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STAR RATINGS REVIEW

MONTHLY MORNING MEETING JAN 2010. PRESENTED BY iFAST FINANCIAL PTE LTD ©

EMERGING MARKETS (4.5 STARS – VERY ATTRACTIVE)

- 1) Estimated valuations for Emerging Market equities are 11.9X and 9.8X for 2010 and 2011 respectively (as at 29 Dec 2009). While valuations for the Asia ex-Japan region are higher, Russia's valuation for 2010 and 2011 at respective 9.1X and 6.7X helped to bring down the valuations for emerging markets.
- 2) Earnings growth is expected to be just 30.9% in 2010 and 21.1% in 2011. Countries like South Korea, Taiwan and Russia are estimated to have the highest growth in earnings for 2010.
- 3) MSCI Inc. has elevated Israel to developed market status earlier this year with changes to indices implemented in May 2010. South Korea and Taiwan will be evaluated for possible promotion in 2010.
- 4) Improvement is seen as Russia's economy contracted 8.9% in Q3 after declining 10.9% in Q2. Russia's RTS was the best performing within global emerging market indices. According to data from EPFR Global (a data provider on fund flows) data, Russia is the leading "overweight" holding among the world's largest developing-nation mutual funds.
- 5) Unemployment rate which is a lagging indicator of economic cycle shows improvement in developing economies such as Mexico and Brazil. As at Nov 09, unemployment rate has fallen for two consecutive months in Mexico to 5.3% in Brazil, unemployment rate has fallen for 3 consecutive months to 7.4%.
- 6) The Brazilian government has imposed a 2% financial transaction tax on foreign investments in Brazilian stocks and fixed income securities in mid Oct to discourage speculation that has helped driven up the value of Brazilian Real. The negative impact on Brazilian equities was short-lived and the uptrend in Brazilian equities resumed at the end of Oct.
- 7) Dubai World announced plans to restructure its debt obligations in end Nov. A selloff of Dubai equities ensued. However, a contagion was not seen as downside impact on other emerging markets was limited.
- 8) Commodity prices continued to soar in last quarter of 2009, benefiting resource-rich emerging economies. Gold has breached record high in early Dec, hitting USD 1215.70 per ounce. This has benefited South Africa, the world's largest producer of precious metals.
- 9) We are positive on the Emerging Markets and estimated 2010 and 2011 valuations are the most attractive among regions we cover. We are maintaining a 4.5 star "Very Attractive" rating on the Emerging Markets.