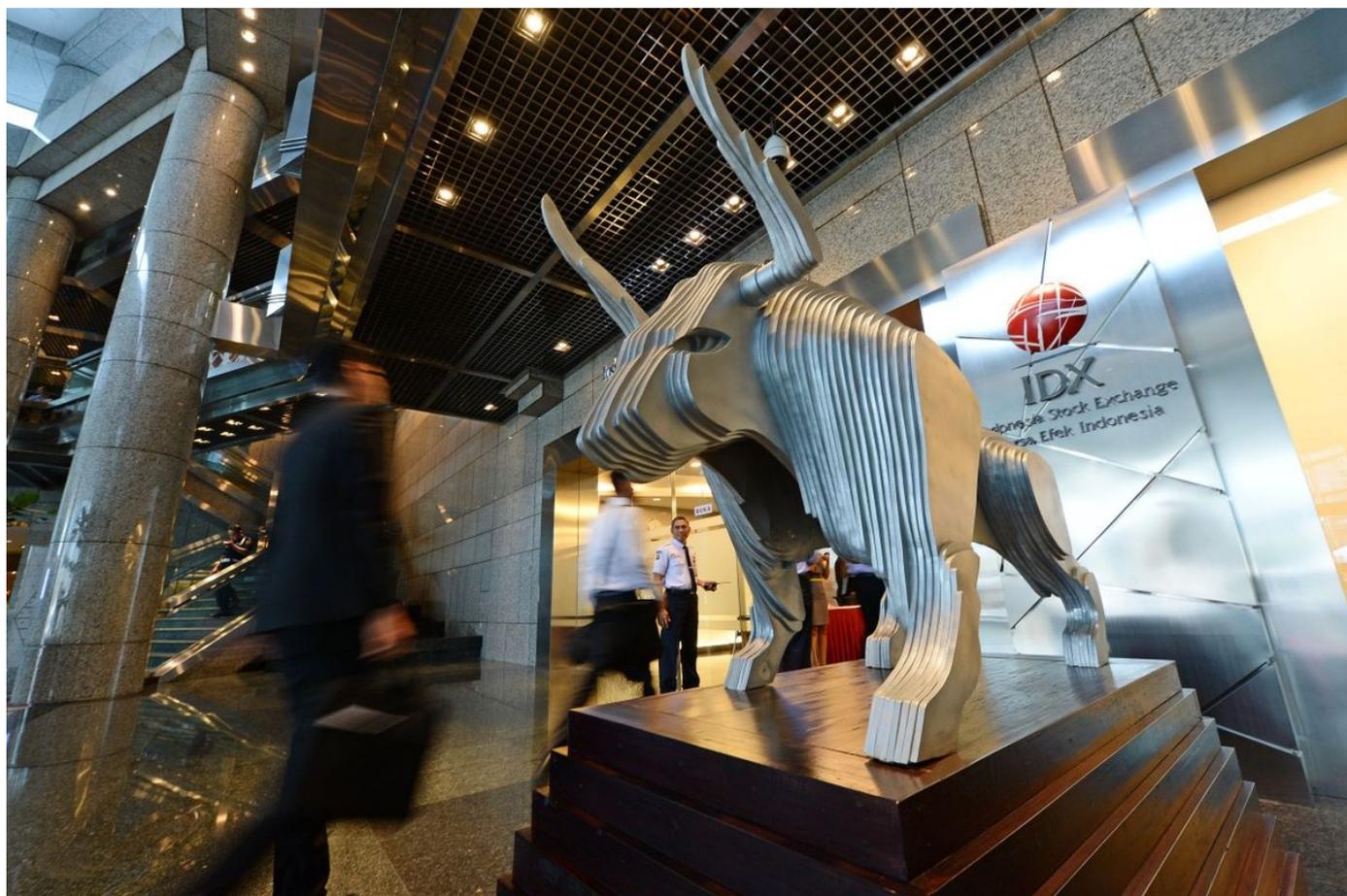


Emerging-Market Bulls Standing Firm After Best Rally Since 2009

By **Aline Oyamada**

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- Earnings growth expected to back up further gains in 2018
- Goldman Sachs says GDP growth is more important than valuation



People walk past a statue of a bull as they enter the Indonesia Stock Exchange in Jakarta, Indonesia. *Photographer: Dimas Ardian/Bloomberg*

Emerging-market investors who made bullish calls on equities amid this year's monster rally are sticking to their guns, wagering that economic growth will propel gains in 2018.

Money managers and strategists including Goldman Sachs Group Inc., Ashmore Group Plc and T. Rowe Price Group Inc. say this year's 33 percent surge for the benchmark index of developing-nation stocks is justified by rising profits. Along with analysts at JPMorgan Chase & Co. and BNP Paribas Asset Management, they say valuations are at reasonable levels, and forecasts for a second year of economic expansion near 5 percent should boost earnings.

"The strong move will continue, as the improvement cycle is just beginning," said Edward Evans, a money manager at Ashmore who helps oversee almost \$59 billion in assets from London. His main overweight positions are in China, where he favors banks and e-commerce companies, and in Brazil, where he likes energy and materials producers.

Earnings Outlook

Analysts forecast 18% earnings growth for the MSCI Emerging Markets index



Evans says another double-digit gain can be expected in 2018. Developing nations are headed to their best year since 2009 on the back of appetite for the riskiest assets, relaxed monetary policy and a surge in technology shares. Next year, major global headwinds should be less severe than those seen in 2015 and 2016, when major central banks hinted at tighter policy and concern about a slowing Chinese economy mounted. Local political risks, such as elections in Brazil and Mexico, are unlikely to change the upward trend, Evans says.

Bulls are also encouraged by forecasts for emerging-market growth to exceed that in the Group of Eight developed nations by more than 2.5 percentage points next year and almost 3 percentage points in 2019. That dynamic should boost profit for emerging-market companies, allow valuation levels to stay at reasonable levels, according to the optimists.



Richly priced stocks are one of the biggest concerns <https://www.bloomberg.com/news/articles/2017-10-12/korea-dodged-as-russia-brazil-favored-in-em-poll-with-fed-focus> for investors. While 2018 earnings forecasts for companies in the MSCI Emerging Markets Index has jumped almost 30 percent this year, the 33 percent gain in the benchmark index led valuations to rise. The price-to-forecast-earnings ratio has climbed to 14.1 currently from 13.5 at the start of this year, putting it well above the 11.6 historical average.

Although prices are not as compelling as in the beginning of the year, economic growth will continue to [support](#) stocks, according to Goldman Sachs analysts led by Zach Pandl. In a report, they say history suggests that valuations themselves don't tame a bull market, with growth rates a bigger factor. The bank sees accelerating expansion in Brazil, Russia, South Africa, India and Indonesia.

Strategists at JPMorgan [forecast](#) the MSCI benchmark will reach 1,300 next year -- implying gains of about 14 percent -- and BNP Paribas Asset Management went long <https://www.bloomberg.com/news/articles/2017-11-14/bnp-asset-goes-long-on-em-equity-as-u-s-stocks-look-fragile> developing-nation stocks earlier this month, saying valuations are still cheap relative to the U.S.

Charles Knudsen, who is a member of the team that oversees \$20 billion in emerging-market equity assets for T. Rowe Price, hasn't changed his allocation significantly after this year's gain. He profited from Chinese technology companies like Alibaba Group Holding Ltd. and 58.Com, which both more than doubled. He's also overweight Brazilian equities with investments in lenders Itau Unibanco Holding SA and Banco Bradesco SA and retailer Lojas Renner SA.

"The market's advance was broadly followed by earnings growth," he said. "And this is an asset class that has outperformed broadly in the past years."