

## **Hansberger Global Investors Emerging Markets Commentary Third Quarter 2011**

### **Market Overview**

The third quarter was a very difficult period for equities in Emerging Markets. Despite headlines that were dominated by Europe's sovereign debt and banking crises and the downgrading of the US credit rating, emerging market equities were among the worst performers during the quarter. Market performance among the various regions was uniformly negative for the quarter with Europe, Middle East and Africa (EMEA), Asia and Latin America all registering significant declines. On a country basis, Russia and Brazil were the worst performing major markets as commodity prices slumped while fears of a hard landing in China negatively impacted that market as well as equity markets worldwide. All sectors also registered declines in the quarter with Industrials, Materials, Financials and Energy being the worst impacted. Returns for U.S. investors in Emerging Markets equities were also negatively affected by the strength of the U.S. dollar, with the Brazilian real, Mexican peso, Russian ruble, South African rand and Korean won all registering double-digit declines in the quarter.

### **Market outlook**

While emerging market equities have suffered from fears of global contagion and risk aversion, the most recent weakness has largely been related to growing concerns of a potential hard landing for China's economy. While China's economy is slowing from the torrid pace of 10.4% in 2010 there are many indicators that suggest that a hard landing is not in the cards. Recent Purchasing Managers Index data for both services and manufacturing indicate stabilization or slight strengthening of the economy, not a severe

contraction. Retail sales are also posting strong gains in 2011 supported by rising incomes in both urban and rural areas. Finally profits at large industrial companies increased 28% in the first eight months of the year, hardly consistent with a hard landing.

While there have been some data points that suggest the economy may be slowing down in China, our view is that a hard landing is not the likely outcome. However, valuations are already reflecting a very dire outlook for Chinese equities. Fears of China's collapse have also impacted valuations of other emerging markets. In our view, these valuations are not justified when juxtaposed against the very positive long-term fundamental picture for the asset class.

While the short run focus of the market may continue to lead to volatility in emerging market equities, we remain positive on the asset class from both a valuation and fundamental perspective.

In our view, sustained tightening of Chinese monetary policy through higher rates and administrative measures, and the base effect from last year, should contribute to lower inflation in the latter part of the year. Beyond China, we expect headline inflation pressures to subside in many other emerging countries which should be positive for equity markets.

The process of global rebalancing with emerging markets making an increasing contribution to global growth has been reinforced and accelerated by developments of the last few years. We continue to believe that this process creates tremendous opportunities for investors. However, as with any transition of this magnitude the path is unlikely to be smooth, and we expect financial market volatility to remain high.



While macro risks continue to be high, the corporate sector remains in relatively good health. During the first half corporate earnings remained strong while in many cases market multiples contracted. While uncertainty and periodic increases in risk aversion will likely contribute to ongoing volatility, valuations are attractive and many of these risks have been well flagged.

These factors continue to create many opportunities that we believe we can capture via both high quality domestic-oriented and leading global companies that are domiciled in emerging market countries.

Thank you for the opportunity to discuss our outlook for the emerging equity markets and for your continued trust and support.

Hansberger Global Investors, Inc.

*Unless otherwise noted, all returns cited above are expressed in U.S. dollars.*

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