October 12, 2020

Emerging Markets have begun to outperform Developed Markets as the two have decoupled.

Recent returns, although constituting a small sampling period, are significant and indicative of a trend we believe is underway:

	1-Month	3-Month	6-Month	Year-to-Date
S&P 500 (SPY ETF)	3.57%	6.65%	20.41%	9.27%
SLG China*	4.89%	4.01%	56.99%	73.98%
SLG Emerging Markets	3.67%	10.18%	34.46%	11.02%
SLG India	6.82%	24.16%	50.77%	12.69%

* Inception date is April 1, 2020
** Fund returns are reported net of management fees

The combined effects of Political Populism, Protectionism (Tariff Wars, Brexit, TPP Failure, etc.), along with rapidly expanding middle classes in emerging economies have contributed to the decoupling process. Meanwhile Covid brought forth new factors that are further accelerating the process.

COVID DRIVERS

A. Virus Management

Countries with effective measures have seen a faster improvement in domestic consumption and a rebound in their markets. For example, China's Golden Week holidays started last week and:

- Disneyland Shanghai is thriving with hotel prices rising to over $1,000 a night while Disney World U.S. continues lay-offs
- Didi (China' Uber) provided 100 million driver subsidies at 9/30 to satisfy the huge demand.

B. Stimulus

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With $2 Trillion issued and another potential $1 - $3 Trillion being discussed, the U.S. leads the world in economic stimulus provided, from which the markets have reacted positively, however the increased National Debt has weakened the dollar and will drive future inflation, and capital outflow to emerging countries due to trade deficits and investment return differentials (especially if a Democratic victory results in a much larger stimulus and a higher tax rate).

C. Supply Chain Breakdowns

Deficiencies have driven home the need for internal self-sufficiency, accentuated by the U.S.'s inability to produce drugs due to the reliance on imported foreign produce reagents.

D. Interest Rates

Emerging economies generally carry a lower debt load, and its US dollar denominated debt services will be reduced from extended low interest rates and a weakening of the U.S. dollar. The average 10-year bond yield in major emerging countries is still >4% versus 76 bps in the US, and the yield gap should be narrow driven by inflows from yield-hungry global investors. Emerging Market equities usually outperform the most during periods in which emerging market currencies appreciate against the US dollar and emerging market bond spreads over those in the US narrows.

EXISTING FACTORS

E. Middle Class Growth/Decline

While the U.S. struggles to maintain a middle class, China and India are adding approximately 30 million new entrants to their middle-class populations of 500 million plus and this trend can accelerate.

F. Demographics

While the U.S., Western Europe and Japan all experience slowing population growth Emerging Markets, particularly India, have significantly younger and much larger populations which are less impacted by Covid-19.

And while Emerging Markets have lagged developed markets, particularly the U.S. for the past decade, we believe that a shift is in process driven by the factors outlined above.

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