity of money is likely to remain low as Senior Loan Officer Surveys (SLOOS) suggest loan growth will be challenged immediately ahead.



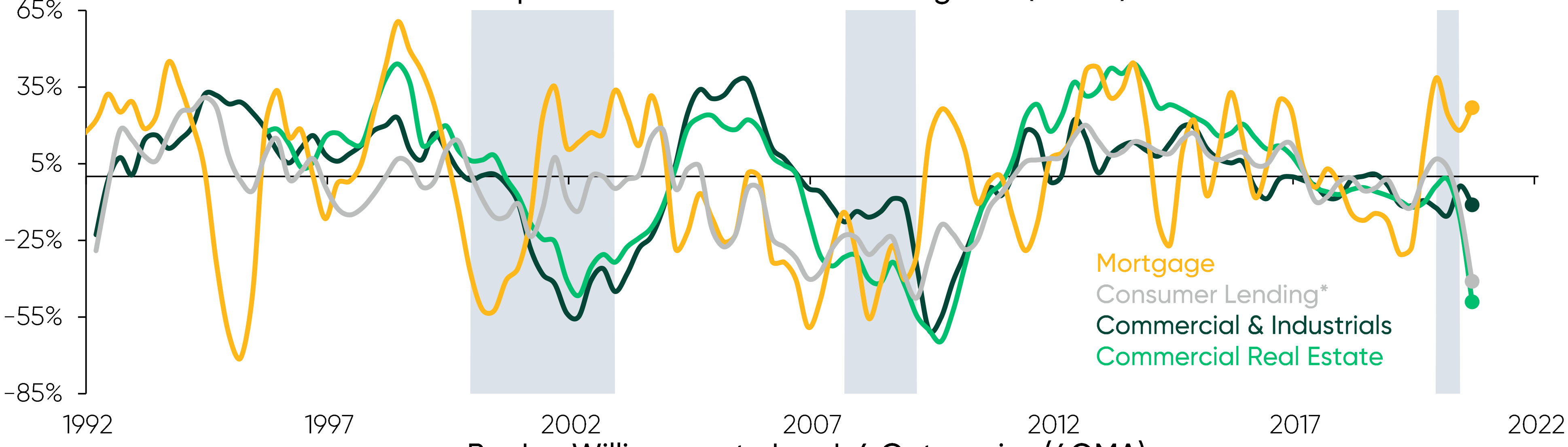


Source: FactSet, Federal Reserve. US Senior Loan Officer Survey (SLOOS), as of 30/09/2020. A survey reading above 0% implies access to credit/demand for credit will get better in the coming quarters, a reading below 0% implies access to credit will tighten in the coming quarters, or demand is expected to decelerate. Total loans based on monthly data to 30/09/2020. SLOOS data in bottom chart based on average of demand and access to credit, shown with a 9-month lead as of 30/09/2020. Last updated 13/11/2020.

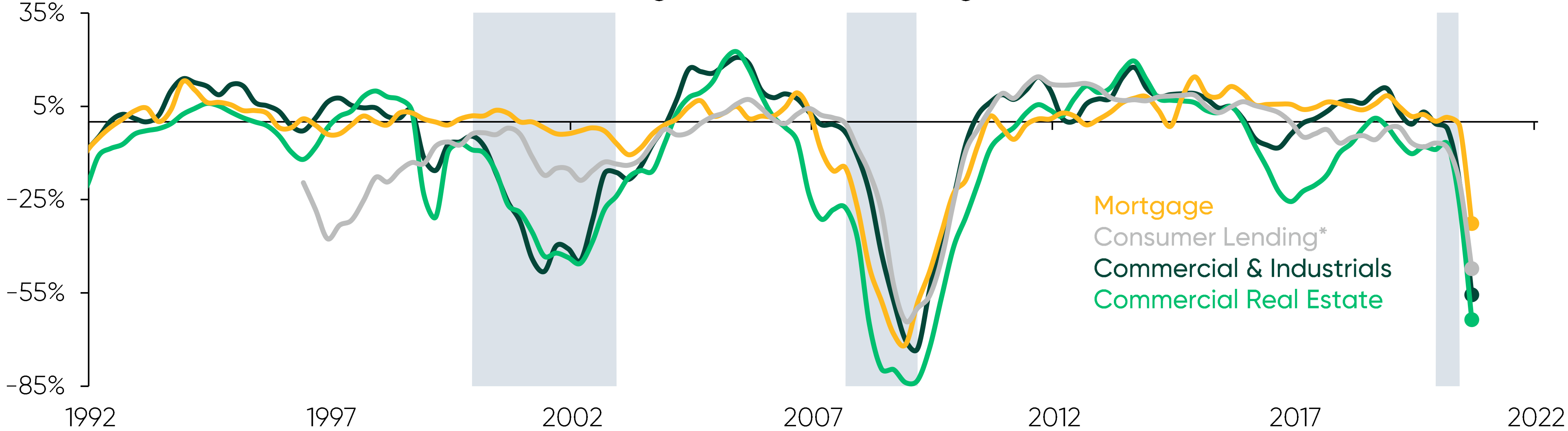
ECONOMIC

Mortgage demand is up, but other indicators suggest a weak lending environment ahead as central bank interventions have kept yields low.

Expected Loan Demand: 4 Categories (4QMA)



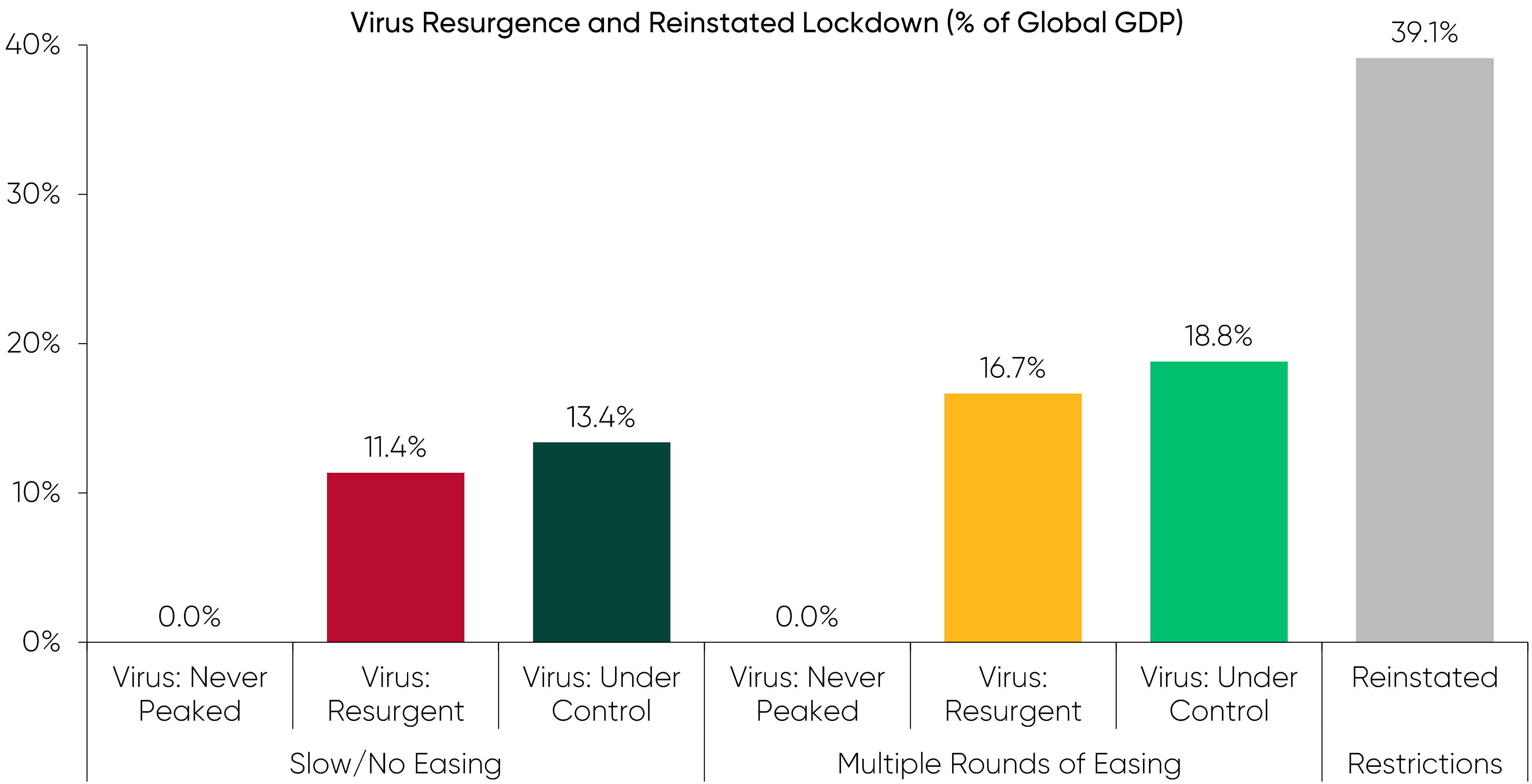
Banker Willingness to Lend: 4 Categories (4QMA)



*Source: FactSet, Federal Reserve. US Senior Loan Officer Survey (SLOOS), as of 30/09/2020. *Consumer lending includes auto loans, credit cards, & other unsecured lending. A survey reading above 0% implies access to credit/demand for credit will get better in the coming quarters, a reading below 0% implies access to credit will tighten in the coming quarters, or demand is expected to decelerate. Last updated 13/11/2020.*

ECONOMIC

With the recent resurgence of the virus in several countries, lockdowns have to some degree been reinstated – but so far to a lesser extent compared to measures taken during the first wave in the spring.



Source: Fisher Investments Research, Johns Hopkins & Our World in Data as of 16/11/2020.

ECONOMIC

Operation Warp Speed is a public-private partnership initiated to accelerate COVID-19 treatments in the United States. COVID-19 vaccines should be approved reasonably soon, but manufacturing, distributing, and administering the vaccines to huge populations will take some time.

Expected Major COVID Vaccine Approvals & Global Production Estimates (in million vaccinated)

Limited Distribution | Widely Available

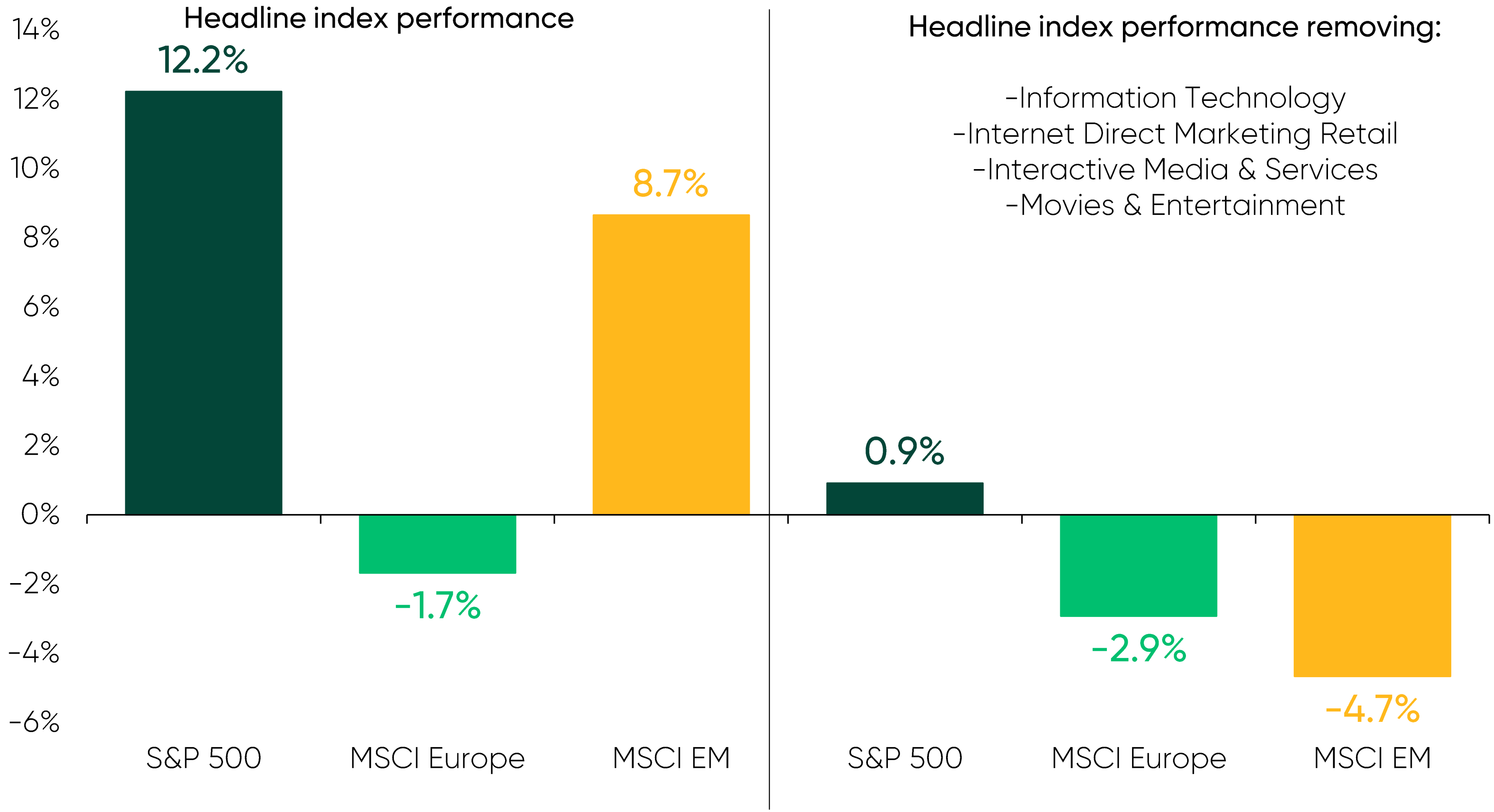
	2020	2021											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Pfizer	10	25	66	108	149	190	232	273	315	356	397	439	480
Moderna		10	32	55	77	99	121	144	166	188	210	233	255
Astrazeneca			100	350	428	506	583	661	739	817	894	972	1050
JNJ					78	156	233	311	389	467	544	622	700
Novavax						88	175	263	350	438	525	613	700
Sanofi / GSK									140	280	420	560	700
Merck											117	233	350
Global Vaccinations	10	35	199	512	731	1038	1345	1652	2098	2545	3108	3672	4235
US Vaccinations	4	12	44	107	129	160	190	206	228	250	278	307	330
US Herd Immunity	0	0	0	0	1	1		1	1	1	1	1	1

Operation Warp Speed (OWS) - The Gov't Funded Vaccine Program Summary Details	
Vaccine Candidates :	7 companies have received OWS funding: **Astrazeneca, Pfizer, Moderna, Novavax, JNJ, Merck & Sanofi**. A combo of these approved vaccines will be used to meet the goal of 50M vaccinated by year end, and 250M by mid-year 2021.
Manufacturing :	Most will manufacture their own vaccines & use license agreements w/3rd parties for additional capacity. So far **Lonza, Fujifilm Diosyth, Emergent Biosolutions, Thermo Fisher & Grand River Aseptic** have been contracted for additional mfg. capacity. Production is already ramping prior to final FDA final approval, for immediate distribution.
Distribution :	**McKesson** has been selected as the centralised distributor of the vaccines in the US (they also handled H1N1 vaccine). The CDC may select others to be involved in distribution, but **McKesson** was serve as lead in vaccine fulfillment

Source: US Gov't Operation Warp Speed initial estimates & guidance with Fisher Investments estimates, as of November, 2020.

ECONOMIC

Positive YTD returns for the US and Emerging Markets has largely been due to heavier weights in Tech and Tech-like equities.

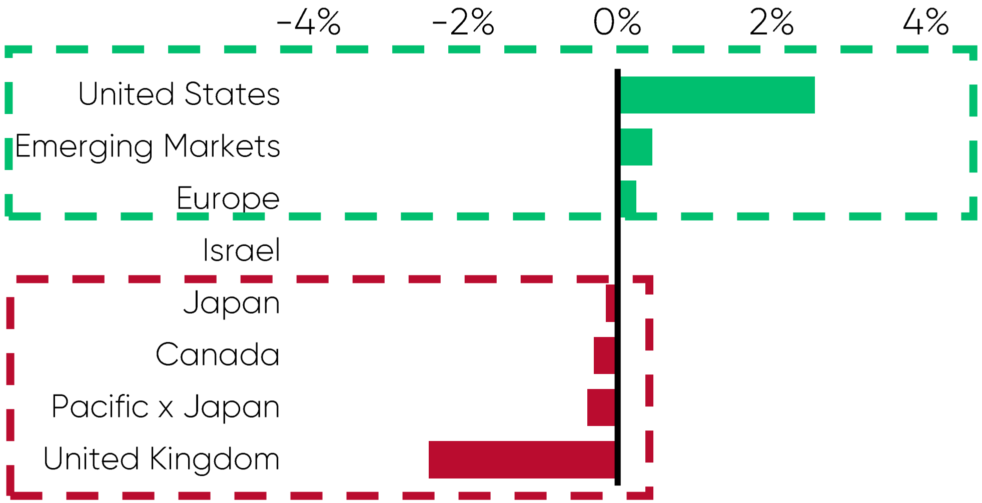


Source: FactSet. As of 13/11/2020. Shows the YTD return of the MSCI USA, MSCI Europe & MSCI Emerging Markets index as well as those index returns removing the information technology sector, internet direct marketing retail and interactive media & services industries as well as the movies & entertainment sub-industry.

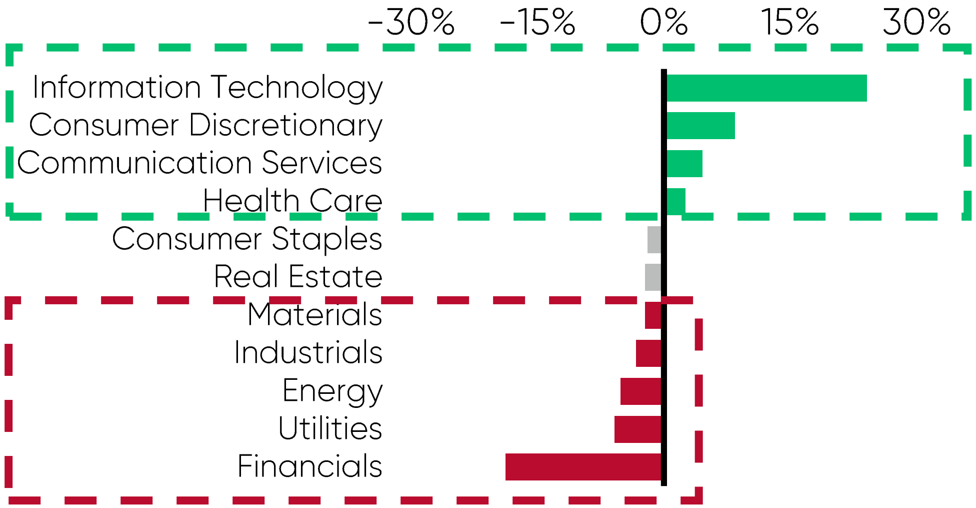
ECONOMIC

The growth/value cycle has been fairly consistent throughout the world. With growth beating value significantly this year, countries with more growth exposure—like the US—have performed better.

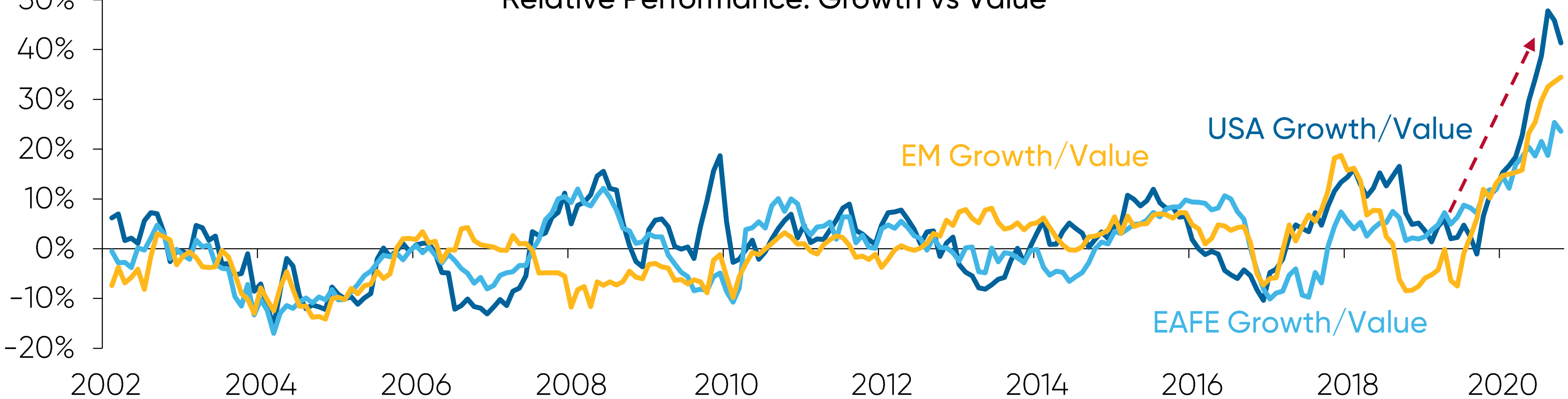
MSCI ACWI Growth vs Value
Sector Weights



MSCI ACWI Growth vs Value
Region Weights



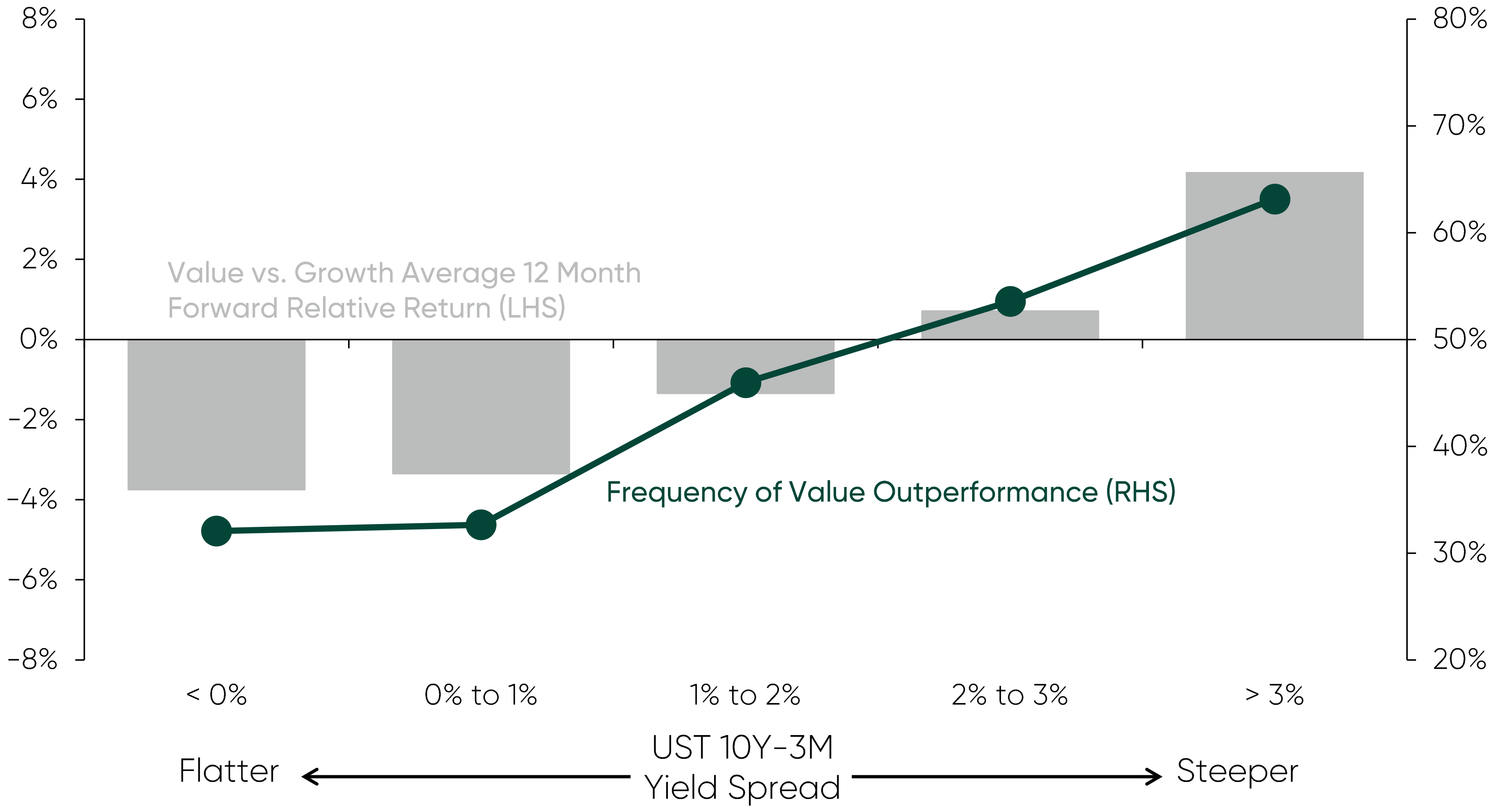
Relative Performance: Growth vs Value



Top charts source: FactSet. MSCI All Country World Index Growth & Value relative sector and regional weights as of 13/11/2020. Bottom chart source: FactSet. Relative year-over-year performance of the MSCI USA, EM, & EAFE Growth vs. Value indices, 31/01/2001 – 31/10/2020.

ECONOMIC

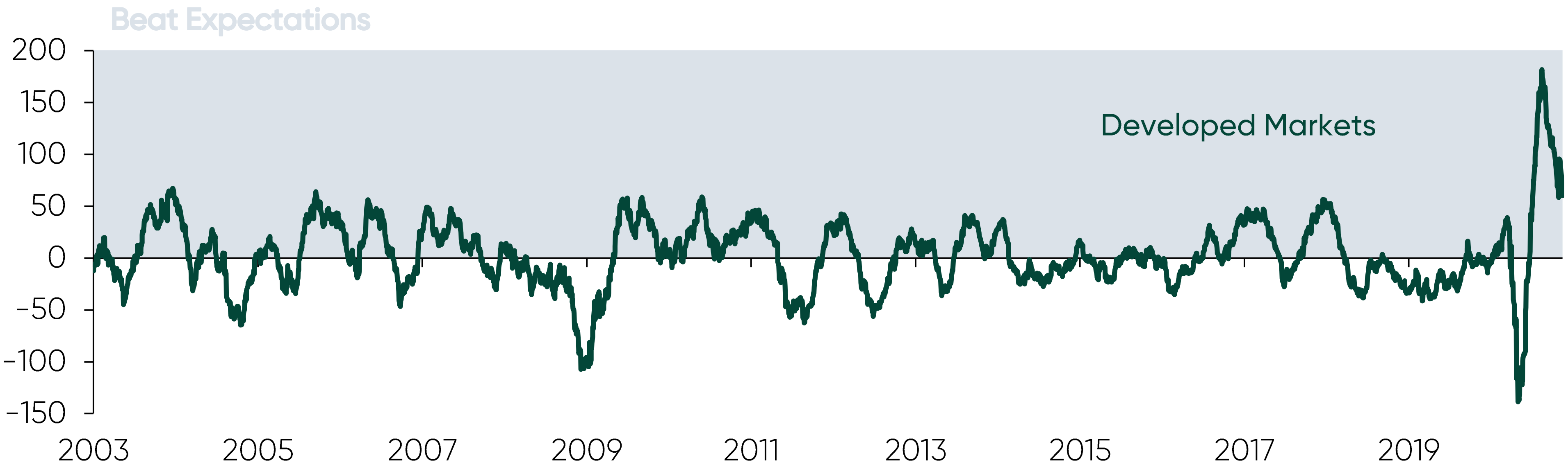
Value equities tend to thrive in a steep-yield-curve environment and struggle when the yield curve is narrow. Not only do Financials—the quintessential value sector—benefit from steeper yield curves, other credit-dependent, value sectors benefit from better lending conditions. Currently, yield curve spreads worldwide are fairly narrow, favoring growth.

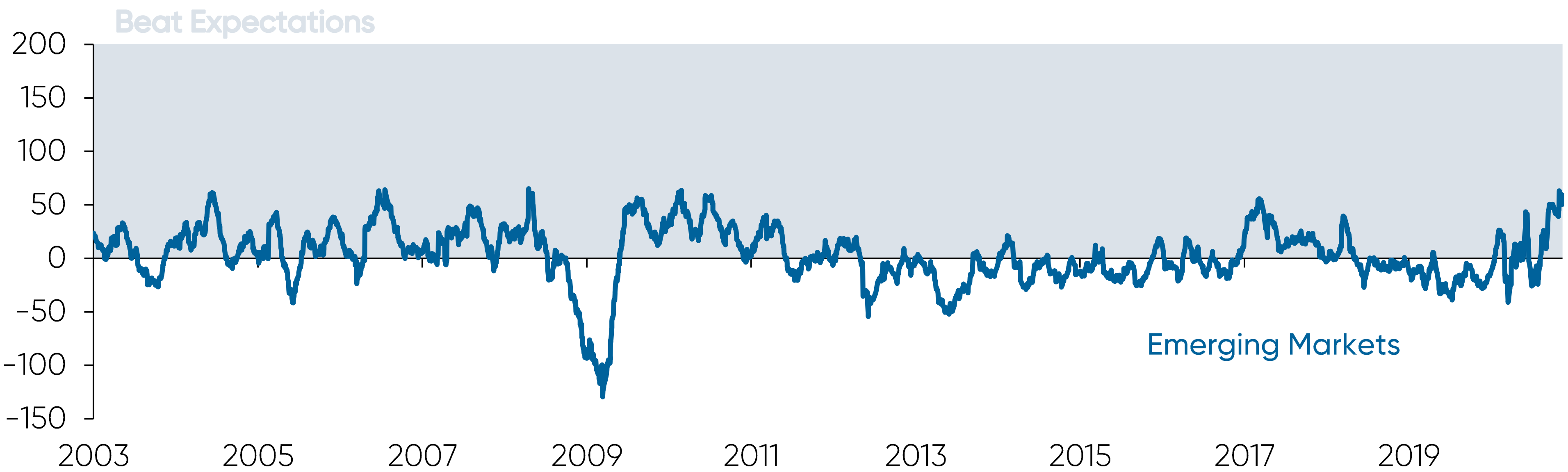


Source: FactSet as of 31/10/2020. Shows Russell 3000 Value vs. Russell 3000 Growth forward 12 month relative performance starting 28/12/1978. Relative performance shown as an average for different levels of the US yield curve spread.

SENTIMENT

Economic data remains ugly, but it is coming in far better than dire predictions. The global economic surprise index—which measure actual data versus consensus—has spiked to an all-time high.





Source: FactSet, Citigroup as of 13/11/2020. Developed & Emerging Markets Economic Surprise Index, daily, 31/12/2014 – 13/11/2020.

COUNTRY DRIVER ANALYSIS

OVERWEIGHT UNITED STATES

US stocks should benefit from a higher concentration of high gross profit margin mega-cap firms, particularly in the Technology sector. Additionally, falling uncertainty with the passing of the election should be a tailwind to US stocks.

ECONOMIC DRIVERS

+ **Mega-Cap Exposure:** The US has a high concentration of the world's mega-cap stocks. These globally-competitive firms typically grow earnings more consistently than smaller peers.
+ **Tech Strength:** The global Technology sector is heavily concentrated in the United States, and we expect the ongoing shift toward mobile and cloud computing to continue supporting the Technology sector. Our portfolio positioning in the US has sizeable Technology exposure.
+ **Tame Inflation:** Today's low inflation in the US is supporting evidence that the US economy likely has significant room to expand in the aftermath of the pandemic scare.
+ **Housing Market:** Following the recent mortgage rate decline, mortgage applications have increased. While some pockets of credit have tightened during the pandemic, credit remains available for borrowers with good credit. Additionally, US mortgage debt servicing ratios are at multi-decade lows.

± **Monetary Policy & Credit:** Following recent rate cuts from the Federal Reserve in response to the coronavirus pandemic, the US Treasury yield curve has steepened out of inversion. However, credit conditions remain mixed with some pockets of tightness.

POLITICAL DRIVERS

+ **US Election:** Market returns are historically below average in the election years of new Democrats. However, in the inaugural years of new Democrats, returns are historically well above average as the feared reforms that weigh on election year returns underwhelm in the inaugural year. Additionally, the 2020 election appears likely to result in gridlock, pending the results of the Georgia Senate runoffs, which means the reform agenda for 2021-22 is likely to be light – a bullish feature for US stocks.

± **Corporate Taxes:** While President-Elect Biden is proposing hiking the corporate tax rate from 21% to 28%, such a proposal is likely to struggle passing through a mostly gridlocked Congress. But even if it does, US corporate tax hikes have not historically been a dominant driver of US equity returns.

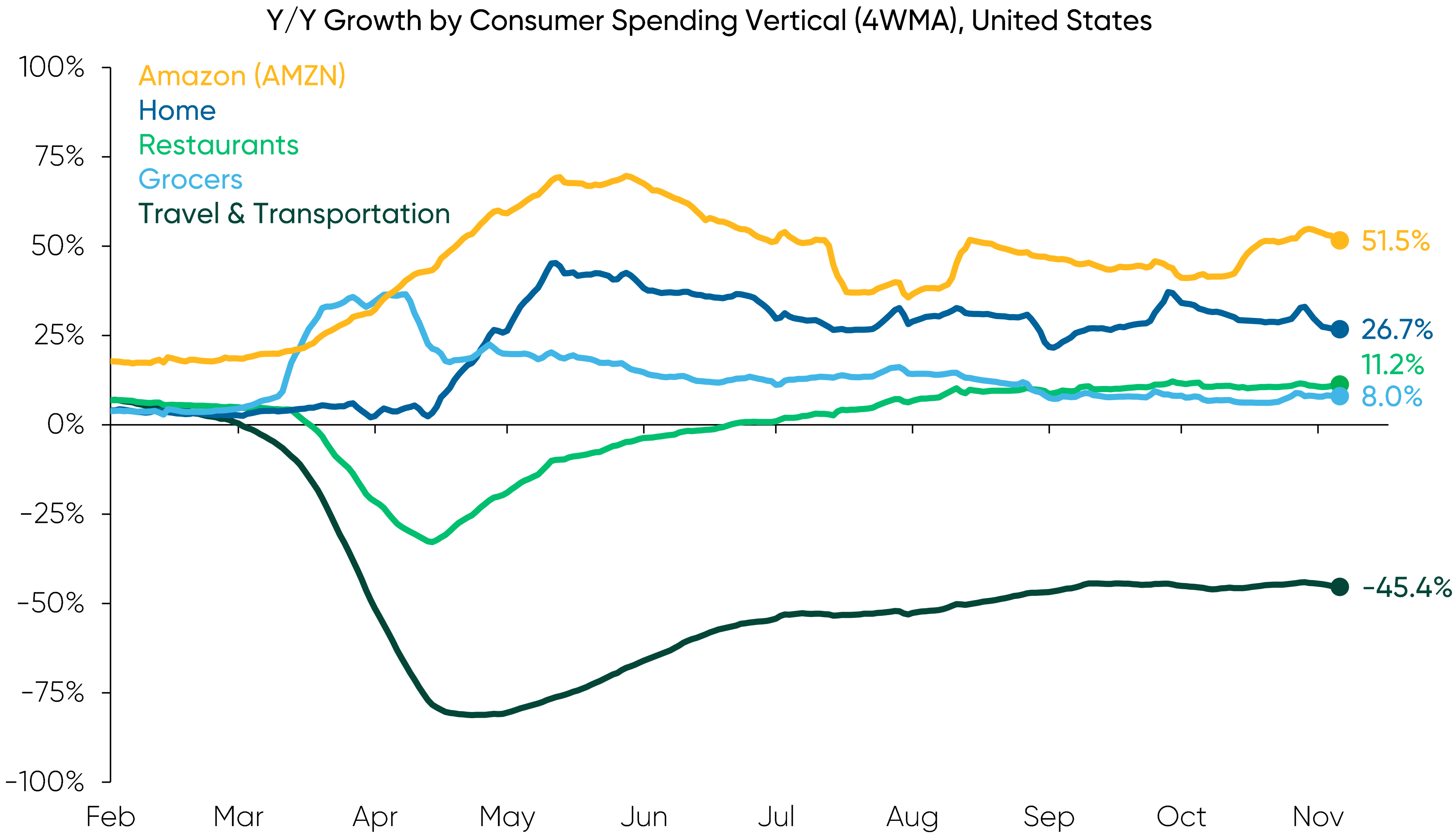
SENTIMENT DRIVERS

+ **Widespread Calls for Rotation:** In the aftermath of the US election and vaccine announcements, expectations for a rotation away from US stocks are rampant. In our opinion, the rotation away from US stocks is more likely to develop under circumstances of greater scepticism toward non-US stocks.

As of November 2020. We have provided our general comments to you based on information we believe to be reliable. There can be no assurances that we will continue to hold this view; we may change our view at any time based on new information, analysis, or reconsideration.

ECONOMIC

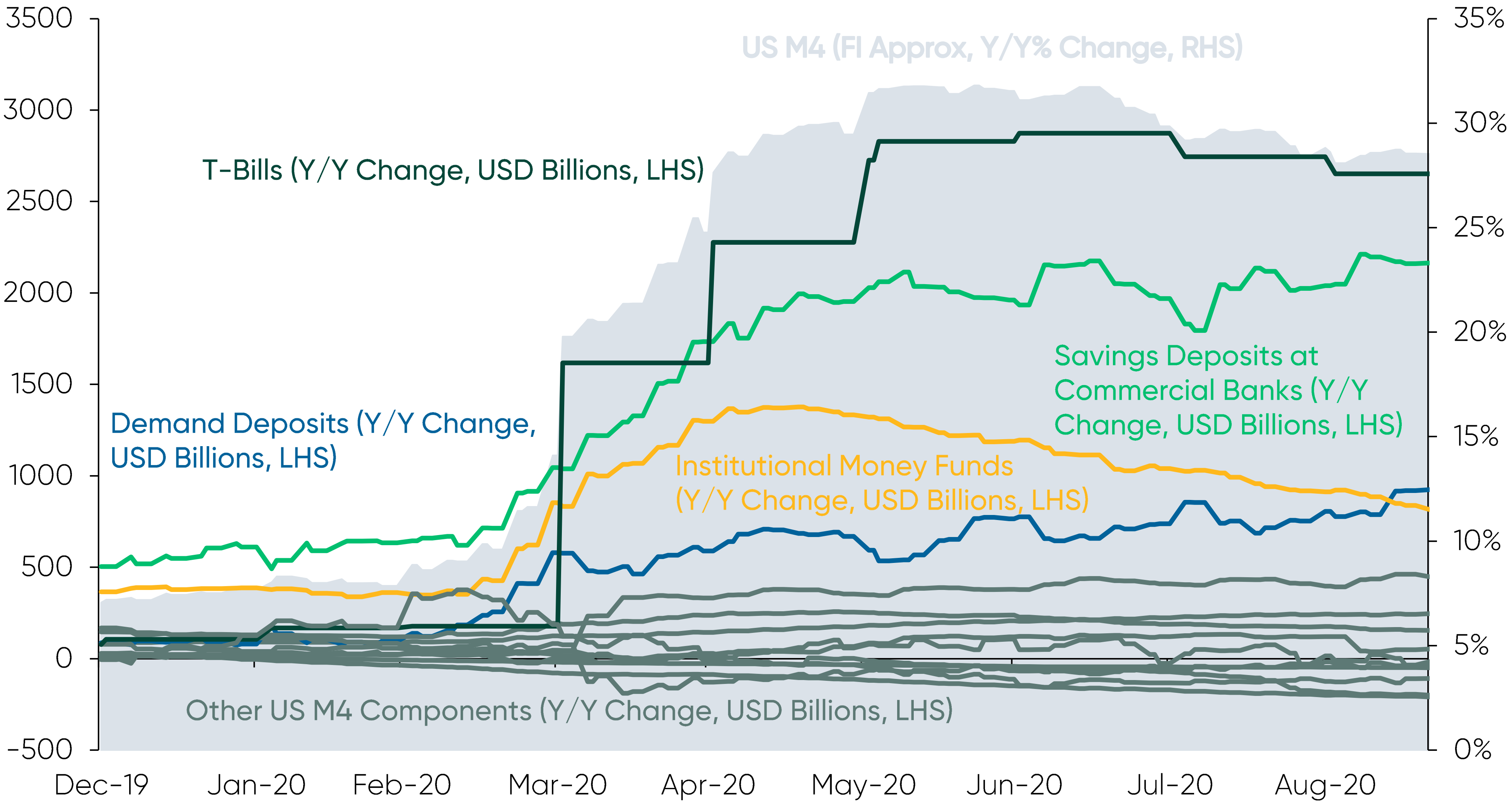
Spending changed following the impact of COVID-19, boosting grocery and online consumption at the expense of travel and restaurants. The latter are showing signs of improvement, however.



Source: Earnest Research. Shows weekly credit card, debit, and bill pay data for ~6 million US consumers as of 06/11/2020.

ECONOMIC

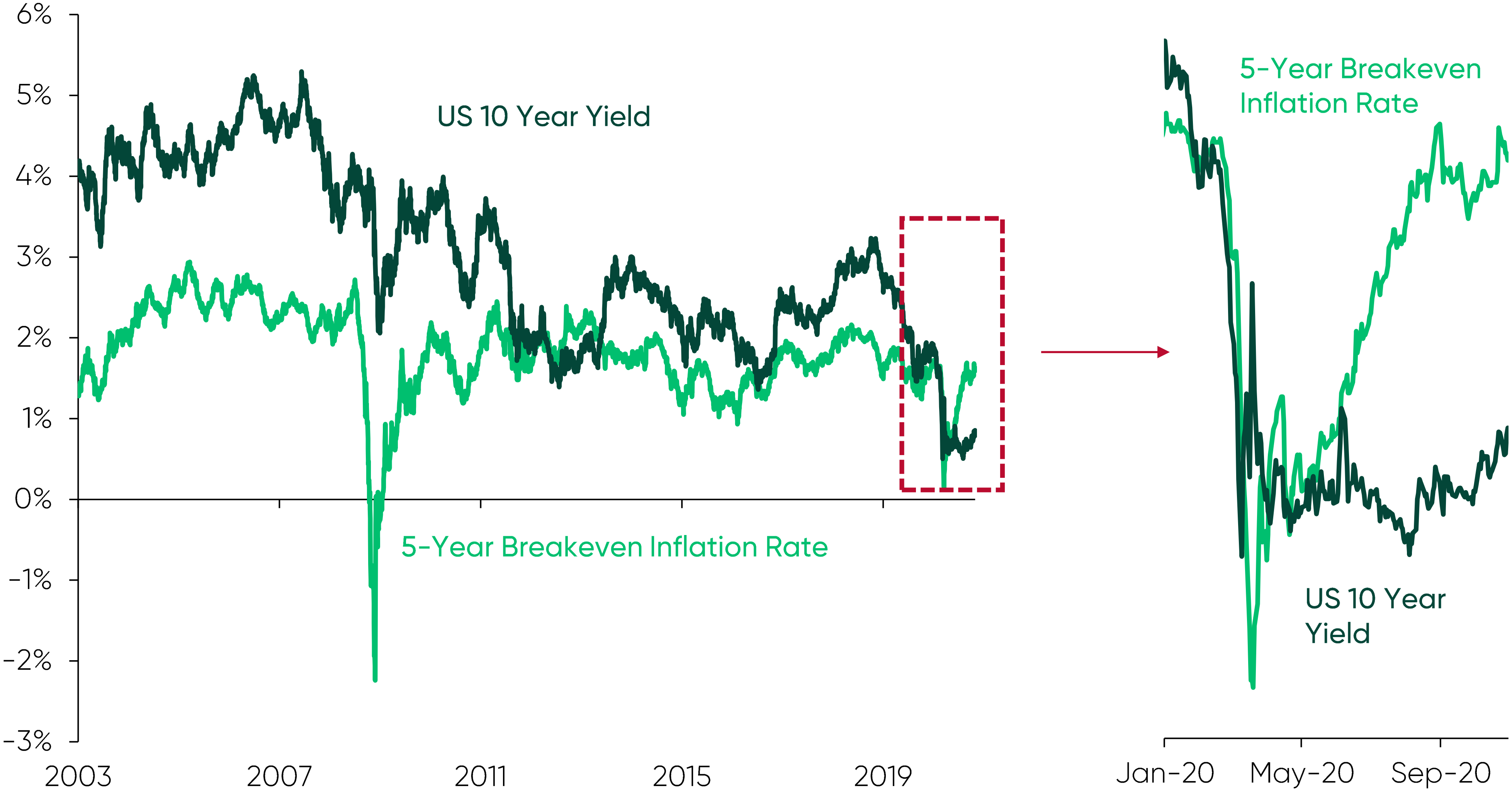
Our approximation of M4 growth shows a sharp jump. An analysis of the components suggests T-bill issuance and COVID-related cash stockpiling are the primary contributors.



Source: Fisher Investments Research, Federal Reserve System, NY Fed, US Dept. of Treasury. Weekly data as of 22/10/2020, except Commercial Paper uses weekly data as of 22/10/2020; Large Time Deposits uses weekly data as of 22/10/2020; and T-Bills uses monthly data through 22/10/2020. Other US M4 components: currency, other checkable deposits at commercial banks, small time deposits at commercial banks, retail money funds, large time deposits, other checkable deposits at thrifts, savings deposits at thrifts, small time deposits at thrifts commercial paper, and overnight repurchase agreements.

ECONOMIC

The yield on 10 Year US Treasuries typically moves in the same direction as inflation expectations, as markets anticipate an increase in prices. Inflation expectations have normalised, but central bank intervention has kept yields exceptionally low.

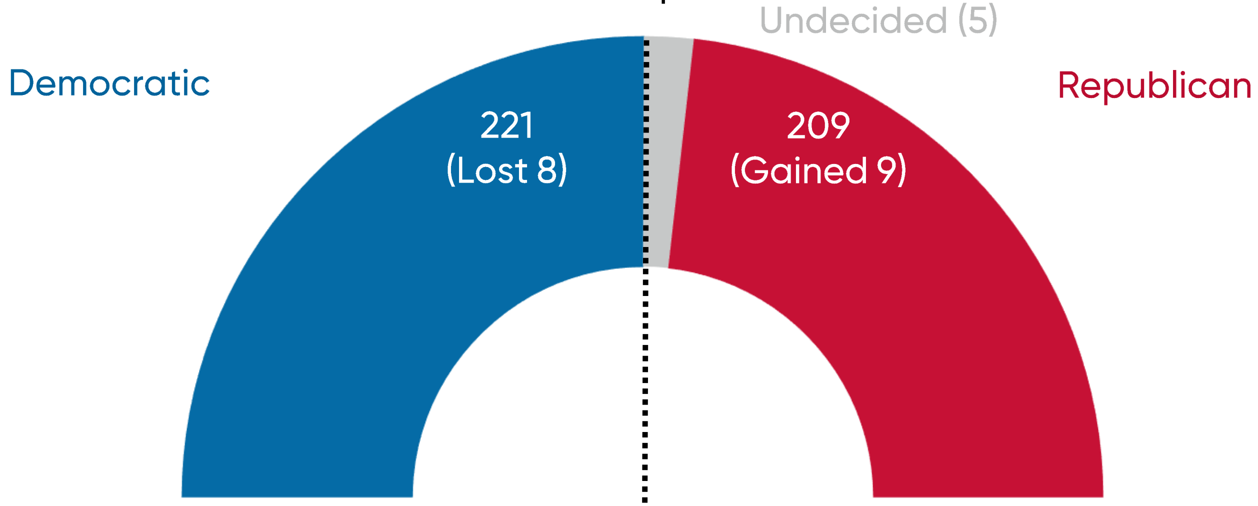


Source: FactSet. Shows the yield on the 10 Year US benchmark bond and US 5-year inflation breakeven rate from 02/01/2003 – 31/10/2020. The breakeven inflation rate represents a measure of expected inflation derived from 5-Year Treasury Constant Maturity Securities. The latest value implies what market participants expect inflation to be in the 5 years, on average.

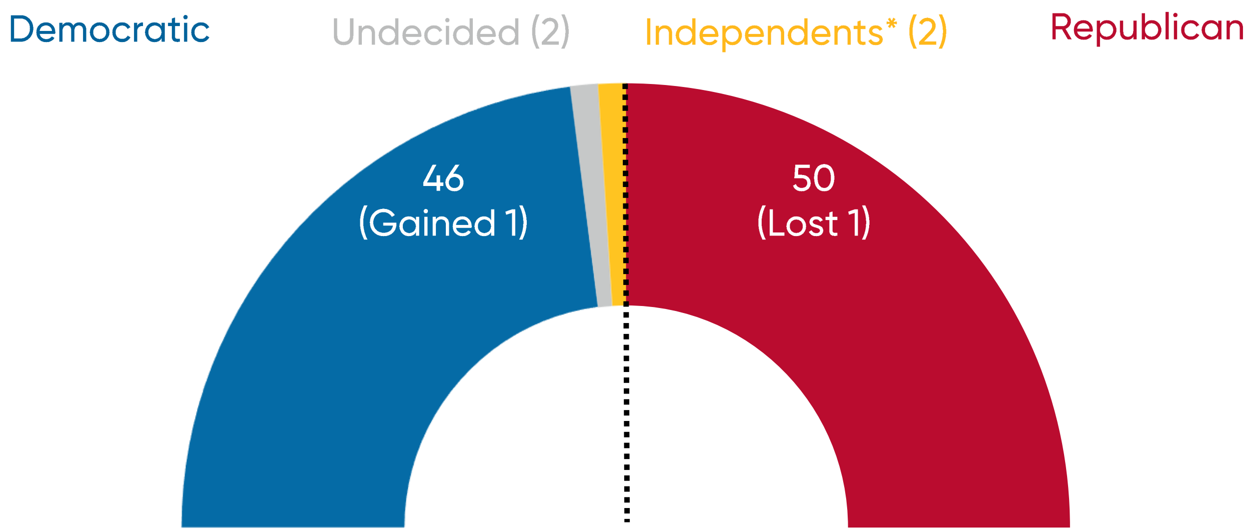
POLITICAL

Democrats retained majority control of the House of Representatives despite losing seats to Republicans. Republicans currently hold a 50-48 edge in the Senate, pending two runoff elections in Georgia on January 5th. Regardless of final outcome, the balance of power almost ensures a continuation of inter-party and intra-party gridlock – reducing uncertainty and likely benefitting equities.

House of Representatives



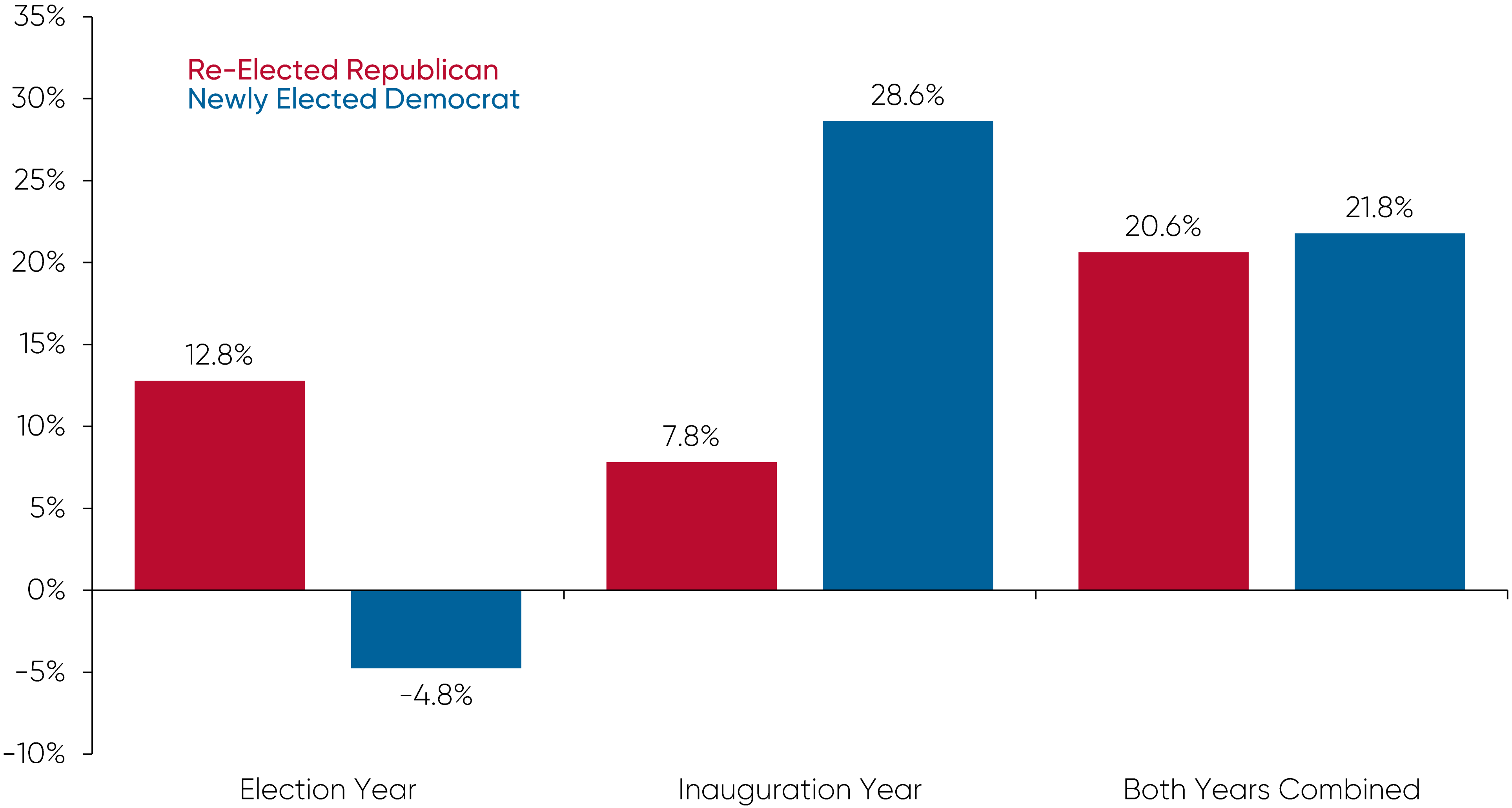
Senate



*Source: Associated Press, as of 19/11/2020. *Two Independent senators caucus with Democrats.*

POLITICAL

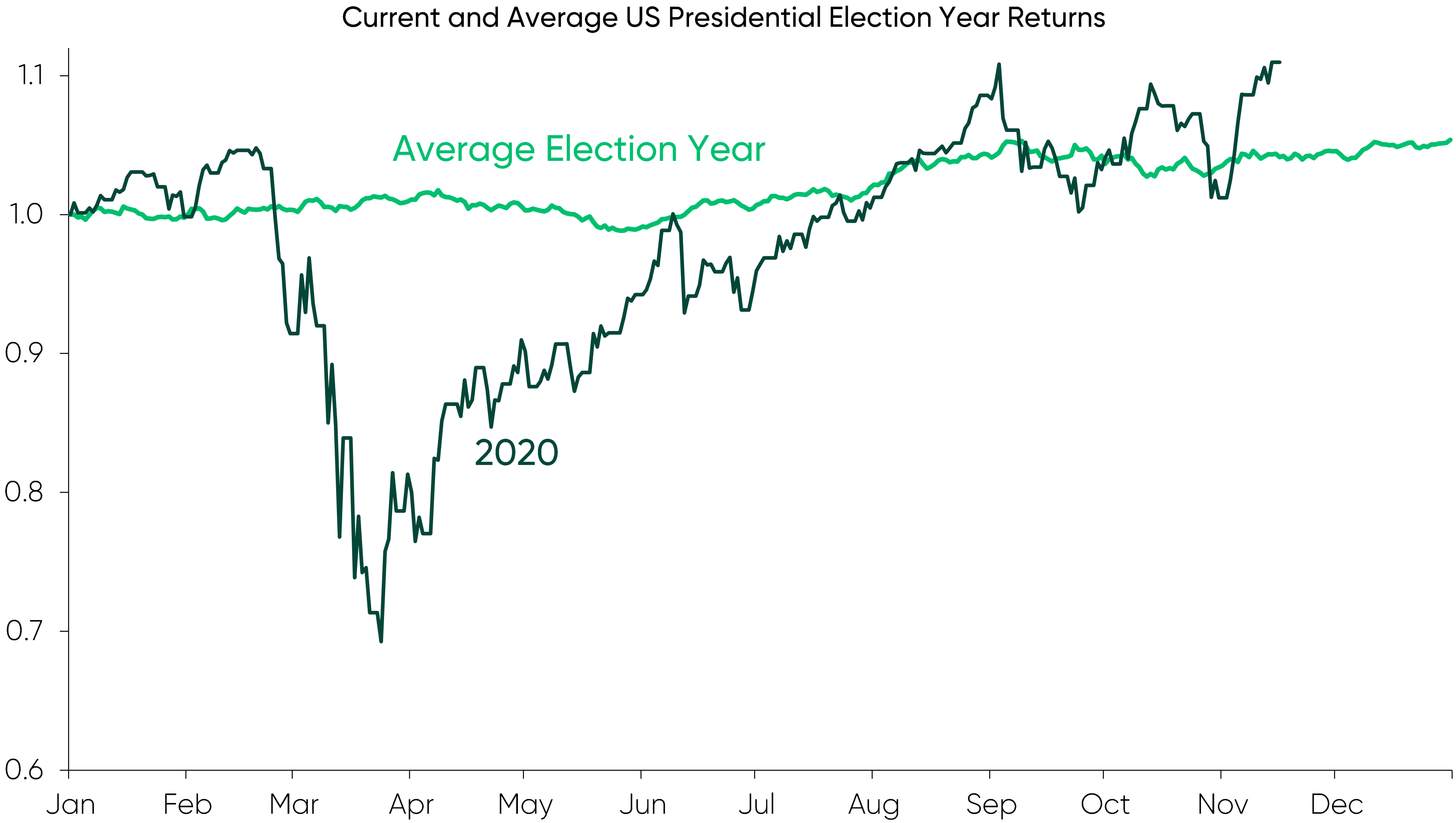
US Elections can have a big impact on global equities. Investors tend to celebrate Republican victories in election years, whereas equities struggle when a new Democrat is elected. But those trends usually reverse in inaugural years.



Source: Global Financial Data, as of 31/10/2020. MSCI World Total Return Index 1925 to 2017. Based on average calendar year returns. A proxy for MSCI World is used for data prior to 1970.

POLITICAL

Despite huge volatility, US equities are back in line with the average return trend for presidential election years. If this election year is back end loaded, as they often are, US equities should finish 2020 positive.



Source: Global Financial Data, as of 16/11/2020. Average S&P 500 price returns for 4th presidential year, indexed to 1 on 01/01/1925, 01/01/1925 – 31/12/2019; 2020 shows price return from 02/01/2020 – 16/11/2020, indexed to 1 on 02/01/2020.

POLITICAL

Many fear potential tax increases will weigh on markets, but history suggests tax changes often don't have the impact investors expect.

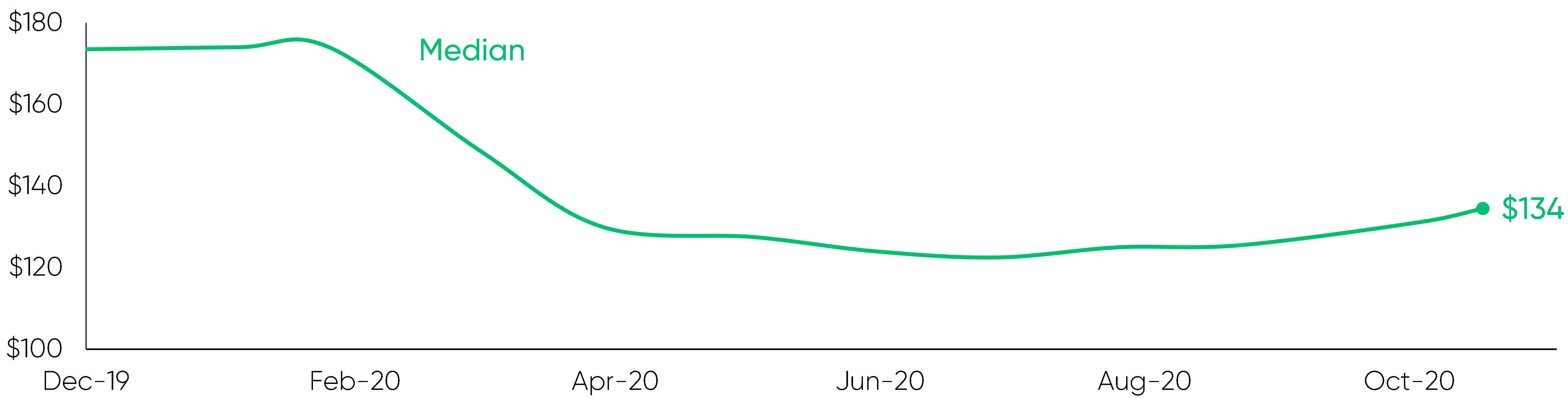
	Corporate Tax		Income Tax		Capital Gains Tax	
	Cut	Hike	Cut	Hike	Cut	Hike
No. of Instances	11	13	16	14	9	10
Average Prior 12 Month Return	10.7%	-0.2%	4.4%	1.7%	7.7%	8.5%
Average Forward 12 Month Return	3.2%	11.1%	0.0%	16.8%	6.7%	10.7%
Percent Positive (%)	73%	69%	56%	86%	78%	90%

Source: Global Financial Data, Tax Policy Center, as of 28/08/2020. S&P 500 Price Index 12 month forward/prior returns, daily, 29/05/1928 – 31/12/2018 (corporate tax cuts); 26/02/1926 – 10/08/1994 (corporate tax hikes); 17/12/1929 – 31/12/2018 (income tax cuts); 01/01/1930 – 02/01/2014 (income tax hikes); 01/01/1954 – 31/12/2010 (capital gains tax cuts); 01/01/1968 – 31/12/2013 (capital gains tax hikes).

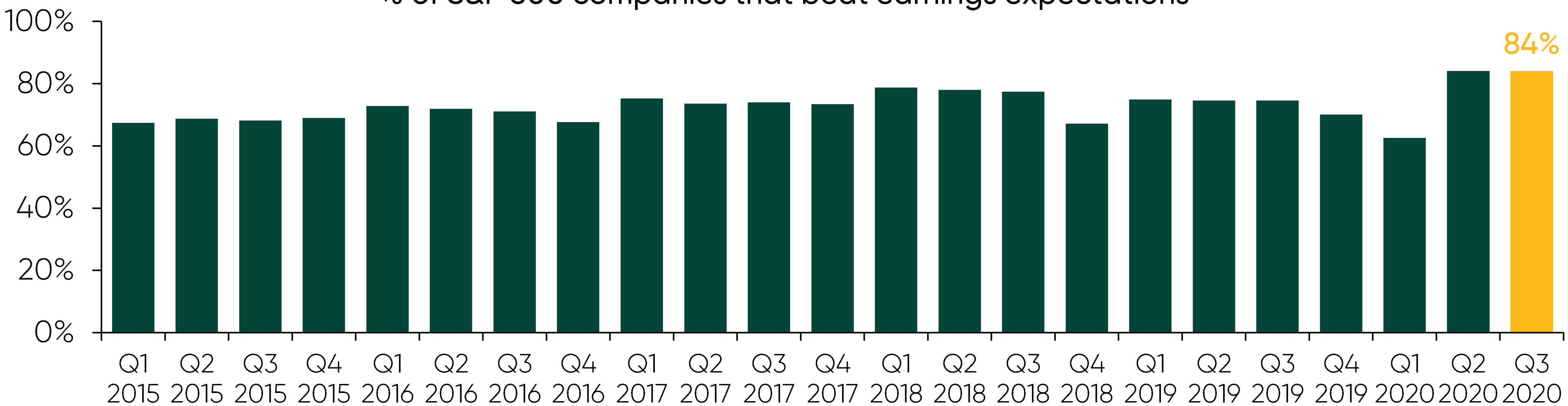
SENTIMENT

While earnings-per-share forecasts of the S&P 500 are dour, a record amount of firms beating earnings expectations suggest sentiment may be overly negative.

S&P 500 EPS 2020 Forecast – Revised/Affirmed



% of S&P 500 companies that beat earnings expectations



Top chart source: Fisher Investments Research, Credit Suisse, Goldman Sachs, JP Morgan, Citigroup, Bank of America, Barclays, Deutsche Bank, UBS, Morgan Stanley and Wells Fargo. Median S&P 500 earnings per share 2020 forecasts from 31/01/2020 to 13/11/2020. Bottom chart source: FactSet, as of 13/11/2020. 92% of companies reporting Q3 earnings as of 13/11/2020.

COUNTRY DRIVER ANALYSIS

NEUTRAL EUROPEAN MONETARY UNION

European economic and high-frequency mobility data suggest an ongoing recovery despite a resurgence in Covid-19 cases. The economic recovery is likely contingent on avoiding additional wide-scale lockdowns similar to those implemented in March and April. Europe boasts underappreciated financial health, with healthy bank balance sheets and many high-quality large-cap firms. However the region is skewed to more value-oriented sectors, areas that we think likely underperform high-margin and high-growth stocks.

ECONOMIC DRIVERS

+ **Quality Mega Cap Balance Sheets:** Large-cap EMU companies entered the pandemic with top quality balance sheets, large cash balances, solid net debt/EBITDA ratios and exceptionally low interest costs, advantageous traits during this year's economic shutdowns.
+ **Bank Balance Sheets Dramatically Improved:** After nearly a decade of scepticism over the health of EMU bank balance sheets, nearly every government relief scheme is using banks – thanks to their improved balance sheets - as the conduit of getting funds into businesses deprived of cash flow.
+ **China Connection:** EMU-China trade is a primary source of incremental growth and EMU relative returns. As we recover from the Covid-19 lockdowns, China can help Europe's supply chain quickly accelerate.

± **High Market Beta & Economic Sensitivity:** The EMU – more sensitive to changes in global economic growth than most other developed regions – underperforms most often in down big markets, but also typically bounces back more on the upside.

– **Negative Interest Rates and Monster QE:** Negative rates and massive quantitative easing will remain headwinds to bank profitability.

POLITICAL DRIVERS

+ **New Joint Debt Issuance:** In July 2020 the EU announced a €750B recovery fund dispersed over the next 3 years. The new funds will make up a significant part of the EU budget and will be funded largely with new jointly issued EU bonds. This is a big breakthrough after decades of opposition to risk sharing. While this relief package is meant to be one-off, it likely establishes a precedent and increases the chances of more risk sharing in the future – a step towards fiscal and capital markets integration.
+ **Easing Capital and Regulatory Burdens on Banks:** Regulators lifted counter-cyclical capital buffers, removed newly implemented accounting rule IFRS 9 on loan loss provisions, provided guidance to not book COVID 19 related loans as past-due at least through the end of the year—freeing up several Trillion € in loan capacity.
+ **New LTRO at Below Policy Rates:** the latest ECB LTRO deployed €1.3T, with €750B used to roll-over old LTRO money and €550B in new liquidity. LTRO is an effective arbitrage for banks to borrow at below policy rates from the ECB and provide loans to the private sector with terms up to 4 years.

± **Covid-19 Restrictions:** With each EU country is taking its own approach to Covid-19 restrictions, there's increased potential for economic disparity. Certain cities and towns have implemented strict restrictions, but on a nationwide level it seems likely that Covid prevention measures continue to be more targeted than they were in the spring.

± **Renewed Brexit Negotiations:** Negotiations on specifics of the exit are restarting, after a pause to address Covid-19. An agreement this year would ease uncertainty but recent history suggests an extended negotiating period is the more likely outcome.

\- **Revived Immigration Concerns:** Turkey is no longer adhering to the deal with the EU to absorb the flow of migrants from the Middle East in exchange for cash. Refugee camps have begun to disperse and are flocking around many EU/Turkey borders. This could create a repeat of ugly political battles of 2015-2016.

\- **Dividend Holidays:** The ECB pressured banks to cut their dividends for the next two quarters, and there is risk of this lasting longer than expected.

SENTIMENT DRIVERS

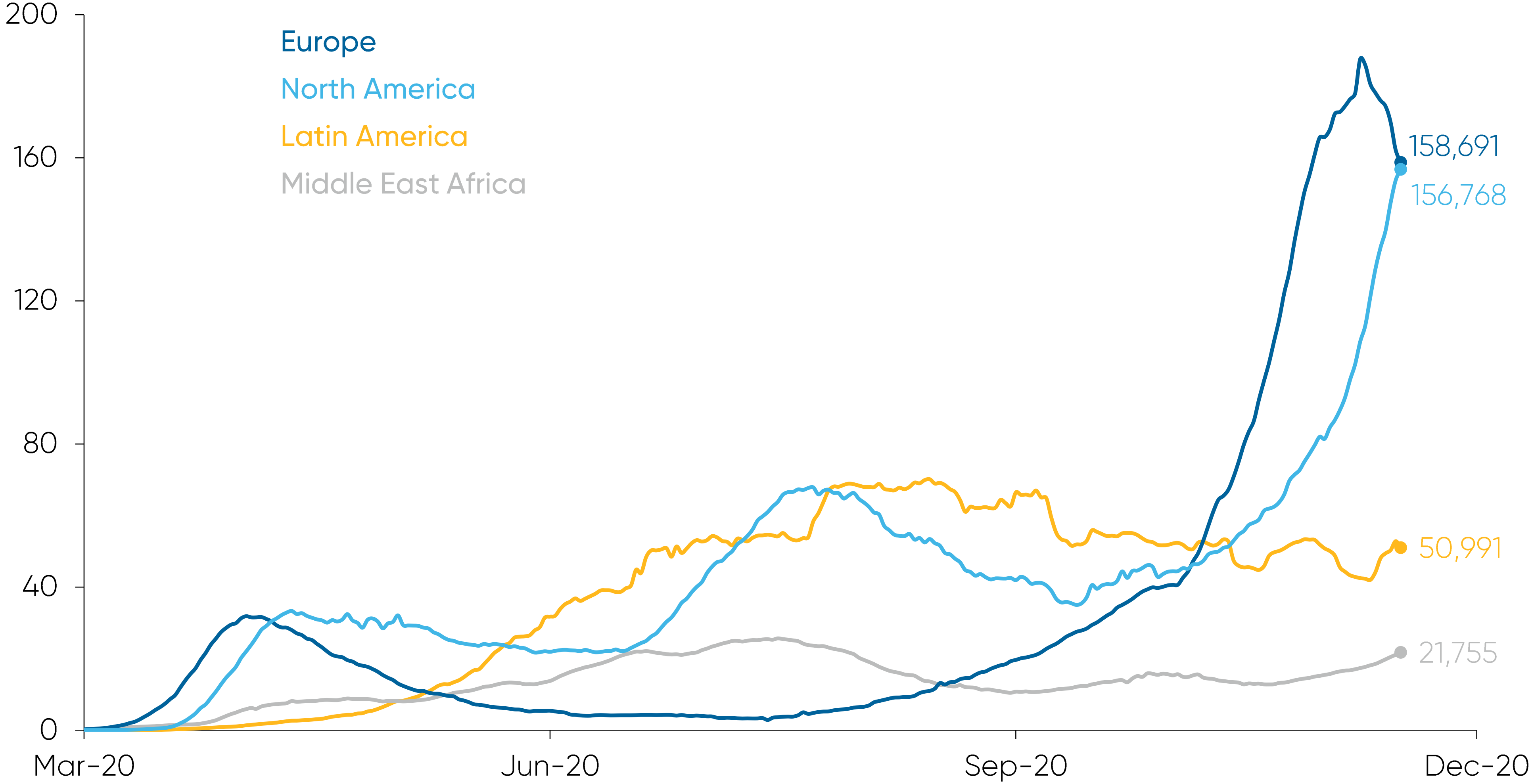
+ **EMU Economic Expectations are Worse vs Other Regions:** Of the developed world, EMU 2020 GDP expectations are among the lowest. A lifting of economic restrictions could lead to a surprise to the upside.

– **Limited Growth Universe & High Degree of Interest Rate Sensitivity:** Europe typically outperforms with Value and when global interest rate are on the rise. Neither look like probable outcomes, as interest rates likely stay lower for longer it will remain a headwind to regional relative returns.

As of November 2020. We have provided our general comments to you based on information we believe to be reliable. There can be no assurances that we will continue to hold this view; we may change our view at any time based on new information, analysis, or reconsideration.

ECONOMIC

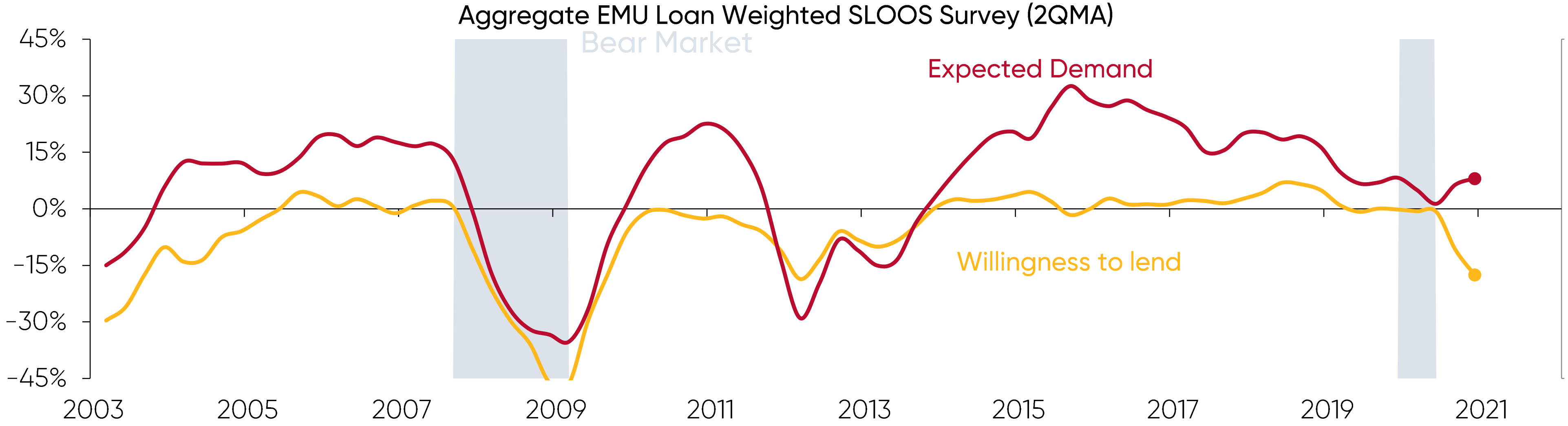
European economic and high-frequency mobility data suggest an ongoing recovery despite a resurgence in Covid-19 cases. The economic recovery is likely contingent on avoiding additional wide-scale lockdowns similar to those implemented in March and April.

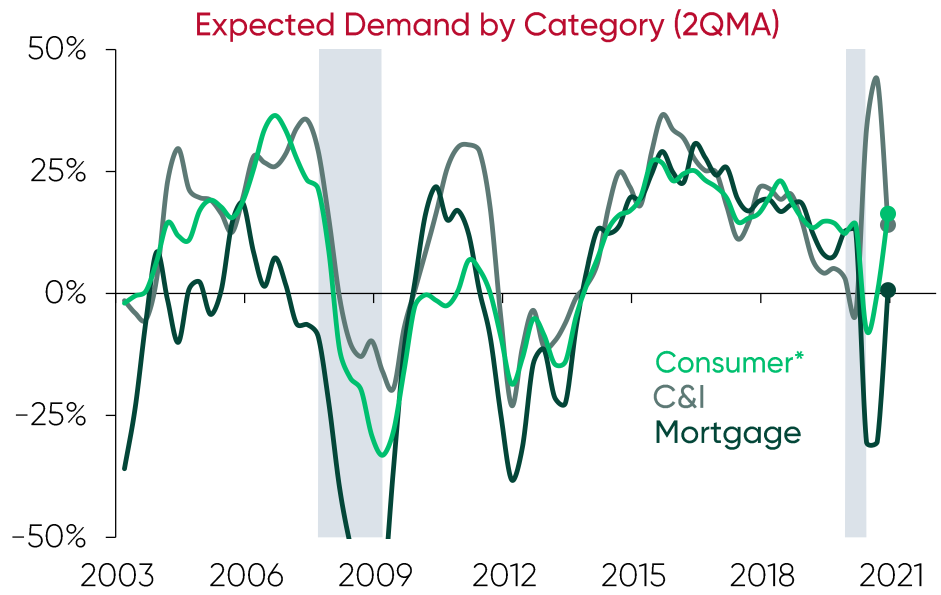


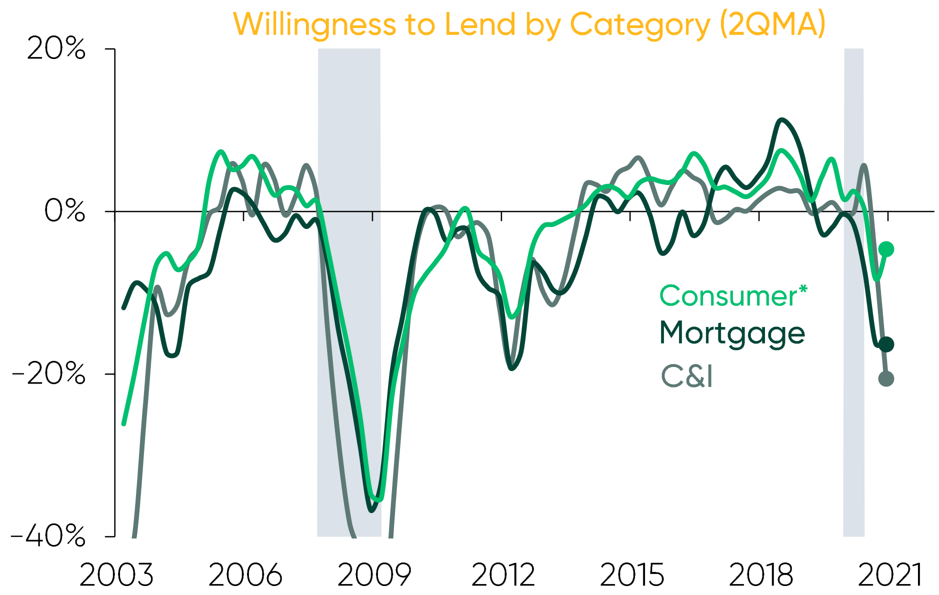
Source: Daily Data as of 16/11/2020, Our World in Data COVID project. 7DMA of new daily cases.

ECONOMIC

Access to credit continues to tighten across all categories. Current levels of access to credit are typical of a mild recession. What has been atypical is that expected demand for loans has stayed positive all year, driven strong demand for C&I loans and a big pickup in demand for mortgages.



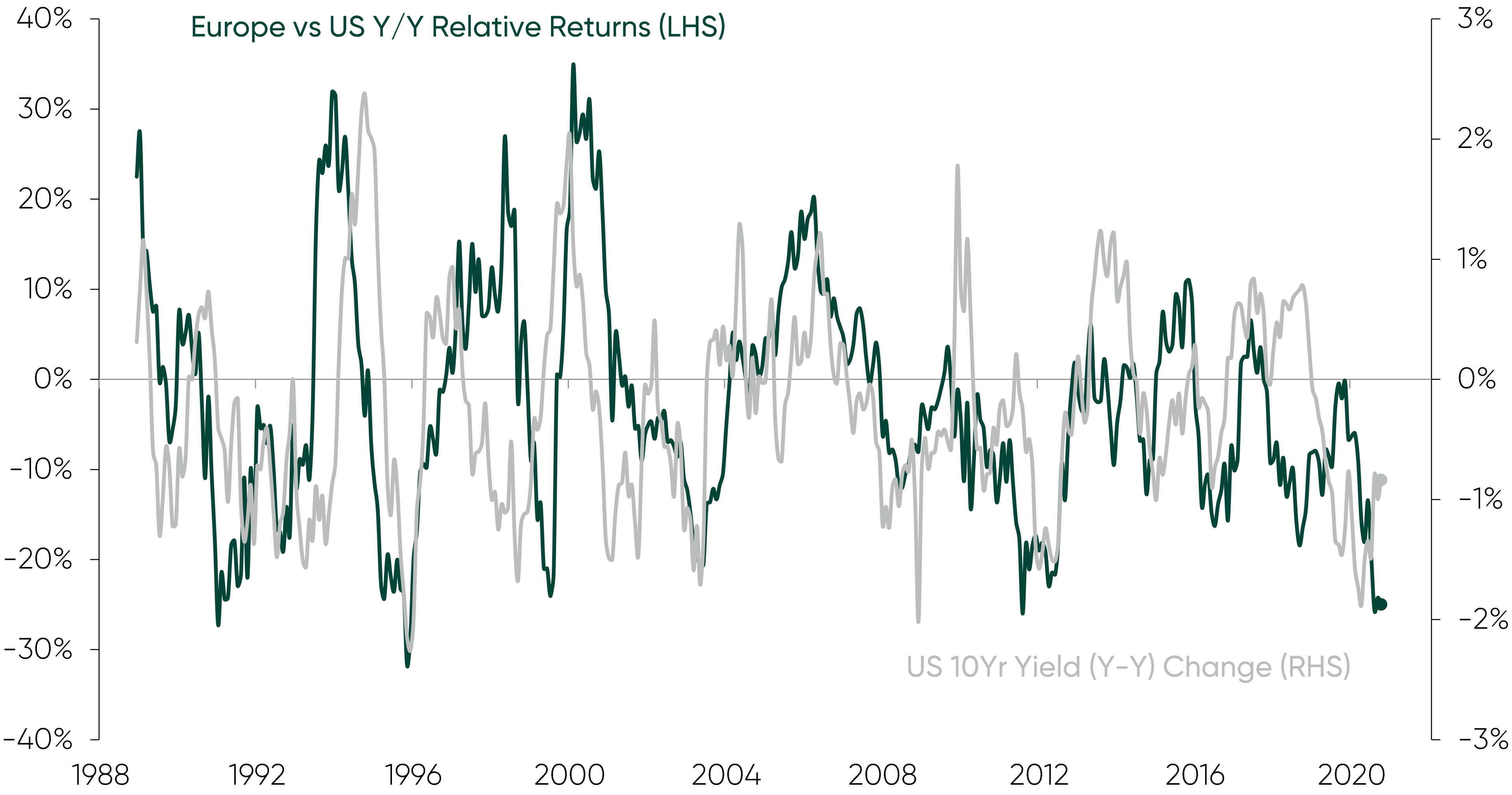




Source: European Central Bank, using quarterly data as of 30/09/2020. Last updated 13/11/2020.

ECONOMIC

Europe typically outperforms with value leadership, and when global interest rates are on the rise. Neither look like probable outcomes in the immediate future, as interest rates are likely to stay lower for longer. This will likely remain a headwind to regional relative returns.



Source: Factset as of 31/10/2020. Y/Y MSCI Europe –Y/Y MSCI US. US 10Yr Yield Y-Y change.

COUNTRY DRIVER ANALYSIS

NEUTRAL UNITED KINGDOM

The most tangible economic consequence of UK voters' decision to leave the European Union (EU) has been sustained uncertainty for businesses and investors; which has weighed on economic growth and sentiment. The UK's passage of a transition deal and formal exit from the EU on January 31 provided some clarity, but the prospects of the UK and EU agreeing on a permanent trade deal remain uncertain particularly as significant disagreements remain related to the future regulatory framework and state aid requirements. Notably, the UK's recent introduction of the "Internal Markets Bill" further adds to the uncertainty. Given the UK declined to ask for an extension of the transition period, the probability of a no deal exit has moderately increased and may result in uncertainty lasting longer, weighing on sentiment.

ECONOMIC DRIVERS

+ **Stable Domestic Growth:** GDP weakness seen in recent quarters likely continues in the near term tied to the economic disruptions associated with the containment of Covid-19 and continued uncertainty tied to the future of trade relations with the EU. However, longer-term, the gradual resumption of global economic activity, recovering employment and real incomes should support growth in household spending and consumption – two of the major drivers behind the UK's positive GDP growth in recent years.

+ **Monetary Policy:** The Bank of England maintains a low policy rate and remains prepared to act as needed. Notably, the BoE has introduced a number of easing and stimulus measures in response to Covid-19 which should help cushion the economic impact.

± **Commodity Exposure:** UK equity markets are heavily exposed to Energy and Materials companies, whose prospects improved as supply and demand growth roughly balanced. While fears over the economic impact of Covid-19 and the start of an oil price war weighed on commodity prices recently, the gradual resumption of global economic activity should benefit the category.

\- **Trade Uncertainty:** The UK's need to renegotiate trade contracts may weigh on UK businesses with customers and supply chains in the EU. The UK effectively remains in the EU's customs union and single market through the transition period. However, uncertainty related to negotiating a permanent trade deal with the EU may weigh on trade activity. Should no trade agreement be implemented by December 2020, trade rules would shift to the WTO's platform. A weaker pound should also provide relief to the UK's trade balance by making export prices more competitive. Given the UK formally rejected an extension of the current transition period, the probability of a no-deal Brexit scenario increased modestly. While the UK has made some progress in negotiating free trade agreements with other countries, notably Japan, its largest trading partner, the EU remains the biggest source of uncertainty.

\- **Reduced Investment:** Foreign investment and hiring plans likely continued to be delayed until the UK and EU finish negotiating a new trade deal. The greatest impact is likely to be in capital intensive industries with long investment time horizons.

POLITICAL DRIVERS

+ **Attractive Corporate Tax Policy:** The United Kingdom's corporate tax rate stands at 19%—among the OECD's lowest – with plans to lower the rate further.

± **Conservative Party Majority:** While the significant Conservative (Tory) majority following the 12 Dec election reduced some uncertainty and led to the formal exit from the EU on 31 Jan, it may increase policy uncertainty on domestic issues. Further, uncertainty tied to the UK's ability to negotiate and implement a permanent trade deal with the EU remains. Notably, the large majority modestly increases the risk that no permanent agreement will be implemented by the December 2020 deadline, particularly as COVID-19 delayed the negotiation process.

± **Brexit Negotiations Likely Limit Domestic Policy Shifts:** The Government remains nearly solely focused on negotiating a permanent trade deal with the EU, limiting prospects for major legislation that could increase domestic uncertainty.

SENTIMENT DRIVERS

+ **Valuations:** The UK currently trades at its widest discount to World equities in the last 20 years, indicating weak sentiment tied to Brexit related uncertainty and fears over Covid-19's potential economic impact.

± **No-Deal Brexit Fears Likely Overdone:** The fallout from the EU referendum continues to weigh on sentiment, but investors appear to have priced in some of the worst 'no-deal' Brexit fears and markets should benefit from increasing clarity on the UK's future relationship with the EU moving forward.

– **Investor Preference for Growth:** Given the UK stock market is heavily weighted towards Value oriented companies, a Growth led bull market likely weighs on UK relative performance.

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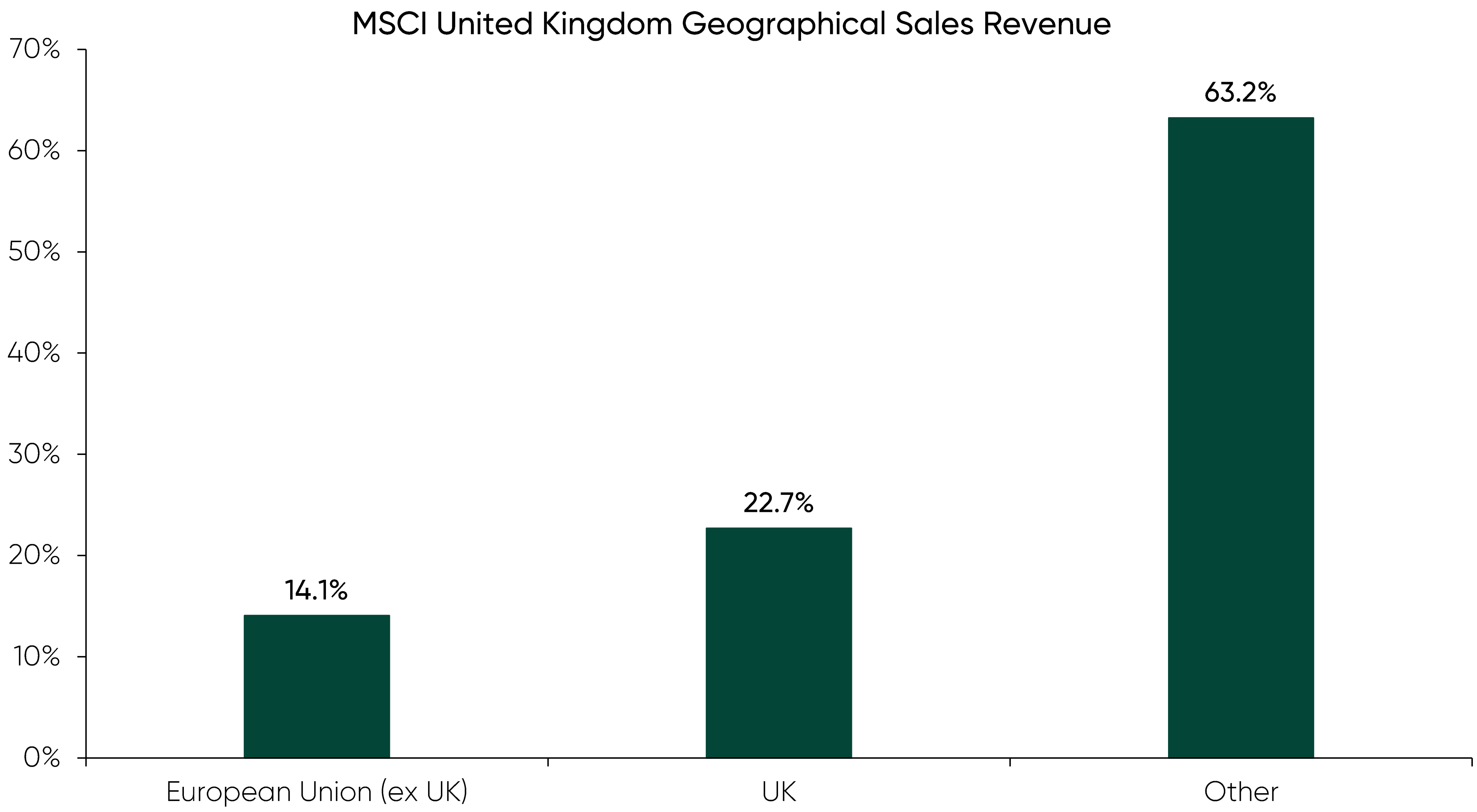
ECONOMIC

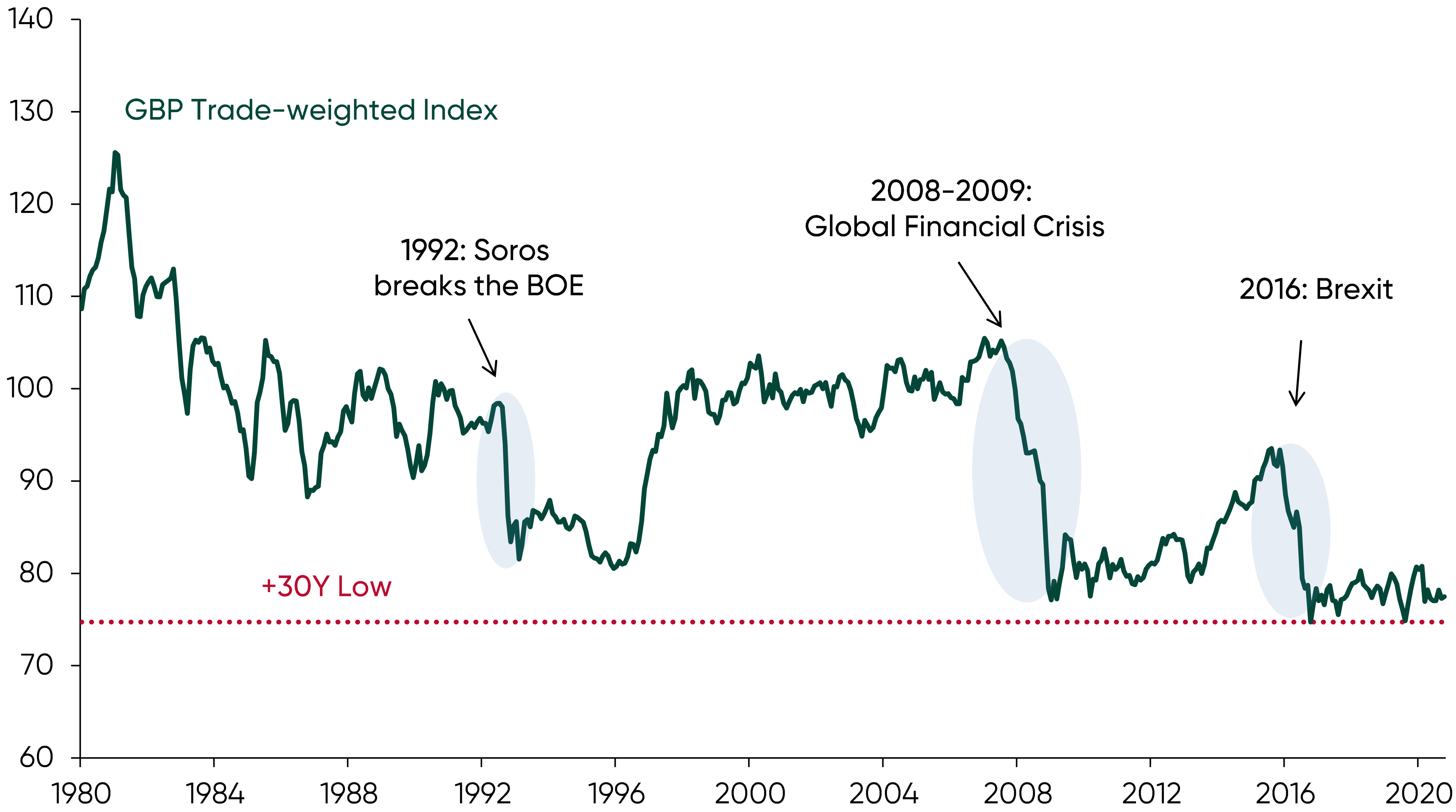
The domicile of a company does not paint a complete picture of exposure. While uncertainty around trade will likely weigh on sentiment in the short term, only 14% of MSCI UK sales revenue is derived from the European Union.



Source, FactSet as of October 2020. Shows the geographic sales revenue of the MSCI United Kingdom to the regions shown.

ECONOMIC

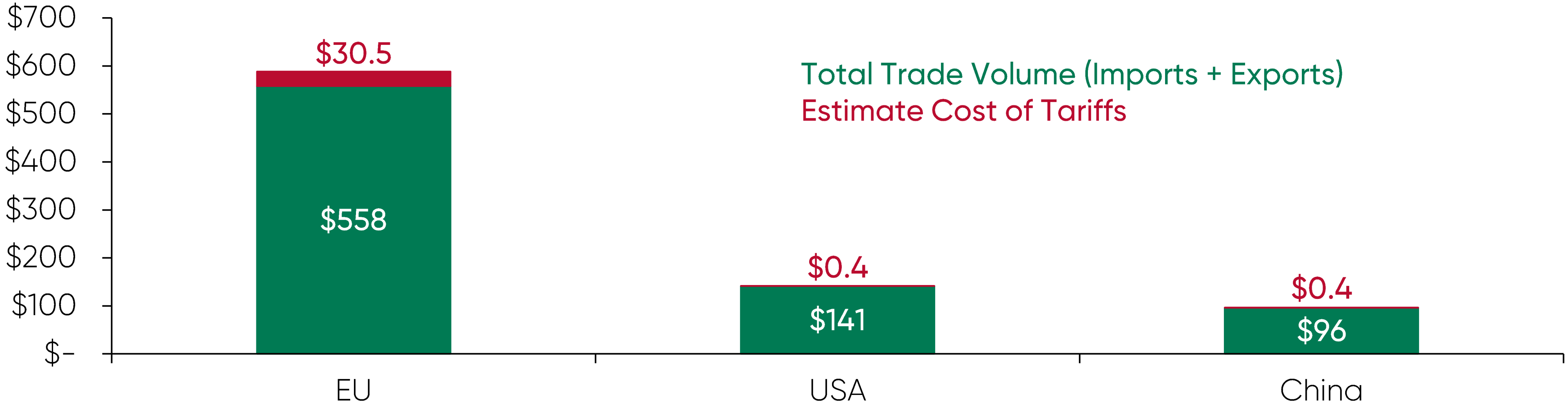
The Pound Sterling continues to float close to its 30-year low against the US dollar. As sentiment may have overshot to the downside reality has a lower bar to clear, and markets should benefit from increasing clarity on the UK's future relationship with EU – even though a trade deal still needs to be negotiated.



Source: FactSet as of 31/10/2020.

POLITICAL

The European Union, US and China are the largest 3 trading partners of the UK, representing 68% of total trade. The largest tariff impact in the event of a no deal Brexit will be on trade with the EU, which would move from no tariffs currently to WTO trade rules. The estimated cost increase of tariffs on goods in a no deal Brexit among the UK's top 3 trading partners would be approximately $31B, representing 4% of trade volume.

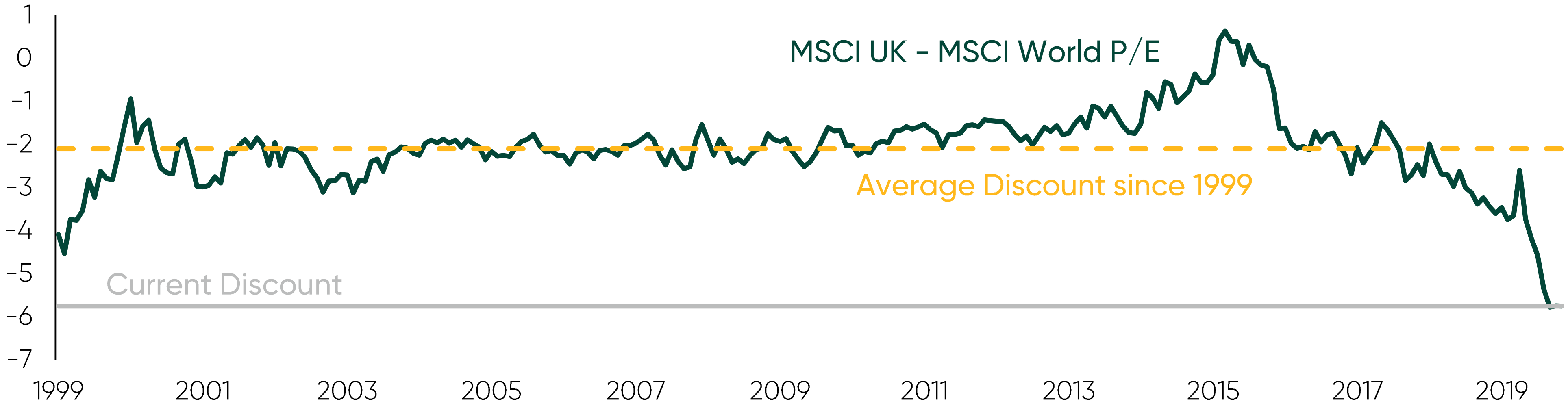


Trading Partner	Current Avg. Tariff	No-deal Est. Avg. Tariff	Trade Flow	Value of Trade ($B)	Cost of New Tariff ($B)
EU	0.0%	5.1%	Export	215	11.0
EU	0.0%	5.7%	Import	343	19.6
USA	3.3%	3.3%	Export	74	0.0
USA	5.1%	5.7%	Import	67	0.4
China	7.6%	7.6%	Export	30	0.0
China	5.1%	5.7%	Import	66	0.4
			Total	795	31.3

Source: Fisher Investments Research, World Trade Organization (WTO) and the UK Department of International Trade (DIT). No-deal estimated tariffs on UK imports are based on the UK global tariff (UKGT) average which will replace the EU's common external tariff on 01/01/2021, while all other quoted tariffs are based on a simple average of imposed duties across different product groups from respective WTO country profiles. The figures shown reflect expected tariffs on goods only, and do not include additional potential costs incurred due to non-tariff measures, border controls or disruption of existing UK-EU production networks.

SENTIMENT

MSCI UK forward price to earnings typically trade at a discount to the MSCI World, though the spread is currently at a 20-year low, suggesting some negative sentiment surrounding a no-deal Brexit may already be priced in. Similarly, the pound has yet to recover to pre-referendum levels.



Source: FactSet, as of 31/10/2020. Top chart shows the difference between the MSCI UK and MSCI World next twelve months price-to-earnings ratio. Bottom chart shows the pound sterling effective exchange rate with notable Brexit events highlighted from 01/01/2016 – 31/10/2020.

COUNTRY DRIVER ANALYSIS

UNDERWEIGHT JAPAN

Japanese equities likely underperform as the economy remains held back by an aging and shrinking population, a labour shortage, stagnant wages, and domination by less competitive conglomerates. Meaningful reform likely remains out of reach even with a shift in leadership, as new Prime Minister Yoshihide Suga has largely committed to maintaining status quo, and faces limited political capital with a shortened interim term.

ECONOMIC DRIVERS

± **Overseas Demand:** Japanese exports and industrial production are rebounding following a slowdown in global demand from measures to contain Covid-19, but have yet to fully recover to pre-Covid-19 levels Japanese firms relying on foreign demand, especially in factory automation or high-tech end markets, should benefit from a bounce back in economic growth over the next 6-12 months.

± **Corporate Governance:** The Suga administration likely continues Abe's efforts to improve corporate governance and raise ROEs. Those efforts have included the creation of equity indices comprised of strong corporate governance firms—aimed to attract government and private capital. While ROE's have modestly improved, Japan still has the worst corporate governance of any developed country.

± **Currency Effects:** A strengthening yen may hurt Japanese exporters. However, Japan is reliant on imported natural resources such as oil and natural gas, and a stronger yen makes these imports less expensive. Additionally, a stronger yen is a tailwind to investor returns denominated in other currencies.

± **Bank Lending:** Quantitative easing continues depressing long-term interest rates and bank profit margins, while negative interest rates act as a tax on banks. The Bank of Japan has acknowledged its policies hurt banks, and revised policy so that a smaller amount of bank assets are subject to negative interest rates. Overall the Bank of Japan's policies remain contractionary—flattening the yield curve and decreasing banks' willingness to lend. These policies are unlikely to end any time soon as the Covid-19 pandemic led the BoJ to suggest interest rates won't increase until at least 2023.

– **Limited Growth Drivers:** Japan faces stagnant wages, a shrinking and aging population, and a low birth rate—all likely weighing on domestic demand. Former Prime Minister Shinzo Abe's attempts to reinvigorate Japan's economy largely ignored these structural issues and, similarly, new Prime Minister Yoshihide Suga is unlikely to meaningfully address these issues through the remainder of his term. Japan is allowing up to 345k foreign workers to immigrate– which won't move the needle in a labour force of over 63 million people.

POLITICAL DRIVERS

± **Political Stability:** Shinzo Abe, Japan's longest-serving prime minister, resigned prior to the end of his term concluding September 2021. This may introduce modest political uncertainty, though his replacement, Yoshihide Suga, is intent on maintaining Abe's policies. While this reduces the likelihood of political surprises, it also means concerns are likely to persist over fatigued "Abenomics" policies and a lack of structural reforms.

± **Fiscal and Monetary Policy:** Large fiscal stimulus should somewhat dampen the fallout of the COVID-19 outbreak, but previous fiscal measures from the Abe administration and monetary policy from the Bank of Japan have proven insufficient or counterproductive to overcome Japan's more important structural challenges.

SENTIMENT DRIVERS

\+ **Low Sentiment and Outflows:** Investor expectations have largely been reset after the disappointing pace and scope of "Abenomics". Equity flows suggest expectations have soured – foreigners have net sold 25 trillion yen of Japanese equities since June 2015.

\+ **Valuations:** Japanese stock market valuation discounts have widened to 20-year highs despite improving ROEs, economic improvements and shareholder friendly decision making starting to surface.

\- **Investor Preferences for Larger, Higher Quality Companies:** Japan has relatively few mega-cap companies and few high margin Technology or Biopharmaceutical companies — categories we expect to outperform.

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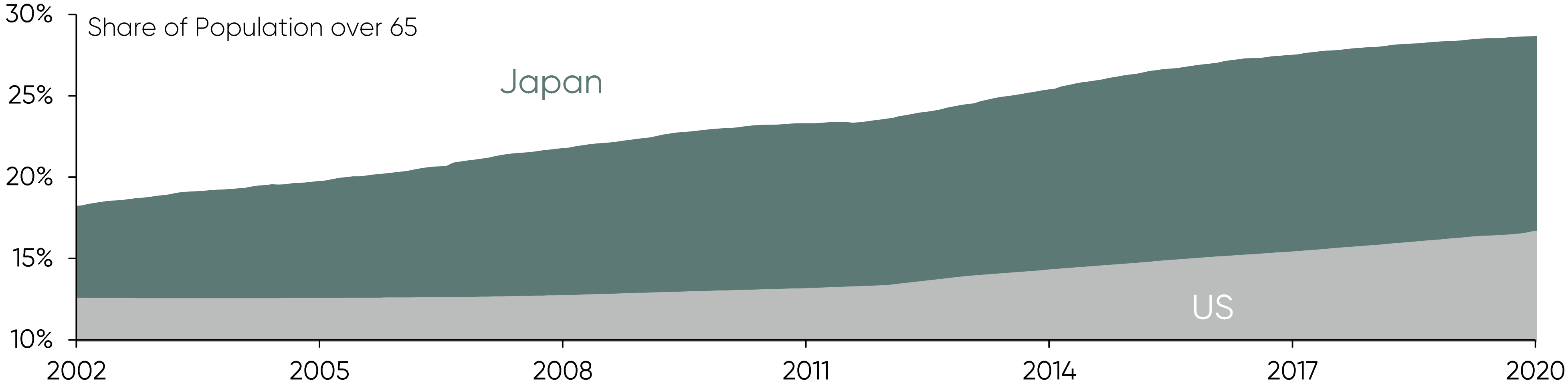
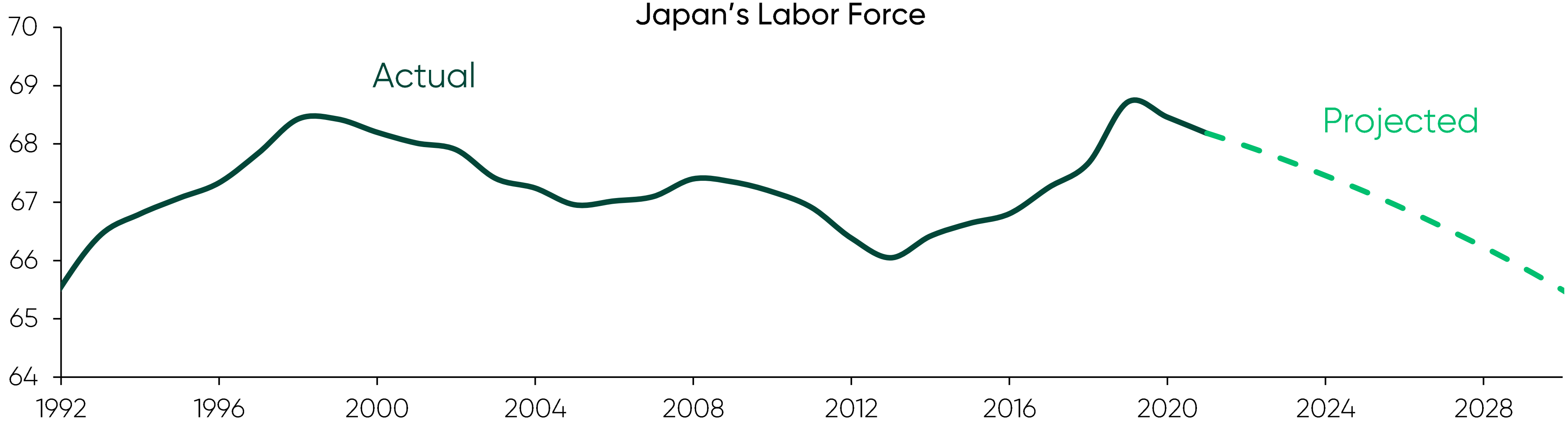
ECONOMIC

Japan faces stagnant wages, a shrinking and aging population, and a low birth rate—all likely weighing on domestic demand. Former Prime Minister Abe's attempts to reinvigorate Japan's economy largely ignore these structural issues. Japan will allow for up to 345k more foreign workers to immigrate over the next five years – which won't move the needle in a labour force of over 63 million people.

Japan Has Twice as Many Elderly as the US



Japan's Labor Force



Top chart source: Ministry of Internal Affairs and Communications. Data available through 31/12/2019. Last Updated 13/11/2020. Bottom chart source: International Labor Organization. Data available through 31/12/2019. Last Updated 13/11/2020.

SENTIMENT

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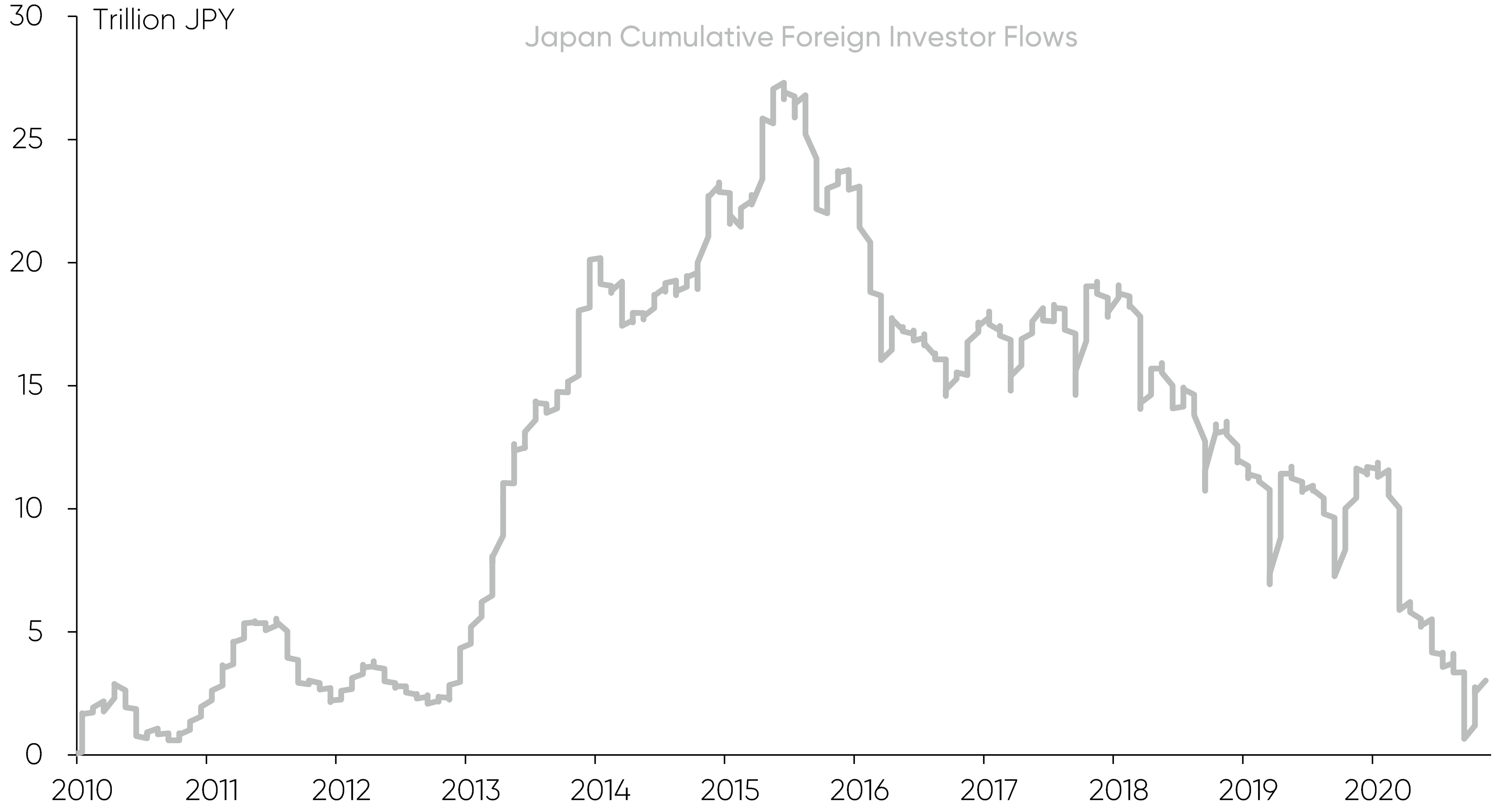

Source: Japan Ministry of Finance, Fisher Investments Research. Data available through 16/11/2020. Last Updated 18/11/2020.

COUNTRY DRIVER ANALYSIS

OVERWEIGHT EMERGING MARKETS

Emerging Markets (EM) countries are influenced more by natural resources and oil prices than Developed Markets. With weak demand expectations following the outbreak of Covid-19, and supply growth resurgent after the failure of OPEC+ coordination, oil prices likely remain subdued for some time. Still, we believe much of the headwinds are widely understood. Recent US dollar strength has renewed concerns of external and fiscal fragility, but most EM countries are in a fundamentally better position than prior periods of crisis. EM exposure remains attractive on a selective basis, offering opportunities for outperformance from individual countries and securities.

ECONOMIC DRIVERS

+ **Relative Economic Growth:** EM economic growth should continue to outpace the developed world, boosting per capita income and spending levels, benefiting companies exposed to EM economies. A recovering global economy and easing trade tensions should provide a boost to growth in the next 12-18 months.
+ **Consumption Growth:** Expected gains in per capita GDP have an outsized impact on aggregate consumption, and hundreds of millions of EM households are graduating into the middle class. Penetration rates for key durable goods, like automobiles, remain low.
+ **Infrastructure Growth:** Fast-growing populations, industrialisation and urbanisation have led to robust spending on infrastructure projects. Emerging Markets countries are expected to spend $35 trillion over the next 20 years on infrastructure.
+ **US Dollar Liquidity Abundant:** Faced with the large dollar liquidity needs generated by the Covid-19 crisis, the US Federal Reserve has strengthened swap lines with EM central banks. Favourable dollar funding means financial institutions do not need to resort to a fire-sale of dollar assets.

± **Well Capitalized Financials:** While China's regulators are limiting off-balance sheet lending to limit total credit growth, the country has recently offered support through tax cuts and a mandate for banks to increase lending to small and private firms. Emerging Market financial institutions remain well capitalised and positioned to expand credit growth in most markets, with little exposure to ongoing regulatory uncertainty in the developed world that continues in the wake of 2008's financial crisis.

± **Greater Concentration of Natural Resources:** Roughly 15% of the MSCI Emerging Markets index is in the Energy and Materials sectors. Metals supply growth has begun to decelerate following years of declining capital expenditures, while oil supply growth remains strong absent geopolitical disruptions. Prior to the COVID-19 pandemic and large scale government mandated shutdowns to much of global activity, commodity demand was healthy, with the economy continuing to expand, a trend we expect to resume relatively soon as governments begin to reduce lockdown measures. China's shift toward consumption and away from investment-led growth likely prevents a demand surge from driving most commodity prices significantly higher on its own.

± **Reliance on Developed Markets:** Many EM countries remain reliant on export demand from developed-world trading partners. This may be a headwind or tailwind depending on the relative economic strength of an EM country's major trading partners and their reliance on foreign direct investment.

POLITICAL DRIVERS

+ **Pro-Growth Reforms:** Many emerging market countries are enacting pro-growth oriented reform, such as lowering taxes, liberalising financial markets and opening state-run industries to private competition. These measures should help drive future economic growth through more efficient allocation of resources.

± **Free Trade:** Globalisation and the expansion of free-trade agreements continue to allow EM countries to better capitalize on comparative advantages and specialisation of labour. The UK's exit from the EU, recent tariffs enacted between major countries, and additional tariffs between China and US may create uncertainty for global trade in the near-term. However, Brexit is unlikely to adversely impact global trade long-term and Trump's anti-trade rhetoric is likely not to result in policy as bad as feared. Additionally, free trade continues to advance elsewhere with the Japan-EU Economic Partnership Agreement (JEEPA), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) including eleven nations, and African Continental Free Trade Area (AfCFTA) including forty four nations all signed since November 2017.

± **Legislative Uncertainty:** Many governments lack well-established institutions with a track record of consistent policymaking. As such, political risk is more volatile, subject to sudden shifts in the regulatory or legislative landscape for particular industries.

SENTIMENT DRIVERS

+ **Sentiment Remains Overly Pessimistic:** The MSCI Emerging Markets Index now trades at 18 times forward earnings, with the spread relative to the MSCI World below its three- and five-year average, suggesting investors' remain cautious.

± **Diverse Universe:** Investors think of EM as a homogenous category, but country and sector drivers create distinct opportunities.

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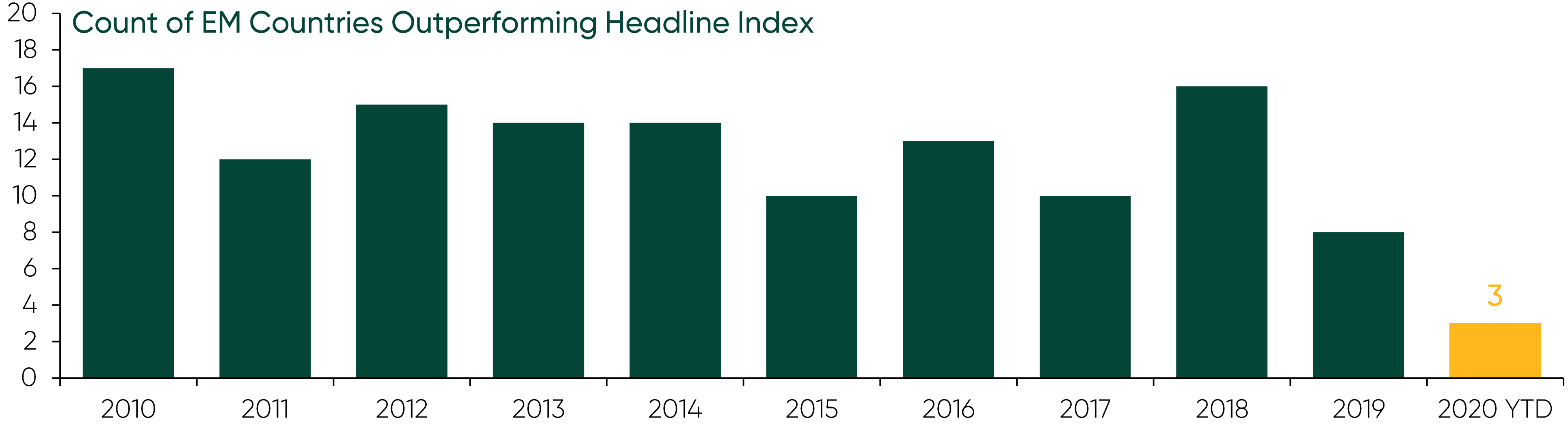
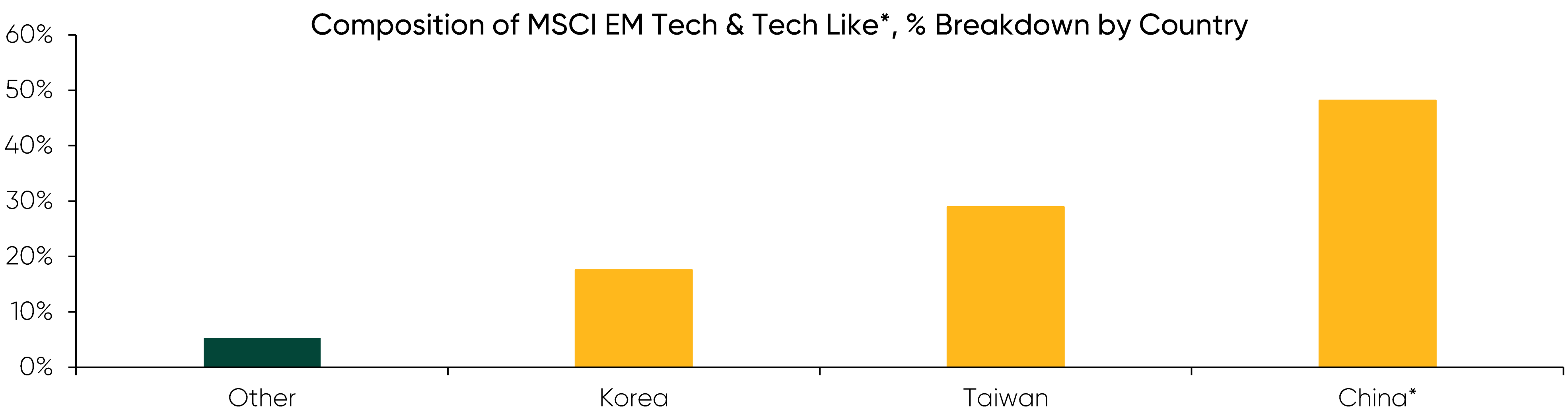
ECONOMIC

The number of MSCI EM countries outperforming the headline index is the lowest it has been in a decade. Notably, the YTD winners represent the largest weights in EM tech & tech-like names.





*Source: FactSet. Top chart shows the count of MSCI EM countries outperforming the headline index on a calendar year basis, from 2010 – 2020. 2020 based on YTD data to 31/10/2020. Bottom chart shows proportional country breakdown of the MSCI EM Information Technology Sector *and Baidu, Alibaba & Tencent.*

COUNTRY DRIVER ANALYSIS

UNDERWEIGHT CHINA

Economic activity is recovering quickly from its Covid-19 nadir, and the government's monetary and fiscal stimulus should help further support recovery in the second half of the year. Trends in place prior to the virus outbreak likely continue, in our view. We continue to favour the consumer and service portions of the market relative to the state-owned heavy industry and financial sectors. Credit growth is accelerating for the first time in years from the government's response to Covid-19, but mandated lending, particularly to small businesses, likely results in deteriorating balance sheet quality for Chinese banks. Reform progress also provides the potential for positive surprise, although the reality has been slow and uneven to date.

ECONOMIC DRIVERS

+ **Economy Recovering Relatively Quickly:** Covid-19 badly hit the economy in the first quarter, but activity is rebounding quickly. PMI indexes have been in expansionary territory for six consecutive months, and other key indicators, such as trade, industrial production and infrastructure investment, are rebounding materially. Developed market recovery should provide a boost to external demand and exports in the second half.
+ **Positive Online Consumption Trends:** Since 2012, the government has produced more than 20 measures to encourage cross-border e-commerce, easing customs procedures and formalising payment systems. As a result, online retail sales remain robust despite Covid-19 headwinds, with double digit growth. While a previous boom in mortgage lending drove household debt higher, it remains below international standards, which should provide further fuel to consumption trends as markets recover. Current positioning is focused on beneficiaries of these trends in the Consumer Discretionary and Communications Services.
+ **Fiscal and monetary Policy Supportive of Growth:** Fiscal and monetary policy remains accommodative and should support near-term recovery. The government has announced various measures worth approximately 5% of GDP, including Rmb1 trillion in additional deficit spending, an additional Rmb1.6 trillion in local government bond issuance, Rmb1 trillion in special treasury bond issuance (for only the third time in history), and tax and fee cuts. Monetary policy is loose, and the government said it would guide money supply "significantly" higher than 2019 using multiple tools, such as RRR and rate cuts and re-lending.
- **Excess Capacity Continues to Plague Industry:** While recent stimulus and government policy have stabilised activity, excess capacity continues to plague the industrial sector. Recently enacted environmental controls have weighed more heavily on smaller industrials firms and resulted in consolidation by state-owned firms. Portfolios remain significantly underweight to these areas.
- **Non-Performing Loans (NPLs) Rising:** Bad loans and defaults have risen steadily in recent years, with official NPL ratios likely understating the problem, increasing the risk of another surprise government bank takeover like Baoshang Bank. In response to Covid-19, credit growth is set to accelerate for the first time in years, officially ended the government's multi-year deleveraging campaign. The mandated lending campaign likely puts further pressure on banks' asset quality.

POLITICAL DRIVERS

± **Financial System Liberalization:** With geopolitical tensions rising, Beijing desires the development of robust domestic capital markets. The government recently relaxed the IPO process for its secondary exchanges, expanded its mutual fund advisory pilot, and announced a number of measures to ease trading and settlement. However, change is happening slowly, and increased foreign competition likely brings additional headwinds to local financial institutions, one reason portfolios remain underweight to the Financials sector.

– **US and China Trade Relations under Trump:** While an agreed "Phase One" deal reduced the risk of tariff escalations with the US, tensions have escalated in other areas. The spectrum of disputes varies widely, ranging from mutual accusations of poor Covid-19 responses to the legal status of Hong Kong and US concerns around technology and intellectual property. The US tightened restrictions on Huawei in August, requiring all companies utilizing US software or equipment to obtain export licenses. While much of recent news is likely political posturing, relations with the US are at their worst in decades, weighing on sentiment.

– **Hong Kong Security Law Threatens One Country, Two systems:** China unilaterally imposed a new security law in Hong Kong, allowing it to establish special security forces in the special administrative region and prosecute those involved in "subversive" activities. The heavy-handed law was widely condemned globally and further exacerbated already strained relations.

SENTIMENT DRIVERS

± **Fears of Economic Slowdown Overwrought:** Fears of a hard landing remained prior to the Covid-19 outbreak despite generally stable economic fundamentals. Other non-traditional measures, such as multinational corporations' sales into China, suggest the economy was holding up fine. We expect economic activity to return to previous levels relatively quickly. However, increasing political tensions mean sentiment likely faces continued headwinds.

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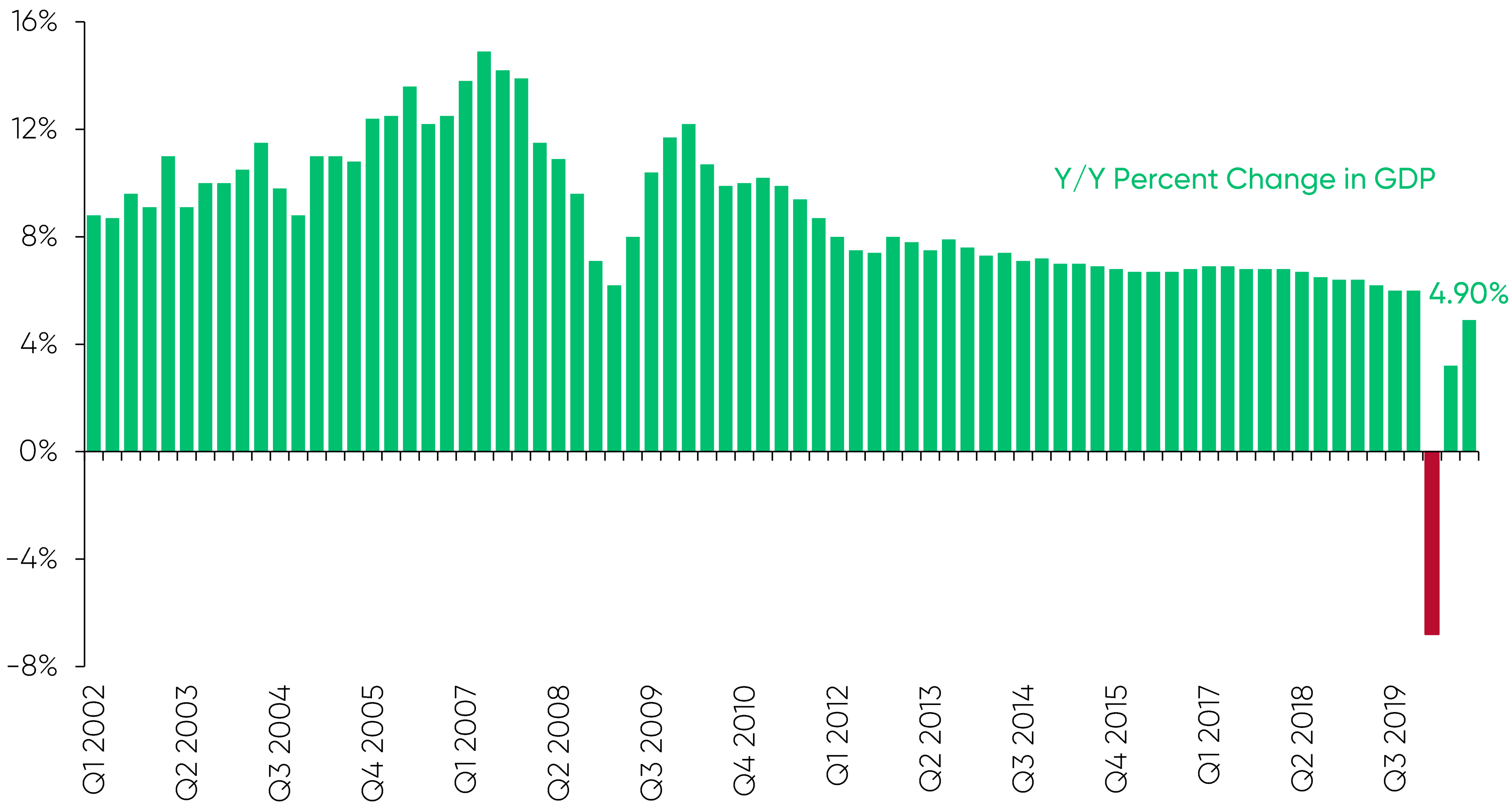
ECONOMIC

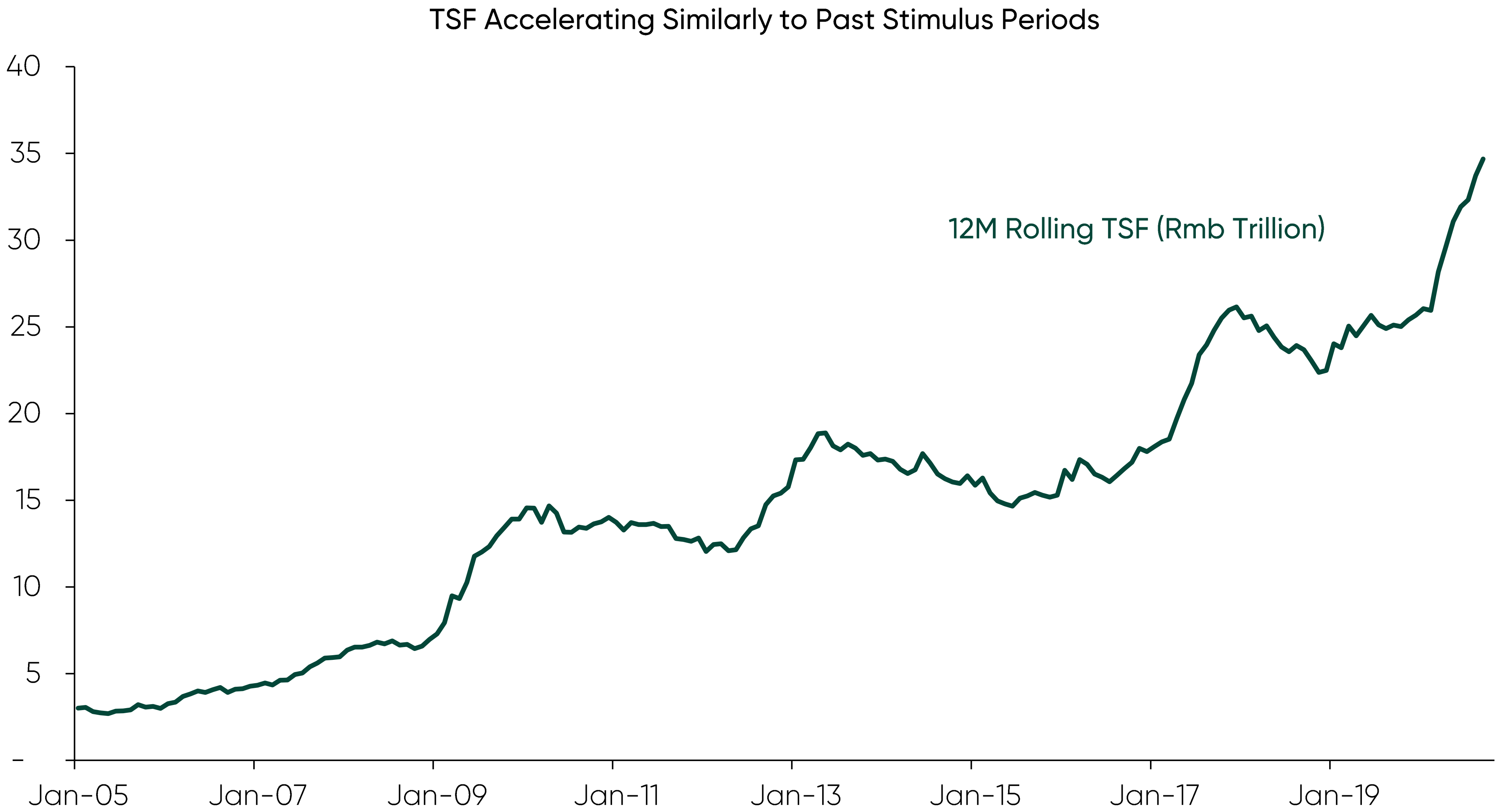
China's economy continued to recover in the most recent quarter. Chinese GDP grew +4.9% y/y in Q3, a material improvement from Q2 but still below pre-Covid levels.



Source: FactSet, Fisher Investments Research. Data available through 30/09/2020. Last updated 12/11/2020.

ECONOMIC

Total social financing (TSF) has continued to grow and beat consensus expectations. Stronger credit growth was driven by household mortgage loans on a recovery in home sales, continued expansion in off-balance sheet lending and corporate bond issuance.



Source: Factset. Data available through 30/09/2020. Last updated 13/11/2020.

POLITICAL

Tensions between China and the US have waxed and waned for years now. Initially, new announcements induced hope or fear, moving markets. But the impact has diminished over time.

2018

13 March:
US threatens tariffs on $50 Billion

19 June:
US threatens tariffs on $200 Billion

24 September:
Tariffs on $200 Billion implemented

3 December:
25% tariffs delayed

6 December:
Huawei CFO arrested in Canada at the request of the US

2019

25 February:
25% tariffs delayed again

6 May:
US threatens tariff hike on $200 Billion

28 June:
US-China agree to restart trade talks

1 August:
US threatens tariffs on $300 Billion

12 September:
Trump to Consider Interim Trade Deal

2020

20 May:
US Senate passes the Holding Foreign Companies Accountable Act, which could lead to the delisting of Chinese companies listed on US exchanges

29 June:
China passes new national security law for Hong Kong

9 July:
US places sanctions against Chinese officials who participate in the internment of Uighurs in China

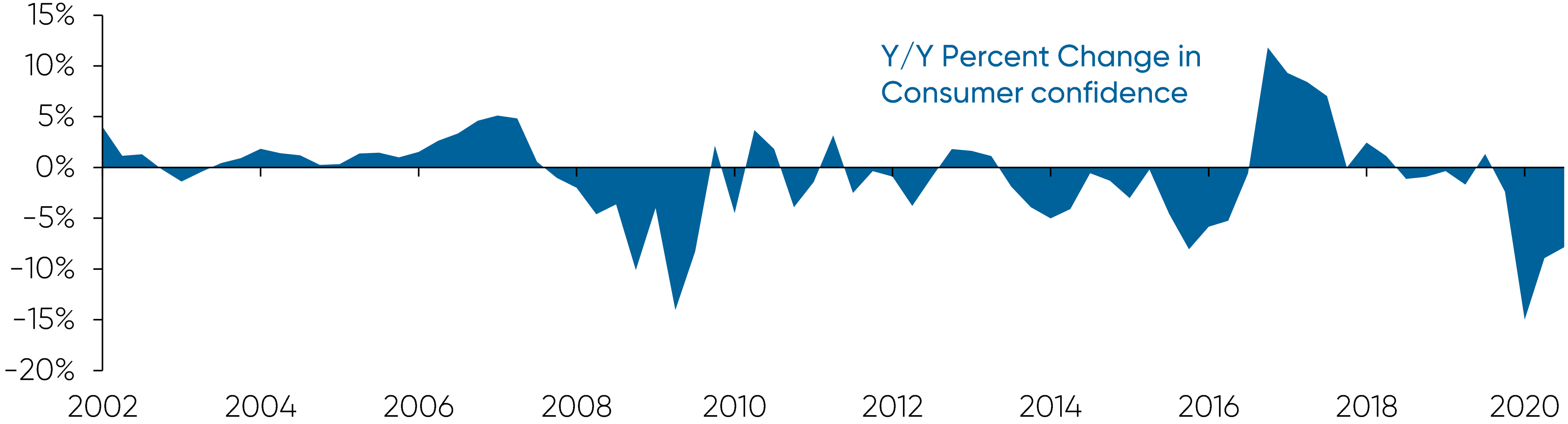
18 August:
The US State Department's letter to university endowments encouraging divestment of Chinese companies.

12 November:
President Trump issued an executive order preventing US investors from purchasing or holding shares of 31 companies with operations in the US and alleged ties to China's military.

Source: Fisher Investments Research as of November, 2020. The above is not an exhaustive list of events, a selection is shown for illustrative purposes.

SENTIMENT

Despite China's economy recovering, increasing political tensions affect consumers' confidence which faces continued headwinds. However, the Chinese economy continued its recovery in Q3 of 2020, ahead of expectations.



Top chart source: FactSet showing Citi Economic Surprise Index as of 31/10/2020 using monthly data. Bottom chart source: FactSet, Index for Future Income Confidence. Data available through 30/09/2020. Last updated 18/11/2020.

COUNTRY DRIVER ANALYSIS

UNDERWEIGHT INDIA

India's economic fundamentals have deteriorated and additional pro-market reform from Prime Minister Narendra Modi's administration is likely to prove more challenging moving forward. Moreover, there has been a worrisome claw back to some of the key pieces of reform implemented in his first term. Public squabbles with the Reserve Bank of India led to the appointment of government-friendly head Shaktikanta Das, who has shown signs of catering to government policymaking priorities.

ECONOMIC DRIVERS

+ **Rising Credit Penetration:** Efforts to boost "financial inclusion" led to over 1 billion people added to the digital grid through its biometric identification program. When combined with the Unified Payment Interface, a government standardised payment platform allowing money transfers by text messages, banking penetration should significantly increase moving forward. Digital payments are estimated to rise by 20% CAGR through 2023, according to KPMG.

± **Commodity Prices Remain Supportive of Positive Balance of Payments Trends**: With oil imports accounting for roughly 9% of GDP, trade deficit concerns eased as commodity prices softened in recent years.

– **Economic Growth Slowing Faster than Expected:** Even prior to an outbreak of coronavirus, India's growth slowed to a six-year low of below 5% y/y in Q4'2019. The government announced fiscal, monetary and liquidity measures of approximately 3% of GDP to counteract the impact of Covid-19 on the economy, however these stimulus measures are designed to keep the economy from slowing too fast, not accelerate growth.

– **Banking Fears Continue to Weigh on Sentiment**: Bad debts at a significant number of state-run banks and non-financial banks have depressed lending. While the government announced a $32 billion (~1.4% of GDP) recapitalisation program in October 2017, non-financial banks began picking up the lending slack, representing around 20% of new loans in the past three years. This development came under scrutiny after the default of non-banking financial firm IFLS in Q3 2018. While not large enough to drive a solvency crisis, loan growth slowed amid asset quality concerns, with Yes Bank notably requiring RBI intervention in March 2020.

POLITICAL DRIVERS

± **Coronavirus Response:** Global government policy intervention due to Covid-19 is likely to weigh on economic activity. India has the second most Covid-19 cases globally, and new cases did not reach a peak until September, taking longer than in most other places. Meanwhile, many migrant workers left cities, potentially posing headwinds to a fast economic recovery. However, stimulus measures could provide a boost to recovery.

- **Reform Expectations:** While Modi handily won re-election in 2019, most of the large items on his agenda (i.e., tax cuts, liberalization of bond market, comprehensive bankruptcy code) have been accomplished, suggesting positive surprise power is more limited, and claw backs are a risk. Additionally, Modi's policy focus has shifted towards Hindu nationalism, which could pull political capital away from further market-friendly reform.

- **Renewed Rifts with China & Pakistan:** Long-running tensions with China & Pakistan over borders escalated recently when Indian & Chinese troops skirmished in June 2020, resulting in dozens of casualties on both sides. The risk of full-scale war with either country is unlikely but tensions remain elevated amid continued clashes. India banned over 100 Chinese mobile applications through September 2020 in retaliation.

- **Monetary Policy Credibility:** The legacy of former RBI head Raghuram Rajan – who enshrined independence and inflation targeting at the central bank – is under jeopardy under new governor Shaktikanta Das. Das is a bureaucrat who worked on Modi's finance commission, and shown signs of catering to the government's wishes. He also removed three public banks from the central bank's Prompt Corrective Action framework and loosened capital requirements for NBFC's.

- **Haphazard Approach to Foreign Investment:** While the government has allowed additional foreign direct investment in some industries, officials continue to take a haphazard approach to foreign companies and fund managers. The country introduced tax incentives to encourage manufacturing investment in September 2019, however the government took steps to restrict Chinese investment and banned many Chinese mobile applications, perhaps with the goal of encouraging national champions to emerge such as Reliance Industries. These actions come on the heels of introducing a capital gains tax for the first time, its exchanges no longer providing data to foreign exchanges for creation of derivative products, and disbanding the foreign board – where foreign investors traded with each other to ensure they weren't surpassing the foreign investor maximum.

SENTIMENT DRIVERS

- **Valuations Quickly Recovered:** India's historical premium to EM bounced back in the EM recovery after dropping near 10-year lows in March as currency concerns have eased. However, less positive economic growth expectations and a weakening political appetite for structural market reform make a premium difficult to justify.

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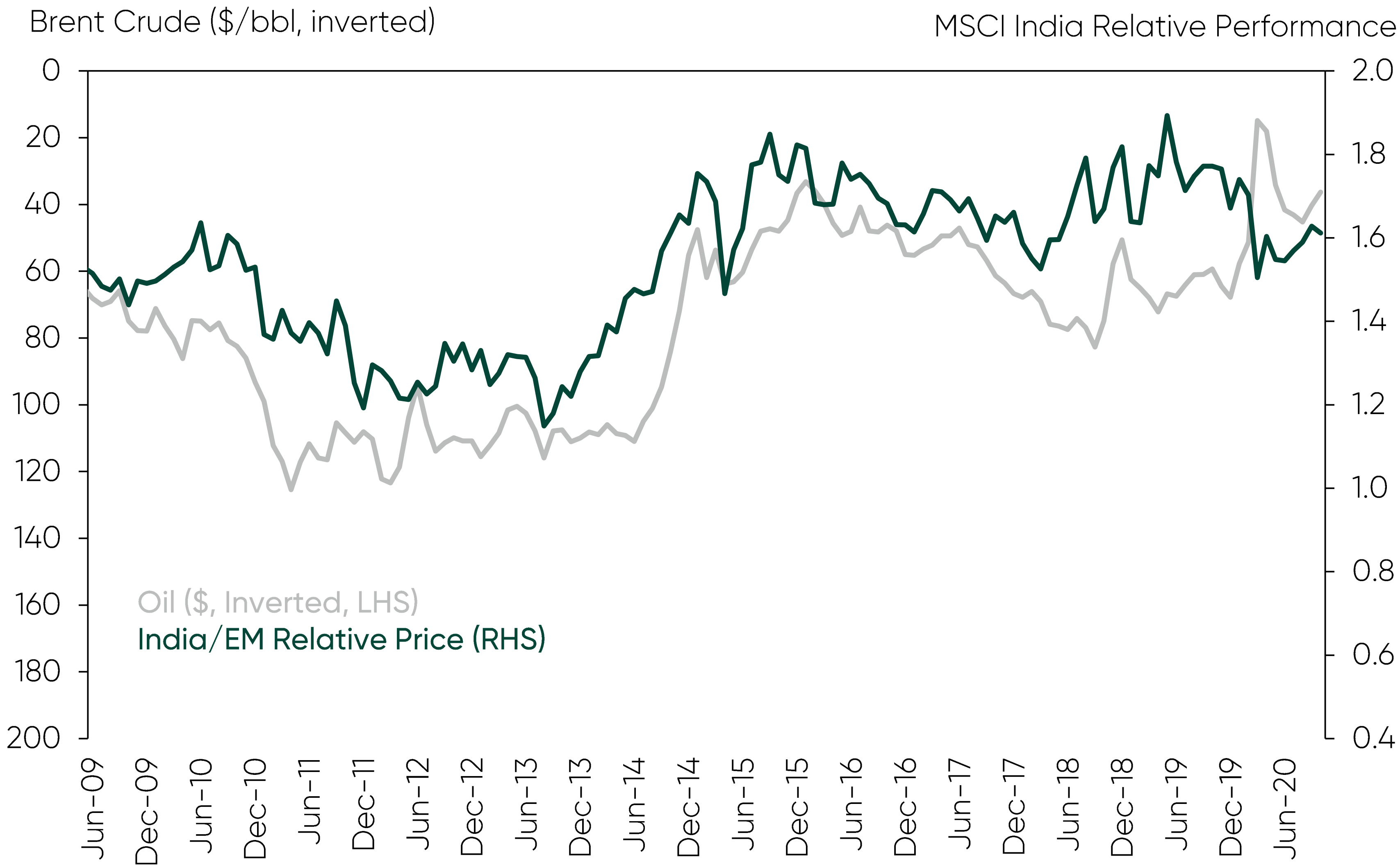
ECONOMIC

With oil imports accounting for roughly 9% of GDP, trade deficit concerns eased as commodity prices softened in recent years. Further, Covid-19 uncertainty weighing on oil prices may provide a temporary tailwind to India as a net importer of oil.

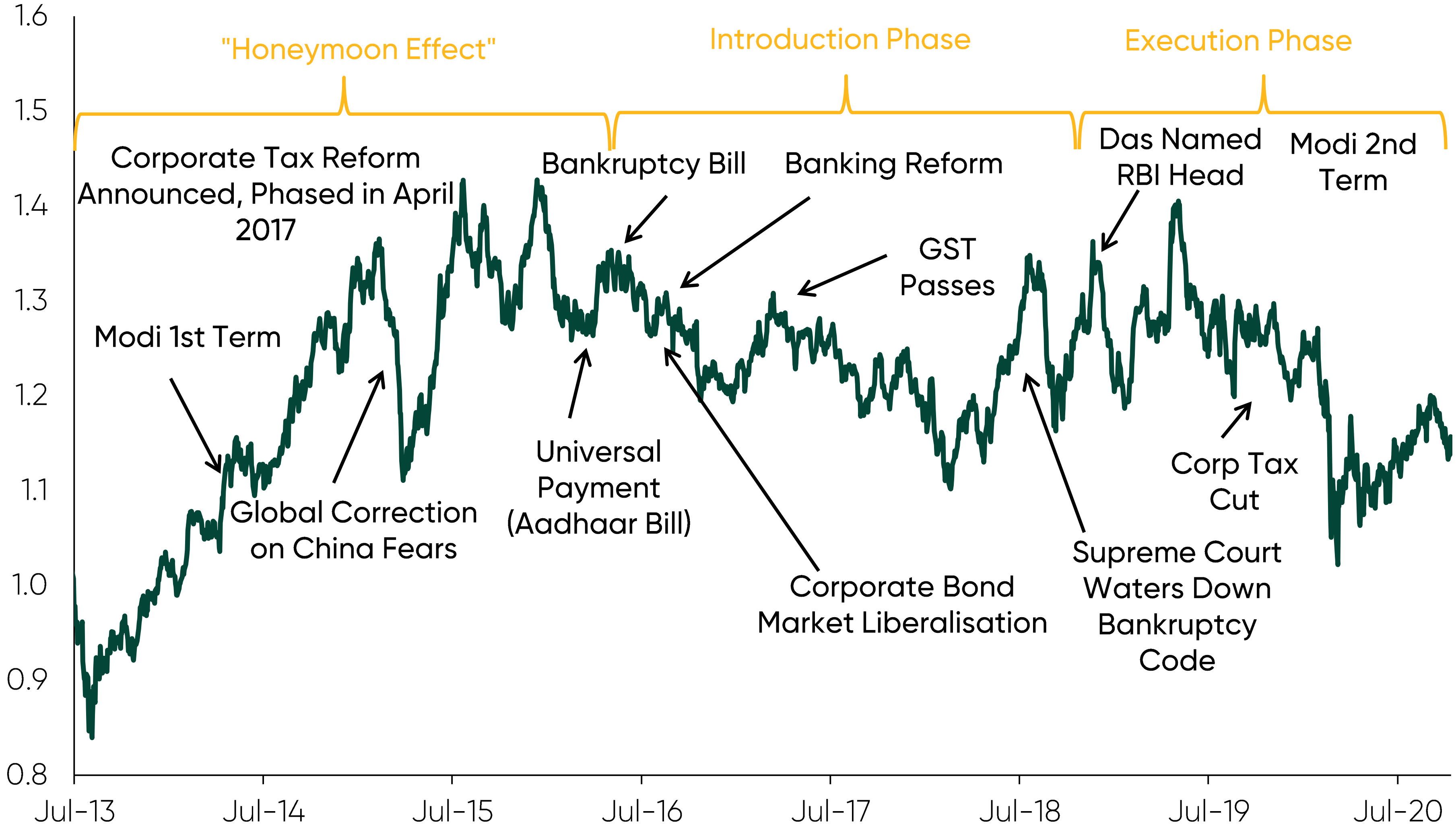


Source: FactSet, Fisher Investments Research. Data available through 31/10/2020. Last updated 11/11/2020.

POLITICAL

India's economic fundamentals have deteriorated and additional pro-market reform from Prime Minister Narendra Modi's administration is likely to prove more challenging moving forward.

MSCI India/MSCI Emerging Markets



Source: FactSet, Fisher Investments Research. Data available through 31/10/2020. Last updated 11/11/2020.

COUNTRY DRIVER ANALYSIS

OVERWEIGHT SOUTH KOREA

As the world economy recovers from the Covid-19 outbreak, renewed growth in developed-market demand should support export-oriented countries like South Korea. The country's market structure is favourably weighted towards higher margin sectors expected to outperform. Political stability following a string of scandals should also provide a boost to sentiment, though President Moon's policy agenda is geared more toward welfare spending than reform.

ECONOMIC DRIVERS

+ **Favourable Sector Composition:** South Korea's Technology sector is over 45% of the MSCI Korea and accounts for a quarter of the Information Technology sector in the MSCI Emerging Markets Index. Moreover, the sector consists of higher margin companies compared to other Emerging Market countries, a characteristic desirable at this stage of the cycle. The country's Health Care sector is also the second largest in emerging markets.
+ **Exports Recovering Quickly from Trade Fears and Covid-19:** South Korea's export growth continues to exceed expectations and recover quickly following the shock from the Covid-19 outbreak. We remain optimistic of a second half recovery in global demand as the virus is increasingly contained, which should provide a boost to trade. Promisingly, exports to China recently recovered to pre-Covid levels. Rising exports historically coincide with higher domestic equity prices.
+ **Second and Third Waves of Covid-19 Quickly Managed:** A second wave and third wave of Covid-19 raised fears of a return to widespread shutdowns, but the government quickly targeted the outbreaks with localized restrictions, limiting the negative economic impact.
- **Consumer Debt Levels:** Progressive President Moon announced a comprehensive household-debt stabilisation program, which is likely to include tightening of household lending and imposing new restrictions on housing transactions with an aim to limit household debt increases. Earlier, it announced it would limit loans on second homes and force lenders to include borrowers' existing debt for their credit analysis.

POLITICAL DRIVERS

+ **Large Fiscal Stimulus Should Support Economy:** South Korea's government announced a significant stimulus package worth nearly 6% of GDP to support areas of the economy most impacted by the Covid-19 outbreak.
- **Chaebol Still Receive Special Treatment:** Revenues of the family-controlled chaebol conglomerates account for nearly 60% of South Korea's GDP, suggesting their influence may be too powerful. This sentiment was seemingly validated by the surprising announcement that Samsung heir Lee Jae-yong's prison sentence was suspended and reduced, letting him walk free.
- **Geopolitical Risks Weigh on Sentiment:** Tensions with North Korea resurfaced after it blew up a joint liaison office in Kaesong just north of the demilitarised zone used for talks between the two Koreas, the latest sign that ties between the two long time adversaries are rapidly deteriorating. Moreover, Kim Jong-un's long absences from public view in recent months have spurred speculation about whether he was seriously ill and what might happen to its nuclear program if he became incapacitated.
- **Moon's Popularity Increases Risk of Welfare Spending:** April National Assembly elections strengthened President Moon Jae-in's position. His Democratic Party of Korea won 163 of 300 seats, up from 120. Combined with an affiliated bloc, progressive parties won 180 seats – a crucial threshold, as 60% of the vote is required before bills can be put for vote during a plenary session. Much of the first half of Moon's term has been focused on welfare spending over reform, and recent supplementary budgets show little sign of that trend abating.
- **Corporate and Income Tax Hikes:** To finance President Moon's welfare pledge, the government previously raised corporate taxes to 25% from 22% for large-capitalisation companies and higher rates for wealthy individuals (making more than $275,000 per year).

SENTIMENT DRIVERS

+ **Valuation Discount Widens Again:** Korean equities have faced a number of headwinds in the past few years: corporate restructuring in sectors employing nearly 15% of its workforce, scandals at several chaebol, a massive recall of the Samsung Note 7, elevated geopolitical uncertainties with China, the US and North Korea, and the impeachment of its president.

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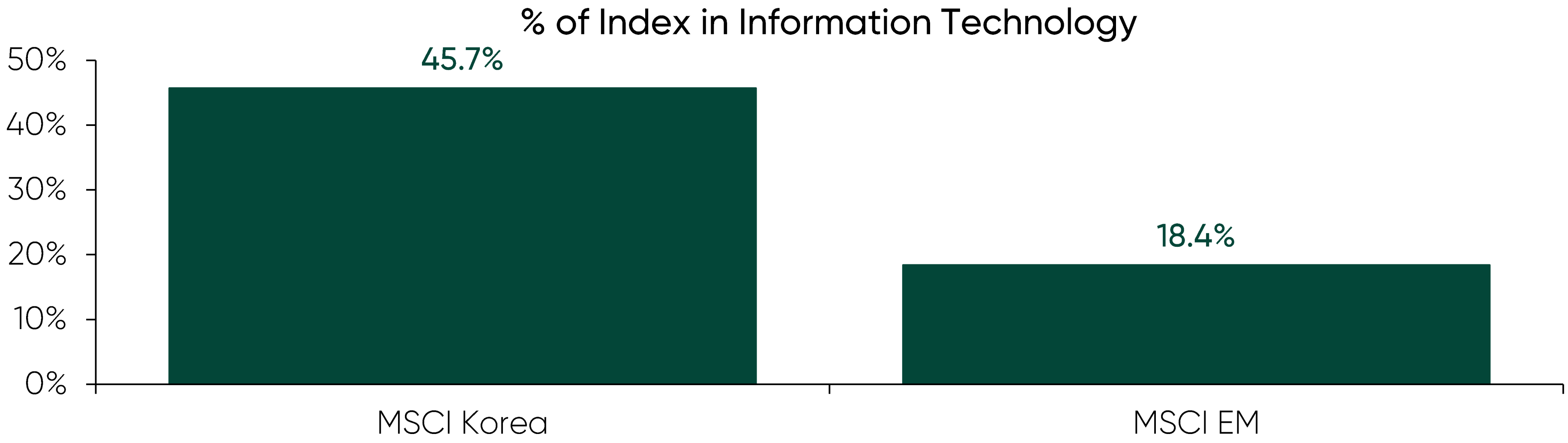
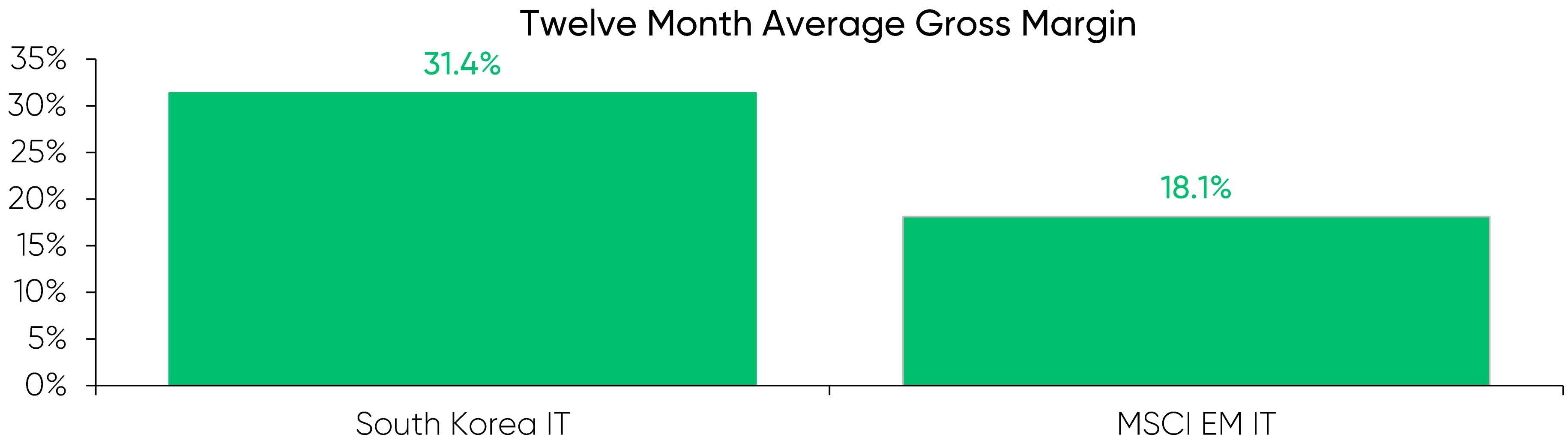
ECONOMIC

Korean Equities are dominated by high margin Information Technology firms relative to Emerging Markets peers. While we are still monitoring government containment measures, we continue to see high margin Information Technology as desirable characteristics for now.



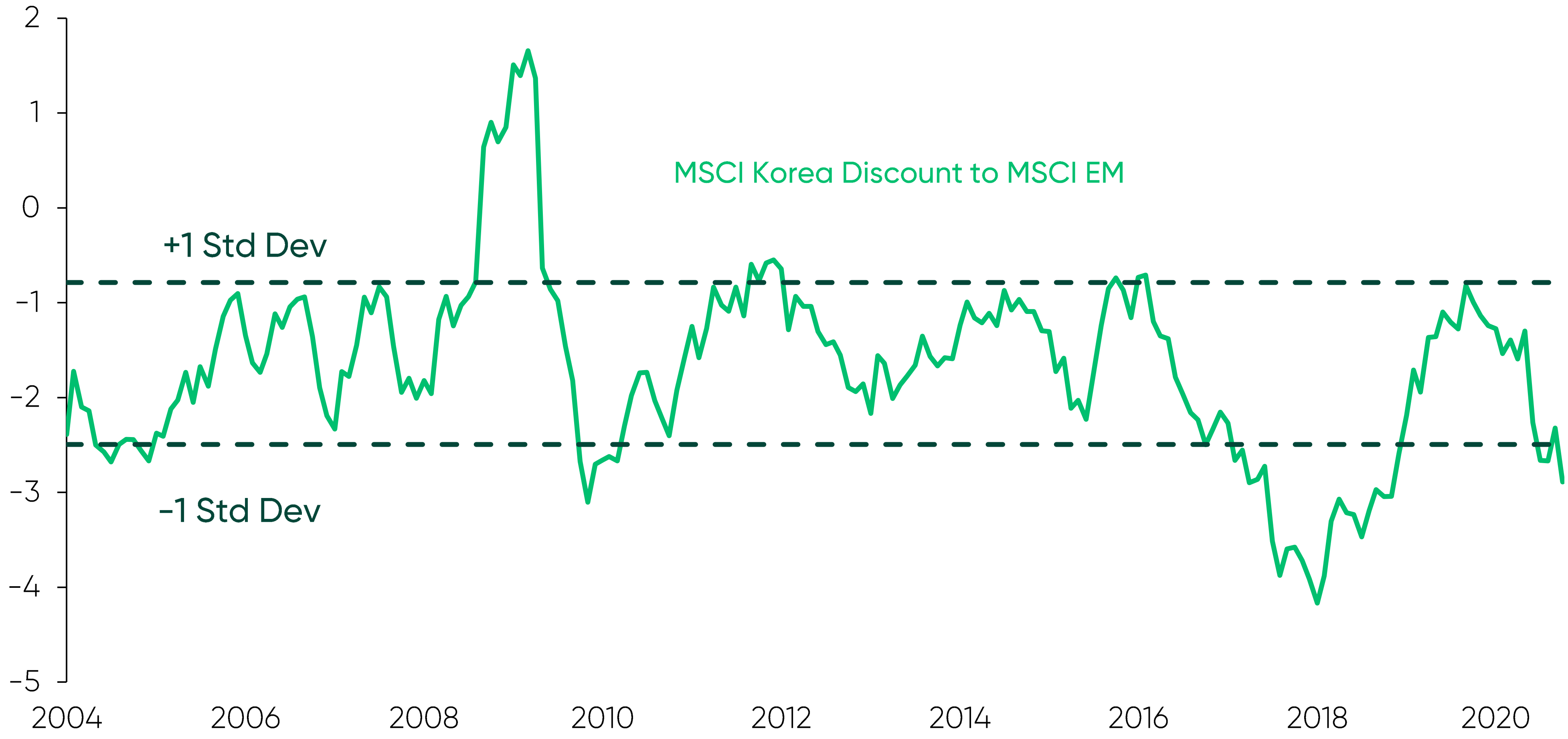


Source: FactSet based on a trailing 12-month period as of 31/10/2020 and MSCI as of 31/10/2020.

SENTIMENT

Valuation discount has widened again as Korean equities have faced a number of headwinds in the past few years: corporate restructuring in sectors employing nearly 15% of its workforce, scandals at several chaebol, a massive recall of the Samsung Note 7, elevated geopolitical uncertainties with China, the US and North Korea, and the impeachment of its president.

Valuation Discount has Widened Again with Covid



Source: Factset as of 31/10/2020. Data showing monthly Forward 12 Month P/E Ratios for MSCI Korea and MSCI EM. The data is presented as the differential between Korea and EM.

COUNTRY DRIVER ANALYSIS

UNDERWEIGHT EASTERN EUROPE (POLAND, CZECH REPUBLIC, HUNGARY)

A limited universe of high-quality growth companies make Eastern Europe less attractive than other regions. On the positive side, many Eastern Europe countries have strong and resilient domestic economies, and deep integration with developed Europe manufacturing supply chains. Eastern Europe's containment of Covid-19 has trailed that of Western Europe, which may prove a headwind as trade and travel restrictions could weigh more heavily on EM Europe than its key Developed Europe trade partners.

ECONOMIC DRIVERS

+ **Bank Balance Sheet Quality:** Eastern European banks have never been in better shape to weather financial stresses, with record capital levels as well as some of the best asset quality in generations. While both likely get depleted in the face of Covid-19, it's unlikely to amount to a financial crisis like 2008-09.
+ **Employment within the EU:** Eastern Europe has increasingly become the preferred trade partner of Germany and France—taking share from southern Europe, and leading rising wages and falling unemployment.
- **Covid-19 Fallout:** With its heavy reliance on global trade, Covid-19 disruptions are weighing on the region's exports and overall economy. Additionally, much of Eastern Europe has not been as successful at virus control as Western Europe. This divergence creates potential temporary trade and travel restrictions between Eastern and Western Europe that could weigh on economic recovery.
- **Record Low Interest Rates:** The negative interest rate policy of the ECB has spilled over to record low rates in Eastern Europe, weighing on bank profitability.
- **Small Cap & Value Bias:** Eastern Europe mainly consist of value-oriented and small cap companies, less desirable areas in the current market environment. There are very few high-quality, growth or Tech-like companies compared to regions like Emerging Asia.
- **Underdeveloped Capital Markets:** Eastern Europe has fragmented and under-developed capital markets, even when compared to the rest of EM. This often leads to lumpy and illiquid trading environments that can be distorted during times of market stress.

POLITICAL DRIVERS

+ **A Part of the European Union but not EMU:** Being a part of the free trade and free movement union has led to reduced cost of doing business and encouraged trade. Not being a part of the euro common currency has allowed for Eastern European exports to remain competitive and encouraged international investment.
- **Rise of Nationalism:** Politicians have tapped into a populist narrative and become increasingly aggressive on topics of immigration, LGBTQ rights, free movement, and terrorism. Poland has been the most combative with the European Commission, as the ruling PiS party has threatened freedom of the press and independence of the judiciary, and favours domestic business. More recently, Viktor Orban of Hungary used the Covid-19 disruption to suspend parliament. This blatant erosion of democracy has raised the risk of sanctions from the European Commission or other countries.
- **A Willingness to Intervene in Financial Markets:** Both Hungarian and Polish governments have intervened during this cycle to force private banks to absorb foreign currency losses on Swiss Franc denominated mortgage loans in the name of consumer protection, at the expense of private bank capital.

SENTIMENT DRIVERS

+ **Relative Valuations:** Eastern Europe's Price to Book ratio is at a significant discount relative to ACWI and modestly below EM.
- **Covid-19 Fears Impacting Free Flow of People & Goods:** During the pandemic cross border movement of people and commerce has ground to a halt. Eastern Europe has been a major economic benefactor of this the past 15 years, and currently this advantage is on hold.

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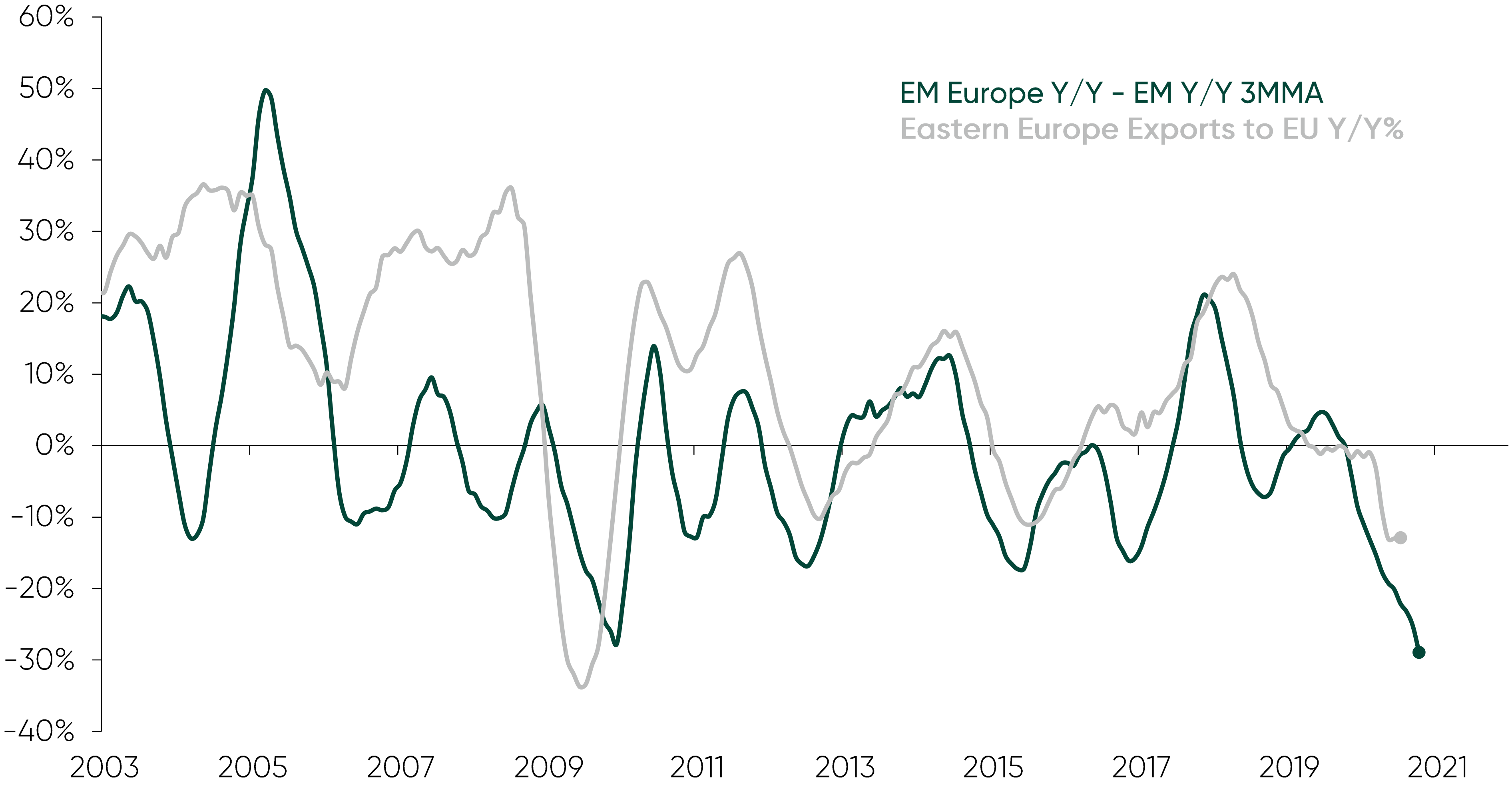
ECONOMIC

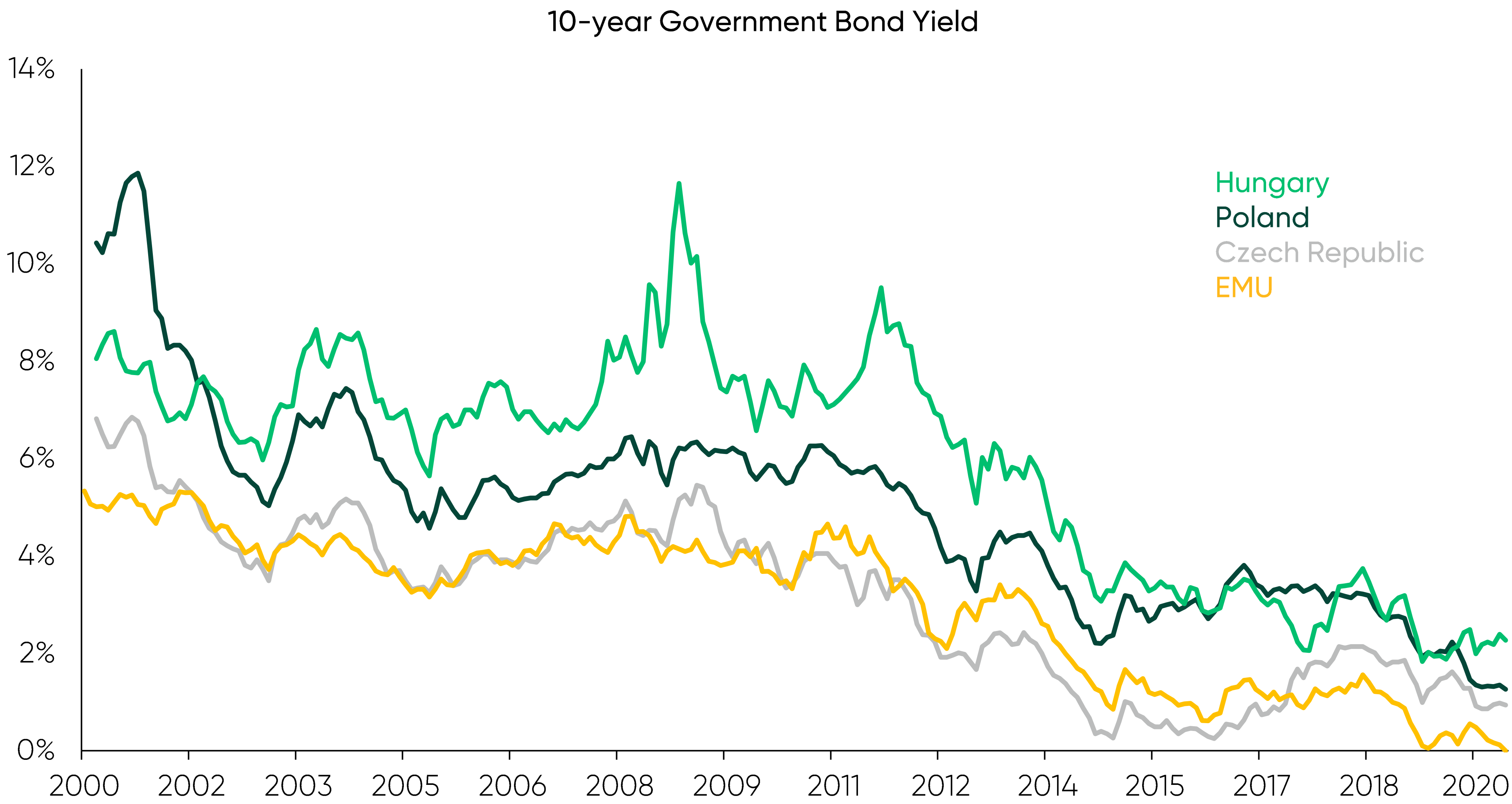
Eastern Europe's economy is heavily linked to developed Europe demand's growth. A deep integration with developed Europe's manufacturing supply chain make outperformance difficult, given Eastern Europe's value oriented universe.



Source: FactSet, (MSCI Eastern Europe ex Russia Y/Y – MSCI EM Y/Y). IMF Sum of Poland, Hungary and Czech Rep Exports to the EU Y/Y USD. Fisher Investments Research. Data available through 31/10/2020. Last updated 11/11/2020.

ECONOMIC

The negative interest rate policy of the ECB has spilled over to record low rates in Eastern Europe, weighing on bank profitability.



Source: FactSet using monthly data as of 31/10/2020.

COUNTRY DRIVER ANALYSIS

UNDERWEIGHT SOUTH AFRICA

We expect South Africa to underperform as global metals demand concerns outweigh positives from slowing supply growth due to the negative economic impact from Covid-19. Additionally, insufficient infrastructure along with political difficulties constrains investment and domestic growth.

ECONOMIC DRIVERS

± **Monetary Policy Easing:** The central bank cut rates to 3.5% as a response to recession and Covid-19. Inflation has recently been benign, which may give the central bank room to continue to ease policy. However, recently announced QE could prove negative and flatten the yield curve, reducing incentive for banks to lend.

\- **Relative Performance Highly Correlated to Precious Metals:** MSCI South Africa has among the highest percentage of gold and precious metal miners, compared to the MSCI EM Index. Rising precious metals prices, including gold and platinum, provided a tailwind in the bounce off the market bottom in March 2020, but declined since early August. We expect precious metals to underperform in the period ahead, likely weighing on South Africa's overall performance.

\- **Vulnerable to External Shocks:** Unlike the other perceived EM "Fragile Five" countries, South Africa is more at risk to external shocks given the size of its dual deficit (current account and budget), minimal foreign currency reserves and economic reliance upon precious metal exports.

\- **Commodity Exporter:** As a major precious metals exporter, South Africa's exports are tied to commodity prices, which have been rising in recent months. Rising commodity prices also impact local spending trends by strengthening local producers' consumption.

\- **Power Shortages:** South African state-owned utility Eskom (produces 95% of the nation's power), continues struggling to efficiently produce and distribute electricity. Until power is delivered reliably, ongoing investment remains questionable—particularly in energy-intensive sectors like Metals & Mining and heavy manufacturing.

\- **Struggling Economy:** South Africa has reported seven of the last twelve quarters of GDP growth in negative territory, entering technical recession in Q4 2019. There are few aspects of the economy to be optimistic about.

POLITICAL DRIVERS

\+ **Highly Functional & Efficient Capital Markets:** South Africa also has a very developed-world-like capital markets system with an emphasis on common law. In many cases it is easier to conduct capital markets activity in South Africa than it is in Latin America, much of Asia, and many developed European countries.

± **ANC Infighting and Land Reform:** Since Cyril Ramaphosa took over for Jacob Zuma, who was ousted for corruption charges, the ruling ANC party faced intraparty gridlock from factions supporting each leader, preventing needed reforms. Ramaphosa was viewed as a reformist, but has proposed a controversial land reform bill that would allow the government to take ownership of land meeting certain criteria without providing compensation, eroding property rights and likely having a significantly negative effect on investment. However, passage in the near term appears unlikely as Ramaphosa is still reliant on ANC party members loyal to Zuma that may not support sweeping reforms.

\- **Elevated Deficit Leading to Fiscal Consolidation.** The budget deficit has perpetually been above target despite pledges to pare it. Therefore, policymakers now face tight spending limits amid a frail economy, raising the probability of tax increases or austerity. South Africa received a $3.4b loan from the IMF in July. While the loan did not have explicit conditions attached, the government made assurances about lowering the country's debt to GDP ratio.

\- **Lack of Political Checks and Balances:** With the African National Congress (ANC) currently holding 58% of Parliament, the risk of extreme legislation is high and the risk of challenge to the ongoing implementation legislation is low, including Black Economic Empowerment (BEE), seizing property without compensation and greater state control of strategic sectors.

\- **Coronavirus Response:** Unprecedented global government policy intervention intended to reduce the spread of Covid-19 is likely to temporarily weigh on economic activity. However, stimulus efforts intended to dampen the impact could provide a boost should Covid-19 prove more short lived than expected.

SENTIMENT DRIVERS

\+ **Valuations:** Forward P/E is below EM peers and below its historical premium, implying investors may be discounting headwinds.

± **South Africa Relative Returns Act Defensive within EM:** South Africa typically underperforms when EM absolute returns are rising, and also typically outperforms when EM absolute returns are weak.

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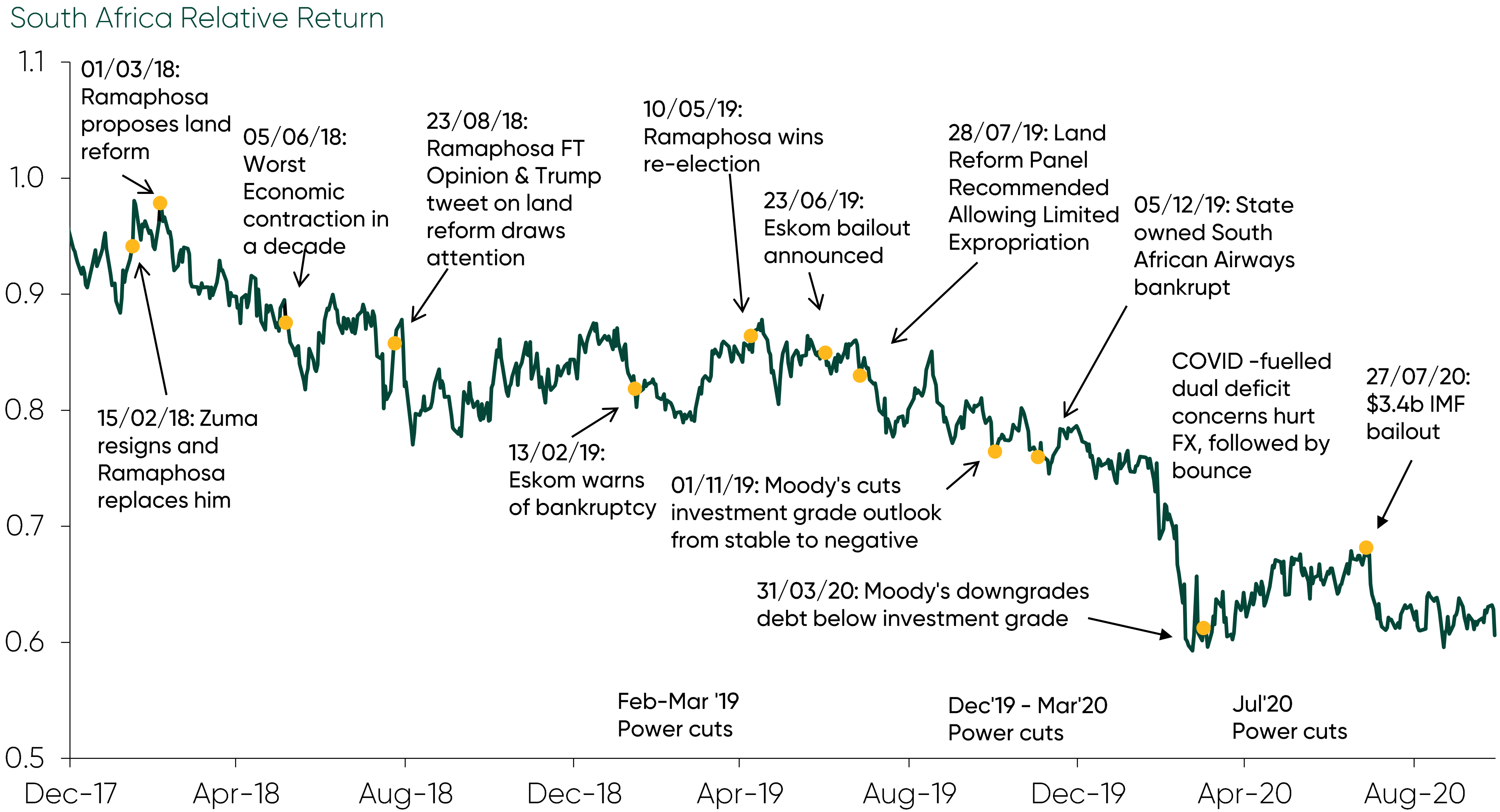
ECONOMIC

Insufficient infrastructure along with political difficulties constrains investment and domestic growth. South Africa continues struggling to efficiently produce and distribute electricity. Until power is delivered reliably, ongoing investment remains questionable—particularly in energy-intensive sectors like Metals & Mining and heavy manufacturing.

South Africa Hampered by Fiscal, Infrastructure and Reform Issues



Source: FactSet and Fisher Investments Research, as of 31/10/2020. Last updated 05/11/2020.

ECONOMIC

South Africa continues struggling to efficiently produce and distribute electricity.

Souce: FactSet using annual data as of 31/12/2019, using latest available data. Last updated 13/11/2020.

COUNTRY DRIVER ANALYSIS

NEUTRAL RUSSIA

With substantial dependence on natural resource revenues and low budget breakeven prices, Russia likely benefits as oil demand stabilizes following Covid-19 shutdowns. Still, Russia's weak private property rights and President Vladimir Putin's willingness to geopolitically isolate Russia deter foreign investment and weaken sentiment.

ECONOMIC DRIVERS

+ **Low Credit Penetration:** Credit penetration remains relatively low compared to other EM countries. Russian individuals and small businesses outside major cities are rapidly gaining access to traditional banking operations, helping spur economic growth.
+ **Private Sector Deleveraging:** International sanctions forced many companies to reduce their reliance on debt, leading to unintended – if positive – deleveraging and reduced solvency risk across Russia.
± **Market Overweight to Natural Resources:** With a majority weight to Energy and Materials, the performance of the MSCI Russia is largely determined by commodities—specifically, MSCI Russia is highly correlated to the global Energy sector. We are modestly positive on Energy, recognizing well-supplied oil markets, but also the potential for a swift recovery in commodity-sensitive markets of the market as demand expectations improve in anticipation of a recovery from Covid-19 shutdowns.
± **Higher Dividends Drive Stronger Relationship to Interest Rates:** Russian companies are paying out substantially higher dividends than in the past, in large part due to pressure from the Ministry of Finance to increase payout ratios at SOEs. With strong payouts, the dividend yield differential vs. EM peers has expanded, making Russia more attractive to yield-seeking investors. If these dividend policies last, Russia could begin to more consistently trade inversely to interest rates, though a lower earnings environment amid an oil supply glut could change the relationship.
- **Economic Nationalism & Backtracking on Reform:** The government has a history of appropriating firms (e.g., Yukos, 2003 and Bashneft, 2016), effectively revoking licenses (e.g., Royal Dutch Shell, 2006) or changing tax royalties (e.g., Mechel, 2008)—a drag on sentiment and large deterrent to foreign direct investment. The Central Bank of Russia has also seized several private banks, stemming a potentially larger banking crisis but also increasing the government's role in the sector.

POLITICAL DRIVERS

+ **Free Floated Ruble & Inflation Targeting:** In the past several years, the central bank has abandoned its currency intervention goals and focused exclusively on inflation targeting, allowing the ruble to float freely and helping the central bank regain control of inflation quickly.
± **Oil Drives Government Budget:** With roughly 50% of total government revenues tied directly to the Energy sector, a $10 move in Brent oil prices is estimated to adjust government revenues by 1.5% of GDP. Based on its tax dependence, marginal tax rates on oil production amount to roughly 90%.
± **Uncertain Fiscal Balance:** Given the dependence upon oil, lower prices push the government into deficit spending. Though Russia enjoyed a surplus over the past several years, the renewed weakness in crude oil threatens to force Russia back into a deficit.
- **Western Capital Markets Sanctions:** Following Russia's annexation of Crimea in the Ukraine, Russia's private sector—particularly its banks and energy companies—are effectively blocked from raising debt or issuing new equity offerings in every major developed market, pressuring the cost of capital. Tensions have recently escalated following the poisoning of Russian opposition leader Aleksei Navalny and further sanctions are possible.
- **Putin's Grip on Power:** Putin can remain president through 2036, which would make him Russia's longest-serving leader. Combined with his willingness to confront western powers, his reign is likely to continue deterring long-term capital investment.

SENTIMENT DRIVERS

± **Relative Valuations are Neutral:** While still trading at a discount to EM peers, Russia's trades at a premium to its long-term averages.
- **Putin's Record:** Putin's history of meddling with private enterprise exacerbates fears of government intervention in the private sector, likely keeping investors away. Putin's nationalistic streak has reached post-Cold War highs with the Crimea annexation and recent unrest in Belarus increases geopolitical uncertainty.

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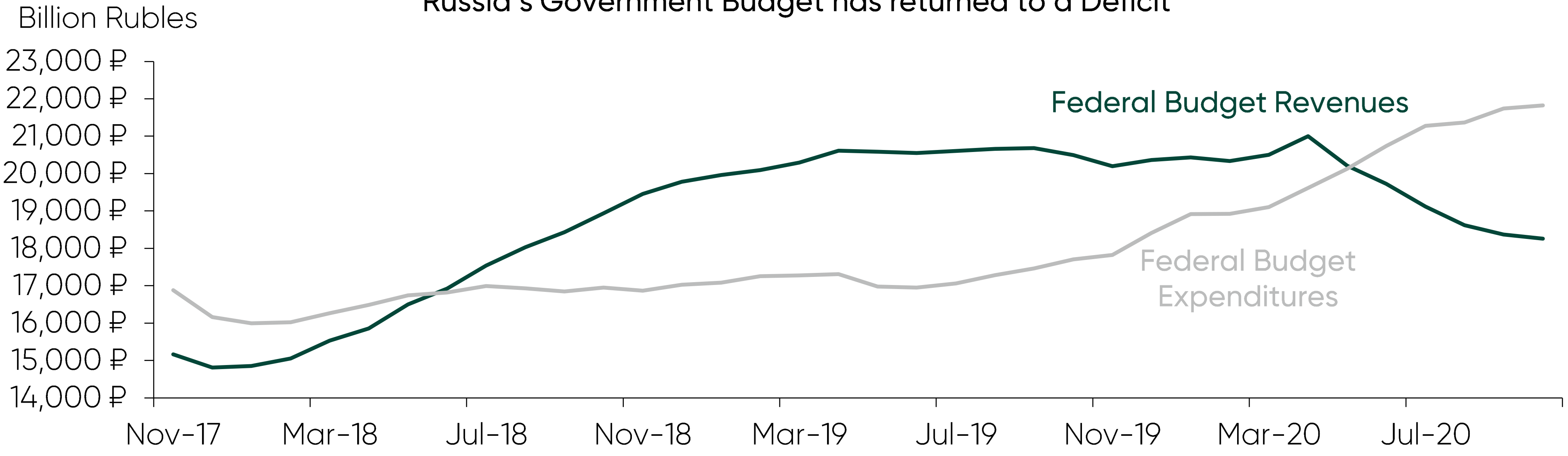
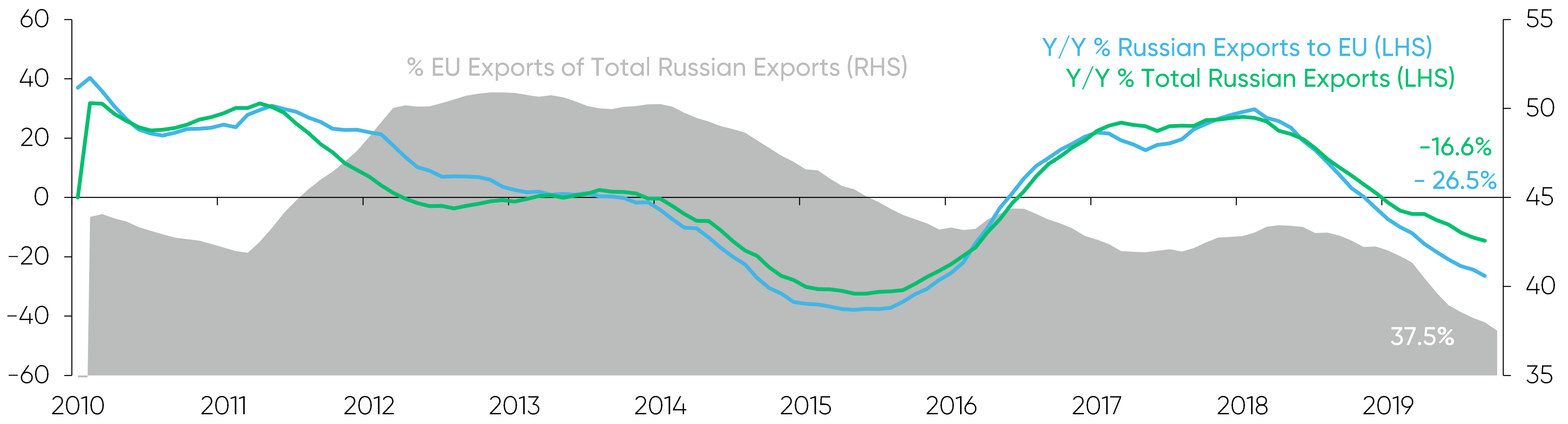
ECONOMIC

While Russia's fiscal balance has enjoyed a surplus over the past few years, the country remains dependent on oil and exports. Renewed weakness in crude oil and falling demand from Covid-19 has been a factor in Russia's fall back into a deficit – as lower oil prices require the government to increase spending.

Russia's Government Budget has returned to a Deficit





Top chart source: FactSet as of 31/10/2020 using monthly data. Bottom chart source: FactSet as of 31/07/2020, using most recent available data.

ECONOMIC

In 2019, Russian resource companies announced significant dividend payout increases, which contributed to strong returns relative to the rest of EM. But low oil prices are reducing cash available for dividends, contributing to weak relative performance in 2020.

Source: FactSet. Shows MSCI Russia calendar year dividends-per-share over earnings-per-share. 2020 – 2022 based on estimates as of October 2020.

COUNTRY DRIVER ANALYSIS

OVERWEIGHT BRAZIL

Prior to the Covid-19 outbreak, domestic growth and credit availability were improving, and economic data have been surprising to the upside as economic activity continues resuming across the globe. Additionally, President Jair Bolsonaro's economic agenda has the potential to provide a positive catalyst if Congress can successfully resume reform efforts to overhaul the country's tax system and improve the fiscal situation in Brazil.

ECONOMIC DRIVERS

\+ **Easing Monetary Policy:** The Banco Central do Brasil loosened monetary policy significantly over a 7 month easing cycle. After ending the cycle in February, it has continued cutting its main policy rate four additional times during the Covid-19 outbreak to help offset a potential recession, bringing rates to an all-time low of 2%. Typically, banks outperform with monetary loosening, but political uncertainty surrounding reforms and the Covid-19 crisis weighed on performance this cycle.

\+ **Economic Recovery Gaining Momentum:** Prior to the Covid-19 outbreak, Brazil was emerging from one of its worst recessions in history. While 2019 GDP growth was only modestly positive, recovery in business activity, investment and consumption was gaining momentum. Consensus expectations for GDP are proving overly dour and are being revised upward—a trend that should continue as Covid-19 restrictions ease further.

\+ **Rapid E-commerce Growth:** Covid-19 led lockdowns and social distancing measures are increasing consumer adoption of online shopping, with e-commerce sales revenue growing by over 50% in the first half of 2020.

± **Commodity Sensitivity:** Commodities account for 80% of Brazil's exports. Positively, commodities demand and EM Materials companies rebounded in 2019 and off the March 2020 lows. However, lower shipments of manufactured goods weighed on exports, which could continue to decline if Covid-19 causes lengthy disruptions.

\- **Fiscal Deficit Remains Elevated:** Despite efforts to contain discretionary spending, the government continues to struggle reining in fiscal spending, and public debt dynamics remain a source of concern, as net public debt reached 56% of GDP in 2019. Congress also passed a "war budget" to contain Covid-19 relief measures from carrying over into 2021 and beyond, but direct payments and other social spending programs are likely to continue, raising immediate budget concerns.

POLITICAL DRIVERS

\- **History of Higher Taxes:** Since 2015, Brazil has implemented or weighed new taxes targeting imports and the mining and financial sectors when in need of funds rather than significantly cutting spending.

± **Political Reform Hopes:** President Jair Bolsonaro and Minister of the Economy, Paulo Guedes, have a lofty reform agenda to make Brazil more business-friendly and open up opportunities for outside investors. Proposals include the recently-passed pension reform, an overhaul and simplification of the tax system, privatisation of state-owned companies and reducing the budget deficit. Those goals have been largely delayed or watered down as Bolsonaro's support in Congress weakened, but the reform agenda has resumed following a six-month delay while Congress focused on Covid-19 stimulus efforts, with containing the 2021 budget within the spending ceiling as the primary focus.

± **Bolsonaro Support at Risk:** Bolsonaro left his political party over prolonged friction regarding his far-right social agenda and created the "Alliance for Brazil" party in November. 2020 has brought about several high profile resignations within the health and economy ministries, however, he has been able to garner more support in Congress as his austerity-focused policies have been weakening in favour of more stimulus to support the country's recovery.

\- **History of Corruption:** Despite running on an anti-corruption platform, current President Jair Bolsonaro and his family are embroiled in corruption allegations similar to the accusations of bribery, electoral fraud and influence peddling that have plagued Brazilian governments since the transition away from a military dictatorship in 1985. Political tension and uncertainly have likely dampened investor sentiment, although leaders in Congress have indicated they will not pursue impeachment while the country is recovering from Covid-19.

SENTIMENT DRIVERS

\+ **Outperformance After Bears:** Equities in Brazil have a long history of bouncing out of EM bear markets as recession tends to drive reform efforts and better fiscal management in the subsequent recovery. Current sentiment is overly dour tied to geopolitical risk, the country's dual deficit and budget issues, and Brazil's status as a Covid-19 hotspot. These fears are likely to abate in the months ahead, potentially providing a tailwind to stocks.

\+ **Low Valuations:** Forward P/E's first fell in early 2018 tied to the truckers strike and uncertain political environment, and again in response to Covid-19 restrictions. While valuations have moved off multi-year lows, they remain muted—in line with MSCI EM valuations and modestly beating the country's own three-year valuation averages.

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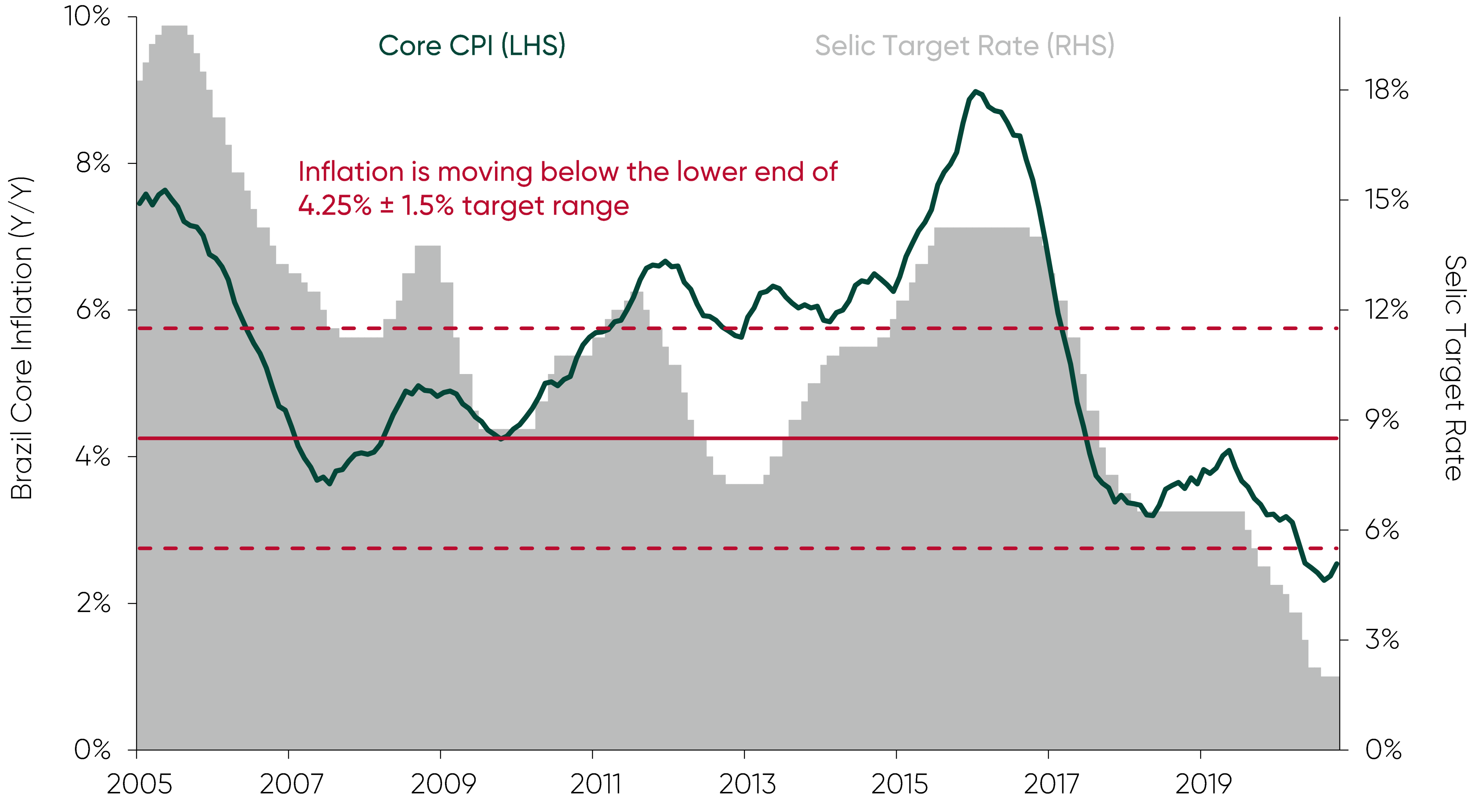
ECONOMIC

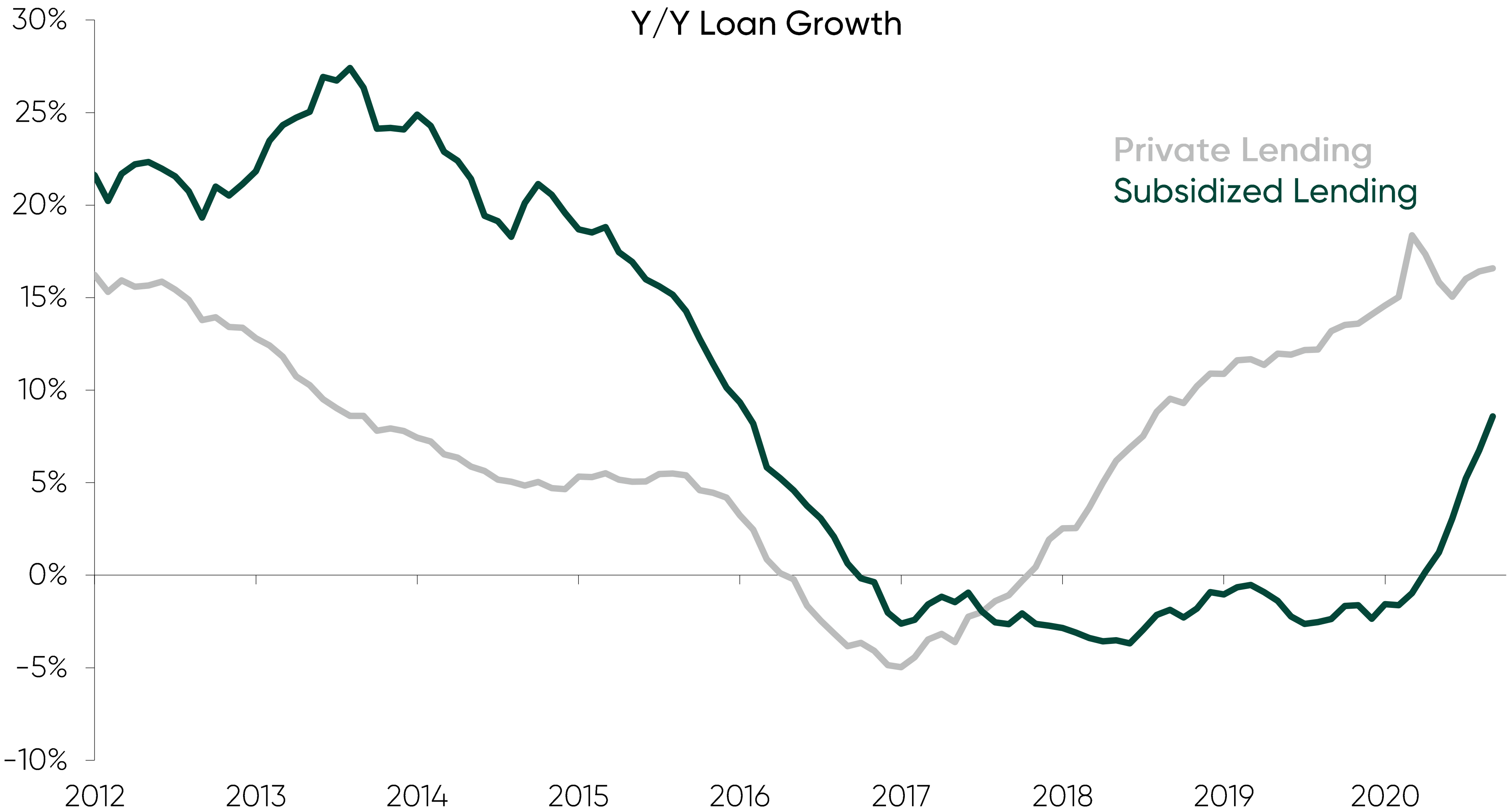
After ending the cycle in February the BCB intended to keep rates at 4.25%. However, it has continued cutting its main policy rate four additional times during the Covid-19 outbreak to help offset a potential recession, bringing rates to an all-time low of 2%.



Source: FactSet, Fisher Investments Research. Data available through 31/10/2020. Last updated 10/11/2020.

ECONOMIC

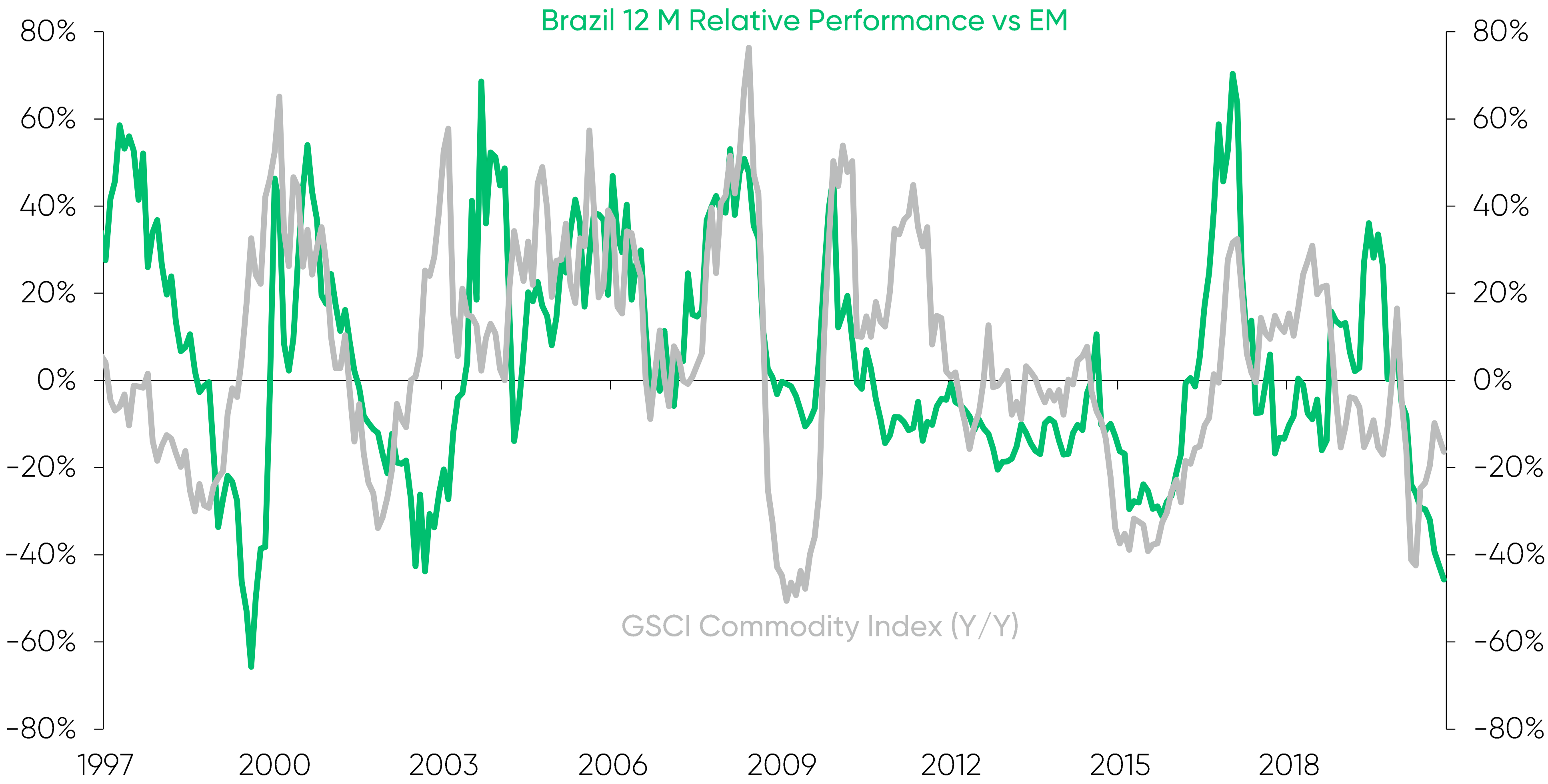
COVID-19 stimulus measures temporarily reversed the trend, but loan growth has been steadily increasing off of 2017 lows.



Source: Banco Central do Brasil, FactSet, Fisher Investments Research. Data available through 30/09/2020. Last updated 18/11/2020.

ECONOMIC

Commodities account for 80% of Brazil's exports. Positively, commodities demand and EM Materials companies rebounded in 2019 and off the March 2020 lows. However, lower shipments of manufactured goods weighed on exports, which could continue to decline if Covid-19 causes lengthy disruptions.



Source: FactSet using monthly data as of 31/10/2020, in USD.

COUNTRY DRIVER ANALYSIS

NEUTRAL MEXICO

The Mexican economy should benefit from strong linkages with the US economy and a recovery from pandemic fears. However, the Mexican stock market possesses few of the large growth stocks we currently favour.

ECONOMIC DRIVERS

+ **US Proximity:** Mexico's proximity to the US economy, which we expect to continue recovering from the early 2020 recession, is a key advantage relative to competing low-cost suppliers.
+ **Competitive Labour:** Mexican labour costs (e.g., manufacturing wages) have been fairly stagnant over the past decade, while labour costs for competing exporters such as China and Brazil have risen sharply—increasing Mexico's attractiveness for foreign investment.
+ **Oil & Gas:** While Mexico's oil industry took a hit from recent price declines associated with the pandemic, activity is likely to recover as the pandemic passes. Mexico's oil and gas drilling rig count had been steadily rising prior to the pandemic, implying the benefits of the prior administration's energy reforms may start becoming apparent in the coming years.

± **Inflation & Monetary Policy:** Mexican inflation has remained stubbornly high, and Banxico's recent rate cut cycle may be nearing an end. Following its September meeting, the bank recognised "limited space for monetary policy action."

\- **Unfavourable Market Composition:** Mexico's market is concentrated in smaller cap stocks in industries with more limited growth opportunities, such as Consumer Staples and Industrials. It also lacks many of the large growth categories we prefer, such as Technology.

POLITICAL DRIVERS

+ **US-China Conflict:** The US-China conflict is likely to promote marginal investment growth in Mexico as some US corporations seek to diversify supply chains away from China.

± **USMCA Trade Deal:** The USMCA trade deal went into effect on 1 July, 2020. USMCA has some negative elements for Mexico, such as more stringent labour regulations, but its completion reduces previous uncertainty, helping promote future capital investment in Mexico.

\- **AMLO Administration:** Leftist president Andres Manuel Lopez Obrador (AMLO) has generally created an environment of uncertainty through various project cancellations, referendums and centralisation of power away from local and private groups. However, AMLO's MORENA coalition does not appear to have the 2/3rds majority required in Congress to reverse the prior administration's major reforms.

SENTIMENT DRIVERS

Pandemic Fears: Mexico significantly underperformed during the Covid-19 drawdown due to the government's slow and tepid response. Concerns around state oil firm (PEMEX) during the oil price collapse also negatively impacted sentiment. However, on a forward-looking basis, extremely weak sentiment could leave opportunities for positive surprise as global pandemic fears fade.

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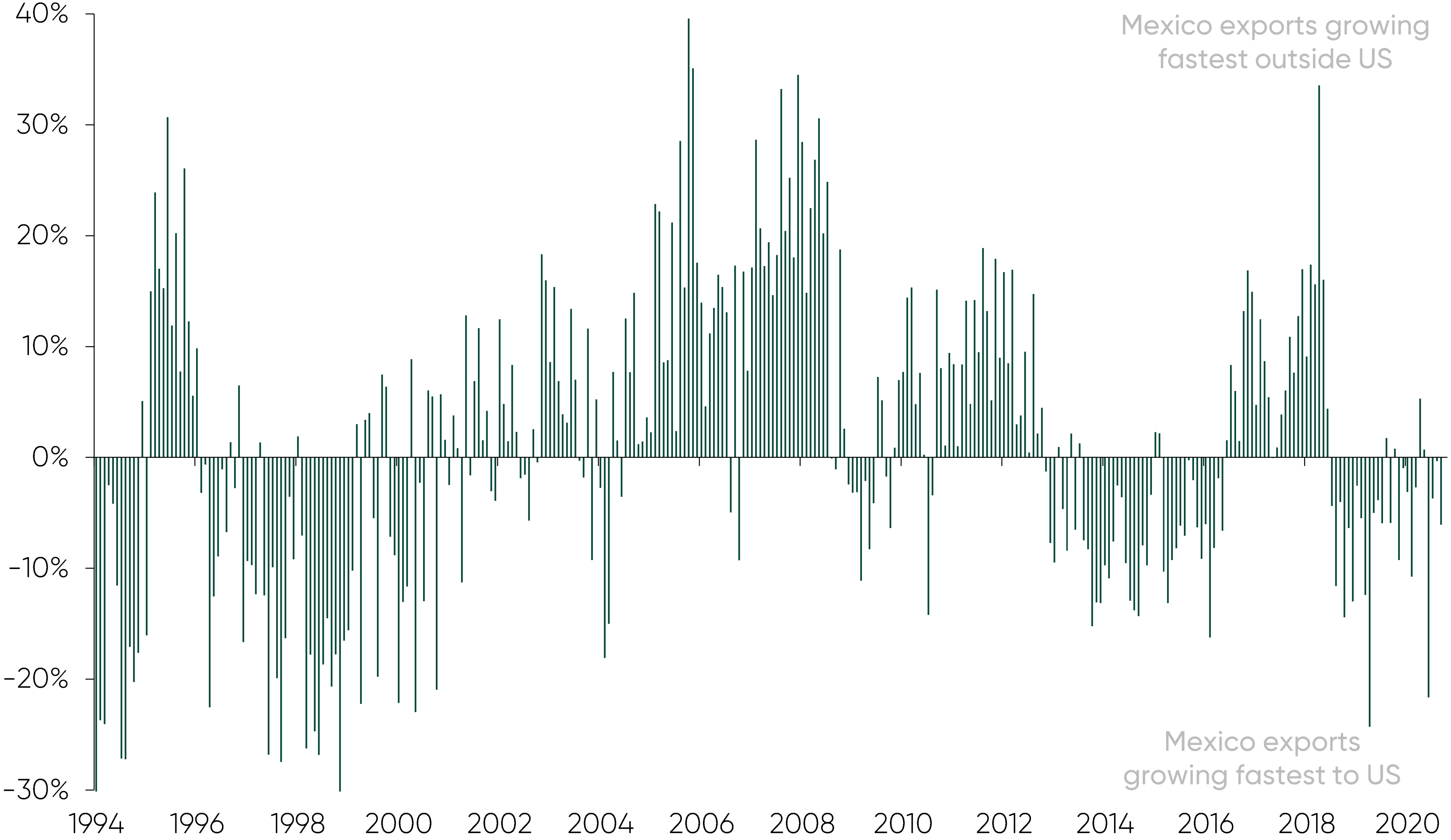
ECONOMIC

Mexico's proximity to the US economy, which we expect to continue recovering from the early 2020 recession, is a key advantage relative to competing low-cost suppliers.

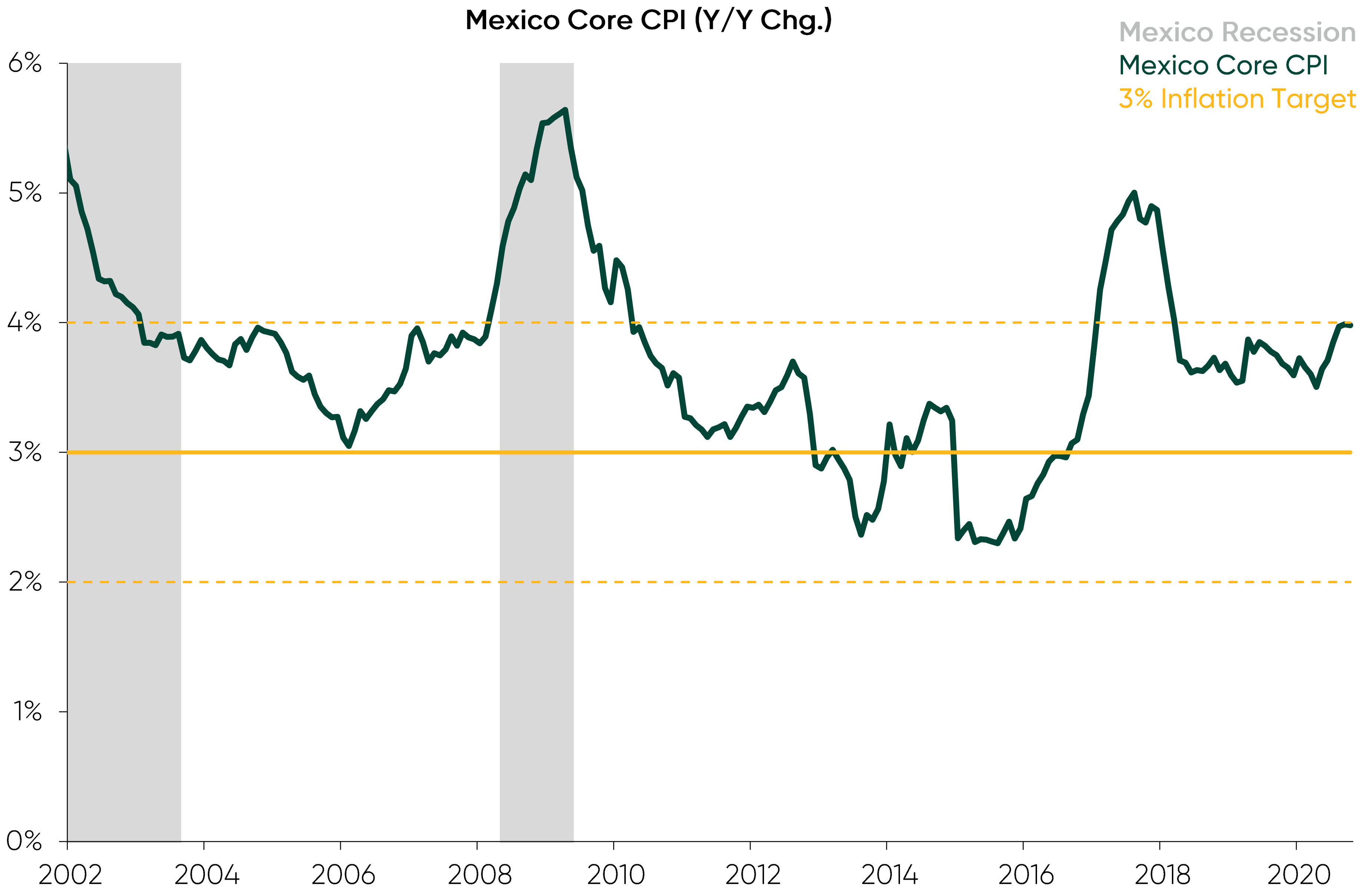
Mexico Exports USD (Y/Y Chg. Non-US minus US)



Source: Bank of Mexico, FactSet, Fisher Investments Research. Data available through 30/09/2020. Last updated 18/11/2020.

ECONOMIC

Mexican inflation remains high, and Banco de Mexico recognized “limited space for monetary policy action”.



Source: Bank of Mexico, ECRI, FactSet, Fisher Investments Research. Data available through 31/10/2020. Last updated 11/11/2020.

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