



2017 Emerging Markets Outlook

Rebalancing Growth

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At-A-Glance

U.S. Political Fallout

- How will promises by the new administration to challenge the status quo of global trade affect Emerging Markets?

Rebalancing Chinese Growth

- Increased demand in tandem with supply side corrections leading to a new cycle for lower tail risks

Political Uncertainty & Central Banks

- Amid undercurrent of developed market populist sentiment, a hiking cycle in the U.S., relatively tighter Chinese monetary conditions, and significant rate cuts from Brazil and Russia

U.S. and Europe

- U.S. policies on global trade
- Populist movements across Europe

Eastern Europe, Middle East & Africa

- Beneficiary of higher oil prices
- Political and geopolitical risks
- Selectively sound fundamentals

Emerging Asia

- Rebalancing China with lingering structural issues
- India stands out on productivity improvements
- NE Asia to benefit from a stronger cyclical outlook
- ASEAN attractive on economic dynamism

Latin America

- Political and economic reforms
- Accommodative monetary policy
- A return to growth

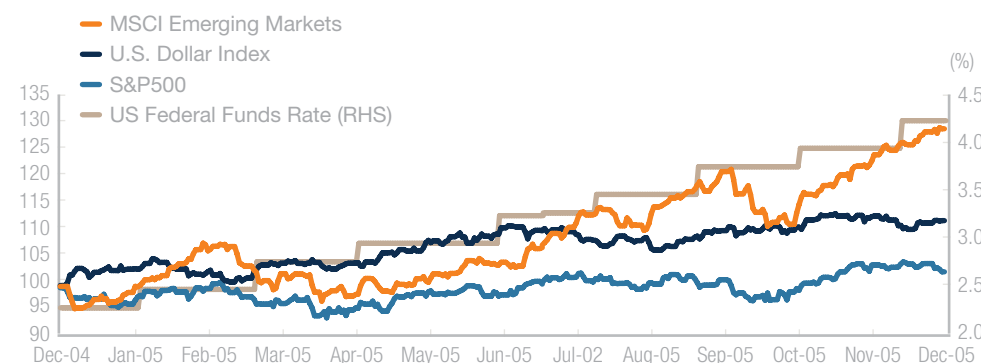
Executive Summary

Emerging market (EM) equities rallied 16.57% and outperformed the S&P 500 by 10.7% in the first 11 months of 2016¹ before pausing to reassess the implications of a Donald Trump presidency. The rhetoric around Trump's campaign was undoubtedly pro-growth and inflationary, as the President-elect promised lower taxes, increased infrastructure spending, on-shoring jobs and challenges to the status quo of global trade. With these inflationary pillars in mind, Trump's victory, along with the Federal Open Market Committee's (FOMC's) December rate hike and slight uptick to the 2017 Federal Funds Rate expectations, has coincided with a spike in U.S. Treasury yields and a strengthening of the U.S. dollar. These developments, in turn, have led to a less attractive carry trade and outflows from EM fixed income markets, which resulted in weaker EM currencies and additional pressure on inflation.

This could present an attractive entry opportunity for EM equities which have experienced significant dispersion in returns during the year in favor of cyclical sectors. The Federal Reserve (Fed) commented that their interest rate hike decision was based on a vote of confidence around the U.S. economy, and EM countries tend to outperform in times of strong U.S. growth.

Equities, U.S. Dollar and Fed Rate Hikes in 2005

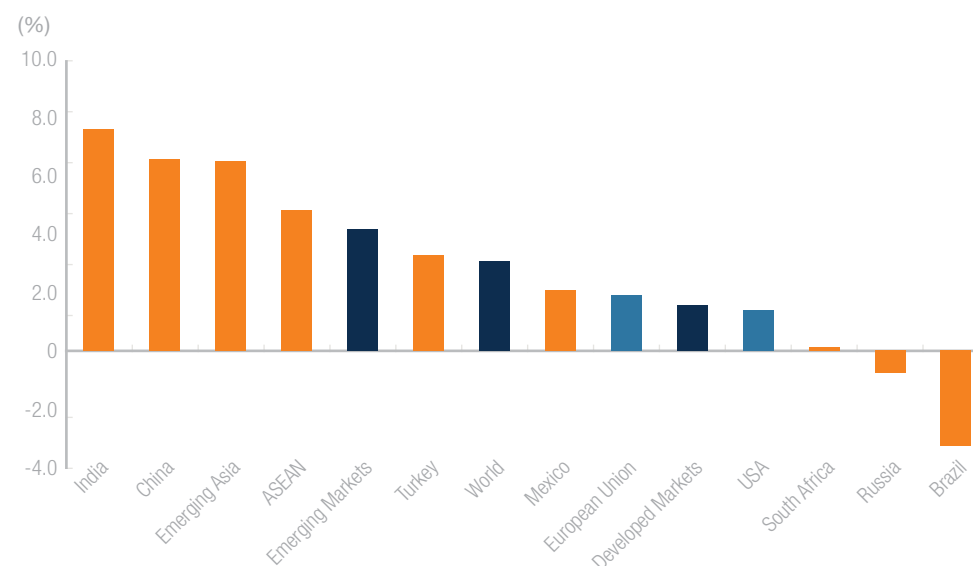
Source: Bloomberg, Mirae Asset Global Investments (2016)



Additionally, the market is expecting the U.S. to begin a rate hiking cycle, but it may be slower and less forceful than expected. Trump will need capital to carry out his infrastructure programs. With a campaign promise to maintain or lower taxes, the debt market is the alternative source of capital, and it would be advantageous for U.S. growth for rates to remain low for longer. Lower than expected rate hikes could stop the strong wave of U.S. dollar strength, which would be positive for EM as many countries within the asset class have structural current account deficits and are also large U.S. dollar debtors. In all, the equity rallies of 2016 were fueled by hope as reflected in politics. We believe that the market will return to fundamentals in 2017 to reward competitive companies with earnings delivery in pockets of structural growth.

Estimated GDP Growth by Region (2016)

Source: International Monetary Fund, Mirae Asset Global Investments (October 2016)



Key Events & Trends

► U.S. Political Fallout

The outcome and impact of the U.S.' new administration could challenge the status quo of global trade and could also create a massive infrastructure build, triggering a surge in demand for commodities. Performance in EM could be split between cyclical and manufacturing countries. If Trump follows through with his campaign promises, manufacturing countries could underperform, as he will challenge advantageous trade deals and make efforts to bring manufacturing jobs back to the U.S.. Cyclical countries, alternatively, could outperform because they will remain the low cost producers of raw materials for a growing U.S. economy and could benefit from lower-than-expected U.S. rate hikes and a stable U.S. dollar.

► Rebalancing Chinese Growth

An upgraded global cyclical outlook from higher U.S. growth affords China with a buffer to offset slower infrastructure investment with an export-led recovery. This could ease the tail risk from a sharp renminbi devaluation as a return to inflation amid a reflationary U.S. supports Chinese exporters, wages and consumption. Despite this better cyclical forecast, a rebalancing China will require structural reforms and progress in over-capacity areas as the economy continues to diverge into consumption-related and capital-intensive segments.

► Political Uncertainty & Central Banks

Newly elected politicians around the globe will push through their much-anticipated agendas while action is also anticipated from the world's key central banks. Europe will hold several bellwether elections early next year, notably in the Netherlands and France, which will test the European Union's political resolve in the wake of Brexit and Trump's victory. China may see modestly tighter monetary conditions while India undergoes additional easing as inflation trends lower. In Latin America, all eyes are on proposals for structural change in Brazil, Argentina, and Peru. Positive reforms are bringing a return of investor confidence, which could strengthen currencies, reduce inflation expectations and create room for rate cuts. Though

the market is anticipating the U.S. to begin a rate hiking cycle, Brazil and Russia should substantially cut rates in the face of lower inflation expectations.

Headwinds & Tailwinds

Headwinds

- Global Politics
- U.S. Rate Cycle
- Potential changes to U.S. trade policies

Tailwinds

- EM Political Changes
- Earnings Cycle
- Strong Consumer Demand

"We believe that the market will return to fundamentals in 2017 to reward competitive companies with earnings delivery in pockets of structural growth."

Asia ex Japan

Heading into 2017 we do not see a runaway growth scenario, as structural headwinds such as deteriorating demographics, high debt levels and rising automation adoption still linger. For Asia, the U.S. economic recovery gives much needed room to China to slow down its infrastructure over-investment while relying on an export led growth recovery. This reduces the tail risk from a sharp renminbi devaluation. The return of inflation is positive for an indebted economy like China where elevated global growth helps its exports and is supportive to wage growth and consumption. Supply-side reforms will continue to be key in 2017.

India has enacted numerous positive policies for productivity improvements that should continue to make the country a standout amongst its EM peers. Northeast Asia remains challenged on unfavorable demographics and high household debt, with externally-oriented economies such as Taiwan and Korea (as well as China's export sector) facing headwinds if policy materializes from Trump's protectionist campaign. In particular, low- and mid-end manufacturing in Asia is most at risk of being displaced. In Southeast Asia, the demand center of ASEAN remains intact, especially in the Philippines, where growth is supported by robust domestic consumption, conducive monetary policy, and increased government spending.

We are also mindful that the cyclical rebound is likely to face headwinds beyond the first or second quarter of 2017 as macroeconomic data that benefited from a low-base effect in the past nine months will begin to face tougher year-on-year comparisons in the first quarter.

For investors, 2016 was a year of hope, while 2017 will be a year of delivery. Despite a better cyclical outlook, a rebalancing-China and lingering structural issues mean that parts of the economy, particularly deep cyclicals, will likely fail to deliver. Many of the structural growth areas have already gone through a period of underperformance in light of this hope rally, making them relatively more attractive from the risk-return point of view. As these companies continue to deliver resilient earnings, the market will return to fundamentals in 2017 and reward those that can deliver solid results.

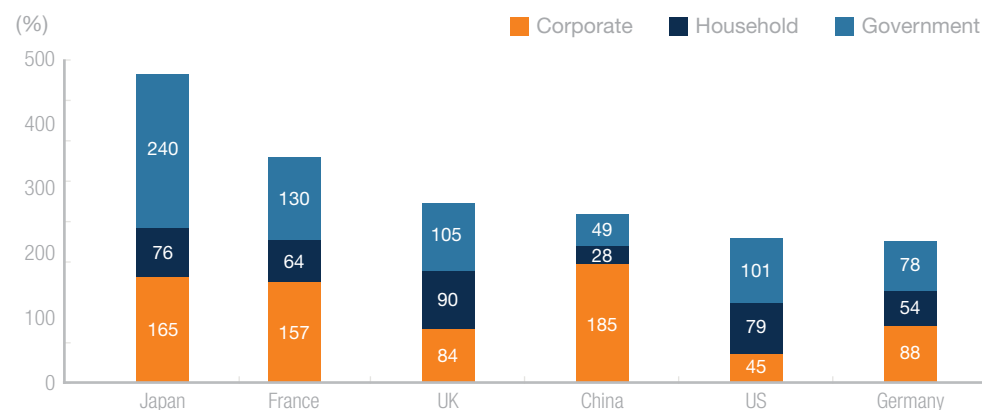
China

A stronger U.S. economic recovery allows China to address some of its structural issues and wean itself off investment-focused growth into a more sustainable developmental model. The return of inflation is certainly positive for an indebted economy like China. Stronger global growth is also positive for China's exports, which is supportive to wage growth and consumption. Structural reforms will continue to be vital going into 2017. China has had positive supply-side reform in areas such as coal but many other over-capacity areas remain.

While we see the tail risk of a sharp devaluation as being relatively contained, the renminbi will continue to be under pressure, particularly in the beginning of the year when the USD 50,000 annual personal quota resets. Together with stronger than expected inflation in both consumer and producer prices, we expect to see tighter monetary conditions through the first half of the year. As such, we remain reluctant to chase deep cyclicals and continue to favor structural growth areas such as internet, e-commerce, tourism, healthcare and insurance.

Debt Composition to GDP of China and Developed Market Countries

Source: CEIC, Haver, Eurostat, Morgan Stanley, Mirae Asset Global Investments (June 2016)



Northeast Asia

Our view towards South Korea and Taiwan's structural challenges, including unattractive demographics and elevated household debt levels, has not changed, but these are external-oriented economies that benefit from a stronger global cyclical outlook. South Korea is the most direct global recovery play in the region, particularly with regards to exporters to the emerging markets. Its valuations are also among the cheapest in the region, though tension between Korea and China over the deployment of the THAAD missile system may continue to spill over into Korea consumer companies. Taiwan is less desirable as its industries are more supply-chain ancillaries rather than brand owners.

India

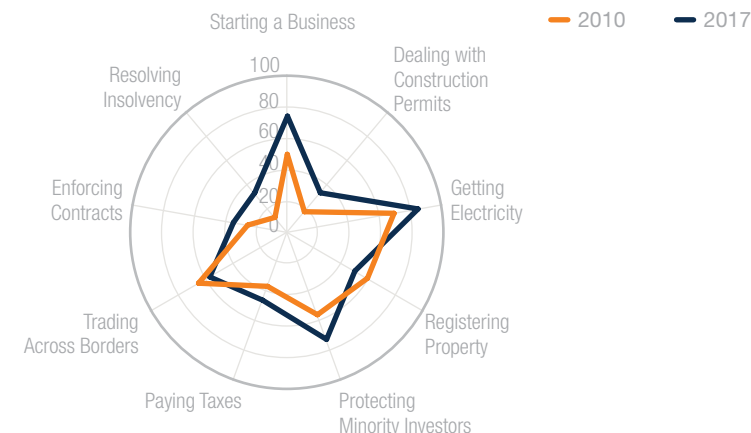
India remains among the most attractive economies in the world. In particular, we are encouraged by the policies by the Modi government to improve productivity in the economy with changes such as the Goods and Services Tax (GST), financial inclusion, demonetization drive and infrastructure investment. A good 2016 monsoon season and a better cyclical outlook are positive catalysts for consumption and economic growth in 2017. Having said that, the recent move to tackle black money by taking around 85% of notes out of circulation will have a near term negative impact on growth, particularly for high-end discretionary consumption. Over the medium to long term, moving India's black market into the organized economy will improve tax compliance and ease India's chronically tight monetary condition.

The Association of Southeast Asian Nations (ASEAN)

ASEAN region is home to some of the most dynamic economies in Asia. Indonesia has made good progress on attracting new investment and broadening its tax base with the tax amnesty scheme. It should also benefit from stable commodity prices. The outlook for the Philippines economy remains favorable, where growth is supported by robust domestic consumption and increased government spending. Singapore, as a proxy for regional growth, should benefit from cyclical tailwinds in light of the improved cyclical outlook. ASEAN currencies are generally perceived as more vulnerable in a rising U.S. rate environment, but we believe the pain is already priced in, with many currencies trading at multi-year lows versus the U.S. dollar. The interest rate differential between the region and the U.S. should provide some support going forward.

Ease of Doing Business in India: Meaningful Gains

Source: World Bank Doing Business Report, Mirae Asset, November 2016



ASEAN Currencies vs. the U.S. Dollar

Source: Bloomberg, Mirae Asset Global Investments (December 2016)



Latin America

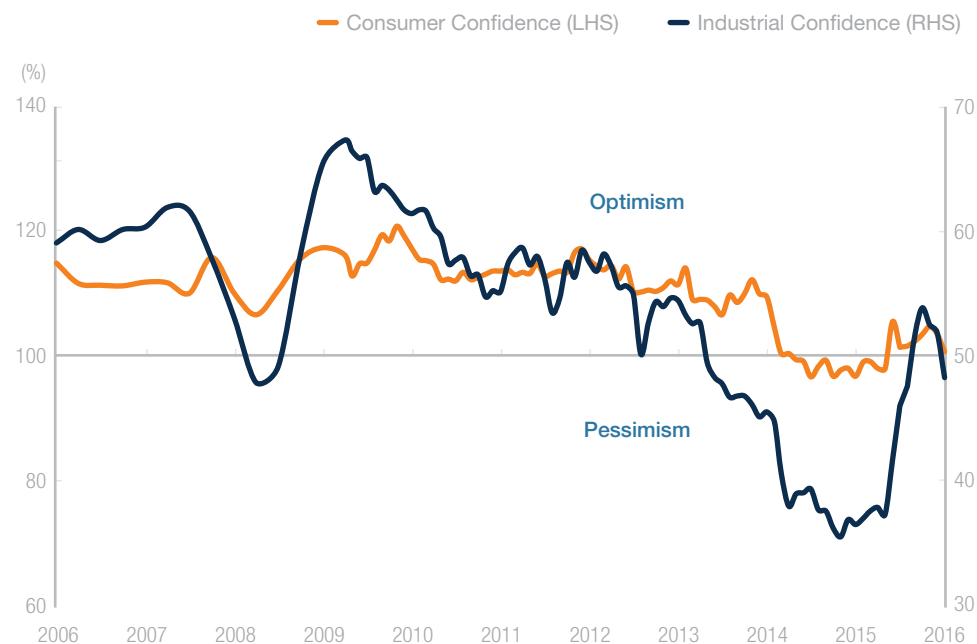
Latin American governments seem to be shifting back to the center of the political spectrum, contrary to the trends elsewhere. In turn, we are seeing reforms that lead to greater consumer confidence, stronger currencies, lower inflation, and increased prospects for growth. In Brazil, we believe that President Temer's reform bills could be a strong catalyst for positive change. Mexico, albeit at a slower-than-expected pace, is also passing various reforms across many industries from energy to education. Chilean President Michelle Bachelet's left-leaning policies have put her in an unpopular position, and the market is anticipating market-friendly candidates in the 2017 election. We are already seeing positive impacts from the market friendly policies of President Macri in Argentina and Kuczynski in Peru. Colombia is a country whose government will benefit from higher oil prices, which will allow the country to move forward with its much-anticipated 4G infrastructure program.

Brazil

Brazil's market volatility has tracked political developments more than any other EM country. President Temer has taken over the executive role with the sense of urgency the market had hoped for. In less than a year, he has already proposed two important bills centered on government spending caps and pension reform. His intentions to reduce the fiscal deficit, reform social security and create a more business-friendly environment has led to an uptick in consumer confidence, a stronger real, an improvement in inflation expectations and the beginning of a potentially impactful rate cutting cycle. The new head of the central bank has already cut rates twice and uses dovish language in his communications. After three years of economic hardship, the economy is showing important signs of improvement, and inflation continues to decrease. Despite these positive developments, Brazil still has much work ahead of it and turbulence is expected in the near term.

Brazil: Consumer and Business Confidence on the Mend

Source: Bloomberg, Mirae Asset Global Investments (December 2016)



Mexico

There is a high degree of uncertainty around Mexico as we do not know how Trump's policies will influence trade. Trump's victory led to extreme volatility in local equities and in the peso. As the market has anticipated a more protectionist U.S. government, the probability of higher inflation and ensuing rate hikes has increased. If the above scenarios play out, we would expect a volatile medium term outlook for Mexico. That said, the market is already pricing in

the worst, and many expect the new U.S. administration to follow through with softer policies than indicated in campaign rhetoric. This, in turn, could create an attractive opportunity for the Mexican equity market. Either way, Mexico's economy faces an uphill battle with rising inflation, lower growth and an uncertain political outlook with its most important neighbor.

Mexican Peso and Inflation

Source: Bloomberg, Mirae Asset Global Investments (December 2016)



Andean Trio (Colombia, Peru, Chile)

Peru still boasts the strongest market in the Andean region. With a new market-friendly president in place we are optimistic that Peru will have a strong 2017. The rebound in copper and precious metals should also keep sentiment strong. Chile has recently suffered from natural disasters, weak sentiment and unpopular politicians. The market could turn later in 2017 in anticipation of new presidential candidates making their cases for change. In Colombia, the rebound and stability of oil prices is crucial for the government's ability to carry out the much anticipated 4G infrastructure plan, which should help many sectors in the economy. One additional item to watch this year is if Argentina will be welcomed back into the MSCI Emerging Market index.

EEMEA

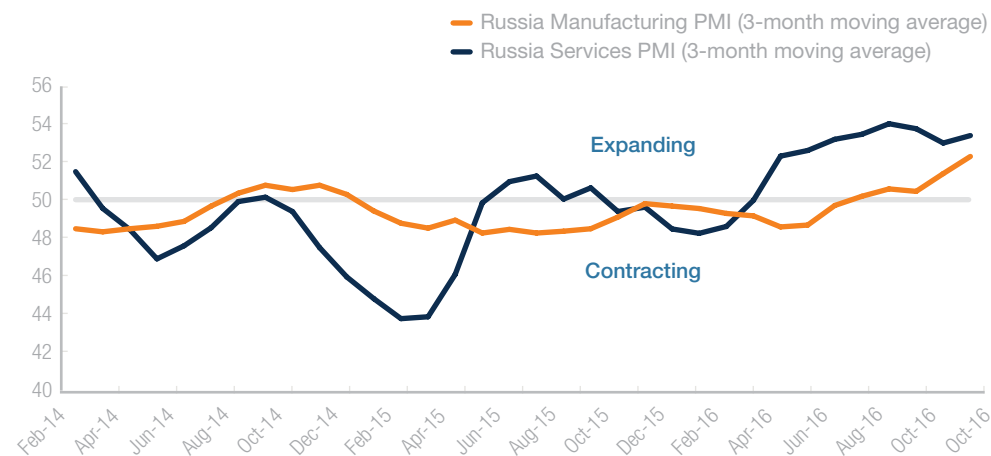
Russia is well positioned to benefit from rising oil prices, a stronger ruble, and an increasingly dovish central bank. Though South Africa faces structural challenges, negative sentiment could be overcome with political reform. Turkey faces dual headwinds in the form of its large fiscal deficit and tremendous political volatility.

Russia

Russia is poised to return to growth after two years of recession. EEMEA's largest economy benefits from higher oil prices, which translate into a stronger currency, lower inflation and improved consumer sentiment. This effect on the ruble and inflation also creates the opportunity for continued rate cuts, which leads to increased borrowing and growth. However, Russia is still under sanctions, and the Kremlin's involvement in Syria and Ukraine may give investors pause. The current sanctions negatively affect the capacity for capital raising, translating into long term challenges for the economy. Any signals implying a softening or removing of sanctions would be a positive catalyst for the Russian market.

Russian Manufacturing and Services Purchasing Managers' Index (PMI)

Source: Bloomberg, Mirae Asset Global Investments (December 2016)



South Africa

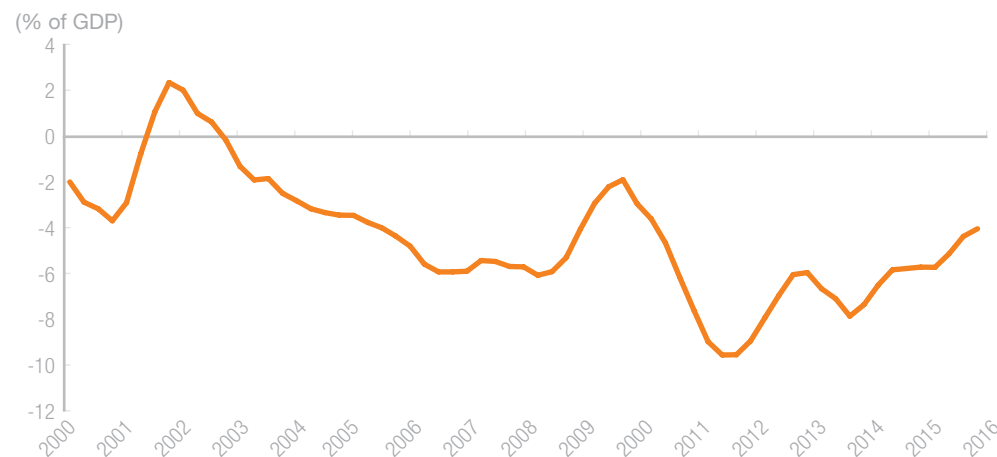
After a tumultuous 2016, the dynamics of a potential succession for the African National Congress should dominate headlines ahead of elections for new leadership in December 2017. Though the economy is still suffering from weak growth, high inflation and political corruption, any signs of a more balanced leadership should bring strength to the rand and help curtail inflation. In addition, the finance ministry has mentioned need for reform measures such as a reduction in the duration of labor strikes, the application of new rules for state owned enterprises and an overall improvement to the efficiency of doing business in the country. These reforms, along with signs of political change, will certainly have an impact on the credit rating agencies, which have a close eye on South Africa for a potential downgrade to sub-investment grade. On the positive side, the population is increasingly disenfranchised and demands for reform translating into eventual political change would create an attractive investment opportunity.

Turkey

Turkey boasts strong demographics and well-managed companies, but the market will focus on the country's headline figures such as large current account deficit and political volatility. The former narrowed from ~10% to ~4% of GDP in the middle of 2016, but the recovery in oil prices and weakness in tourism have increased the account deficit again. With potential oil supply cuts underway, this deficit could widen through the year and put the country at risk to shifts in global rates. On the political side President Erdogan is still operating the country in a state of emergency, which gives him near absolute power and brings the country closer to another referendum for an executive presidency. In terms of growth, this instability could lead to a weaker lira, which could pass through to inflation and increase the probability of a more hawkish central bank. Valuations look attractive, but we are wary of further political turmoil, terrorism, and the ruling party's push for absolute power.

Turkey's Current Account Deficit

Source: Bloomberg, Mirae Asset Global Investments (December 2016)



Other EEMEA Countries

Greece's ongoing move towards austerity and agreements with international creditors should allow investors to focus on company fundamentals again. We are negative on Poland, as the rise of the ruling Law and Justice Party (PiS) appears increasingly populist and potential tax increases in the financial sector hurt sentiment. The Czech Republic continues to present a strong growing consumer story. Middle East markets will be reliant on political stability, the price of oil, and the eventual opening of Saudi Arabia's equity market to all foreign investors.

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