

Emerging Markets are riding a new growth wave

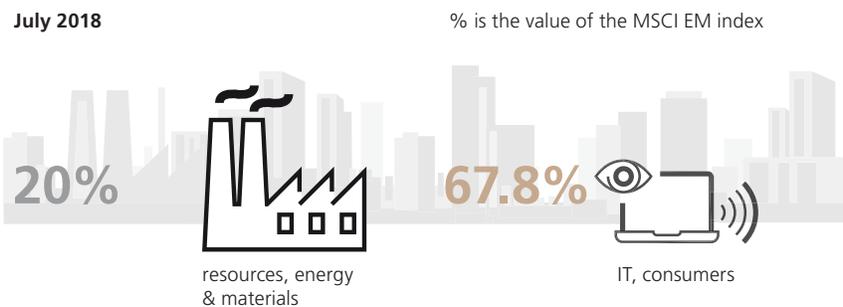
Emerging markets have **experienced explosive growth** over the past ten years

About two-thirds of the economic growth in the world over the next five years is expected to come from emerging markets. Why? Well, for one between 2019 and 2050 the population of working age people is expected to grow in EM, but decline in developed markets.¹ This means EM countries will contribute more than 100% of that growth, redefining the global consumer base. With attractive valuations and solid fundamentals, we believe that now is a good time to invest in emerging markets equities for the long term. EM equities are a rapidly growing sector with a robust structural growth story and inexpensive valuations compared to historical averages and vs. developed markets. Here are 10 transformations that have changed the face of emerging markets and created investment opportunities over the last 10 years.

EM
10 years
10 transformations

IT, consumer, and financial sectors became dominant

EM is no longer a commodities and resources story



Source: UBS AM, MSCI. Data correct as of 31st July 2018

EM citizens shifted online

Creating a user base 5x the size of the population of the US



Source: Internet Live Stats, August 2018

EM saw an increase in working age people

As developed markets aged, working age populations in EM massively expanded



Source: United Nations Population Division: World Population Prospects 2017 (<https://population.un.org/wpp/Download/Probabilistic/Population/>)

¹Source: United Nations, Morgan Stanley Research. Projections are UN Estimates. As at end of December 2017.

EM's middle class has grown

▶ **1.24bn**

in 2016

expected to grow by

▶ **+986 m**

between 2017 and 2023



Source: European Environmental Agency (Kharas, H. 2010. The Emerging Middle Class in Developing Countries, p. 29, OECD Development Centre, Working Paper No. 285. OECD), Brookings Institution, HSBC calculations

EM urbanized. Rapidly.

In EM, people moved to cities – mostly in Asia

▶ **466.1m**

people moved to EM cities between 2007 and 2017



Source: World Bank indicators, September 2018
<https://data.worldbank.org/indicator/SP.URB.TOTL?end=2017&locations=CN-BR-CL-CO-CZ-EG-GR-HU-IN-ID-KR-MY-MX-PK-PE-PH-PL-QA-RU-ZA-TH-TR-AE&start=2005>

The shift to cashless societies got underway in EM

Cashless payments in Emerging Asia – driven by China and India – are growing rapidly

▶ Emerging Asia to see estimated CAGR in cashless payments of

30.9% between 2015 and 2020

▶ Emerging Asia is estimated to account for

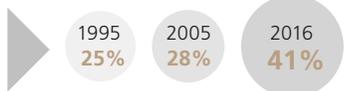
40.5% cashless payments globally by 2020

Source: Capgemini: World Payments Report, 2018

EM became less dependent on exports to developed markets

EM countries trade more with each other than with developed markets

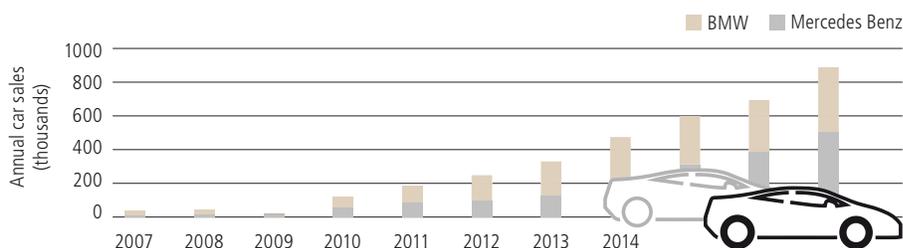
EM exports to other EM as % of total exports



Source: IMF Direction of Trade Statistics, as of 31 December 2016

EM consumers upped their spending on premium brands

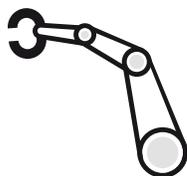
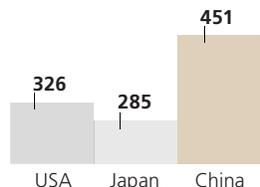
BMW and Mercedes-Benz saw increased sales in China



Source: Carsalesbase, September 2018

EM manufacturers automated and moved up the value chain

China took the lead



▶ **c.1m**

installed robots estimated by 2020

Source: International Federation of Robotics, September 2017

EM share of global economy increased

but remained under-represented in global indices

2017

▶ EM share of World GDP



▶ MSCI EM weight in MSCI ACWI



Source: Haver, UBS IB Research, data as of 31 August 2017

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Index definitions:

The MSCI Emerging Markets Index (net) is a market capitalization-weighted index composed of different emerging market countries in Europe, Latin America, and the Pacific Basin.

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Americas

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