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Emerging Market Equities

- After a poor 2021, EM equities have enjoyed a decent start to the new year.
- In some cases that bounce is starting to look a little extended. Both **Brazil & South Africa are rich to macro**. The iShares ETF for MSCI Brazil [EWZ](#) is now 1.3 sigma (18.4%) rich; the equivalent ETF for South Africa [EZA](#) is 1.7 sigma (7.4%) above model.



- The macro regimes are similar - a desire for global reflation, higher commodities & a weaker US Dollar. One distinction is that, on current patterns, Brazil is relatively indifferent to risk aversion metrics like VIX; whereas South Africa is reliant on the fear gauge behaving itself.
- These are significant valuation levels. Back-testing today's FVG as sell signals since 2009 reveals a 63% hit rate & +3.1% average return for EWZ; a 67% hit rate & +10.5% average return for EZA.
- The other standout is Russia. While geopolitical risks clearly dominate it is worth noting the sharp rise in macro's explanatory power recently. [ERUS](#) model confidence has risen 70% in 2mths; [RSX](#) confidence is up 66%. Both are now in strong macro regimes.
- Both are close to fair value. Having been very cheap to model, the recent rally has taken Russian equities back in line with macro fundamentals. Armed conflict & sanctions pose a clear risk but the macro environment is also playing an increasingly assertive role.

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