

The financial difficulties of Greece, which first hit the headlines towards the end of last year, have yet to be resolved. Its credit rating was cut to junk status on 27 April, with its ability to service its own debt entirely dependent upon the good will of other Eurozone countries working in tandem with the IMF. Many financial markets around the world fell sharply in response. With Portugal and Spain also seeing their credit ratings cut within hours of Greece, and given the possibility of further downgrades to come, there remain serious doubts over the health, even the viability, of the Eurozone.

From the standpoint of Emerging Markets these developments serve to highlight the relative financial strength, and therefore in these circumstances the relative attractiveness, of emerging markets over developed markets. Emerging markets carry far lower levels of debt than their developed cousins, they do not suffer under the burden of interest payments to the same extent, their economies are thus more nimble and can grow more strongly.

The credit rating agencies have recognized this new reality. The table below shows the S&P credit ratings for those Eurozone countries currently in the news set against the emerging markets of Europe (including Turkey). Four of these emerging markets are considered investment grade and have a better credit rating than Greece. Only Turkey stands on the same rating, though with a positive outlook rather than Greece's negative outlook. Note also that Poland has a better rating than Portugal and that the Czech Republic is on a par with Italy.

Developed Europe	Rating	Outlook	Emerging Europe	Rating	Outlook
Spain	AA	Negative	Czech Republic	A+	Stable
Ireland	AA	Stable	Poland	A	Stable
Italy	A+	Negative	Russia	BBB+	Stable
Portugal	A-	Negative	Hungary	BBB-	Stable
Greece	BB+	Negative	Turkey	BB+	Positive

Rating shown is that for long-term local currency sovereign debt
Source: Standard & Poor's, as at 29 April 2010

Several of those countries in Central and Eastern Europe (including the former republics of the CIS), that do not as yet qualify as emerging markets also stand on a higher credit rating than Greece. It may come as a surprise to some but Bulgaria, Romania and Kazakhstan are all investment grade; they are considered to be safer bets than Greece.

The marked falls in share prices, which may well be justified in the Eurozone, are much harder to rationalise amongst Emerging Markets, given their relative financial positions. Any weakness on this score can therefore be viewed as an opportunity to buy some first class assets at an attractive price.

Charlemagne Capital does not have any exposure to the embattled markets of the Eurozone. More appealing investments are to be found amongst the emerging and frontier markets of Europe.

Marketing & Sales Department

Tel: + 44 (0)20 7518 2100 Fax: + 44 (0)20 7518 2199

Email: marketing@charlemagnecapital.com Website: www.charlemagnecapital.com

Issued by Charlemagne Capital (UK) Limited, 39 St James's Street, London SW1A 1JD
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