

EM Consumer Trumps Trumponomics

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Allianz 
Global Investors

Understand. Act.

Key Trump policies and impact on EM

	Policy Actions	Date
1	Commerce dept. probe on national security and steel imports	4/19/17
2	US trade representative probe on Chinese intellectual property practices	8/14/17
3	Signing of Tax Cuts and Jobs Act of 2017	12/22/17
4	Tariff on imported solar panels and washing machines	1/22/18
5	Commerce dept. recommends tariffs on foreign steel and aluminum	2/16/18
6	US imposes tariffs on import steel and aluminum	3/9/18
7	China imposes tariffs on \$3B of US Imports	4/2/18
8	US threatens tariffs on another \$50B of Chinese goods	4/3/18
9	China warns 25% tariffs on additional \$50B of US goods	4/4/18
10	Trump considers \$100B additional tariffs	4/5/18

MSCI Emerging Markets (4/1/2017 to 4/20/2018)



Note: Items 7 & 9 are reactionary events implemented by China

Trumponomics has added volatility to EM markets

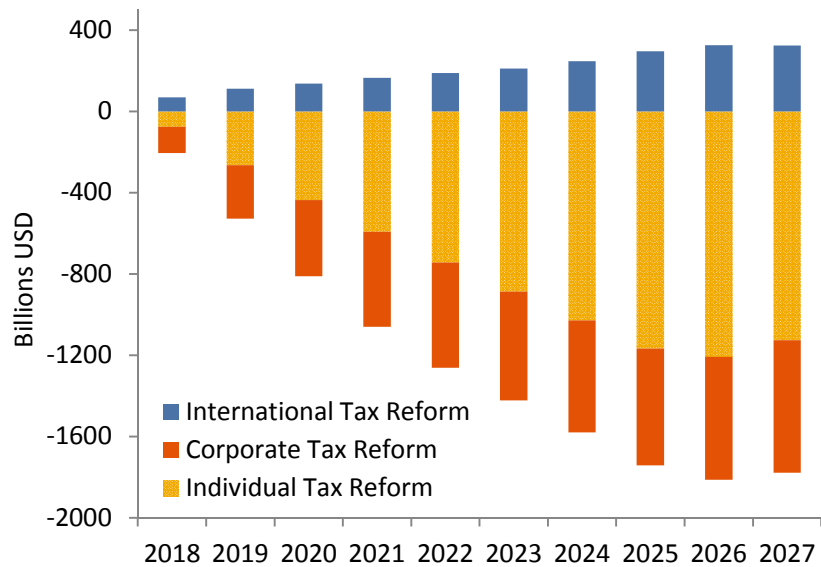
Source: Allianz Global Investors; Factset;

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US tax reform worsens fiscal outlook...

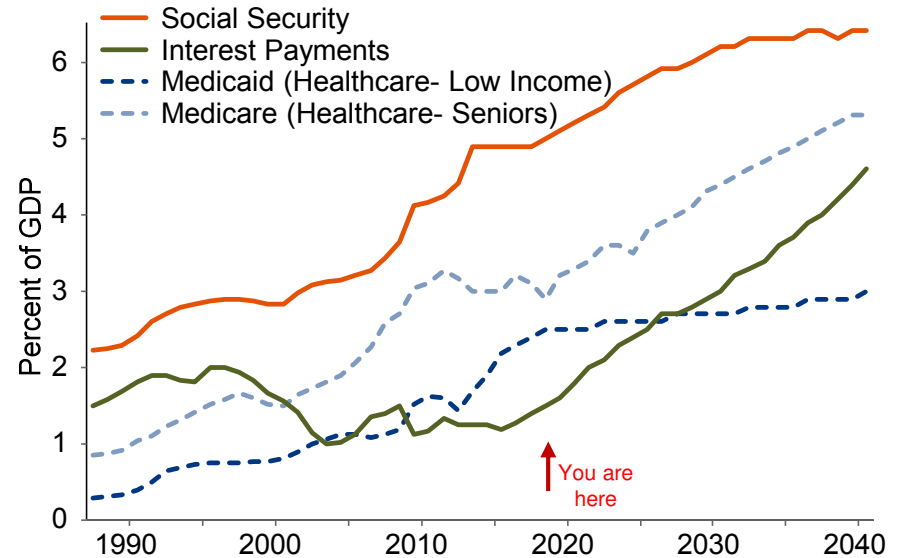
The tax cuts reduce revenue by \$1.45 trillion

Tax Reform (Cumulative Cost)



Fiscal outlook was challenging pre-tax reform

Mandatory Federal Spending (Pre-Reform)

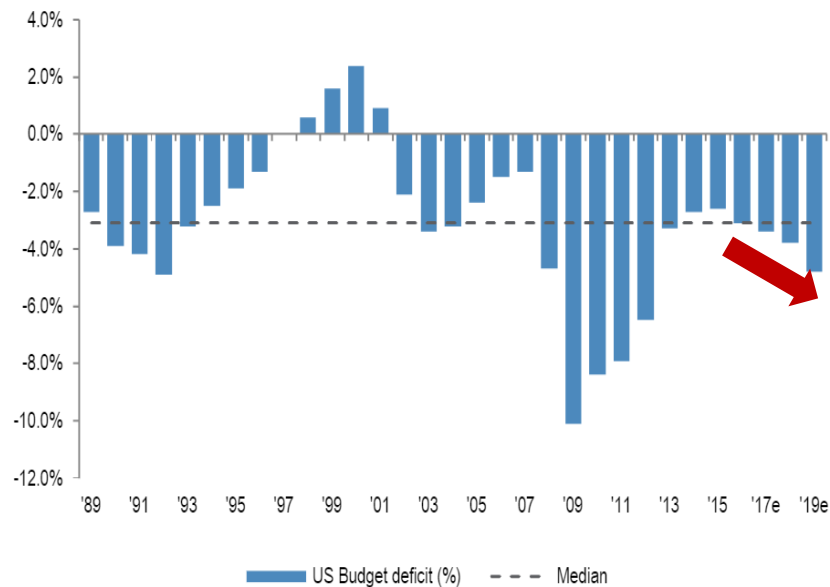


Tax reform reduces revenues while costs continue to climb

...as a result, US deficit and debt should grow

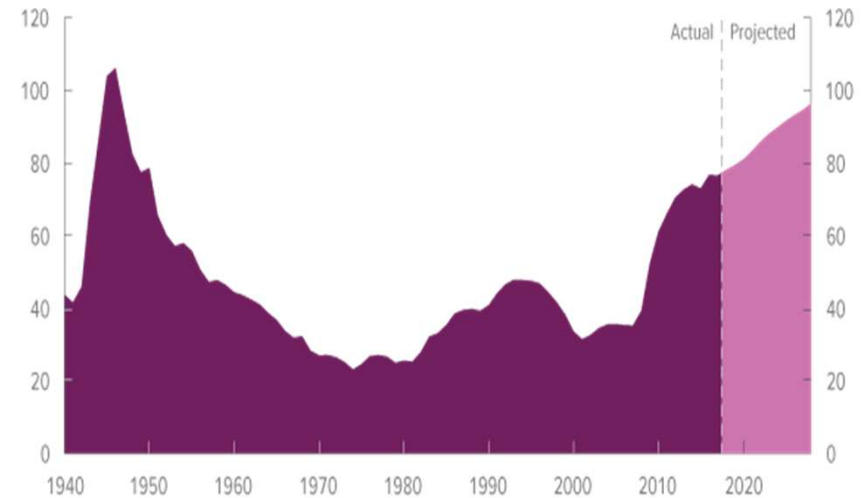
YoY US budget deficit expected to climb

Historical and Projected US Federal Budget



Debt to GDP approaches 100% by 2028

Federal Debt Held by the Public



Growing debt and deficit can be a headwind for the dollar

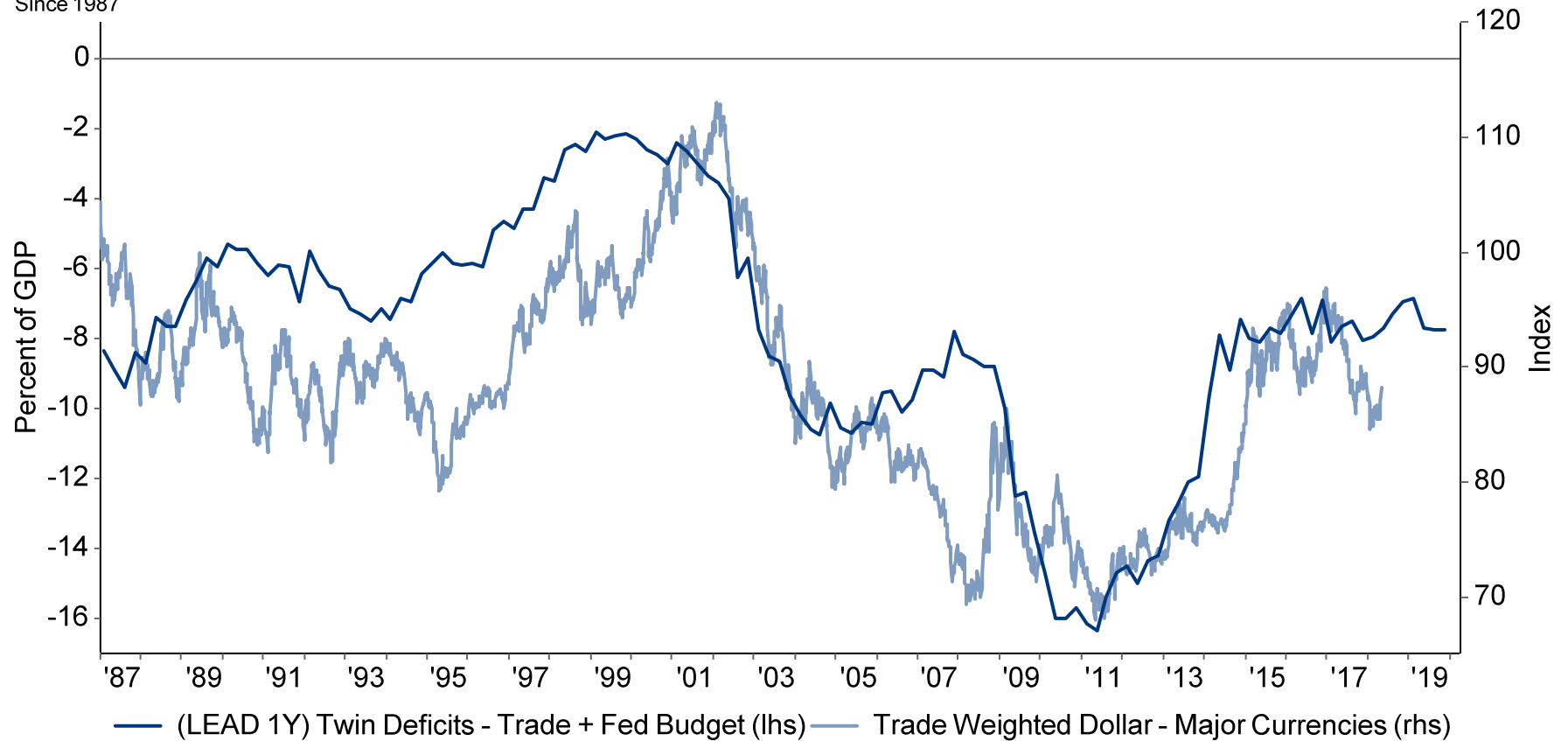
Source: JP Morgan; Congressional Budget Office April 2018;

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Trade and Federal deficits is another dollar indicator

America's Twin Deficits & the USD

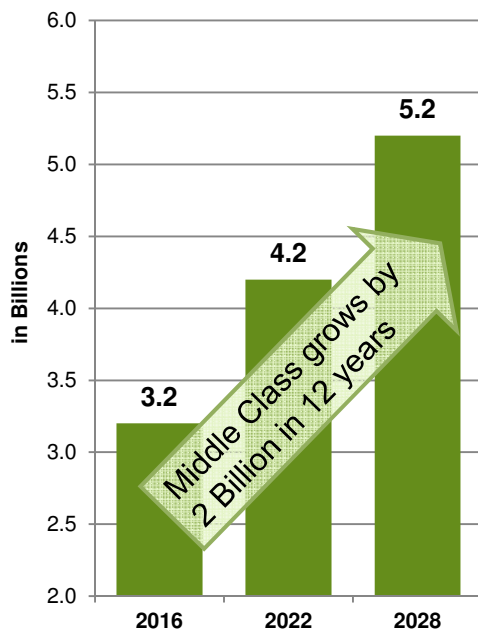
Since 1987



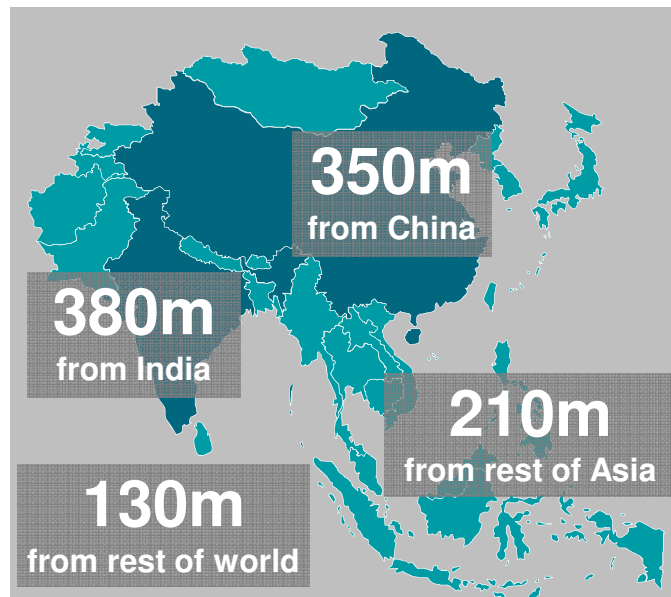
Widening twin deficits points to a weaker dollar

The growing global middle class

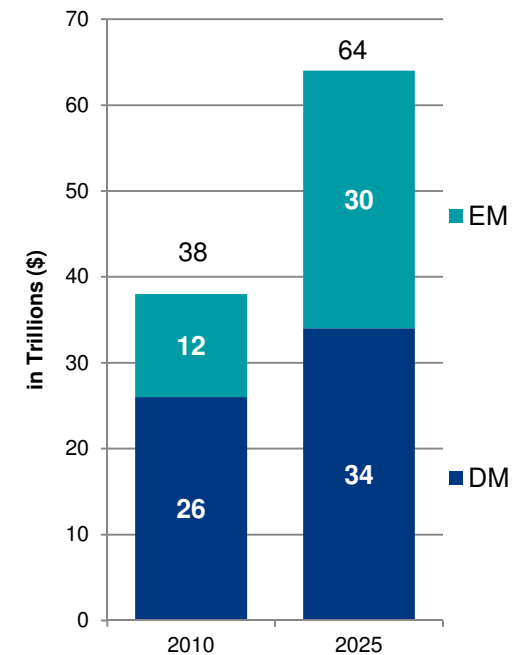
Projected Global Middle Class



Next Billion Middle Class Entrants: 88% from Asia



Future Spending Growth

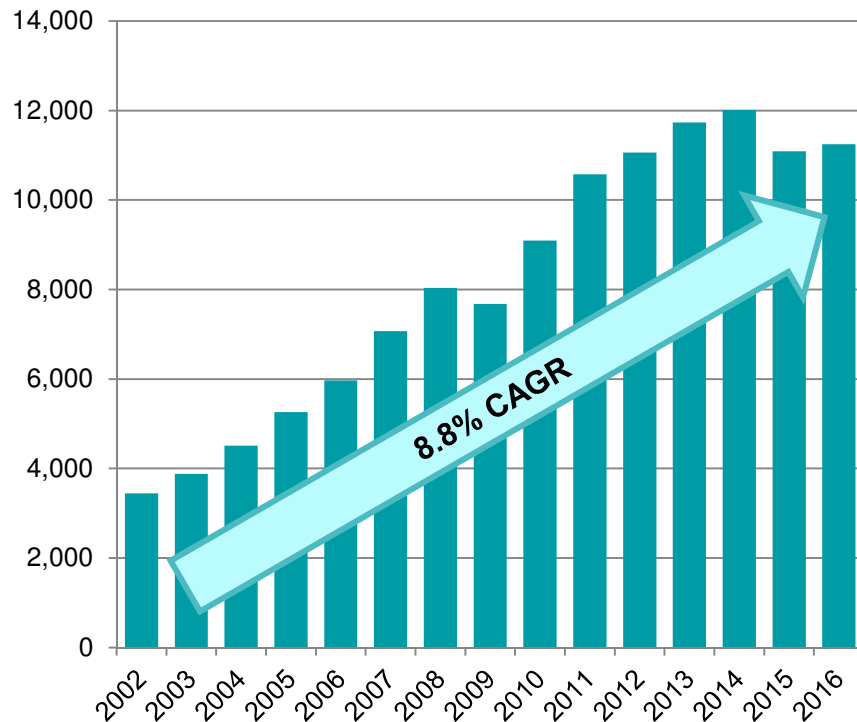


Emerging markets to drive middle class growth and spending

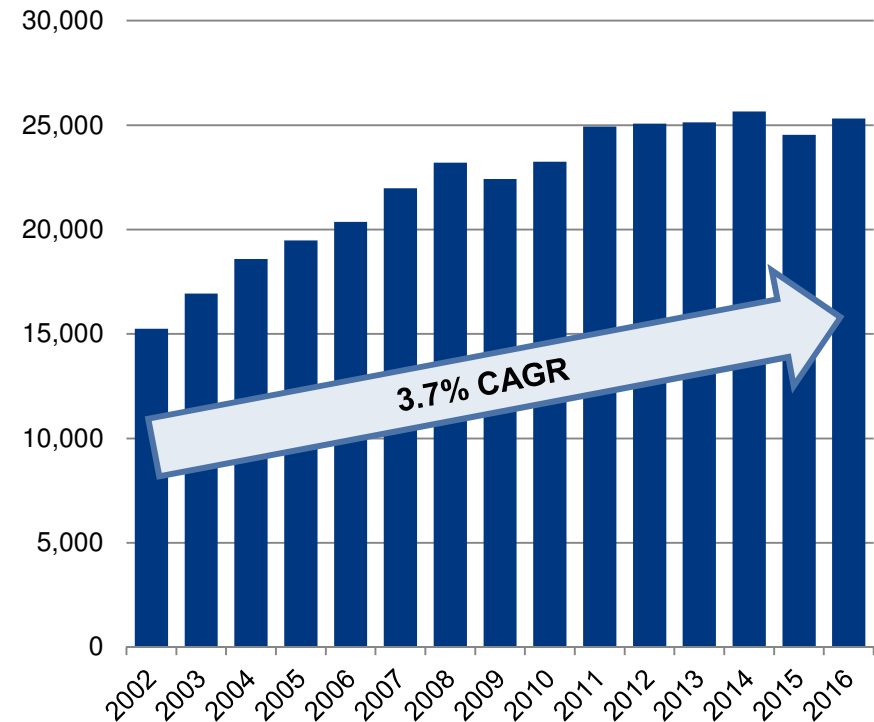
Source: Brookings; McKinsey Global Institute
 Projected Global Middle Class as of 2/28/2017; Next Billion Middle Class Entrants as of 2/28/2017; Future Spending Growth as of August 2012
 See additional disclosure at the end of this presentation.

Disparity in consumption growth

Emerging Markets Personal Consumption



Developed Markets Personal Consumption

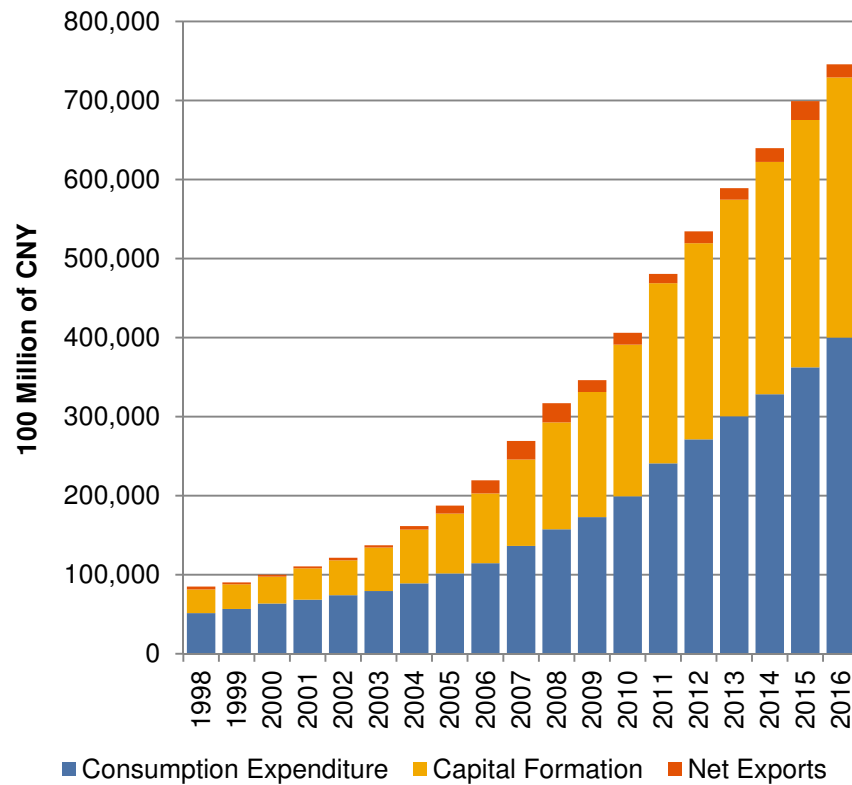


Consumption has grown faster in emerging markets

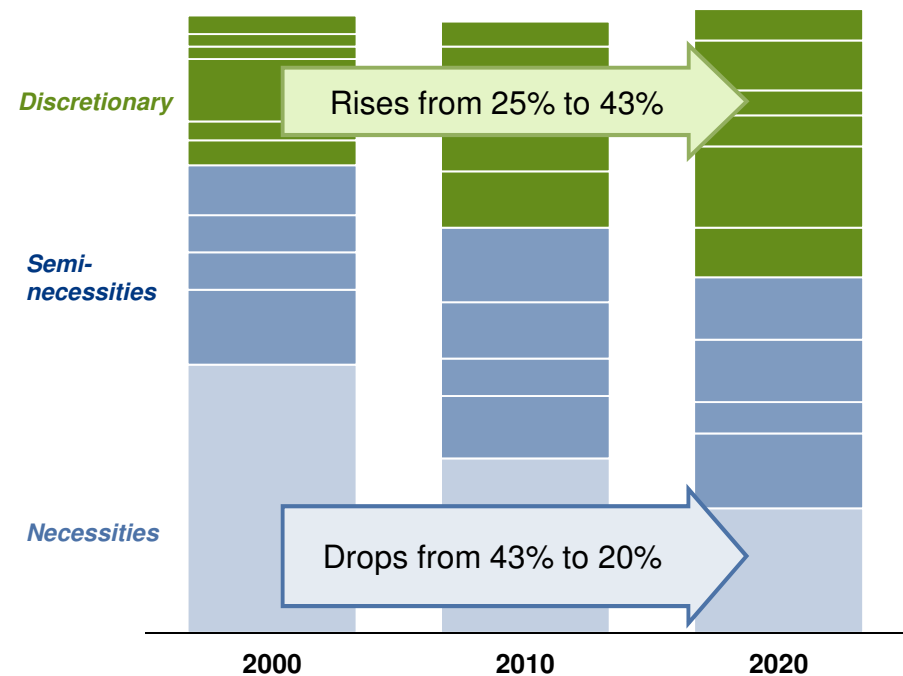
Source: Factset, Allianz Global Investors
As of 12/31/2016

Chinese economy is maturing

China Annual GDP Breakdown



China Urban Household Annual Consumption



China GDP is shifting towards discretionary spending

Source: NBS; CEIC; FactSet; McKinsey Quarterly; Allianz Global Investors
China Annual GDP Breakdown as of 12/31/2016; China Urban Household Annual Consumption as of March 2012

EM consumption not just growing but advancing



Mobile Payments in China



Virtual Store in Korean Subway



Zlote Tarasy Mall in Poland



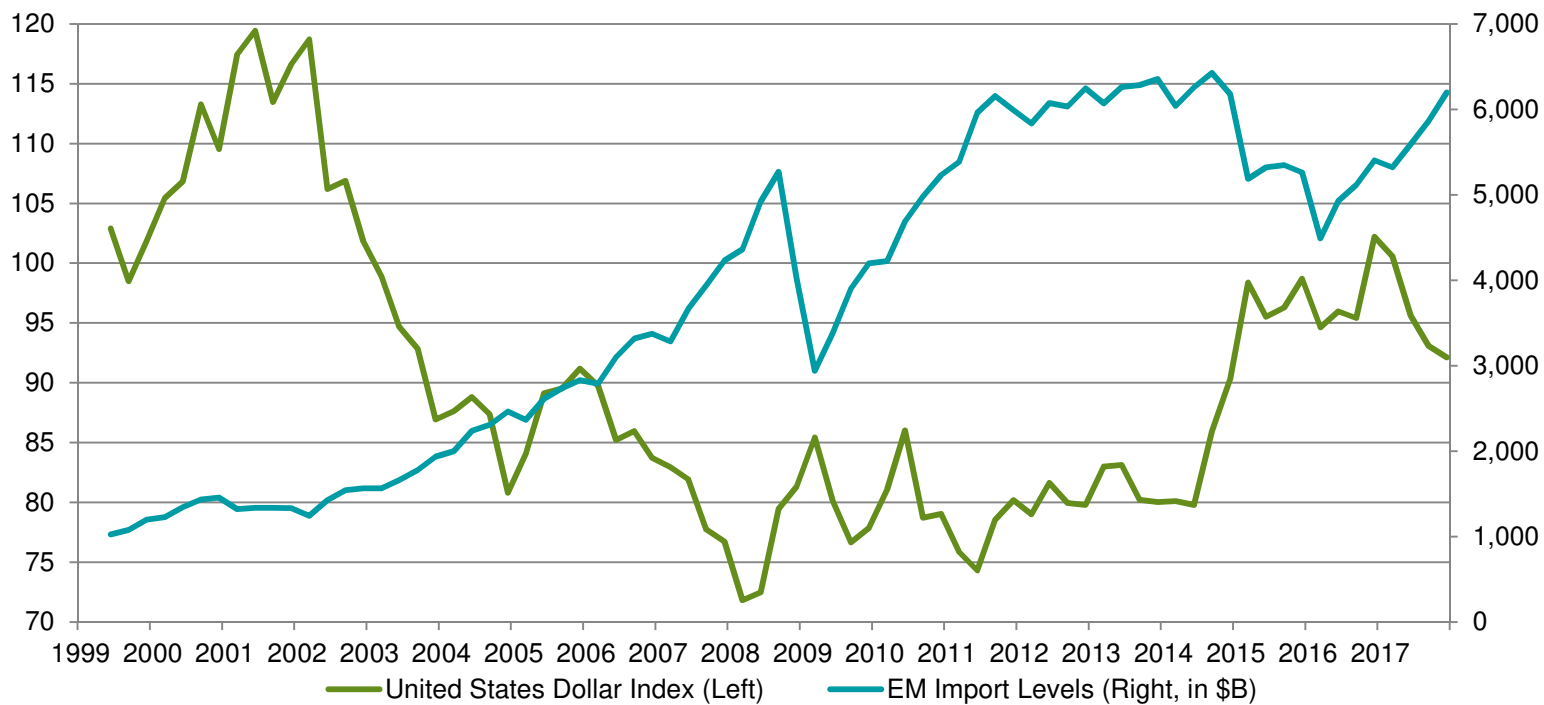
AR Lipstick Shopping in China



EM consumption spans across industries: healthcare, education, discretionary, etc.

US Dollar Versus EM Imports

Inverse relationship between the US Dollar Index and EM Import Levels

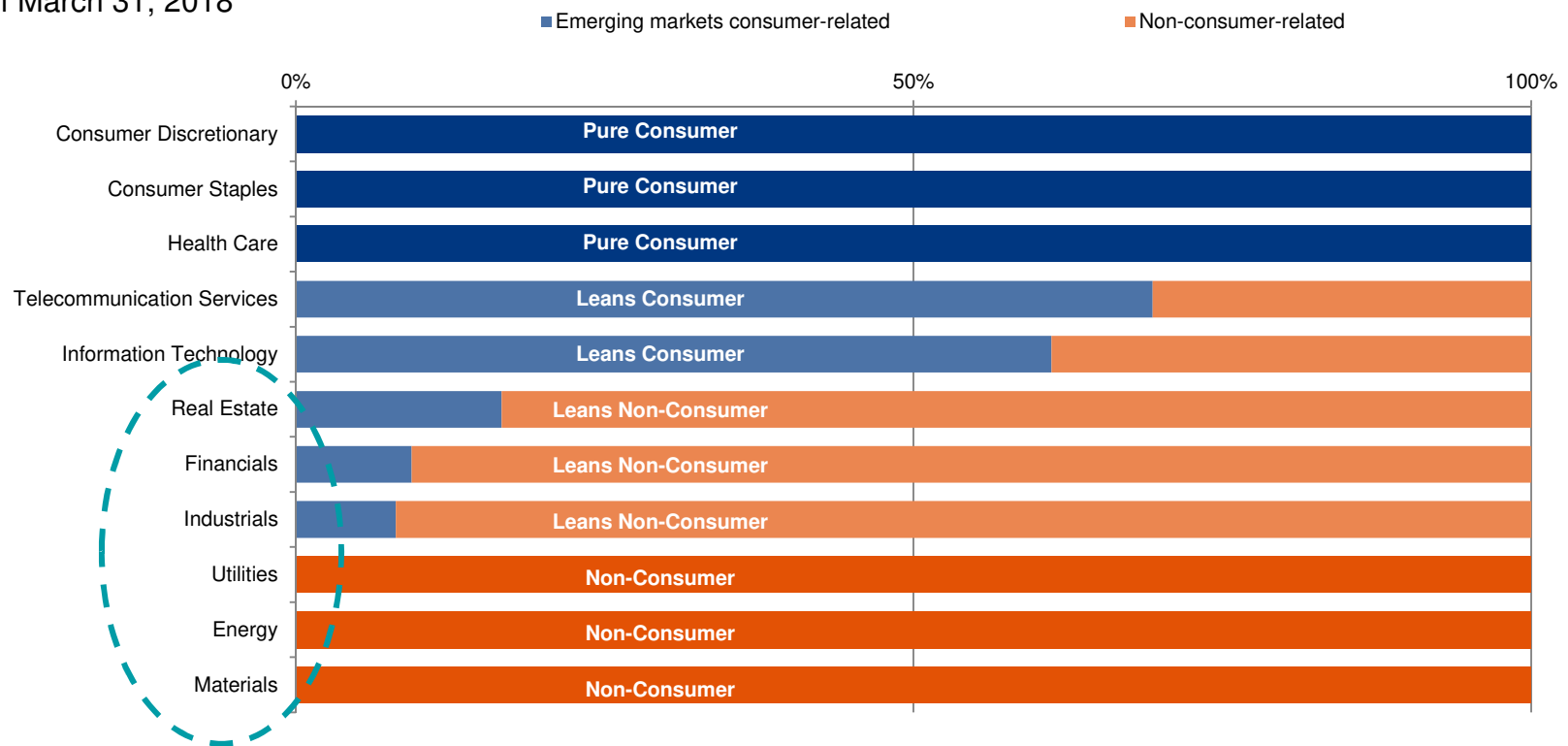


Weak dollar can be a tailwind for EM purchasing power

Source: Allianz Global investors; Factset
As of 12/31/2017; See additional disclosure at the end of this presentation.

Emerging markets consumer-related can diversify existing allocations

Consumer-related % of each sector
As of March 31, 2018



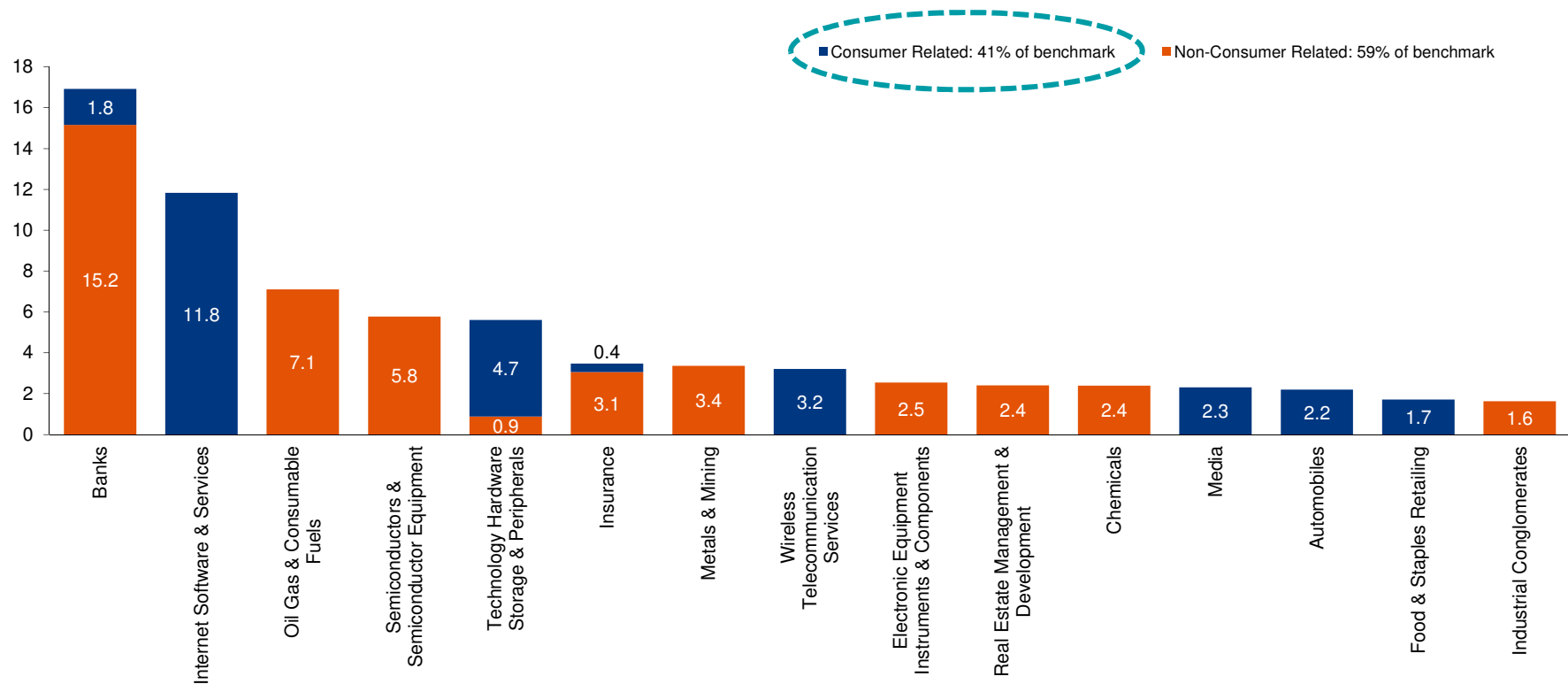
➤➤➤ A consumer strategy can avoid pitfalls of higher risk, cyclical segments of the market

Source: MSCI, Allianz Global Investors. Weights shown as of March 31, 2018. Industries have been classified by the Systematic team at Allianz Global Investors based upon the team's perceived industry affiliation with consumer, hard asset, export and mixed categories, and shown above as a percentage of the overall sector weight. See the GICS Industry Classifications slide for an explanation of export, consumer and hard asset-related industries. See additional disclosure at the end of this presentation.

MSCI Emerging Markets Index: Industry weights

MSCI EM Index

As of March 31, 2018



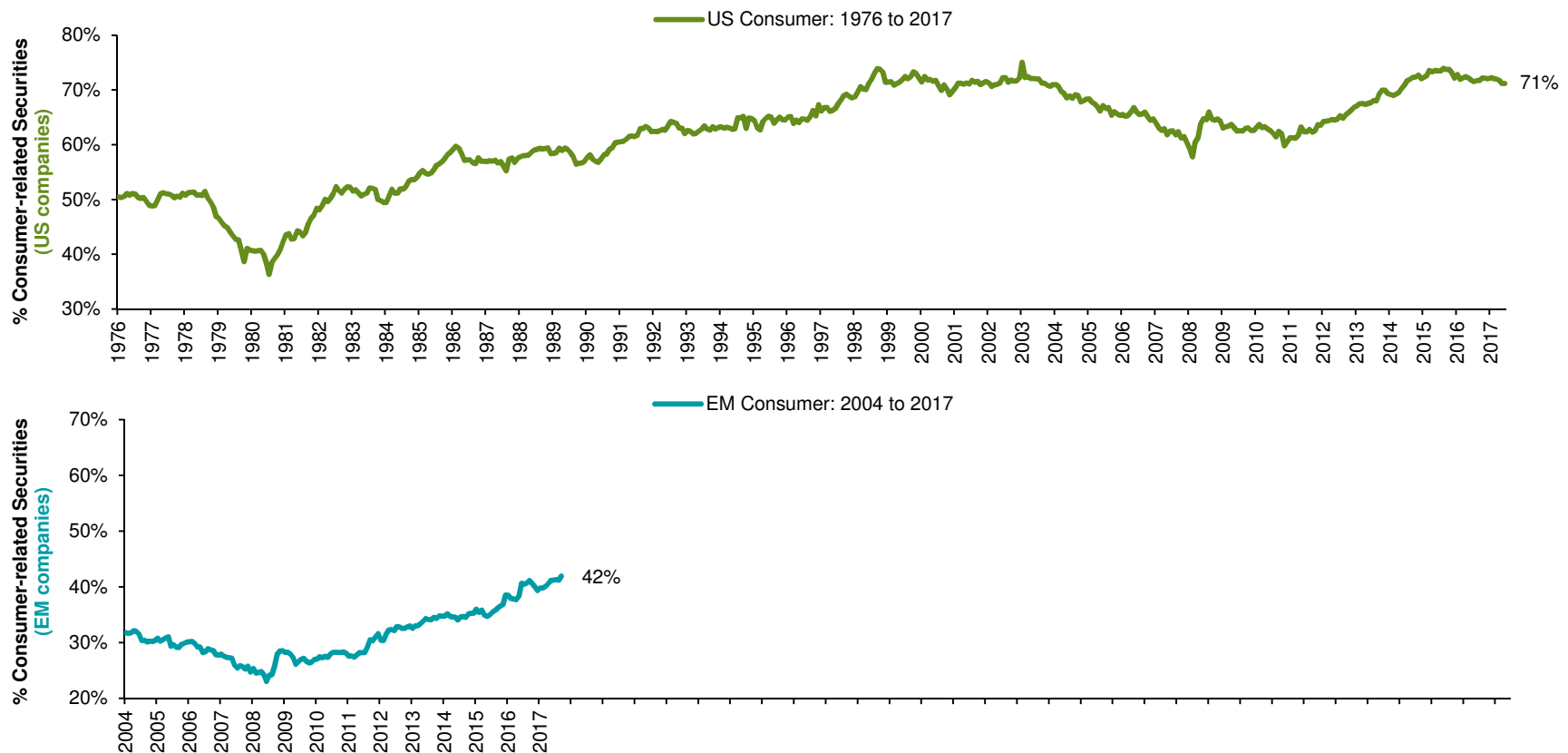
Standard Allocation to the MSCI EM Index Does Not Capture Local Consumer Demand

Top 15 industry weights shown. Source: MSCI. MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products. See additional disclosure at the end of this presentation.

US consumer-related securities growth

Top 1000* US companies: % of consumer-related securities

As of December 31, 2017

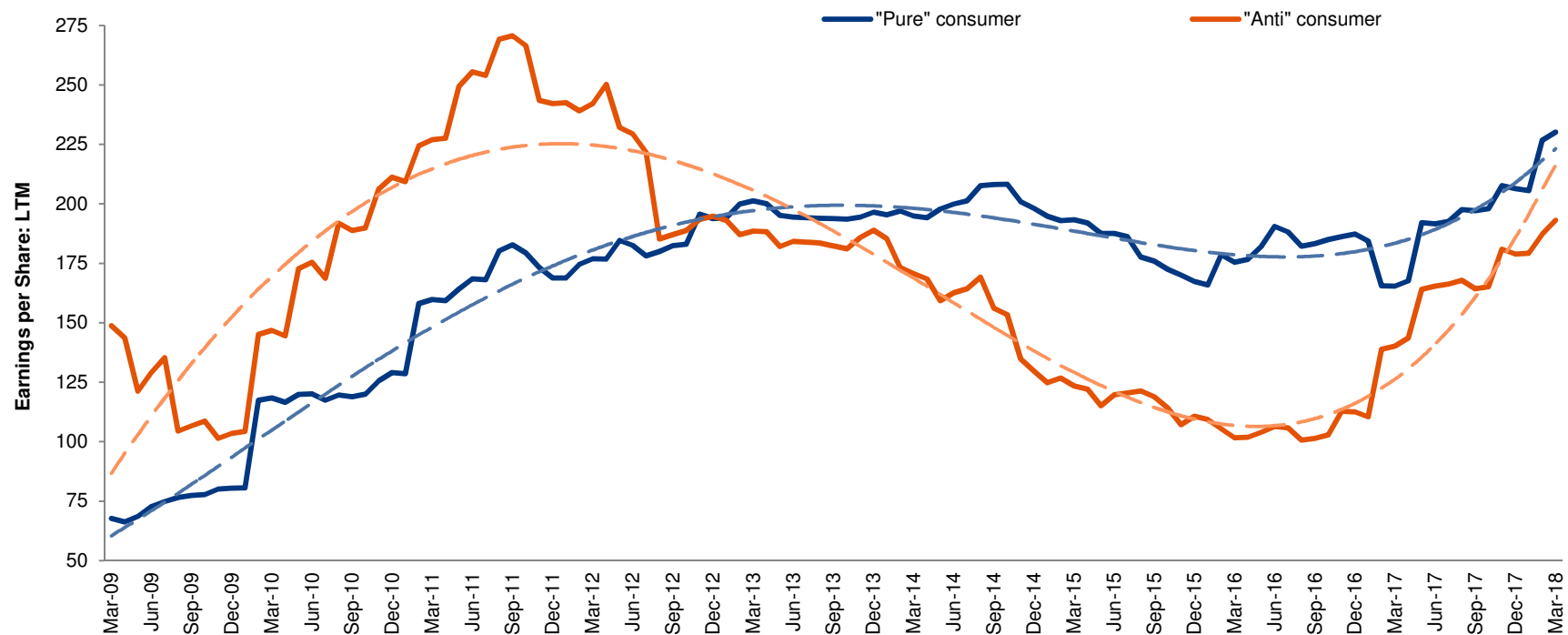


United States is a proxy for the changing Index composition

*As determined by market cap
Source: Barra, Allianz Global Investors. Includes consumer-related and mixed industries.

Emerging markets consumer-related has delivered greater earnings consistency

As of March 31, 2018

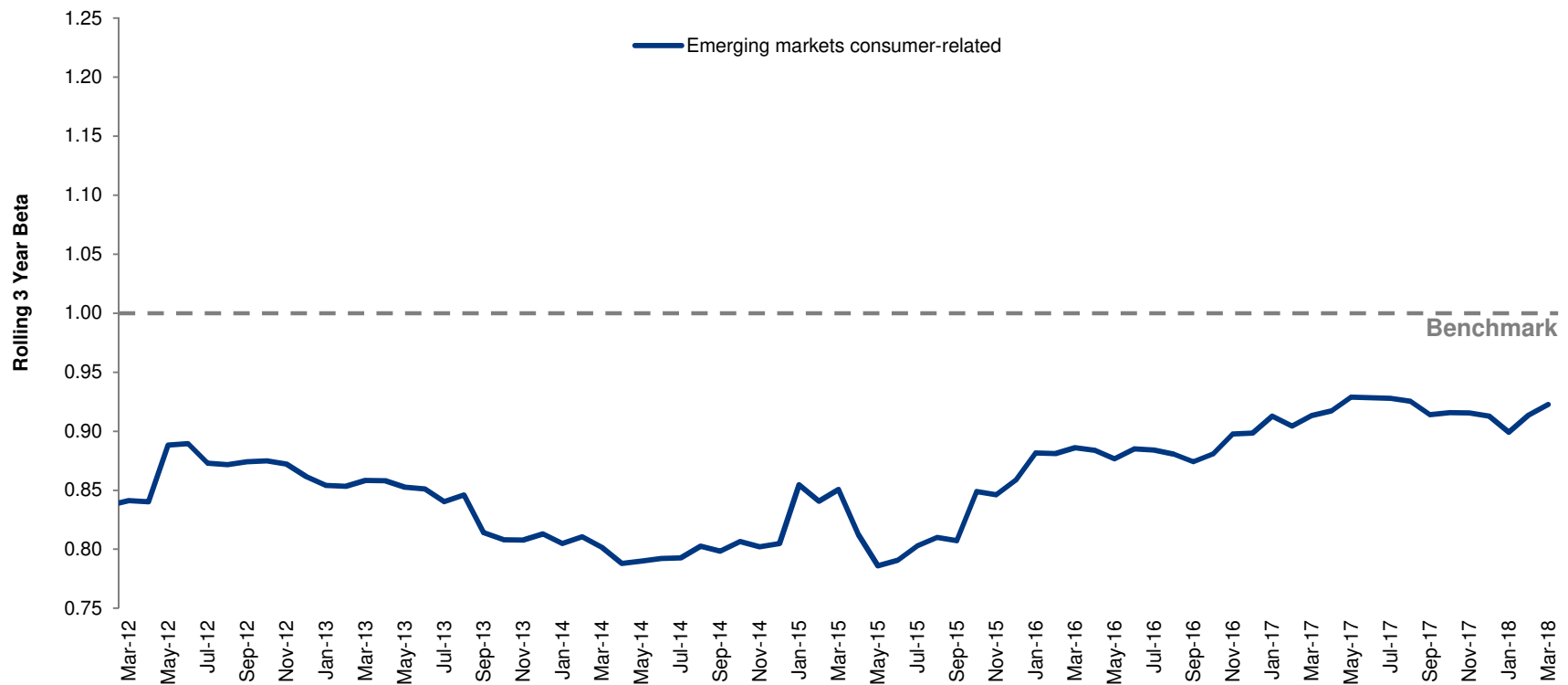


A consumer strategy can deliver a higher, and more consistent level of earnings

Source: FactSet, MSCI, Allianz Global Investors. Earnings are shown over the last 12 months from March 1, 2009 (post the global financial crisis) to March 31, 2018, using FactSet Market Aggregates. Shown are the 5 largest "pure" consumer industries which consist of Internet Software & Services, Wireless Telecommunication Services, Media, Automobiles & Food, and Staples Retailing, which in aggregate account for 22% of the benchmark and the 5 largest "anti" consumer industries which consist of Oil Gas & Consumable Fuels, Semiconductors & Semiconductor Equipment, Metals & Mining, Electronic Equipment Instruments & Components, and Chemicals, which in aggregate account for 21% of the benchmark. Industries have been classified by the Systematic team at Allianz Global Investors based upon the team's perceived industry affiliation with consumer, hard asset, export and mixed categories. Past performance is not indicative of future results. See the GICS Industry Classifications slide for an explanation of export, consumer and hard asset-related industries.

Emerging markets consumer-related has provided a lower beta

As of March 31, 2018



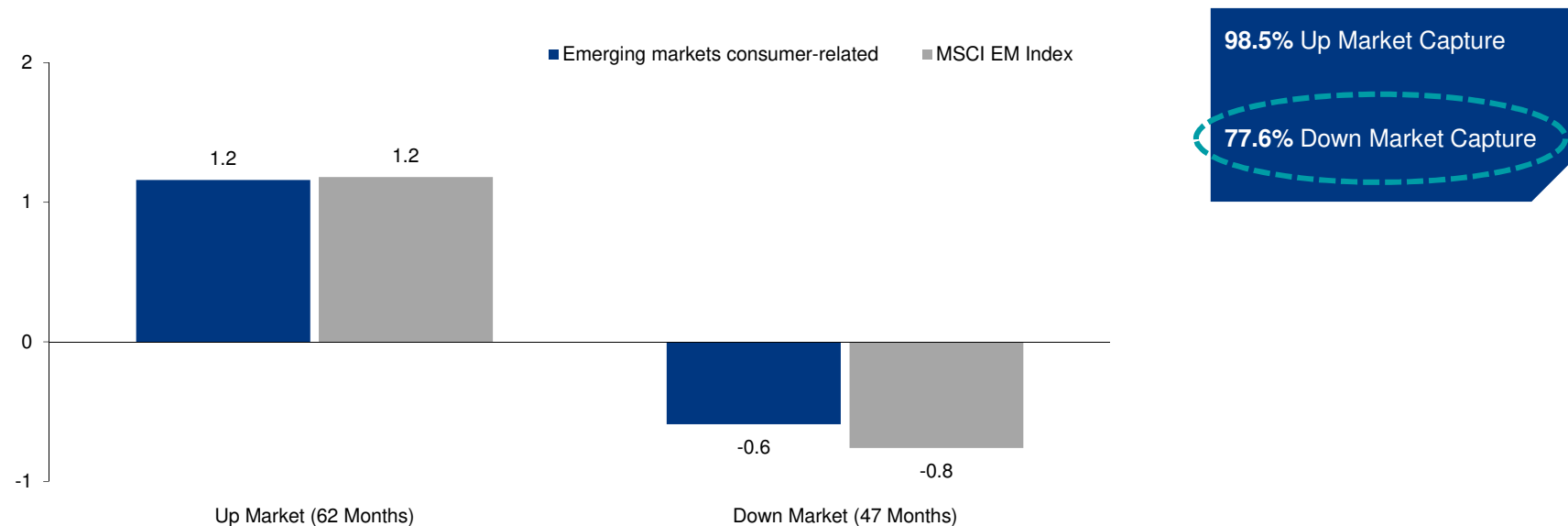
A lower beta can help offset asset class volatility

Source: MSCI, Allianz Global Investors. Performance is shown from March 1, 2009 (post the global financial crisis) to March 31, 2018, using consumer-related securities from the benchmark. Past performance is not indicative of future results. See the GICS Industry Classifications slide for an explanation of export, consumer and hard asset-related industries. See the GICS Industry Classifications slide for an explanation of export, consumer and hard asset-related industries. See additional disclosure at the end of this presentation.

Emerging markets consumer-related has protected on the downside

As of March 31, 2018

Market Performance: Post Financial Crisis (%)



Downside protection can be key to greater return consistency over time

Source: MSCI, Allianz Global Investors. Performance is shown from March 1, 2009 (post the global financial crisis) to March 31, 2018, using consumer-related securities from the benchmark. Past performance is not indicative of future results. See the GICS Industry Classifications slide for an explanation of export, consumer and hard asset-related industries. Market participation is based on the compounded monthly returns in up and down markets as determined by the benchmark's performance. See additional disclosure at the end of this presentation.

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GICS industry classifications

Consumer	Hard Asset	Export	Mixed
Airlines	Energy Equipment & Services	Aerospace & Defense	Banks
Auto Components	Metals & Mining	Air Freight & Logistics	Capital Markets
Automobiles	Oil, Gas & Consumable Fuels	Building Products	Diversified Financial Services
Beverages	Real Estate Investment Trusts	Chemicals	Diversified Telecommunication Services
Biotechnology	Real Estate Management & Development	Commercial Services & Supplies	Electronic Equipment & Instruments
Communications Equipment		Construction & Engineering	Insurance
Consumer Finance		Construction Materials	IT Services
Distributors		Containers & Packaging	Semiconductors & Semiconductor Equipment
Diversified Consumer Services		Electric Utilities	Software
Food & Staples Retailing		Electrical Equipment	Technology Hardware Storage & Peripherals
Food Products		Gas Utilities	Thrifts & Mortgage Finance
Health Care Equipment & Supplies		Ind. Power Producers & Energy Traders	
Health Care Providers & Services		Industrial Conglomerates	
Hotels, Restaurants & Leisure		Machinery	
Household Durables		Marine	
Household Products		Multi-Utilities	
Internet & Catalog Retail		Paper & Forest Products	
Internet Software & Services		Road & Rail	
Leisure Products		Trading Companies & Distributors	
Life Sciences Tools & Services		Transportation Infrastructure	
Media		Water Utilities	
Multiline Retail			
Personal Products			
Pharmaceuticals			
Specialty Retail			
Textiles, Apparel & Luxury Goods			
Tobacco			
Wireless Telecommunication Services			

Source: MSCI, Allianz Global Investors. Industries have been classified by the Systematic team at Allianz Global Investors based upon the team's perceived industry affiliation with consumer, hard asset, export and mixed categories.