Morgan Stanley

INVESTMENT MANAGEMENT

Tales From the Emerging World

The Winners of a Post-Pandemic Era

ACTIVE FUNDAMENTAL EQUITY | GLOBAL EMERGING MARKETS TEAM | MACRO INSIGHT | 2020

Even as COVID-19 continues to bubble up in hot spots all over the world, many people are asking us which nations will do best when the pandemic passes. Our list below of potential winners is based on an assessment of the impact of the pandemic, which is not "changing everything," but rather accelerating the broad turn inward that began after the global financial crisis of 2008.

AUTHOR

RUCHIR SHARMA
Head of Emerging Markets and Chief Global Strategist

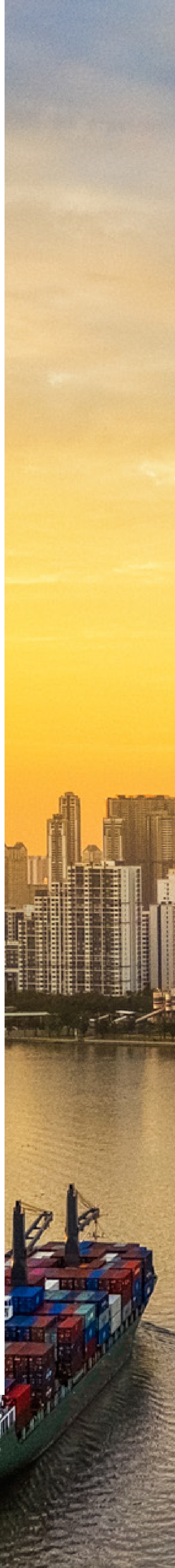
Globalization has given way to deglobalization, as cross border flows of goods, people and money decline. During the pandemic, even the leaders of nations that were among the biggest beneficiaries of globalization, including China and India, have begun to champion "self reliance"—a goal that in recent decades had been pursued mainly by isolated outliers like North Korea.

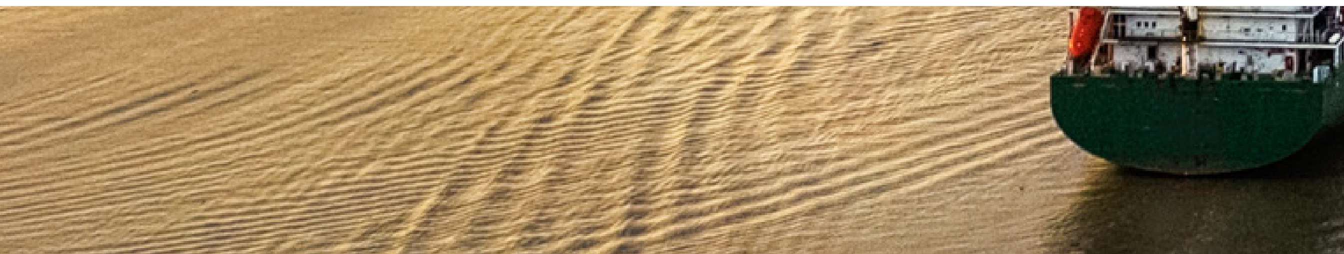
Governments are increasing their control over the economy, commanding shutdowns and effectively nationalizing business payrolls in ways that would have been unimaginable six months ago. Public debt and deficits are exploding in many countries.

The last redoubt of globalization is the virtual economy, which was still booming before the pandemic and has accelerated under the lockdowns, as people retreat home to work, play, shop and study. New habits are forming, which is going to help virtual enterprises to continue growing rapidly—from a much higher base—after the pandemic.

We screened all the major economies, developed and emerging, for key strengths that will prove critical in the post-pandemic era: a strong domestic market (or unusual export prowess), low debts, a competent government, and digital sophistication.[1]

[1] Government competence is based on COVID-19 cases and deaths per million population; Debt vulnerability is based on 2020 IMF forecasts for public debt and deficit as a share of GDP; Tech capacity is based on R&D as a share of GDP and the 2019 IMD World Digital Competitiveness Ranking; Deglobalization vulnerability is based on household consumption (higher is better) and debt (lower is better) as a share of GDP.





Clients will recognize that these four post-pandemic screens are drawn from our ten rules for spotting promising economies, in particular the rules on the state, investment, debt and geography. These rules mix the science and art of forecasting, using both data and field observation. The list below is also shaped in some cases by subjective factors, yielding an intriguing list of potentially promising names.

Notable is the absence of the two economic superpowers. The United States and China don't make the cut, undermined by heavy debts and by doubts about how their governments handled the pandemic. Topping the list are Germany, Finland, Switzerland, Vietnam, Taiwan and—perhaps the biggest surprise—Russia.

GERMANY: Leads no category but is near the top in all four, compared to other developed countries. Its lockdowns lasted barely a month, thanks to a quick response that was well coordinated between national and local governments. Germany under Angela Merkel, a trained scientist, makes the jousting between Washington and the states look even more embarrassing by contrast.

Germany was the rare country that went into the pandemic with relatively low levels of debt. It could afford the biggest domestic stimulus package of any major nation, and even extend offers of stimulus to its fellow EU members for the first time, and will still come out with the lowest public debt, by far, of any major power.[2] With Merkel leading the effort to create a European Recovery Fund, which could help bridge the north-south divide, her legacy may well be some sort of a European Renaissance.

FINLAND: A little Germany, strong across the board. One large Finnish telecommunications firm may have gone the way of the dodo but its old nest is now home to one of the world's largest software firms, and Finland keeps producing tech giants, including the maker of a well-known videogame. A top-ten tech power according to Institute for Management Development.[3] With a competent bureaucracy, little household debt and manageable public debt, Finland has no glaring vulnerability to the challenges of the post-pandemic period.

SWITZERLAND: Perhaps Europe's most streamlined, least centralized government, Switzerland has brought the COVID-19 death rate down to near zero, and created an economic relief agency that surprises small business by delivering support loans in a matter of hours. Astonishingly competitive for such a small country, Switzerland has a smaller population than the Scandinavian countries, but has created twice as many top-100 European companies as the Scandinavian countries combined.[4] The Swiss also generate among the most patents per person in the world and invest heavily in R&D, which is why Switzerland is a top-five global tech power as well.[5] (Its one weakness: household mortgage debt.)

VIETNAM: Vietnam is rapidly realizing its potential as "the next China," a major export power. With an efficient post-communist government, Vietnam has had stunning success containing the pandemic, with only 34 deaths to date.[6]

As the rest of the world turns inward, against immigration and trade, Vietnam continues to open up, signing 15 free-trade agreements in the last decade. Even before the pandemic, it was one of a precious few nations that was attracting investment in its export factories at an accelerating pace, and rapidly moving up the manufacturing ladder, from stitching together sneakers to making smart phones and air pods. The domestic economy, too, is leapfrogging the landline age straight into the mobile internet age. And now, outside a few small outliers, Vietnam is on track to finish 2020 as the world's fastest growing economy.[7]

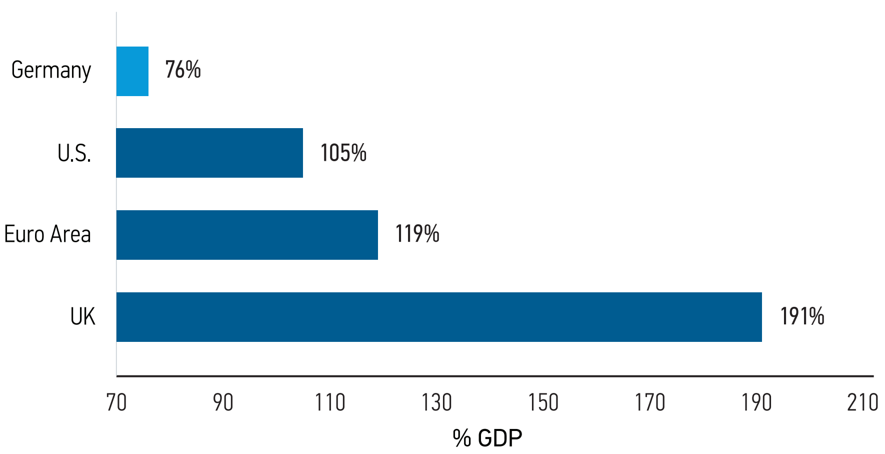
TAIWAN: Along with South Korea, Taiwan is one of the very few nations in the world that has been able to grow at a rapid pace for five decades in a row.[8] Both rank at the top of EM countries on our four post-pandemic factors. Taiwan gets the spotlight by a narrow margin.

Like South Korea it invests unusually heavily in tech and is already one of the world's most digitized countries. But Taiwan has a slightly lower government deficit and debt, and has dazzled in the

DISPLAY 1

Germany: Huge Stimulus, Small Public Debt

2020 Forecasts for Government Debt



Source: Deutsche Bank Research Forecast. Data as of June 2020.

[2] Deutsche Bank Research Forecast as of June 2020.

[3] Institute for Management Development 2019.

[4] Bloomberg, MSCI. Top 100 based on MSCI Europe Index. As of July 21, 2020.

[5] 2019 IMD Digital Competitiveness Ranking.

[6] Johns Hopkins Coronavirus Resource Center as of September 3, 2020.

[7] World Bank Global Economic Prospect's Database as of June 8, 2020.

[8] Conference Board. Since 1950, includes 99 emerging countries. Bloomberg.

fight against COVID-19, capping the death rate at 0.3 per million—lowest among major emerging and developed economies.[9] The Achilles heel for both is a relatively small and debt-soaked consumer economy, but Taiwan's consumer debt is slightly larger (as a share of GDP) and less debt-ridden.

RUSSIA: An intriguing dark horse, Russia does not in fact score in the top five on any single post-pandemic factor. It makes the list because it has turned itself into a financial fortress largely impervious to global markets.

In 2014 the debilitating impact of international sanctions for the invasion of Ukraine, coupled with a drop in oil prices, persuaded Putin to focus on paying down foreign debts and saving oil profits to seal itself from foreign pressure and commodity price volatility. Russian finances are now so solid, the ruble—unlike other petro currencies—no longer whipsaws with the price of oil. Russia had largely isolated itself from the whims of global markets even before this new crisis. Serendipitously, this insulation could prove even more valuable at a time when more than half the countries in the world have gone to the IMF for financial help to survive the pandemic.

Thanks in part to the legacy of Soviet science and education, combined with a sizeable consumer market, Russia has a reasonably advanced digital economy, one of the few to produce domestic internet champions that could withstand challenges from the American and Chinese giants.

It is telling of the coming era that a case can be made to include countries as different as Russia and Germany on this list. To thrive, economies will need a strong defense against the pressures of deglobalization, debt, and meddling governments, coupled with an offense capable of exploiting the opportunities in the booming digital economy. Though to very different degrees Russia and Germany, so often on opposite sides of history, share this mix of strengths for the future. They, like the others on this list, have a good shot at thriving in a difficult post-pandemic era.

Risk Considerations: There is no assurance that a portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this portfolio. Please be aware that this portfolio may be subject to certain additional risks. In general, **equities securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, and market risks. The risks of investing in **emerging market countries** are greater than the risks generally associated with investments in foreign developed countries. **Stocks of small- and medium-capitalization companies** entail special risks, such as limited product lines, markets, and financial resources, and greater market volatility than securities of larger, more-established companies. **Derivative instruments** can be illiquid, may disproportionately increase losses and may have a potentially large negative impact on the portfolio's performance. **Illiquid securities** may be more difficult to sell and value than public traded securities (liquidity risk). **Non-diversified portfolios** often invest in a more limited number of issuers. As such, changes in the financial condition or market value of a single issuer may cause greater volatility.

About Morgan Stanley Investment Management[10]

Morgan Stanley Investment Management, together with its investment advisory affiliates, has 714 investment professionals around the world and approximately $665 billion in assets under management or supervision as of June 30, 2020. Morgan Stanley Investment Management strives to provide outstanding long-term investment performance, service and a comprehensive suite of investment management solutions to a diverse client base, which includes governments, institutions, corporations and individuals worldwide. For more information, please visit our website at www.morganstanley.com/im. This material is current as of the date specified, is for educational purposes only and does not contend to address the financial objectives, situation or specific needs of any individual investor.

---

9 Johns Hopkins University, World Bank, Insee, Statista as of September 3, 2020.

10 Assets under management as of June 30, 2020. Morgan Stanley Investment Management ("MSIM") is the asset management business of Morgan Stanley. Assets are managed by teams representing different MSIM legal entities; portfolio management teams are primarily located in New York, Philadelphia, London, Amsterdam, Hong Kong, Singapore, Tokyo and Mumbai offices. Figure represents Morgan Stanley Investment Management's total assets under management/supervision.

DEFINITIONS: Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. It includes all private and public consumption, government outlays, investments and net exports.

and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The material contained herein has not been based on a consideration of any individual client circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision.

Past performance is no guarantee of future results.

This communication is not a product of Morgan Stanley's Research Department and should not be regarded as a research recommendation. The information contained herein has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market. Prior to investing, investors should carefully review the strategy's / product's relevant offering document. There are important differences in how the strategy is carried out in each of the investment vehicles.

DISTRIBUTION: This communication is only intended for and will only be distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

Ireland: Morgan Stanley Investment Management (Ireland) Limited. Registered Office: The Observatory, 7-11 Sir John Rogerson's Quay, Dublin 2, Ireland. Registered in Ireland under company number 616662. Regulated by the Central Bank of Ireland. **United Kingdom:** Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA. **Dubai:** Morgan Stanley Investment Management Limited (Representative Office, Unit Precinct 3-7th Floor-Unit 701 and 702, Level 7, Gate Precinct Building 3, Dubai International Financial Centre, Dubai, 506501, United Arab Emirates. Telephone: +97 (0)14 709 7158). **Germany:** Morgan Stanley Investment Management Limited Niederlassung Deutschland, Grosse Gallusstrasse 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Italy:** Morgan Stanley Investment Management Limited, Milan Branch (Sede Secondaria di Milano) is a branch of Morgan Stanley Investment Management Limited, a company registered in the UK, authorised and regulated by the Financial Conduct Authority (FCA), and whose registered office is at 25 Cabot Square, Canary Wharf, London, E14 4QA. Morgan Stanley Investment Management Limited Milan Branch (Sede Secondaria di Milano) with seat in Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy, is registered in Italy with company number and VAT number 08829360968. **The Netherlands:** Morgan Stanley Investment Management, Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. Telephone: 31 2-0462-1300. Morgan Stanley Investment Management is a branch office of Morgan Stanley Investment Management Limited. Morgan Stanley Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom. **Switzerland:** Morgan Stanley & Co. International plc, London, Zurich Branch Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered with the Register of Commerce Zurich CHE-115.415.770. Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland, Telephone +41 (0) 44 588 1000. Facsimile Fax: +41(0)44 588 1074.

U.S.: A separately managed account may not be appropriate for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required. For important information about the investment manager, please refer to Form ADV Part 2.

Please consider the investment objectives, risks, charges and expenses of the funds carefully before investing. The prospectuses contain this and other information about the funds. To obtain a prospectus please download one at morganstanley.com/im or call 1-800-548-7786. Please read the prospectus carefully before investing.

Morgan Stanley Distribution, Inc. serves as the distributor for Morgan Stanley Funds.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A BANK DEPOSIT

Hong Kong: This document has been issued by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this document have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore:** This publication should not be considered to be the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor under section 304 of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"), (ii) to a "relevant person" (which includes an accredited investor) pursuant to section 305 of the SFA, and such distribution is in accordance with the conditions specified in section 305 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. In particular, for investment funds that are not authorized or recognized by the MAS, units in such funds are not allowed to be offered to the retail public; any written material issued to persons as aforementioned in connection with an offer is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply, and investors should consider carefully whether the investment is appropriate for them. This publication has not been reviewed by the Monetary Authority of Singapore. **Australia:** This publication is disseminated in Australia by Morgan Stanley Investment Management (Australia) Pty Limited ACN: 122040037, AFSL No. 314182, which accepts responsibility for its contents. This publication, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

Japan: For professional investors, this document is circulated or distributed for informational purposes only. For those who are not professional investors, this document is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for making investment. MSIMJ exercises the delegated authorities based on investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of risks before investing. As an investment advisory fee for an IAA or an IMA, the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20% per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee mentioned above. Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This document is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association.

IMPORTANT INFORMATION: EMEA: This marketing communication has been issued by Morgan Stanley Investment Management Limited ("MSIM"). Authorised and regulated by the Financial Conduct Authority. Registered in England No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

Any index referred to herein is the intellectual property (including registered trademarks) of the applicable licensor. Any product based on an index is in no way sponsored, endorsed, sold or promoted by the applicable licensor and it shall not have any liability with respect thereto.

Charts and graphs provided herein are for illustrative purposes only.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable European or Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

MSIM has not authorised financial intermediaries to use and to distribute this document, unless such use and distribution is made in accordance with applicable law and regulation. Additionally, financial intermediaries are required to satisfy themselves that the information in this document is appropriate for any person to whom they provide this document in view of that person's circumstances and purpose. MSIM shall not be liable for, and accepts no liability for, the use or misuse of this document by any such financial intermediary.

Morgan Stanley Investment Management is the asset management division of Morgan Stanley.

Explore our site at **www.morganstanley.com/im**