



NEWGATE  
CAPITAL MANAGEMENT LLC

May 2009

FLASH REPORT: EMERGING MARKETS

*Portfolio Update*

Emerging markets continued to rally in April, up 16.7% and up 17.9% year-to-date. Economic indicators are showing a slowdown in the rate of decline. However, many professional investors have been holding cash; the recent rally has been extended by “panic buying” by these investors afraid they will trail the market as it rebounds.

China has been the only source of positive economic news, with increasing loan growth and government spending on infrastructure. This is also benefiting commodity prices and commodity stocks, not only in China but in other emerging markets as well. While China will not always be the best performing market (though up 11% in April, it still trailed the benchmark) it will likely be the driver of emerging market returns. We reduced our allocation in China somewhat, but it is still 25% of the Portfolio. South Korea was up 21.4% and India was up 19.6% in April.

Brazilian stocks rallied over 20% for the month and are up over 35% year-to-date. Commodities are a major contributor of these returns, but so have other sectors like financials. The increase in oil prices has benefited the entire market, especially Petrobras. Petrobras has huge offshore oil fields that are largely undeveloped. As prices rise, these

fields become increasingly valuable, adding to the company’s balance sheet. Mexico rallied 14.5% in April in spite of the flu, but remains one of the few emerging markets still negative for the year. The close proximity to the US, both physically and economically, presents a significant hurdle for this market. Newgate has been slightly overweight Brazil and market weight Mexico during most of the spring.

The EMEA region is always volatile, more recently on the positive side. Russian equities, last year’s worst performing market, are now one of this year’s best, up 21.8% in April and 29.1% for the year. Higher oil prices are a major factor, but so is a reversal of the undue pessimism of last fall. Russian equities were pricing in mass nationalization of many companies. This scenario now seems highly unlikely, and the market is correcting last year’s over-reaction. Turkish equities rose an astounding 29.7% in April alone. The market had been beset by pessimism that is now being reversed. We are slightly overweight both Russia and Turkey. The smaller Eastern European countries continue to have major systemic problems, and therefore we have no investments there at this time.

As always, feel free to contact us with any questions. ♦

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