2 January 2025

Upgrade Saudi (structural growth), downgrade Brazil (value trap)

GEMs Equity Strategy

Equity Strategy
Emerging Markets

- Upgrade Saudi to overweight: a structural growth story and relative outperformer in a strong USD environment
- Downgrade Brazil to underweight: a classic value trap
- Thematic: Where's the value? Our framework suggests Indonesia, South Africa, and mainland China offer most value

Alastair Pinder, CFA
Head EM and Global Equity Strategist
HSBC Securities (USA) Inc.
alastair.pinder@us.hsbc.com
+1 212 525 5972

Nicole Inui, CFA
Head of Equity Strategy, Americas
Banco HSBC S.A.
nicole.inui@hsbc.com
+55 11 2802 3475

Herald van der Linde*, CFA
Head of Equity Strategy, Asia Pacific
The Hongkong and Shanghai Banking Corporation Limited
heraldvanderlinde@hsbc.com.hk
+852 2996 6575

** Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations*

Upgrade Saudi, downgrade Brazil. In this report, we make two changes to our GEMs equity allocation. **First, we upgrade Saudi to overweight from neutral.** We see an opportunity for Saudi equities to outperform in 2025, following a 14% underperformance in 2024: (1) it is a relative winner from a strong USD environment given its USD peg, (2) it is the biggest underweight position in GEMs funds, and (3) it has a best-in-class structural growth story, (4) with valuations that have de-rated meaningfully, and has incorporated a lot of pessimism around lower oil prices. **Second, we downgrade Brazil to underweight from neutral.** We consider Brazil to be a classic value trap. The market has already underperformed significantly, and although valuations look cheap (6.6x 12-month forward PE), we see little reason for this to change. Disappointment around government spending cuts is transpiring into a negative feedback loop of higher interest rates, a weaker BRL, higher inflation expectations, and slower growth. We struggle to see a marginal buyer of equities with real interest rates exceeding 7% deterring local investors and GEMs funds already overweight. The market is unlikely to see a re-rating until there is a decline in interest rates and local bond yields, which might not occur until H2 2025 at the earliest.

Thematic spotlight: Where's the value post US elections? One of the biggest debates we have had with clients since publishing our GEMs 2025 outlook (*The Art of the Comeback*, 26 November 2024) is on the topic of value, and specifically which markets are already pricing sufficient downside risks. We put together a proprietary valuation framework and combine this with earnings momentum to identify markets which have started to price the most risk post the US elections. Three markets in particular stand out: Indonesia, South Africa, and mainland China. We hold an overweight position in all these markets.

Market and sector views. Emerging market (EM) equities have been written off post the US elections given the prospect of higher tariffs and a strong USD. Despite heightened volatility and noise, we believe EM equities may prove more resilient than expected. Our core overweights in EM heading into next year are centered on three buckets: (1) markets that have the fiscal firepower to offset potential headwinds from US tariff policies, i.e. mainland China, (2) markets that are more resilient or could even benefit from a second Trump administration, i.e. Poland and UAE, and (3) markets that are relatively more sheltered from US politics and can rely on a strong domestic story – India, South Africa, and Türkiye. At the sector level, our core overweights stay the same: consumer discretionary, financials, consumer staples, and energy.

HSBC EM MARKET/REGION WEIGHTINGS

Market/region		HSBC view (current)	HSBC view (previous)
FTSE Russell EM EMEA		**overweight**	**overweight**
Czech Republic		underweight	underweight
Egypt		overweight	overweight
Greece		overweight	overweight
Hungary		overweight	overweight
Iceland		neutral	neutral
Kuwait		underweight	underweight
Qatar		underweight	underweight
Romania		neutral	neutral
Saudi Arabia	▲	overweight	neutral
South Africa		overweight	overweight
Türkiye		overweight	overweight
UAE		overweight	overweight
FTSE Russell EM Asia		**underweight**	**underweight**
Mainland China		overweight	overweight
India		overweight	overweight
Indonesia		overweight	overweight
Malaysia		neutral	neutral
Philippines		neutral	neutral
Taiwan		underweight	underweight
Thailand		neutral	neutral
FTSE Russell EM LatAm		**underweight**	**underweight**
Brazil	▼	underweight	neutral
Chile		neutral	neutral
Colombia		underweight	underweight
Mexico		neutral	neutral

Source: HSBC
▲ | ▲▲ = denotes one (two) step upgrade
▼ | ▼▼ = denotes one (two) step downgrade

Tempered enthusiasm | The 18th edition of the EM Sentiment Survey Click to view

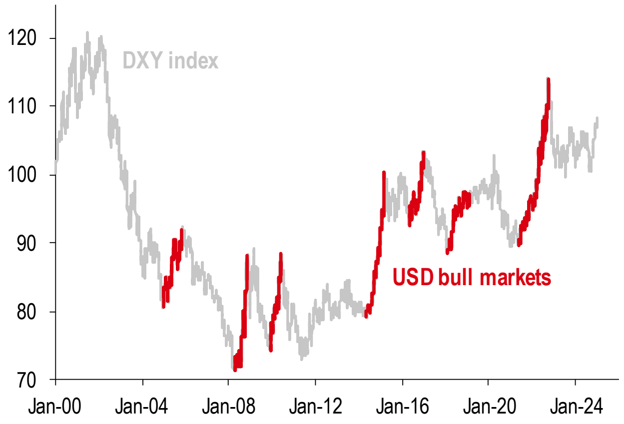
Disclosures & Disclaimer

Issuer of report: HSBC Securities (USA) Inc.

View HSBC Global Research at:
https://www.research.hsbc.com

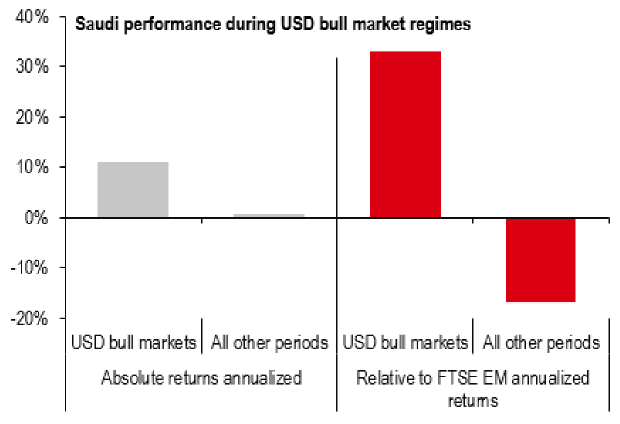
Saudi: supported by a strong USD and more reasonable valuations

3. Dollar index (DXY)



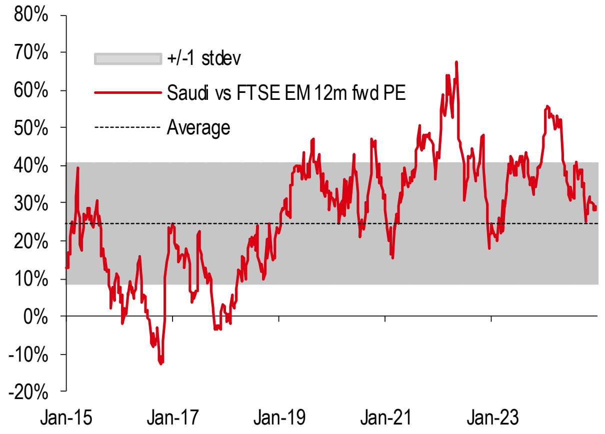
Source: Bloomberg, HSBC

4. Saudi equity performance in USD bull markets



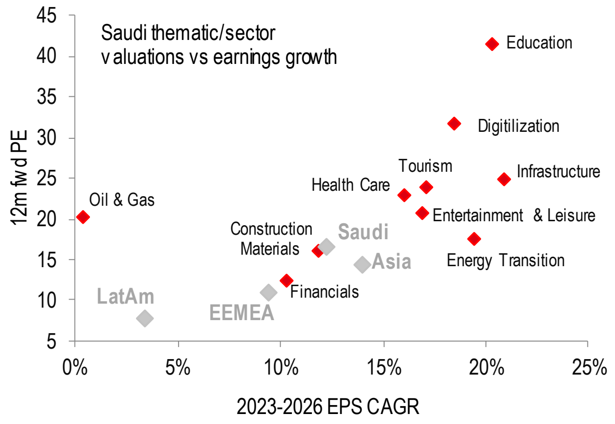
Source: FTSE Russell, Factset, HSBC

5. Saudi equity valuations relative to EM



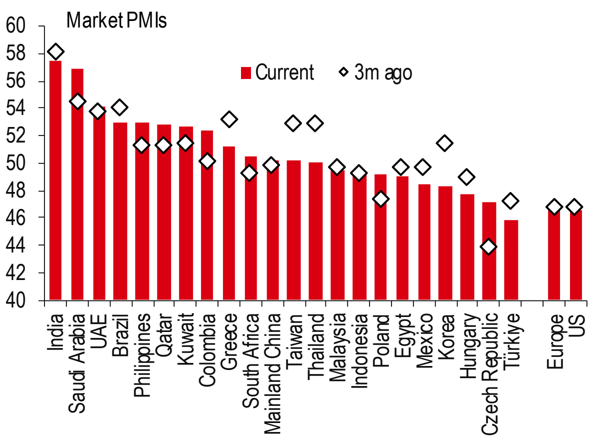
Source: FTSE Russell, Factset, HSBC

6. Valuations vs earnings growth framework



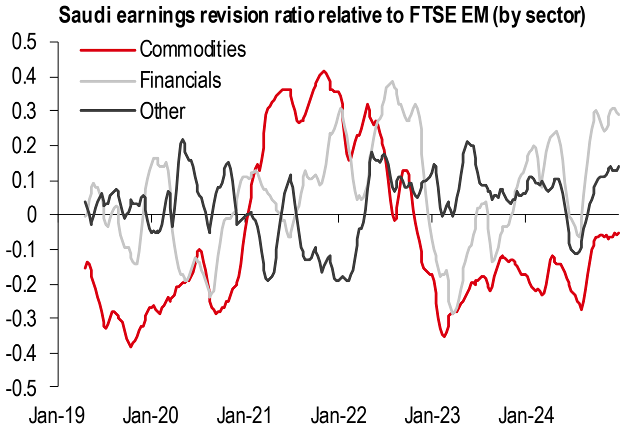
Source: FTSE Russell, Factset, HSBC

7. Saudi's PMI performance is among the best in EM



Source: Macrobond, HSBC

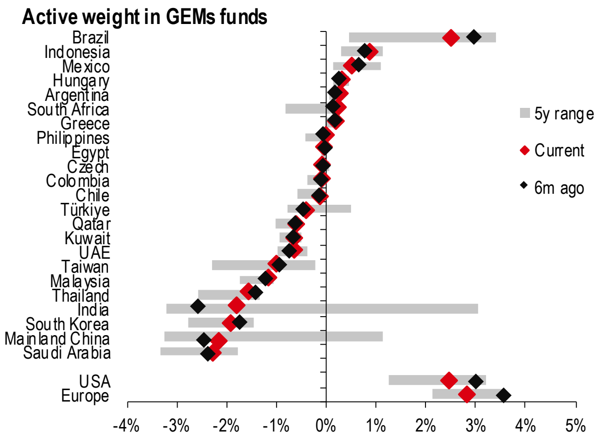
8. Earnings momentum has turned strongly positive



Source: FTSE Russell, Factset, HSBC

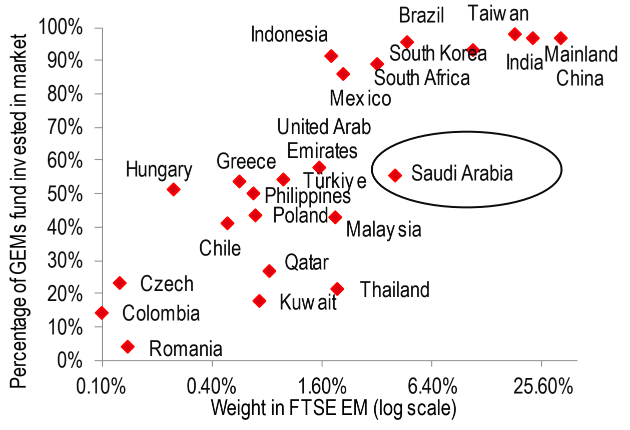
Saudi: the biggest underweight position among GEMs funds

9. Active weight in GEMs funds



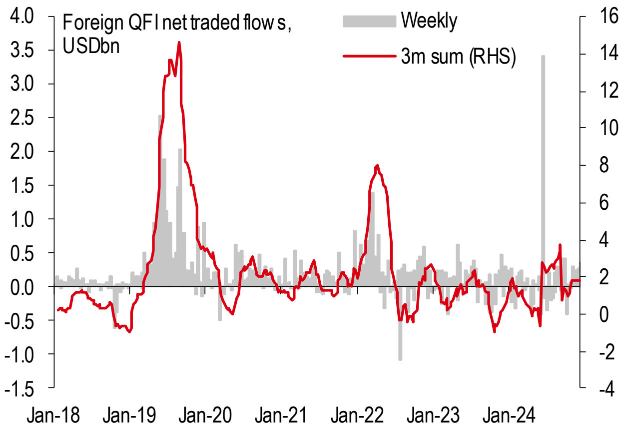
Source: FTSE Russell, Factset, HSBC

10. GEMs fund ownership vs weight in EM benchmark



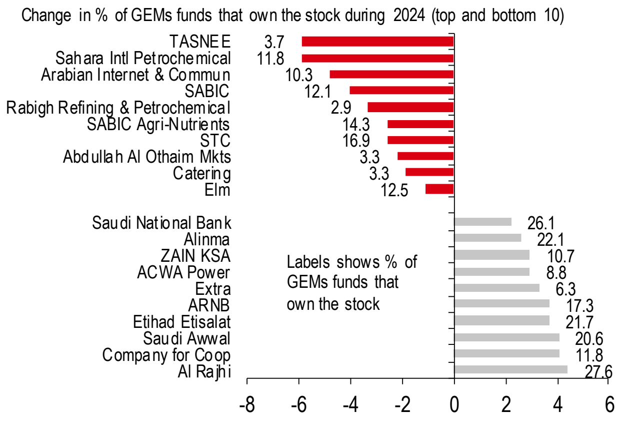
Source: FTSE Russell, Factset, HSBC

11. Foreign inflows



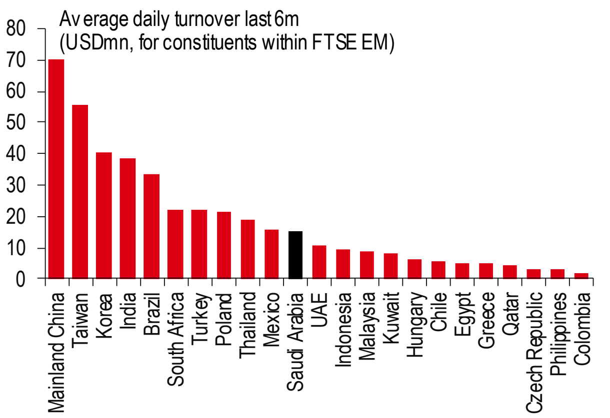
Source: Bloomberg, HSBC

12. Shifts in Saudi stock ownership among GEMs funds in 2024



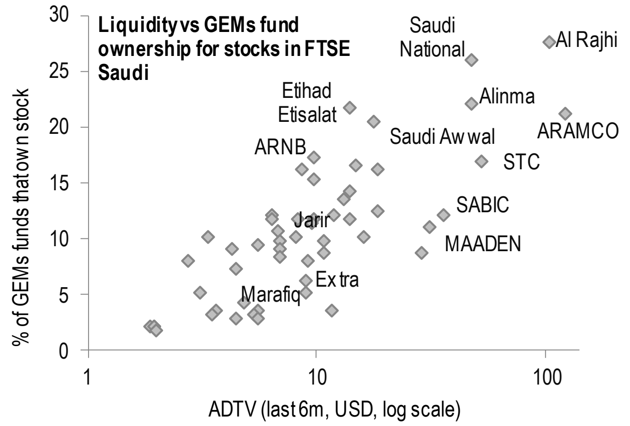
Source: FTSE Russell, Factset, HSBC

13. ADTV across major EM markets



Source: Bloomberg, HSBC

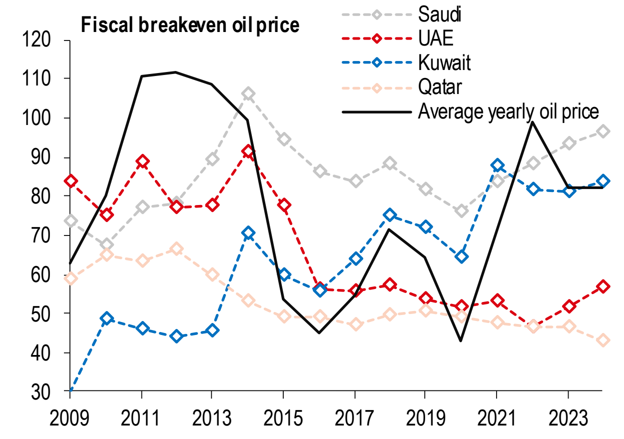
14. Lack of liquidity is a key headwinds for foreign investors



Source: FTSE Russell, Factset, HSBC

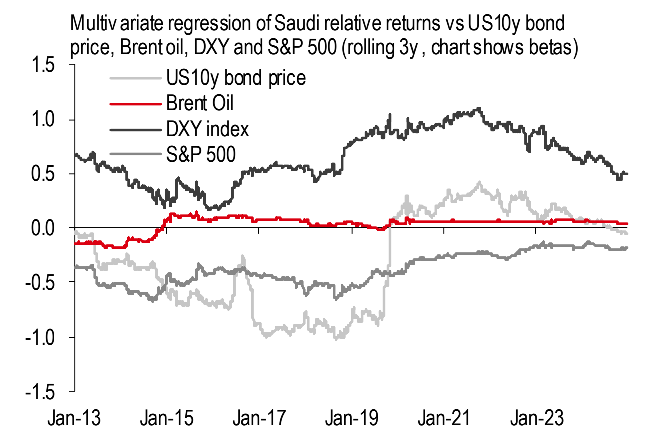
Saudi: equities less sensitive to lower oil prices

15. Fiscal breakeven oil prices



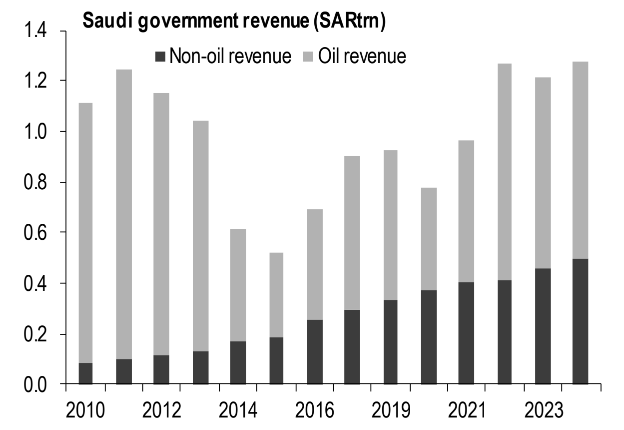
Source: IMF, HSBC

16. Saudi equity market sensitivity to macro variables



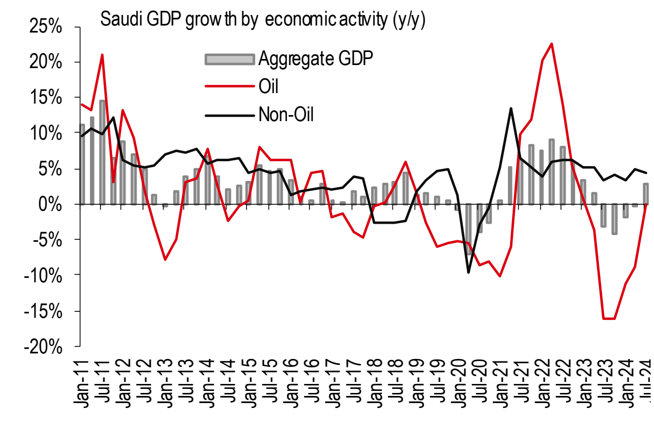
Source: FTSE Russell, Factset, Bloomberg, HSBC

17. Saudi government revenue



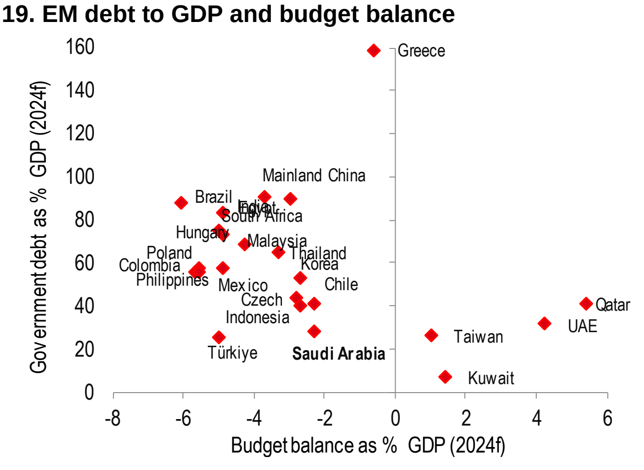
Source: Macrobond, HSBC

18. Saudi GDP growth and drivers



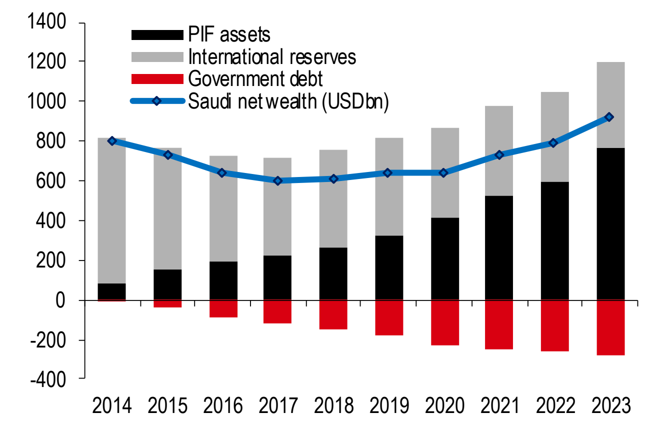
Source: Macrobond, HSBC

19. EM debt to GDP and budget balance



Source: IMF, HSBC

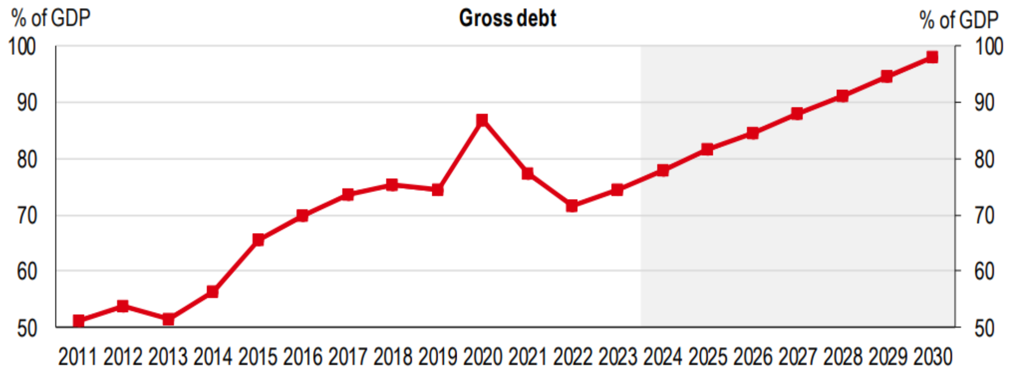
20. Saudi net financial worth



Source: Macrobond, PIF, HSBC

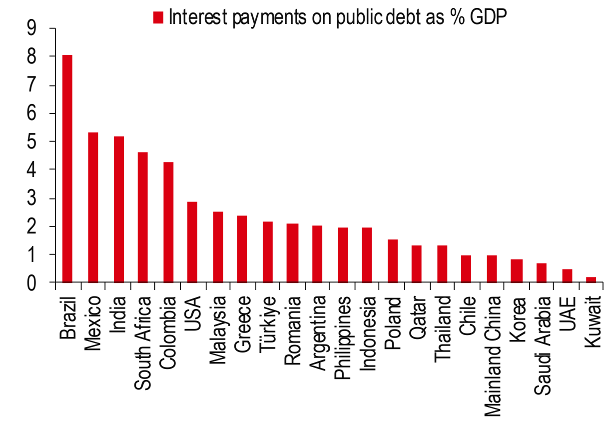
Brazil: fiscal dynamics are a major concern

33. Brazil's debt dynamics look unsustainable



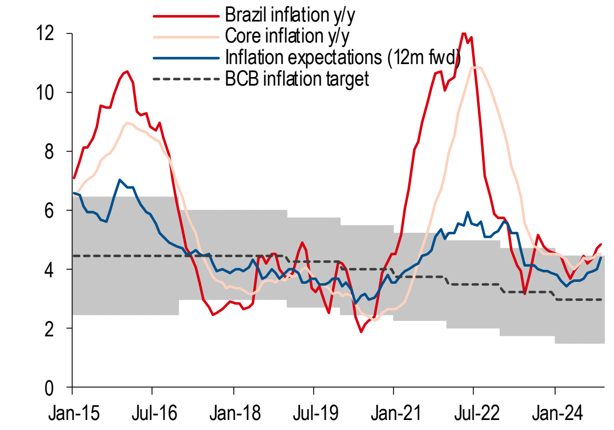
Source: Bloomberg, HSBC

34. Brazil has the highest interest payments among its EM peers



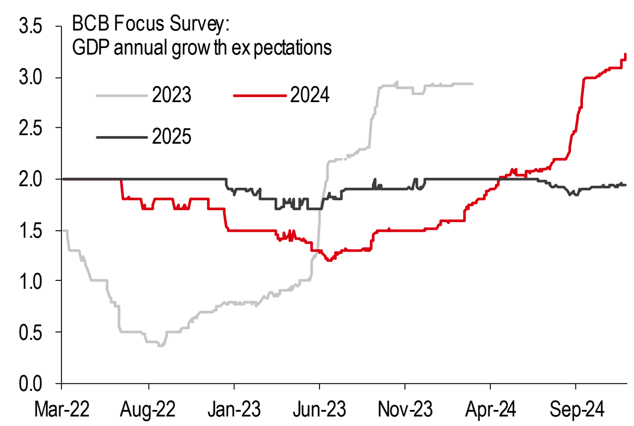
Source: IMF, HSBC

35. Inflation and inflation expectations are accelerating



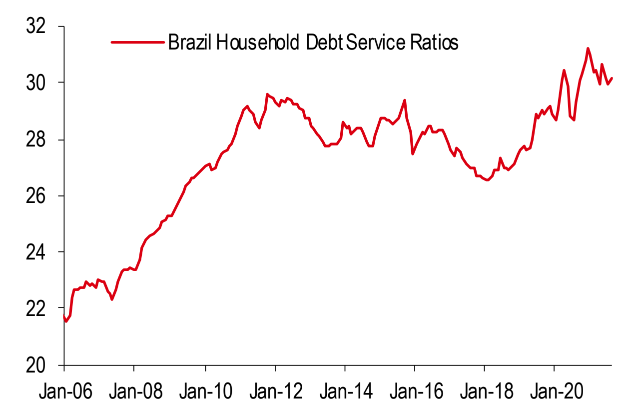
Source: Bloomberg, HSBC

36. Growth is expected to slow in 2025



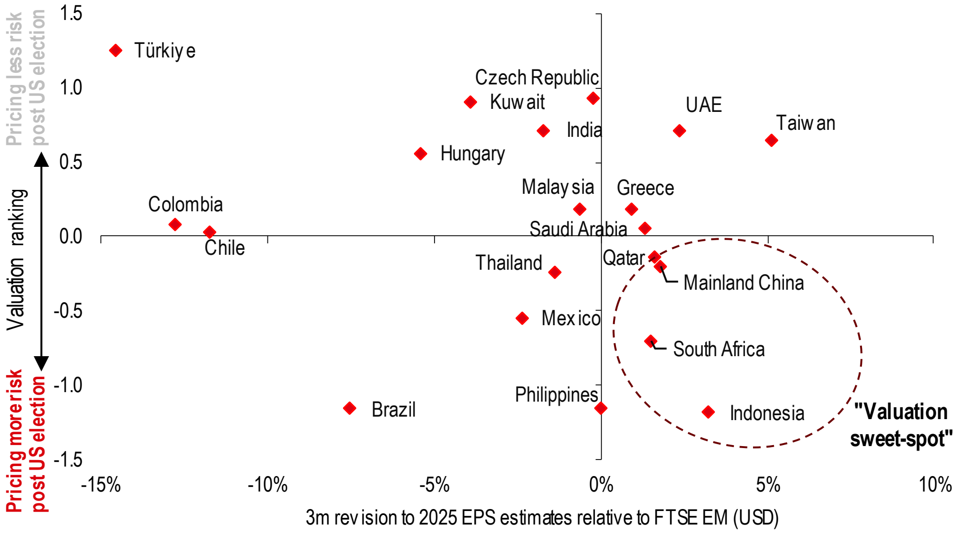
Source: IMF, HSBC

37. High interest rates and high debt service ratios could put pressure on the Brazilian consumer



Source: Bloomberg, HSBC

46. EM markets value ranking and earnings momentum



Source: FTSE Russell, Factset, HSBC

We then overlay this aggregate valuation score with relative earning momentum to identify which markets are in the valuation sweet-spot: offering cheap valuations and have relative earnings momentum (chart 46).

Value that is not a trap

Three markets in particular stand out as being value, but not a trap: Indonesia, South Africa, and mainland China.

- **Indonesia:** In our view, Indonesian equities are incorporating too high a country risk premium, with a significant amount of pessimism now seemingly baked into the price. FTSE Indonesia is currently valued at 11.5x on a 12-month forward PE basis, marking an 11% discount compared to the FTSE EM, and trading 3SD below its decade-long average (chart 48). Meanwhile, Indonesia's five-year CDS spread of 75bp would imply the equity market should be at more than a 15x 12-month forward PE ratio (chart 49). Relative to its ASEAN peers, FTSE Indonesia has de-rated the most since the US election (12-month forward PE down 13% vs 4% the rest of ASEAN). However, we would also argue that Indonesia is less vulnerable to US tariffs compared to the other ASEAN markets. Domestic consumption is a more important driver for the economy and unlike the rest of ASEAN, which predominantly exports light electronic devices, consumer goods, and textile, Indonesia mainly exports commodities which will be harder for the US to substitute or produce domestically. Within Indonesia's equity market, banks are often seen as the straightforward play but funds are already overweight by nearly 100bp and our MLV model suggests the sector is fairly valued. More contrarian value ideas in Indonesia include the consumer sectors (both discretionary and staples) and defensive sectors – notably, utilities and telecoms (industry consolidation and higher dividends). We expect improved purchasing power to drive top line growth for the consumer sector, with the stability in food prices since 2Q 2024 supportive for sales, and the margin and market share risks from new foreign entrants heavily baked into the price.
- **South Africa:** South Africa remains undervalued, in our view. After rallying 30% between mid-June and early November, the market has fallen almost 11% post the US elections. According to our machine learning valuation model, South African equities should be trading

47. Our machine learning valuation model assessment of valuations

Actual Price to Book vs machine learning model predicted (Higher = more expensive)

More expensive ↑ / ↓ Less expensive

	Health Care	Telecoms	Basic Materials	Utilities	Financials	Energy	Industrials	Cons. Disc	Technology	Real Estate	Consumer Staples
India	42%	33%	-17%	23%	57%	-4%	72%	26%	51%	154%	63%
Kuwait		-47%			46%			-55%			
Czech Republic				29%	-15%		-28%				
Saudi Arabia	83%	-12%	35%	436%	-7%	-10%	50%	3%	80%	-45%	5%
Malaysia	42%	-12%	-4%	8%	-6%	34%	-11%	-45%			-8%
Qatar		-32%	-10%		-2%	-14%					
Taiwan	38%	47%	-19%		12%	-18%	-20%	-5%	-20%		0%
Indonesia	-1%	-23%	-29%	-47%	2%	-67%	17%	-53%	-26%	-7%	-28%
Mainland China	7%	9%	-11%	-16%	-21%	-27%	-21%	-11%	-9%	-37%	0%
Thailand	18%	71%	-45%	35%	-39%	-43%	1%	25%		9%	-9%
Philippines		-30%		-14%	-23%		-51%	8%		-28%	-9%
Mexico		-18%	-23%		-22%		-16%	-29%		-32%	-35%
United Arab Emirates											
South Africa	-34%	-28%	-36%		-19%	-47%	-13%	2%	-39%	-22%	-4%
Romania	159%			-25%	-48%	-29%				-69%	
Chile			-30%	-36%	-21%	-46%	-63%	8%		-19%	-27%
Greece		-29%		-43%	-44%	-27%	-26%	-43%		-68%	-48%
Brazil	-41%	-25%	-44%	-27%	-51%	-58%	20%	-50%	-9%	-17%	-20%
Colombia				-42%	-49%	-52%					
Hungary	-62%	-50%			-50%	-58%					
Egypt		-60%			-58%						
Türkiye	-58%	-45%	-52%		-81%	-45%	4%	-73%		-79%	-68%

Source: FTSE Russell, Factset, HSBC

on a price to book of 2x compared to 1.5x currently. In addition, the market stands at a 12-month forward PE of 9.5x, which is a 20% discount vs history, and its 26% discount to EM is 1.5SD below historical averages (chart 54). We see a number of catalysts that will help the market re-rate. First is the Government of National Unity's (GNU) reform agenda which should reduce some of the political risk premium embedded in South African equities. Private investment and renewable energy initiatives have begun to stabilize South Africa's electrical grid, ending years of frequent power outages. The government's Operation Vulindlela is slowly starting to help implement more structural changes around logistic and water systems. For example, the opening up the electricity sector along with freight rail and ports to the private sector is poised to improve South Africa's economic growth. The market-implied equity risk for South Africa's equity market has already dropped 250bp from its peak of 8.5% in early 2022, but we still see room for a further 100bp decrease towards pre-pandemic levels (chart 56). In addition, following a second consecutive 25bp rate cut at its policy meeting in November and a cooling of headline inflation to 2.9%, the market is anticipating the SARB to cut a further 75bp by the end of 2025. This could lower the domestic bond yield and the cost of equity which would significantly support domestic-oriented names (chart 57). Our machine learning model see value across most sectors with the exception of consumer names. Our preferred areas include financials, industrials, and PGMs.

- **Mainland China:** FTSE China trades at a 20% discount compared to EMs vs 5% historically (chart 60). Our machine learning valuation model also suggests that mainland China is still 20% undervalued based on fundamentals. In our view, the single most important catalyst for mainland China's equity market will be whether the government follows through with its fiscal stimulus plans. If policymakers deliver on their fiscal promises, we see scope for c20% upside, and potentially more if the markets temporarily overshoot. In a bear case scenario where fiscal announcements underwhelm, we think equities could

EM market views

- EM equities were up 10% in 2024, underperforming global equities by 7ppts
- We believe EM resiliency could be the big surprise for 2025
- Our preferred markets include mainland China, Indonesia, Türkiye, UAE, Saudi, and South Africa

Mainland China

We are cautiously optimistic on EM equities in 2025 and are overweight in a global context. Although the backdrop for EM equity markets has turned more challenging amid the threat of US tariffs, a stronger USD, and a more hawkish Fed, we believe EM could be a surprise

66. EM market scorecard

Countries	HSBC View	Aggregate score	Machine learning model	Earnings	Valuation	Positioning	Economic momentum	Macro Regime/ Cycle	Trump tariff risk	Geopolitical risks	HSBC analyst stock rating	Equity Strategist view
		Weight	10.0%	15.0%	15.0%	5.0%	7.5%	5.0%	12.5%	5.0%	10.0%	15.0%
									Themes			
			What's over/ undershot fundamentals	Prefer depressed earnings with positive revisions	Cheap valuations relative to history	Prefer underweight, underowned markets	GDP growth, revisions and PMI momentum	Markets which perform well at this stage of cycle	Resilient to tariff risks	Outperformers during heightened geopolitcal risks	Market-cap weighted	Our view on strutcural tailwinds
Türkiye	overweight	1.6		0.5	1.1	-0.6	-0.8	0.6	0.4	-0.6	0.8	1.0
Egypt	overweight	1.4	1.2	-0.2	1.5	0.3	-0.8	-1.2	1.3	1.3	0.1	0.0
Saudi Arabia	overweight	1.3	0.0	1.5	-1.5	2.4	2.5	-0.4	0.5	-0.5	-0.7	1.0
Indonesia	overweight	1.0	2.5	-0.1	0.4	-1.8	0.0	0.6	0.1	-0.3	0.1	0.5
Philippines	neutral	1.0	1.6	-0.5	0.6	-0.1	0.6	-0.3	0.3	-0.6	0.9	0.0
UAE	overweight	0.9	-0.1	0.8	0.3	-0.9	0.7	-0.4	0.7	-1.7	-0.1	1.0
South Africa	overweight	0.9	-0.5	1.7	0.3	0.4	-0.3	-0.2	-0.4	0.2	-0.2	0.8
Poland	--	0.6	0.0	0.7	-1.2	0.0	-0.2	-0.2	0.9	2.4	0.1	0.5
Qatar	underweight	0.6	-0.3	0.5	0.0	0.4	-0.3	-1.8	1.7	-0.6	0.5	0.0
Romania	neutral	0.5	-0.8	0.0	0.4	0.3	-1.0	3.1	0.7	0.1	0.1	0.0
India	overweight	0.4	0.1	1.2	-2.5	-0.6	0.4	0.8	1.2	-0.2	-0.1	1.0
Mainland China	overweight	0.3	-1.5	0.2	0.3	-0.8	0.2	0.9	-0.6	0.3	0.9	1.0
Thailand	neutral	-0.3	0.3	0.2	0.0	2.7	-0.7	0.0	-1.4	-0.7	0.4	0.0
Brazil	underweight	-0.3	0.8	-0.7	1.0	-0.8	0.8	0.5	-0.7	0.5	-0.1	-1.0
Hungary	overweight	-0.4	-1.3	-1.4	1.3	-1.0	-0.4	0.9	0.6	-0.3	0.7	0.0
Taiwan	underweight	-0.4	0.0	1.8	-0.9	0.2	-0.5	1.1	-1.8	-0.5	0.9	-0.5
Malaysia	neutral	-0.6	0.6	-0.6	-0.1	0.6	-0.2	-1.1	-0.4	0.2	-0.1	0.0
Mexico	neutral	-0.7	0.4	0.8	0.5	-0.3	-0.7	-0.4	-1.9	-1.2	0.1	0.0
Greece	overweight	-0.8	-0.7	-0.9	0.7	-1.4	-0.7	-1.5	-0.8	-0.1	1.4	0.5
Korea	--	-0.9	1.3	-0.7	-1.2	-0.1	-1.4	0.4	-0.2	-1.2	1.1	0.0
Chile	neutral	-1.1	-1.0	-0.2	0.3	0.4	-0.3	-0.7	0.1	0.1	-1.7	0.0
Kuwait	underweight	-1.2	-0.3	-0.8	-1.5	0.3	2.7	0.5	1.5	-0.5	-3.2	0.0
Colombia	underweight	-1.5	-0.6	-2.0	1.1	0.5	1.4	-0.7	-1.5	2.0	-1.8	0.0
Czech Republic	underweight	-2.2	-1.6	-1.7	-0.9	0.1	-0.9	-0.5	-0.2	1.8	0.1	0.0

Source: FTSE Russell, Factset, Bloomberg, HSBC resiliency story throughout 2025. Our core overweights in EM heading into next year are centered on three buckets: (1) markets that have the fiscal firepower to offset potential headwinds from US tariff policies, i.e. mainland China, (2) markets that are more resilient or could even benefit from a second Trump administration, i.e. Poland and UAE, and (3) markets that are relatively more sheltered from US politics and can rely on a strong domestic story – India, South Africa, and Türkiye.

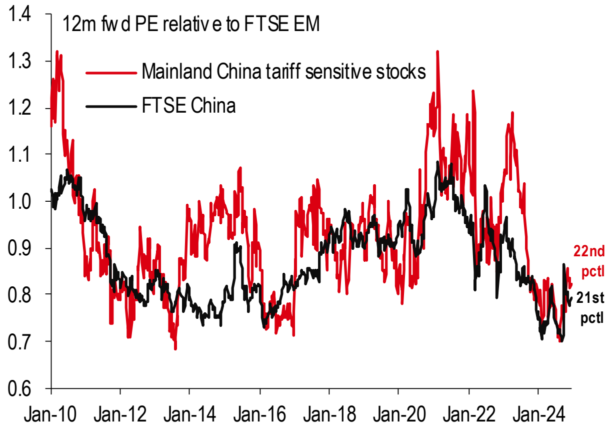
To help quantitatively assess the various moving parts and incorporate the different fundamental and thematic drivers for EM markets, we utilize a multi-factor scorecard. We use this scorecard as a guide for our EM strategy allocation but do not follow it explicitly. The key themes and drivers in our framework include: (1) **machine learning model** – includes the extent to which markets have over/undershot our machine learning model's expectations over the last three months and also our REMI regional allocation model; (2) **earnings** – we prefer markets with depressed earnings but positive revisions; (3) **valuations** – includes our machine learning valuation frameworks and traditional valuation metrics relative to history; (4) **positioning** – based on our proprietary dataset, we prefer markets that are under-owned and underweight by investors; (5) **economic momentum** – we identify markets with the strongest growth outlook and revisions, (6) **macro regime** – we identify which markets perform best at this stage of the cycle; (7) **themes** – we prefer markets that are more resilient to the risk of higher US tariff and heightened geopolitical risks; (8) **HSBC analysts' stock ratings** – we assign a higher score to sectors that have a higher proportion of Buy-rated stocks; and (9) **equity strategy view** – we incorporate our assessment of the longer-term themes for the market.

In this report, we downgrade Brazil to underweight and upgrade Saudi to overweight (chart 2). Our core and largest overweights include mainland China, India, Indonesia, South Africa, and Türkiye. This is predominantly funded by a large underweight in Taiwan.

Mainland China (overweight)

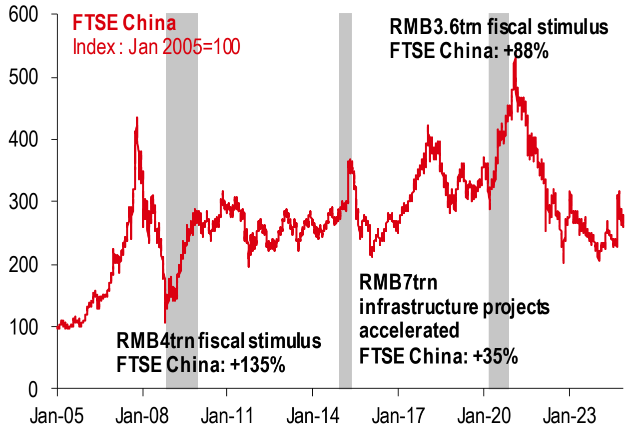
We maintain our non-consensus overweight position in mainland China. Despite the looming threat of tariffs dampening sentiment, we paradoxically see this as a potential positive catalyst for Chinese equities. Contrary to popular belief, we think Chinese stocks are less susceptible to tariffs than assumed, and tariffs could prompt policymakers to deploy broader-based stimulus measures, likely boosting the market. A significant amount of risk appears already priced in: with a 12-month forward PE of 10.4x, FTSE China is trading at a 20% discount to EM, 1SD below the 10-year average. Notably, companies within the FTSE China derive just 3% of their revenue from the US, with a significant 90% sourced domestically, while exports to the US contribute 2.5% to GDP.

67. China equities already pricing in a lot of downside risks



Source: FTSE Russell, Factset, HSBC

68. China equity performance around prior major fiscal stimulus packages



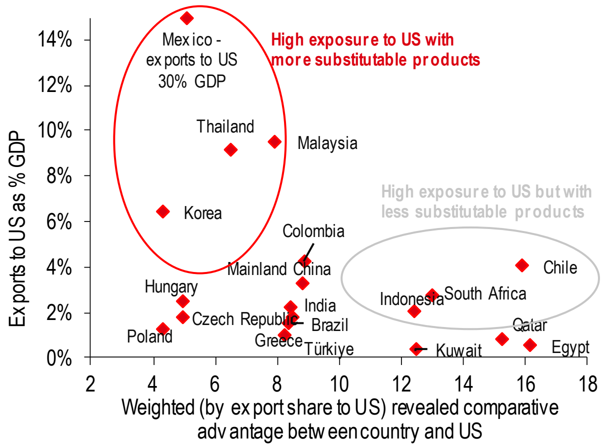
Source: FTSE Russell, Factset, HSBC

related to tariffs. Indeed, we foresee potential opportunities for India under a second Trump administration, which could emerge from (1) increased tariffs on China, potentially opening new avenues for Indian businesses, and (2) an increase in global oil supply that may reduce energy costs and improve India's trade balance.

On the monetary policy front, the Reserve Bank of India (RBI) has responded to the weaker growth by maintaining the repo rate during its December meeting, while also implementing a strategic 50bp reduction in the cash reserve ratio to bolster banking liquidity. This should provide a significant lift to banks, potentially increasing loan/deposit growth rates by as much as 250bp. The RBI also lay the groundwork for rate cuts early this year, providing a new set of inflation forecasts which suggested that the 4% inflation will be achieved by September 2025. HSBC economists predict a 25bp cut in the repo rate in February, with another adjustment likely by April. Such monetary loosening is poised to energize the consumer discretionary sector. We continue to view India as a best-in-class structural growth opportunity within EMs, propelled by an aggressive public sector capital expenditure cycle. The country also boasts a rare combination of positive demographics, an educated workforce, and a government whose incentives are aligned with shareholders.

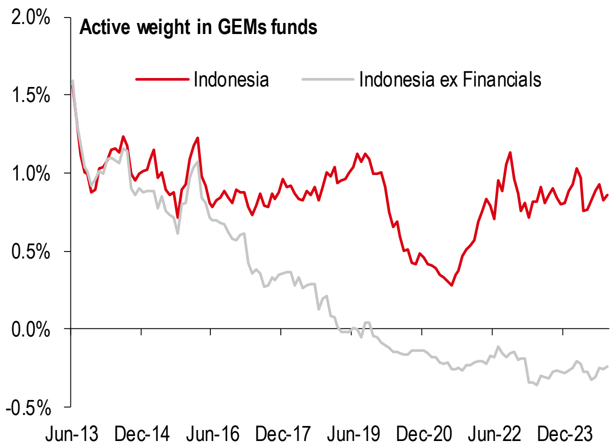
ASEAN (overweight): Indonesia (overweight)
Indonesia's equity market continues to underperform and is down almost 7% over the last month. The headwinds have intensified following the US election, with the prospect of tariffs, US fiscal stimulus, and a more hawkish Fed triggering a stronger USD. The rupiah is notoriously sensitive to such shifts and has depreciated nearly 3% against the USD since early November. However, we would also argue that Indonesia is less vulnerable to US tariffs compared to the other ASEAN markets and its equity market should become a more defensive play over the next year. Domestic consumption is a more important driver for the economy and, unlike the rest of ASEAN which predominantly exports light electronic devices, consumer goods, and textile, Indonesia mainly exports commodities which will be harder for the US to substitute or produce domestically. On the domestic front, Indonesia's rising middle income consumer will be a powerful driver of domestic consumption. Still, positioning remains a bit more stretched in Indonesia vs other markets and it is the second-biggest overweight position among GEMs funds at 90bp, and up c10bp since the start of 2024. However, this is almost entirely through the banks (Bank Central Asia, Bank Mandiri, and Bank Rakyat are the three biggest overweight positions in ASEAN). Ex-financials, funds are actually underweight Indonesia by 25bp.

71. Exports exposure to the US



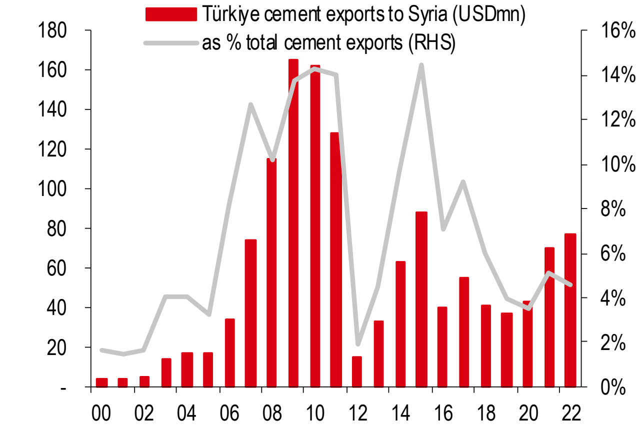
Source: WITS, HSBC

72. GEMs funds active weight in Indonesia



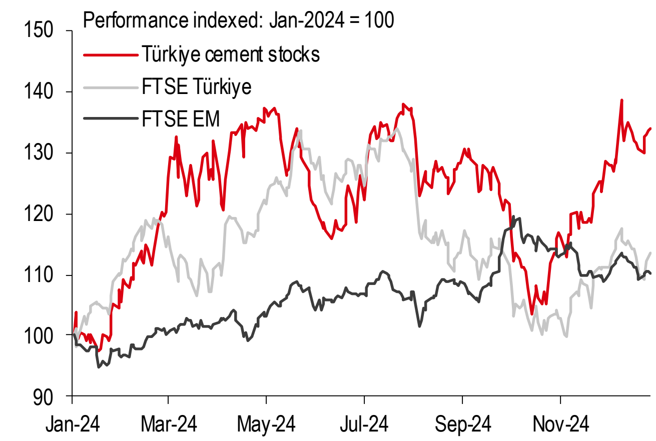
Source: FTSE Russell, Factset, HSBC

73. Türkiye's cement exports to Syria



Source: Comtrade, HSBC

74. Performance of Türkiye stocks



Source: FTSE Russell, Factset, HSBC

MENAT (overweight): Türkiye (overweight)

Turkish equities have soared 12% in USD terms since early November, fueled by a trio of catalysts: (1) the lifting of a short-selling ban on selected stocks, a move that hints at the government's renewed confidence, (2) the suspension of inflation accounting standards for financial firms which were poised to start in 2025, and (3) pivotal geopolitical developments – most notably, the downfall of Bashar al-Assad's regime in Syria and the ceasefire between Israel and Hezbollah. Turkish construction-related stocks, such as cement and steel manufacturers, have rallied hard with investors expecting they could play a central role in any upcoming reconstruction efforts in Syria and Lebanon. Given Türkiye's strategic location and government backing, these sectors are poised to benefit significantly. Estimates place Lebanon's latest war reconstruction costs around USD25bn (Arabian Business, 29 November 2024), while Syria's could be anywhere from USD400bn to USD1trn (AP News, 15 March 2023). Prior to the conflict, Syria represented 15% of Türkiye's cement exports in 2010, a figure that stands at 4% today.

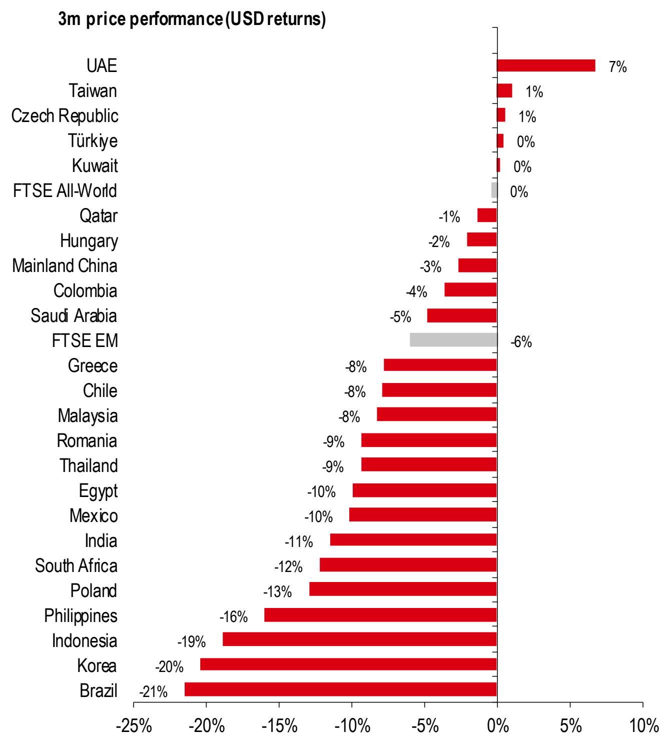
Meanwhile, inflation prints, inflation expectations, and the adjustments to the 2025 minimum wage are pivotal markers likely to influence market sentiment towards Turkish stocks in the coming months. The Central Bank of the Republic of Türkiye (CBRT) launched its easing cycle in December, cutting interest rates by 250bp to 47.5%. HSBC expects the policy rate to decrease to 30% by year-end 2025. This anticipated adjustment is particularly significant for Turkish banks, which, due to their broad maturity mismatches and high proportion of time deposits, could see substantial NII tailwinds. We project that the NII of private banks will triple and pre-provision income will double in 2025.

South Africa (overweight)

South Africa's equity market's blistering rally has stalled over the last month with equities declining 3%. Still, we see this as just a temporary pause, with a slew of positive data pointing to further gains for the equity market: headline inflation was below expectations in November at 2.9% y-o-y, marking the eighth straight month of CPI alignment with or below consensus forecasts. This trend bolsters the case for the South African central bank to lower interest rates come January. Additionally, retail sales for October hit their highest mark in over two years, underscoring a strengthening consumer sector buoyed by reduced load-shedding and the "two-pot" pension reform. This reform allows early partial withdrawals from pensions, with South Africans having accessed nearly USD2bn since the new policy's inception in September. Domestic-focused stocks seem ideally positioned to capitalize on South Africa's reform-driven narrative, further aided by falling local bond yields and a decreasing market-implied cost of equity.

EM performance (cont'd)

Market performance metrics



Price performance (USD returns)	1m	3m	6m	1y	YTD	% from 52w high
FTSE All-World	-1%	0%	6%	17%	17%	52w high
FTSE EM	1%	-6%	4%	12%	10%	-8%
Asia						
Taiwan	5%	1%	4%	33%	31%	-4%
Mainland China	2%	-3%	14%	21%	17%	-14%
Malaysia	1%	-8%	10%	19%	18%	-9%
Thailand	-1%	-9%	16%	0%	-1%	-10%
India	-3%	-11%	-4%	14%	13%	-11%
Philippines	-2%	-16%	3%	-2%	-3%	-17%
Indonesia	-7%	-19%	-4%	-16%	-17%	-21%
Korea	-9%	-20%	-23%	-22%	-23%	-26%
EMEA						
UAE	6%	7%	20%	9%	8%	0%
Czech Republic	-1%	1%	7%	0%	0%	-2%
Türkiye	2%	0%	-11%	16%	13%	-15%
Kuwait	1%	0%	3%	6%	6%	-3%
Qatar	0%	-1%	6%	-1%	-1%	-4%
Hungary	0%	-2%	7%	13%	13%	-3%
Saudi Arabia	2%	-5%	1%	-3%	-4%	-9%
Greece	4%	-8%	2%	6%	6%	-8%
Romania	-3%	-9%	-5%	9%	10%	-13%
Egypt	0%	-10%	-1%	-34%	-35%	-46%
South Africa	-3%	-12%	7%	8%	8%	-12%
Poland	1%	-13%	-16%	-12%	-11%	-20%
LatAm						
Colombia	-3%	-4%	-11%	-12%	-12%	-22%
Chile	0%	-8%	-3%	-8%	-9%	-12%
Mexico	1%	-10%	-15%	-29%	-29%	-32%
Brazil	-13%	-21%	-16%	-33%	-33%	-33%

Source: FTSE Russell, Factset, HSBC

Three-month price performance by market and sector

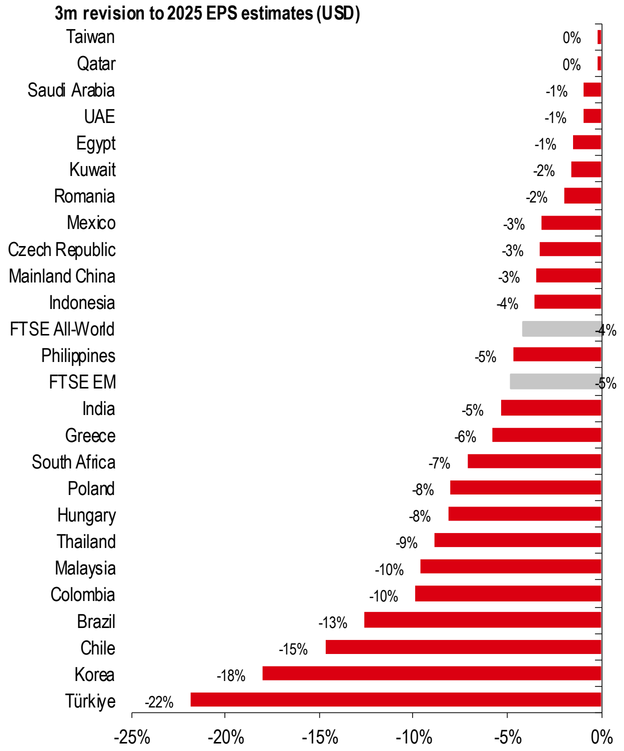
3m price performance (USD returns)

	Market	Energy	Basic Materials	Financials	Industrials	Cons. Disc.	Cons. Staples	Technology	Health Care	Telecoms	Utiltiies	Real Estate
Asia												
India	-11%	-22%	-14%	-8%	-12%	-13%	-19%	-1%	-3%	-12%	-24%	-5%
Indonesia	-19%	-23%	-24%	-20%	-15%	-8%	-13%		-27%	-16%	1%	-28%
Mainland China	-3%	-6%	-10%	7%	2%	-7%	-5%	-6%	-9%	41%	-4%	-13%
Malaysia	-8%	-12%	-12%	-9%	-5%	-15%	-11%		5%	-12%	-6%	
Philippines	-16%	-4%		-13%	-12%	-13%	-21%			-12%	-5%	-25%
Korea	-20%	-20%	-36%	-13%	-21%	-19%	-15%	-14%	-18%	-25%	-17%	
Taiwan	1%	-36%	-27%	-3%	-6%	-8%	-11%	3%	-15%	7%		-18%
Thailand	-9%	-16%	-15%	-3%	-17%	-9%	-16%	32%	-25%	1%	-8%	-18%
EMEA												
Czech Republic	1%			2%							0%	
Egypt	-10%			-10%								
Greece	-8%	-7%		-7%	-1%	-10%				-15%	-10%	
Hungary	-2%	-10%		4%					-14%	10%		
Kuwait	0%			0%	11%					-2%		-7%
Poland	-13%	-23%	-33%	-7%		-18%	2%					
Qatar	-1%	-2%	-3%	0%	-7%					-2%	0%	1%
Saudi Arabia	-5%	-1%	-6%	-2%	4%	-7%	-8%		-10%	-7%	-18%	-7%
South Africa	-12%	-16%	-20%	-12%	-15%	-3%	-9%	-8%	-20%	-12%		-14%
Türkiye	0%	-7%	-5%	0%	13%	-5%	1%			-7%	4%	
UAE	7%	3%		4%	6%	-2%				-12%		28%
LatAm												
Brazil	-21%	-17%	-21%	-25%	-15%	-30%	-16%	-16%	-40%	-28%	-21%	-27%
Chile	-8%	-11%	-10%	-11%	-12%	-2%	0%				-7%	-9%
Colombia	-4%	-17%		-1%	30%						-10%	
Mexico	-10%		-13%	-7%	-5%	-12%	-14%			-12%		-10%

Source: FTSE Russell, Factset, HSBC

Earnings (cont'd)

Market earnings metrics



Source: FTSE Russell, Factset, HSBC

Earnings summary

	3m EPS revision	2024 EPS growth	2025e EPS growth	2024 Sales growth	2025e Sales growth	2024 net margin	2025e net margin
FTSE All-World	-4.1%	6.8%	12.2%	0.8%	4.9%	11.1%	11.9%
FTSE EM	-4.9%	7.2%	13.1%	-0.7%	9.3%	11.2%	11.7%
Asia							
Taiwan	0%	37%	17%	14%	17%	11%	11%
Mainland China	-3%	11%	10%	0%	8%	10%	11%
Indonesia	-4%	1%	9%	1%	5%	17%	17%
Philippines	-5%	8%	8%	4%	9%	16%	16%
India	-5%	12%	16%	-1%	8%	11%	12%
Thailand	-9%	6%	17%	1%	1%	6%	6%
Malaysia	-10%	13%	9%	8%	7%	13%	13%
Korea	-18%	81%	20%	2%	6%	8%	9%
EMEA							
Qatar	0%	5%	4%	-2%	5%	30%	30%
Saudi Arabia	-1%	6%	15%	5%	6%	19%	21%
UAE	-1%	-3%	4%	17%	10%	29%	27%
Egypt	-1%	74%	12%	29%	18%	53%	49%
Kuwait	-2%	0%	-6%	-17%	4%	34%	32%
Romania	-2%	13%	-15%	20%	2%	25%	22%
Czech Republic	-3%	-4%	-6%	7%	-3%	15%	14%
Greece	-6%	13%	-7%	6%	1%	16%	15%
South Africa	-7%	7%	25%	1%	6%	12%	16%
Poland	-8%	-19%	24%	-15%	1%	10%	11%
LatAm							
Mexico	-3%	22%	18%	4%	8%	9%	10%
Colombia	-10%	-17%	0%	-3%	1%	16%	16%
Brazil	-13%	2%	14%	9%	5%	11%	12%
Chile	-15%	-10%	17%	-8%	4%	9%	9%

Three-month EPS revisions by market and sector

3m revision to 2025 EPS estimates (USD)

	Market	Energy	Basic Materials	Financials	Industrials	Cons. Disc.	Cons. Staples	Technology	Health Care	Telecoms	Utiltiies	Real Estate
Asia												
India	-5%	-7%	-4%	-7%	-5%	-7%	-6%	-3%	-3%	-8%	-3%	9%
Indonesia	-4%	14%		-7%	-15%	-4%	-6%		-7%	-11%	-7%	-17%
Mainland China	-3%	-8%	-4%	-1%	-12%	-1%	-8%	-3%	-10%	-1%	-6%	-6%
Malaysia	-10%	-8%	-13%	-8%	-11%	-18%	-10%		-12%	-9%	-10%	
Pakistan												
Philippines	-5%	-13%		-4%	-8%	-7%	-10%			-2%	11%	-3%
Korea	-18%	-27%	-33%	-8%	-16%	-12%	-10%	-15%	-13%	-31%	36%	
Taiwan	0%	-28%	-41%	0%	1%	-2%	-3%	0%	20%	-4%		-8%
Thailand	-9%	-12%	-2%	-5%	-27%	-11%	-2%	-8%	-8%	0%	-9%	-8%
EMEA												
Czech Republic	-3%			-4%							-1%	
Egypt	-1%			-1%								
Greece	-6%	-28%		-6%	-1%	-6%				-2%	-7%	
Hungary	-8%	-14%		-6%					-8%			
Kuwait	-2%			-1%						-4%		
Poland	-8%	-11%	1%	-6%		-14%	-6%					
Qatar	0%	2%	-9%	1%	0%					8%	8%	
Saudi Arabia	-1%	-5%	-7%	2%	8%	-14%	-1%		-6%	2%	5%	11%
South Africa	-7%	-21%	-6%	-8%	-15%	-7%	-8%	-4%	-7%	-16%		-9%
Türkiye	-22%	-20%	-5%	-30%	-30%	-9%	-2%			-2%		
UAE	-1%	6%		2%	-34%	-9%				-1%		6%
LatAm												
Brazil	-13%	-13%	-9%	-12%	-11%	-9%	-10%	-13%	-26%	-13%	-18%	-14%
Chile	-15%	0%	-29%	-8%	-63%	-7%	-14%				0%	-3%
Colombia	-10%	-14%		-5%	6%						-7%	
Mexico	-3%		-4%	-3%	-4%	-7%	-2%			-2%		-8%

Source: FTSE Russell, Factset, HSBC

Data science: EM Machine Learning Valuation (MLV) model[15]

Market/sector PB vs machine learning model predictions

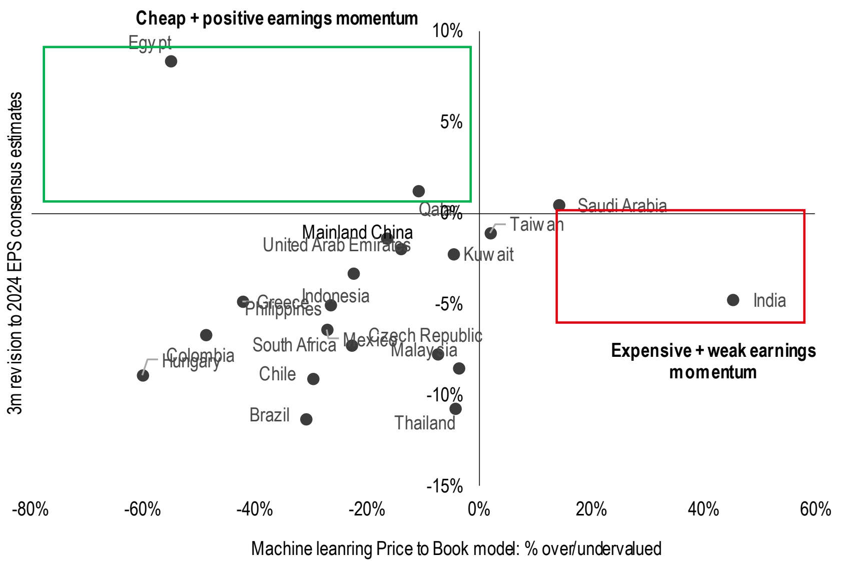
Actual Price to Book vs machine learning model predicted (Higher = more expensive)

More expensive ↑ … ↓ Less expensive

	Health Care	Telecoms	Basic Materials	Utilities	Financials	Energy	Industrials	Cons. Disc	Technology	Real Estate	Consumer Staples
India	42%	33%	-17%	23%	57%	-4%	72%	26%	51%	154%	63%
Kuwait		-47%			46%			-55%			
Czech Republic				29%	-15%		-28%				
Saudi Arabia	83%	-12%	35%	436%	-7%	-10%	50%	3%	80%	-45%	5%
Malaysia	42%	-12%	-4%	8%	-6%	34%	-11%	-45%			-8%
Qatar		-32%	-10%		-2%	-14%					
Taiwan	38%	47%	-19%		12%	-18%	-20%	-5%	-20%		0%
Indonesia	-1%	-23%	-29%	-47%	2%	-67%	17%	-53%	-26%	-7%	-28%
Mainland China	7%	9%	-11%	-16%	-21%	-27%	-21%	-11%	-9%	-37%	0%
Thailand	18%	71%	-45%	35%	-39%	-43%	1%	25%		9%	-9%
Philippines		-30%		-14%	-23%		-51%	8%		-28%	-9%
Mexico		-18%	-23%		-22%		-16%	-29%		-32%	-35%
United Arab Emirates											
South Africa	-34%	-28%	-36%		-19%	-47%	-13%	2%	-39%	-22%	-4%
Romania	159%			-25%	-48%	-29%				-69%	
Chile			-30%	-36%	-21%	-46%	-63%	8%		-19%	-27%
Greece		-29%		-43%	-44%	-27%	-26%	-43%		-68%	-48%
Brazil	-41%	-25%	-44%	-27%	-51%	-58%	20%	-50%	-9%	-17%	-20%
Colombia				-42%	-49%	-52%					
Hungary	-62%	-50%			-50%	-58%					
Egypt		-60%			-58%						
Türkiye	-58%	-45%	-52%		-81%	-45%	4%	-73%		-79%	-68%

Source: FTSE Russell, Factset, HSBC

Valuations vs earning momentum

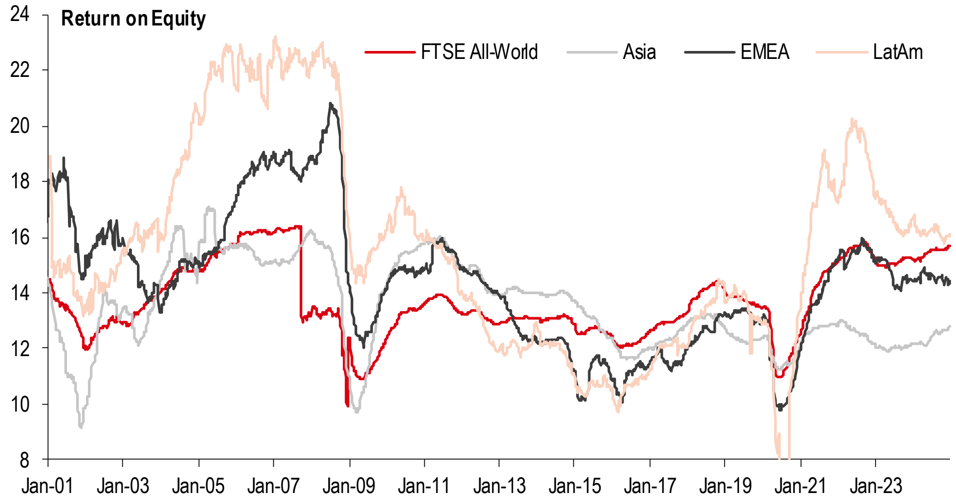


Source: FTSE Russell, Factset, HSBC

15 *MLV: Machine Learning Valuation in EM*, Beatriz Santos Buitrago, 7 November 2023

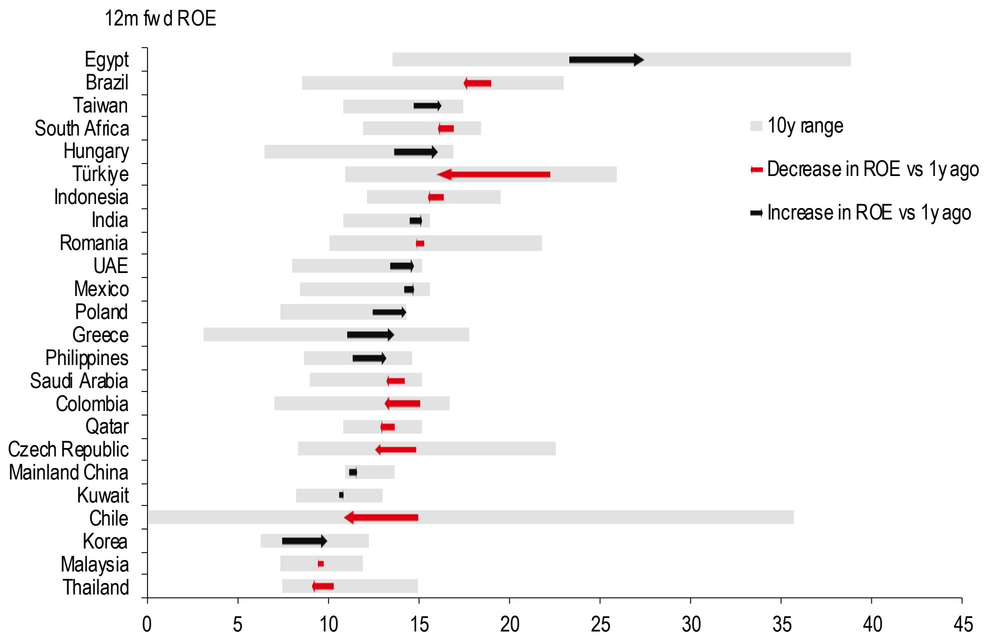
Return on equity

EM regional return on equity



Source: FTSE Russell, Factset, HSBC

EM markets 12-month forward ROE vs history

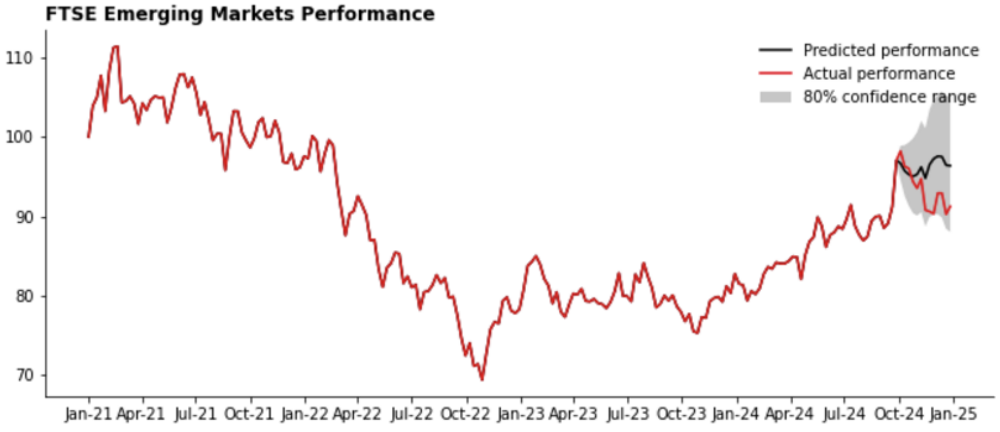


Source: FTSE Russell, Factset, HSBC

Data science: SEDRIC – what has over/undershot fundamentals?

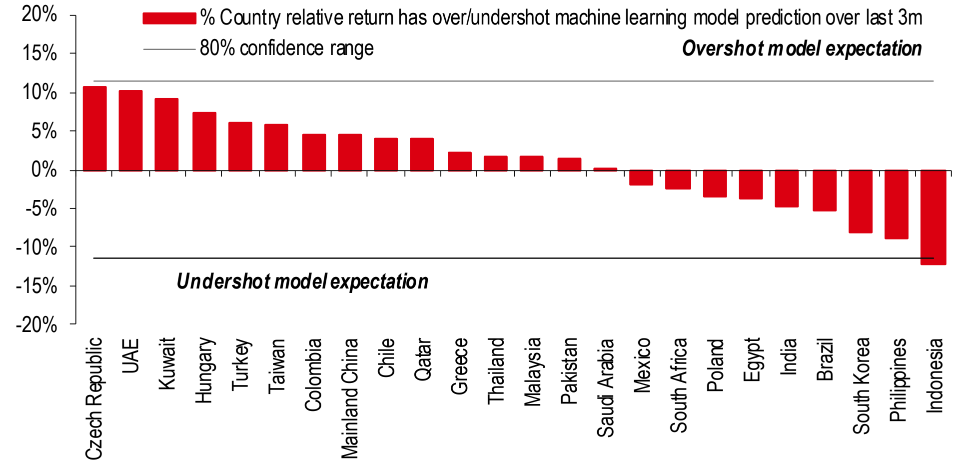
Our SEDRIC (SEctor Divergence Range IndiCators) model measures the extent to which a market or sector has diverged from what macro variables would imply. We use this tool to identify areas of the market which have over/undershot fundamentals.

FTSE EM vs machine learning model expectations



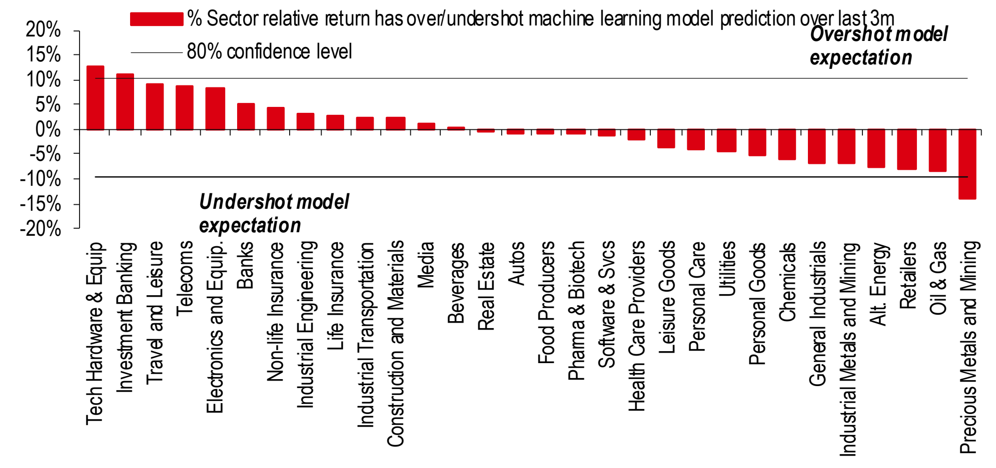
Source: FTSE Russell, Bloomberg, Factset, HSBC

Market performance vs machine learning model expectations (last three months)



Source: FTSE Russell, Bloomberg, Factset, HSBC

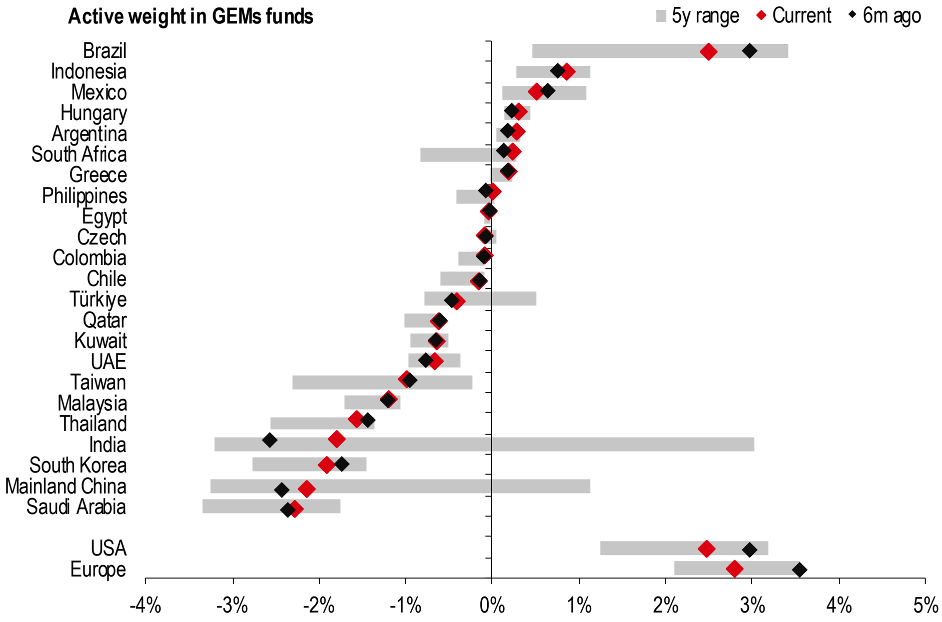
Sector performance vs machine learning model expectations (last three months)



Source: FTSE Russell, Bloomberg, Factset, HSBC

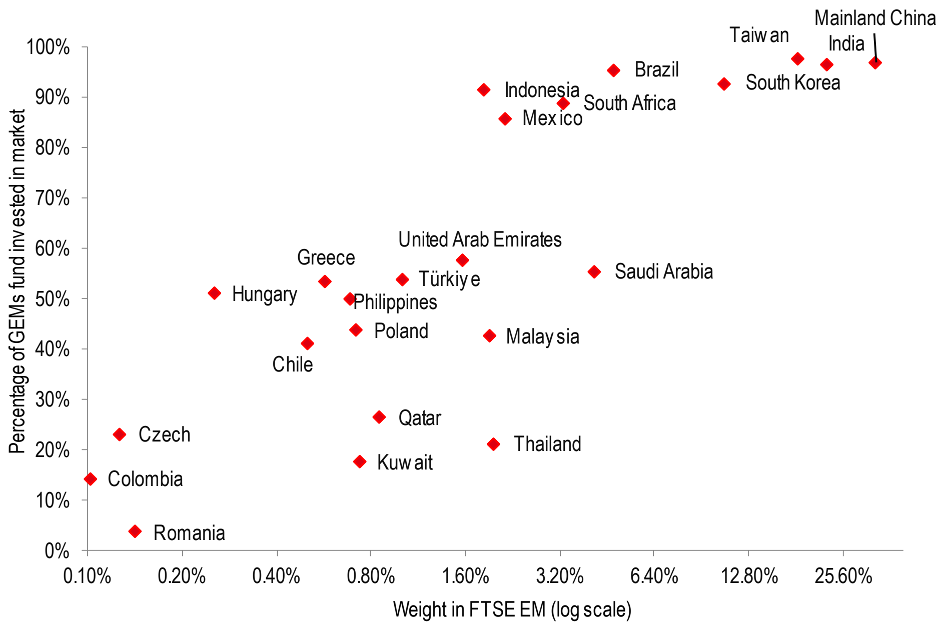
GEMs positioning

GEMs funds active weights vs history



Source: FTSE Russell, Factset, HSBC

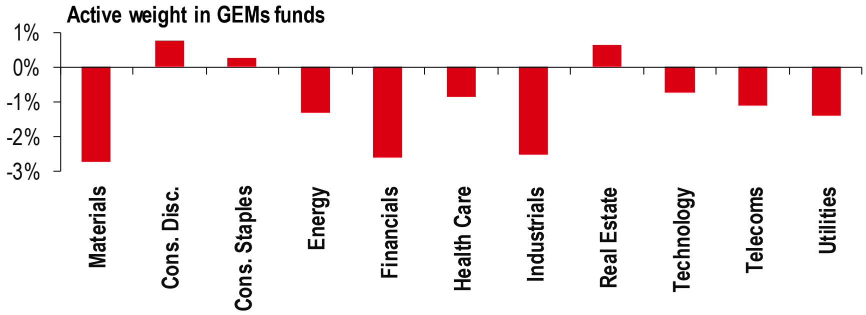
Percentage of funds invested in market vs weight in index

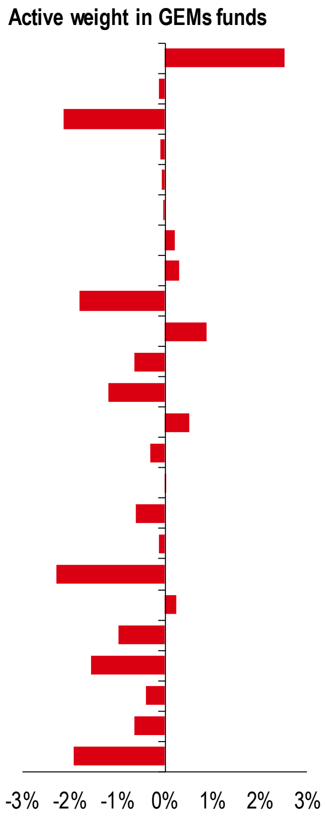


Source: FTSE Russell, Factset, HSBC

GEMs positioning (cont'd)

GEMs fund sector active weight exposure





	Materials	Cons. Disc.	Cons. Staples	Energy	Financials	Health Care	Industrials	Real Estate	Technology	Telecoms	Utilities
Brazil	-0.2%	1.3%	0.1%	0.2%	1.2%	0.1%	0.2%	0.0%	0.0%	0.0%	0.0%
Chile	0.1%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Mainland China	-0.4%	0.7%	0.1%	-0.4%	-1.3%	-0.4%	0.1%	-0.1%	-0.3%	-0.5%	-0.4%
Colombia	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%	0.0%
Czech	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%	-0.1%
Egypt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%	0.0%
Greece	0.0%	0.0%	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%
Hungary	0.0%	0.0%	0.0%	0.0%	0.2%	0.1%	0.0%			0.0%	0.0%
India	-0.5%	-0.3%	-0.1%	-0.4%	0.4%	0.0%	-0.8%	0.1%	-0.5%	0.0%	-0.1%
Indonesia	-0.1%	0.0%	0.0%	0.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Kuwait	0.0%	0.0%			-0.6%		0.0%	0.0%		0.0%	
Malaysia	-0.1%	-0.1%	-0.1%	0.0%	-0.4%	-0.1%	-0.1%	0.0%	0.0%	-0.1%	-0.2%
Mexico	0.0%	0.2%	0.1%	0.0%	0.3%	0.0%	-0.1%	0.1%		-0.1%	
Poland	0.0%	0.0%	0.1%	0.0%	-0.3%		0.1%		0.0%	0.0%	0.0%
Philippines	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%		0.0%	0.0%
Qatar	-0.1%	0.0%		0.0%	-0.4%		0.0%	0.0%		0.0%	0.0%
Romania				0.0%	0.0%	0.0%		0.0%			0.0%
Saudi Arabia	-0.5%	-0.1%	-0.1%	-0.2%	-0.8%	-0.1%	-0.1%	0.0%	0.0%	-0.2%	-0.3%
South Africa	-0.3%	-0.1%	0.2%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.2%	0.0%	
Taiwan	0.0%	-0.2%	0.1%	0.1%	-1.3%	0.0%	-0.2%	0.1%	-0.1%	0.0%	
Thailand	0.0%	-0.1%	-0.2%	-0.3%	-0.2%	-0.1%	-0.2%	-0.1%	-0.1%	-0.2%	-0.1%
Türkiye	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%
UAE	0.0%	0.0%	0.0%	0.0%	-0.3%		-0.2%	0.5%		-0.2%	0.0%
South Korea	-0.5%	-0.5%	0.0%	0.0%	-0.1%	-0.5%	-1.1%		0.0%	0.1%	0.0%

Source: FTSE Russell, Factset, HSBC