

Magni Clients Information – Post Embargo

Talking Points on International Equity Research and Investing

January 2014

Macro View

- Financial markets are dislocated due to a global flight to safety.
- Asset classes perceived as relatively safe have rallied (e.g., US Dollar, US Treasures, gold, Japanese Yen).
- Beginning global tightening cycle as central banks fight inflation and support local currencies (including the Fed's continued tapering).

Developed Markets

- Growth prospects in developed markets (DM) are improving with forecasts increasingly being revised upward.
- Global markets declined during the month of January, but DM proved to be more resilient only losing roughly half as much as emerging markets (EM).
- The US and the UK are gathering strength, Europe has emerged from its recession, and these central banks continue to keep interest rates at or near record lows, which should encourage economic growth.

Emerging Markets

- Almost all EM are being squeezed by falling commodity prices, political instability, and currency weaknesses.
- EM central banks are increasing interest rates in an attempt to contain investment outflows and currency volatility. India, Russia, Argentina, Turkey and South Africa are the latest examples.
- Frontier countries hit much harder (e.g., Argentina, Ukraine and Venezuela).
- Improving growth prospects in developed countries should improve conditions in EM.

Economic Infrastructure

- Magni just completed an examination of economic crises.
- The way countries handle troubled companies can play an important role in preventing a crisis from becoming longer and deeper.
- Without effective rules and regulations, issues involving corporate debt are harder to resolve. Companies unable to perform a turnaround tend to linger in a feeble condition and become a drag on the overall economy.
- Conversely, effective rules and regulations enable these issues to be resolved through fast, inexpensive, and transparent procedures. As a result, more companies are able to complete turnarounds and the economy recovers more rapidly.
- Following this examination, Magni downgraded Spain, Columbia and Greece, while upgrading Morocco, Philippines, Brazil and Israel.