



# Emerging Market Long Term Trend

Investment Idea :  
16 February 2021

## Structuration : Booster Notes

Maturity: **8Y**

Underlying's:

- **MSCI Emerging Market Index**

Strike: **100%**

Participation Level: **94%**

Capital Barrier: **60%** European

Currency: **USD**

## Overview

We believe that timing is very interesting to invest in Emerging Market to take advantage of short- and long-term factors which should allow it to outperform other equity markets.

We have designed a conservative structuring with a Booster Notes.

**“EM are leading global  
growth rebound”**

## Why Now ?

### The Short-term drivers of emerging market equity outperformance in 2021:

1. **Play US Dollar weakness:** the weaker the US dollar, the better it is for EM stocks. EM is the best performing region when the dollar weakens or inflation expectations rise. Credit Suisse expect both to happen.
2. **Play EM are leading global growth rebound:** Emerging markets economies should benefit further as the vaccine is distributed in developed markets during the first half of 2021 and in emerging markets later in 2021 and 2022. The performance of EM over DM tends to follow GDP differentials. The IMF sees EM (6%) outperforming DM (3.9%) by 2.1pp. in 2021.
3. **Play cyclical and commodities exposure** related companies among EM Stocks.

### The long-term drivers of emerging market equity outperformance are well known:

1. **Falling Inflation:** current stronger currency should lead to a fall in inflation (lowering the price of imports). In some instances, much of their social security payments are index-linked and thus their fiscal position improves.
2. **Solid Currencies:** are very important. EM countries benefit from the stronger currency, they tend to allow FX reserves to rise (i.e. they do not sterilize), which in turn leads to an increase in money supply, which boosts growth; this also potentially leads to a domestic bubble.
3. **Growing Exports:** EM export market shares (which proxies' competitiveness) and basic balance of payment surplus are both close to 20-year highs. Additionally, the real yield pick-up in local currency terms is close to 10-year highs. (According to CS)
4. **Strong Local Demand:** The rise of the global middle class and the accelerating demographic changes that are unfolding in emerging countries are historic in nature and present investors with opportunities to potentially benefit from this dramatic change.
5. **The stronger growth:** is not because populations are growing much more rapidly elsewhere. Parts of Asia face similar demographic challenges to countries in the developed world. Instead, they are growing because they are increasingly embracing the technologies of developed nations and, as a result, are experiencing a process of economic catch up to the levels of income experienced in the more advanced economies.

**“Emerging markets economies should benefit further as the vaccine is distributed in developed markets during the first half of 2021 and in emerging markets later in 2021 and 2022”**

## Which investment vehicles?

The **MSCI Emerging Markets Index** is a selection of stocks that is designed to track the financial performance of key companies in fast-growing nations. It is one of a number of indexes created by MSCI Inc., formerly Morgan Stanley Capital International.

The MSCI Emerging Markets Index reflects the performance of [large-cap and medium-cap](#) companies in 27 nations. All are defined as emerging markets. That is, their economies or some sectors of their economies are seen to be rapidly expanding and engaging aggressively with global markets.

The MSCI Emerging Markets Index currently includes the stocks of companies based in Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and the United Arab Emirates.



## Which Structuration?

In order to capture the Long Term Trend we decided to design a Booster whose parameters are the following:

### Booster Notes

- Maturity: **8Y**
- Underlying's:
  - **MSCI Emerging Markets**
- Strike: **100%**
- Participation Level: **94%**
- Capital Barrier: **60% European**
- Currency: **USD**