

# Opportunities and Risks in Today's Global Equities Markets

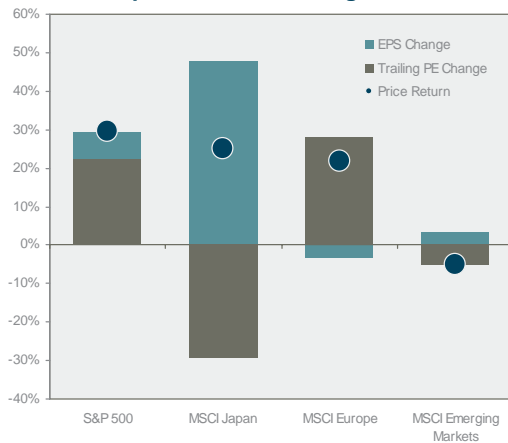
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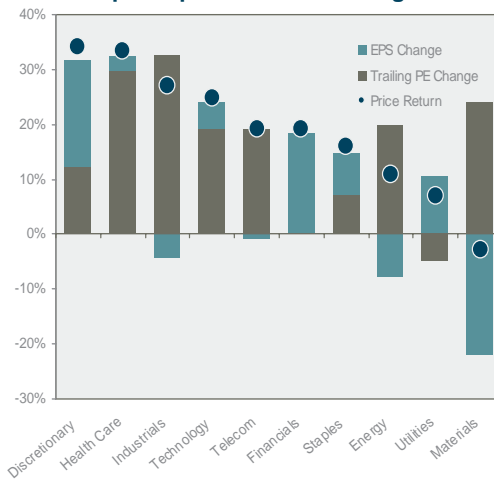
## Disaggregating Equity Gains In 2013

As at 31 December 2013

**Regional Returns By Multiple Expansion and Earnings Growth**



**Global Sector (MSCI AWCI) Returns By Multiple Expansion and Earnings Growth**



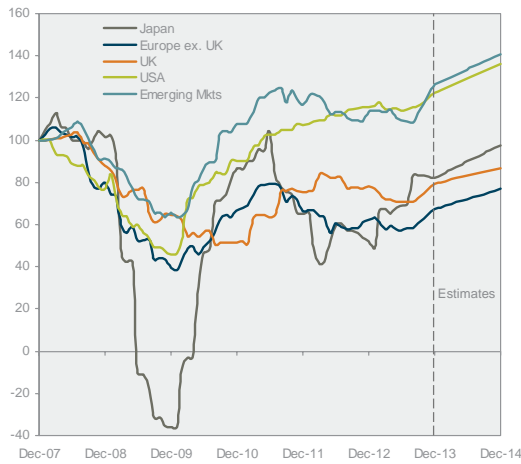
Multiple expansion was the primary driver of equity performance in 2013 as investors' have placed more weight on the likelihood of a durable shift to growth and profitability. Emerging market returns stand out, with negative returns despite modest earnings growth during 2013.

Sources: FactSet, MSCI. Calendar year returns in USD.

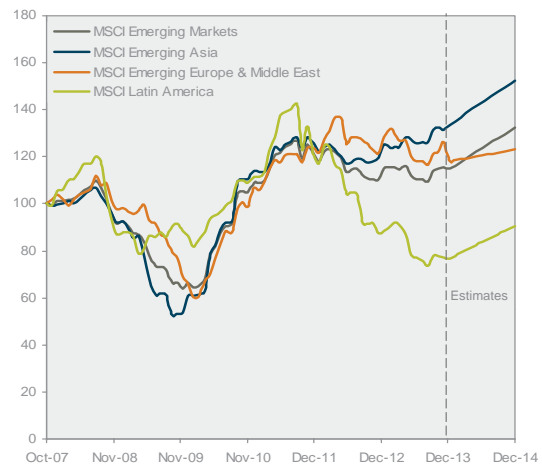
# Earnings Outlook – Growth, Surprise And Dispersion

As at 31 December 2013

**Trailing EPS since January 2008**



**GEM Trailing Regional EPS since October 2007**



Since the crisis, earnings growth in the developed world has largely come from the US. EM earnings have disappointed since they peaked in 2011, with weakness heavily concentrated in commodity producing countries. Given the re-rating of stocks, earnings delivery will be important as the cycle enters its 'growth' phase.

Sources: Goldman Sachs, FactSet, Citi Research, MSCI.

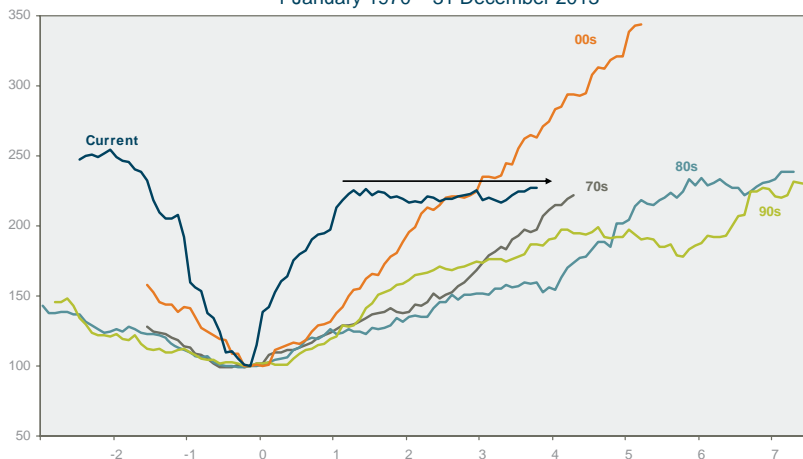
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# Will An Economic Recovery Feed Profits Growth?

As at 31 December 2013

**Global Profit Recessions and Recoveries of the Past**

Global EPS in USD, Year 0 Cyclical Low  
1 January 1970 – 31 December 2013



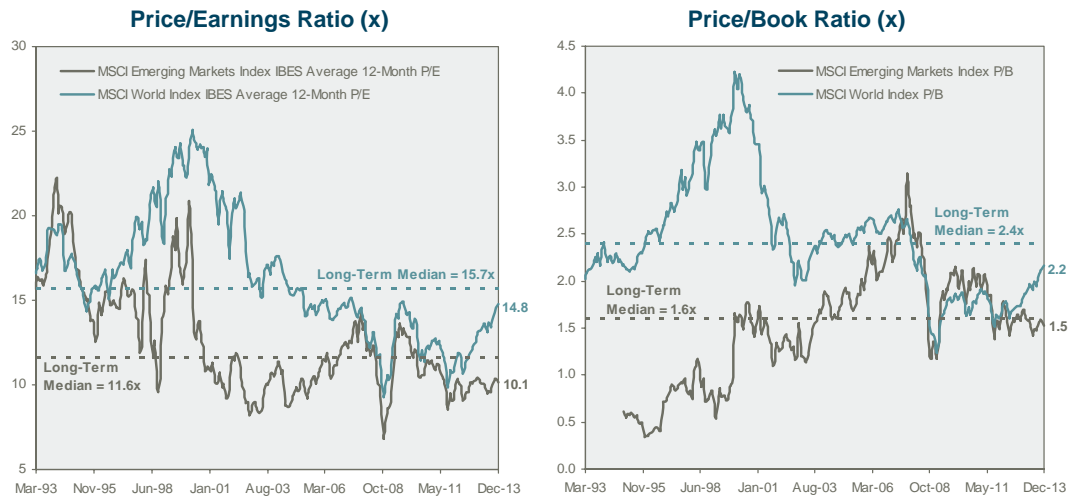
Despite equity market strength since the beginning of 2012, global profits growth has been in more limited supply in the past two years. Earnings growth will be needed to support stock prices that have rallied materially.

Source: Citigroup, FactSet

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# Global Equity Valuations Remain Reasonable

As at 31 December 2013



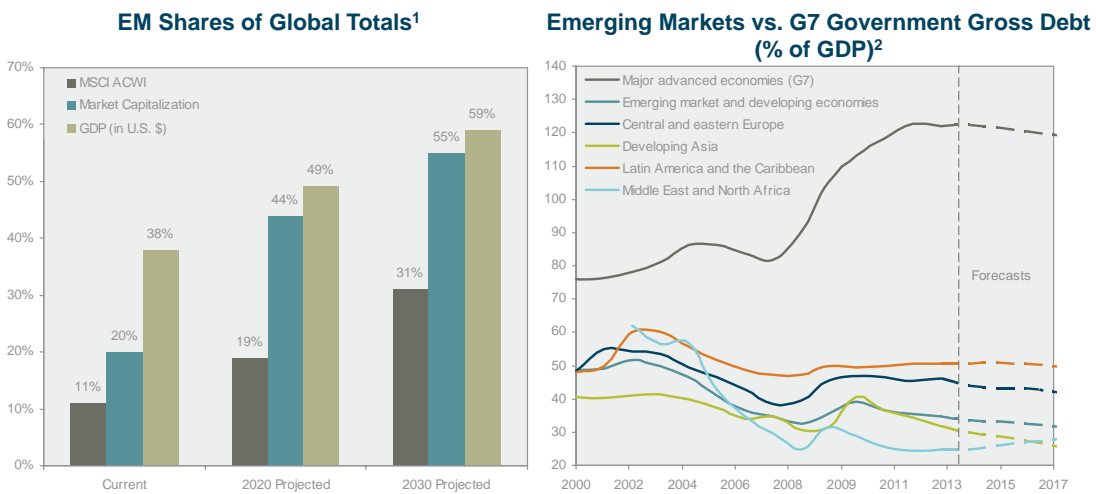
Buying developed world equities when inexpensive matters in the long term and this has proved to be the during this equity market rally. Whilst developed world valuations remain reasonable, emerging market valuations look attractive in absolute and relative terms.

Sources: Goldman Sachs, IBES, FactSet, MSCI.

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# Emerging Markets Have Evolved, Growth Is A Long Term Theme

As at 31 December 2013



Alongside the long term demographic and consumption dynamics of the emerging world, many EM countries are poised to benefit from better fiscal conditions in comparison to developed world peers. Albeit a combination of weak EM earnings and positive surprises in the US and Japan have shifted focus away from the potential of emerging markets equities, we continue to believe in the long term exploitable growth story.

<sup>1</sup> IMF current and projected as at 31 December 2013. Sources: FactSet, IMF, World Bank, World Federation of Exchanges, MSCI, Goldman Sachs Global ECS Research.  
<sup>2</sup> IMF forecasts as at 30 September 2013. Sources: IMF, JP Morgan.

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