



Long & wrong in EM?

- Positioning surveys suggest long Emerging Market equities remain a popular position. Yet they have underperformed the S&P500 by almost 15% in 2 months & are now at levels not seen since September.
- Qi's [S&P500 vs MXEF](#) model is in regime & now shows emerging markets as **1.7 σ (6.3%) cheap versus the US.**
- Critically though macro-warranted model value (the red line below) continues to trend higher. While the valuation gap is starting to look significant, we would **need to see macro fundamentals deteriorate before signalling a top in this ratio.**



- The key macro drivers are intuitive. EM suffers when the US Dollar strengthens, credit spreads widen & the reflation trade (inflation expectations, commodity prices, yield curve) is under pressure.
- The current Fair Value Gap suggests a fair amount of bad news for EM is now priced. But **only when macro fair value rolls over would the valuation signal be corroborated.**

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