

Emerging Markets: The New Global Growth Engine

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Executive Summary: Many market observers believe that severe shocks to the global economy in the second half of 2008 ushered in a new and unprecedented economic reality. A central feature of this new reality is a “handoff” of the global engine of growth from developed nations to emerging economies, which have undergone profound structural changes over the past two decades. A major outcome of this shift is likely to be a continued slowing of growth trends in the developed world, along with further weakening of the U.S. dollar. **This presents investors with an opportunity to bolster portfolios with emerging market assets.**

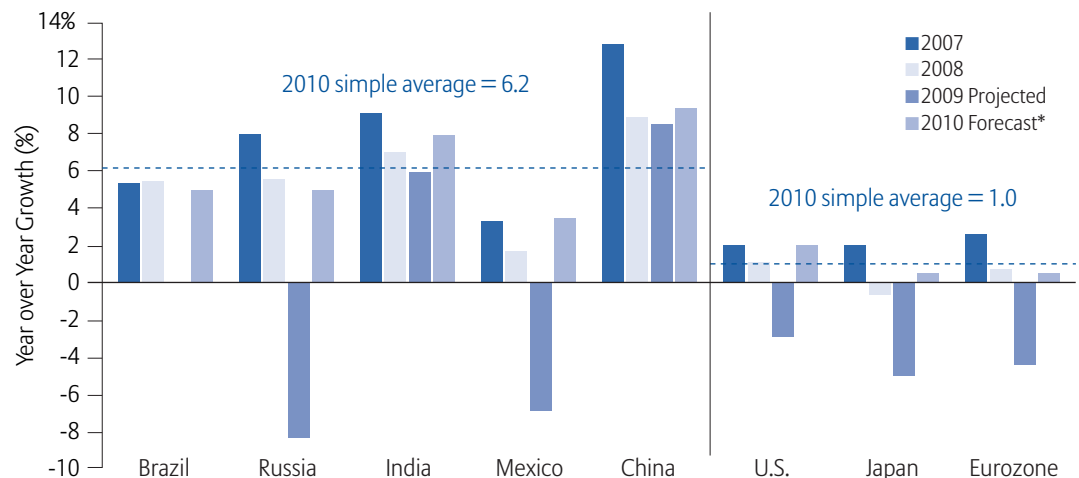
Emerging economies to grow faster than the developed world

- Growth rates from 2007–2009 have been greater in emerging markets, particularly in China and India, than in developed economies, and the trend is widely predicted to continue. Year-over-year growth rates from 2007–2009 in the BRIC nations —Brazil, Russia, India and China— and Mexico averaged 2.7%; growth rates in developed nations averaged only -4.2%.
- Growth rates in developed economies should be muted over the next three to five years. U.S. growth could fall to around 2% according to PIMCO. One reason is debt exhaustion at the

household level. U.S. growth is being hampered by unemployment, low savings, weak housing and the consumer’s poor debt-to-income ratio.

- Emerging markets are already making a significant impact on world trade: According to the International Monetary Fund, their exports account for 43% of the world total, and they are responsible for nearly half of global economic output. They also hold some 70% of the world’s foreign currency reserves.

Emerging market growth rates are expected to significantly outpace growth rates of developed economies



Source: Bloomberg Financial Markets, PIMCO, JPMorgan.

Data as of 12/31/09. Growth rate is based on the country’s gross domestic product.

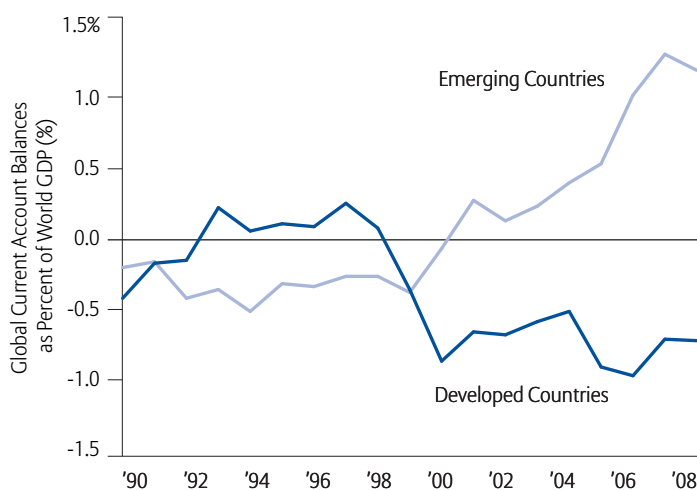
**Forecast figures based on PIMCO’s latest cyclical forecast for developed countries and JP Morgan for emerging market countries.

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Emerging markets see strengthening balance sheets

- Relative fiscal health and an export boom have resulted in a build-up of foreign currency reserves among emerging economies. Accordingly, creditor nations such as China are now financing the debt of industrialized nations, including the U.S.
- Many emerging market economies run disciplined fiscal and monetary policies, which have produced a steady increase in the credit quality of emerging market bond issuers. The average credit quality of countries represented in the widely followed JP Morgan emerging markets benchmarks for local bonds is now solidly investment grade.
- The accumulation of wealth in certain countries is creating new pools of capital, such as sovereign wealth funds. These are playing an increasingly influential role in global markets, and are likely to drive new capital allocation trends.

Emerging nations are financing the debt of developed nations



Source: Bloomberg

Emerging market assets look increasingly attractive

- In the wake of U.S. government emergency stimulus programs, which started to increase our debt level, the dollar began to look less attractive, resuming its downward slide which should continue over the secular horizon. This will likely make local currency investments appear increasingly attractive.
- One result of the higher growth predicted for emerging economies is likely to be higher corporate profits, which should ultimately drive up stock prices of emerging market companies, making them a compelling investment opportunity now.
- Improving credit conditions and relatively attractive spreads should provide attractive opportunities for bond investors, although careful credit selection will be key.
- Commodities should benefit as well, as countries like China and India continue to rely on metals, petroleum, etc.—produced on a long-term basis by other emerging market countries—to continue to develop their infrastructures.

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Gross Domestic Product (GDP) is the value of all final goods and services produced in a specific country. It is the broadest measure of economic activity and the principal indicator of economic performance.

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Managed accounts are available through Allianz Global Investors Managed Accounts LLC, 1345 Avenue of the Americas, New York, NY 10105-4800

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