

# Neuberger Berman Emerging Markets Equity Team

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## Market Context

In emerging markets selling has been indiscriminate, although countries that are further along in the Coronavirus curve, e.g. China and Taiwan, are outperforming and their economies seem to be getting back to normal. Commodity-sensitive markets like Russia and Brazil continue to be underperformers. On a sector basis, commodity sectors (Energy/Materials) may have been the hardest hit. Challenges are likely to persist in these markets, so we remain underweight, which has been helpful on a relative basis. We continue to monitor currencies that have taken a big hit, in particular commodity currencies like the Brazilian real, and Russian ruble.

Easy monetary policy can be helpful in the longer run, but the current dollar funding squeeze is putting further pressure on emerging markets. We have an all-cap approach, so the current liquidity challenges have not been helpful for our s/mid cap exposure given that EM small cap has underperformed MSCI Emerging Markets Index by >500bps YTD (although EM small caps are down less than the Russell 2000 Index YTD). We also run a domestically-biased strategy, so we expect domestic-focused companies to recover first given exporters will likely still have to deal with virus-related demand destruction in the developed world. As things recover and liquidity improves, we believe we are well positioned to benefit.

## Investment Implications

We have not made any radical changes, but we are staying in close contact with existing companies to assess the impact. When we believe prices are dislocated from fundamentals, we'll look to add. We are reducing the large underweight bias towards China, adding to domestically-focused Consumer names and Real Estate as the economy recovers and pent-up demand could drive 2H 2020 recovery. In addition, we are also looking for opportunities in niche tech players, and quality financials with structural growth.

Our quality bias means we seek to stay away from businesses with significant debt or with short term funding cliffs. Issues in credit markets should therefore be less impactful for our companies.

We believe we own quality assets and despite short-term disruptions, we believe these businesses could gradually get back to normal. Current valuation makes many of them look very attractive on a 3-5 year view. Markets appear to already be discounting a sharp earnings drop, but stimulus combined with pent-up demand could lead to sharp recovery.

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