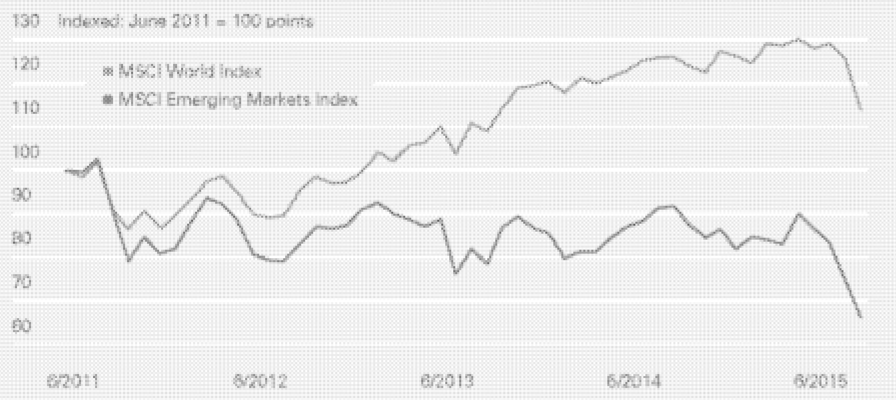
Devaluation fuels fears

At the same time, this step increased fears that further devaluations would be used by the government to restore China's competitiveness. This might enable China to regain economic strength via its export sector, but it would, at the same time, hurt competing companies in other economies. Many of these companies are headquartered in emerging markets. This is likely to have contributed to the strong setback of the MSCI Emerging Markets Index. In mid-August, China's central bank allowed some days of greater intraday volatility inside the daily fixing band against the U.S. dollar before resuming to manage the currency valuation and volatility again.

China's government was surprised by the sharpness of the market reaction to this change. Premier Li Keqiang tried to reassure markets that China's transformation from an export-oriented economy towards a more domestic-consumption-based economic model would continue. Strikingly, the MSCI Emerging Markets Index was hit harder by the renminbi devaluation than the MSCI World Index. This suggests that China's transformation might have a greater effect on EM corporations than on industrial economies' firms. China's devaluation could thus increase the pressure on other Asian central banks to depreciate their currencies.

Development of the MSCI Indices



Source: Thomson Reuters Datastream, index development adjusted for U.S. inflation, as of September 2015

Industrialized countries versus emerging markets

MSCI Emerging Markets Index buoyancy started to wane from mid-2011, while the MSCI World Index, comprising stocks from developed economies, continued to trend upwards. This emerging-markets downturn was worsened by slow progress on reforms and inefficiently-allocated investment in many countries. Some countries such as China, India and Mexico have already started to implement reforms.

Development of corporate profits

Sources: Thomson Reuters Datastream, IBES, consensus estimates for the current year, estimated earnings adjusted for U.S. inflation, as of September 2015

A glance at earnings

From 2011 onwards, corporate earnings developed in quite a similar way as stock-market indices. Emerging-market corporations' earnings started to come under pressure at the end of 2011. Industrialized-countries corporations, which are represented in the MSCI World Index, maintained and even increased their earnings after mid-2011.

Past performance is not indicative of future returns. No assurance can be given that any forecast, investment objectives and/or expected returns will be achieved. Allocations are subject to change without notice. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect.