



- **Mexico;** This remains overweight largely because it is one of the few GEM constituents where governance is clearly moving in a positive direction, in sharp contrast to its Latam peers, Chile and Brazil. Still, whilst reforms to the oil sector and labour market should raise the level of sustainable economic growth over the longer term, the more immediate impact on the margins of many of the listed companies will be negative. Mexican equities are clearly expensive at current levels to an extent which leaves little room for positive absolute returns over the medium term, but in default of any compelling alternatives, we remain overweight.
- **Poland;** Poland is one of the few emerging equity markets to deliver a positive total return in dollar terms over 2013 at the time of writing, despite the partial nationalisation of the pension fund industry which has absorbed the majority of investors' attention over recent months. Poland still appears to be relatively low risk/low reward compared to the rest of GEM given that financial flows from the EU are likely to meet the domestic funding deficit, while the equity market still yields just under 4%. Our main fundamental reservation concerns the potential for the government to meddle further in the management of some of the state-controlled companies which comprise the overwhelming majority of MSCI Poland, but we intend to remain overweight for the time-being.
- **Turkey;** This is by far the least successful of our recommendations for 2013 because both equities and the currency fell precipitously during the taper scare from late May to August, with only a partial recovery since then. We have three reasons for clinging on to our overweight position. First, valuations now look more reasonable, especially in the dominant financial sector. Second, we are sceptical about the extent and the impact of potential tapering, while we believe that the current account could benefit from a decline in the oil price. Finally, the major problems in Turkey are essentially cyclical – while the AKP-led government under PM Erdogan has made some unhelpful statements and the geopolitical situation in the area surrounding Turkey has been noisy to say the least, the private sector has largely been left to get on with business without the same level of state interference or negligence visible in some other emerging economies.

Neutral/overweight

- **India;** We do not really have a strong view on Indian equities at the current level in front of the nationwide elections in May. Valuations may appear cheap by historical standards, but are probably just fair, given the extent to which growth prospects have deteriorated over the past three years. The election is of course vital not so much in terms of who wins, but more how they win; in other words, will Congress, or more likely the BJP, be able to assemble a coalition which is able to enact and more importantly implement the economic reforms which investors and the policy-making elite alike deem necessary to restore India's growth potential? We suspect that at current levels, a market-friendly outcome in May is now partially priced in, whilst the financial situation for a significant part of the corporate sector is likely to deteriorate further over the coming months. Indian equities and the Rupee are likely to be very volatile through 2014 and we would prefer to wait for another period of weakness before adding to positions.