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## Sentiment turning positive towards emerging markets says Luca Paolini, Chief Strategist, Pictet Asset Management

Die Pictet-Gruppe | 12. November 2015

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### Kontakt

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London/Frankfurt, 12. November 2015

Improving investor sentiment, lack of supply and favourable technical factors are creating selective opportunities in emerging market debt and equity according to Luca Paolini, Chief Strategist at Pictet Asset Management.

“Sentiment towards emerging markets seems to be turning as tentative signs of stabilisation in economic activity have emerged in Asia while liquidity conditions have improved following easing measures by the Chinese central bank.

“The discount at which emerging market stocks trade to their developed counterparts seems excessive and we are already seeing investors rebuild their holdings in the asset class.

“However, we will need to see further evidence of an economic stabilisation in China to trigger an upgrade to a full overweight.

“In terms of emerging debt, we have started to add some exposure to emerging market corporate bonds, such as some Latin American blue chip issuers, which have up to now underperformed significantly and are due a rebound. We are now overweight in emerging credit.

“The shrinking supply of EM corporate debt is also a supporting factor. There is also some value to be found in emerging market US dollar debt as the ability of governments to service their debts is not in question given healthy reserves and low debt-to-GDP ratios.

“Nonetheless, we believe it is too early to jump back into emerging market local currency bonds as this asset class correlates closely with emerging market currencies, which may have further to fall.

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“Elsewhere, we keep our preference for European and Japanese equities, chiefly on valuation grounds but also because that is where we expect to see the strongest growth in corporate earnings. Economic resilience, central bank support and cheap currencies remain key factors in the positive outlook for companies in these regions.

“US equities remain the most expensive by some margin. The US earnings cycle appears much more advanced than those of other regions with profit growth having already peaked. We expect to see a much more modest increase in profits in the US than in Europe or Japan over the medium term.

“In terms of sectors, we maintain our moderate cyclical tilt with a preference for cheap cyclical stocks that are less exposed to rising rates. Defensive sectors continue to trade at expensive levels, especially consumer staples. We like financials, which should benefit from a rise in US interest rates and an improving outlook for credit in Europe. Technology stocks exhibit attractive valuations and are better equipped to hold up in a rising rates environment thanks to their large cash balances.

“We are making moderate changes to our fixed income positioning. We opted to take some profit on our government bond positions, reducing exposure to European longer duration bonds as we believe valuations for these securities in particular are looking stretched after the recent rally. Therefore, we now have an underweight allocation.”

**-Ends-**

## **Notes to the Editor**

### **The Pictet Group**

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#### **ABOUT THE PSU**

The Pictet Asset Management Strategy Unit (PSU) is the investment group responsible for providing asset allocation guidance across stocks, bonds, cash and commodities.

Each month, the PSU sets a broad policy stance based on its analysis of:

- business cycle: proprietary leading indicators, inflation
- liquidity: monetary policy, credit/money variables
- valuation: equity risk premium, yield gap, multiples vs. history
- sentiment: Pictet sentiment index (investors' surveys, tactical indicators)

