

# Decoupling Redux?

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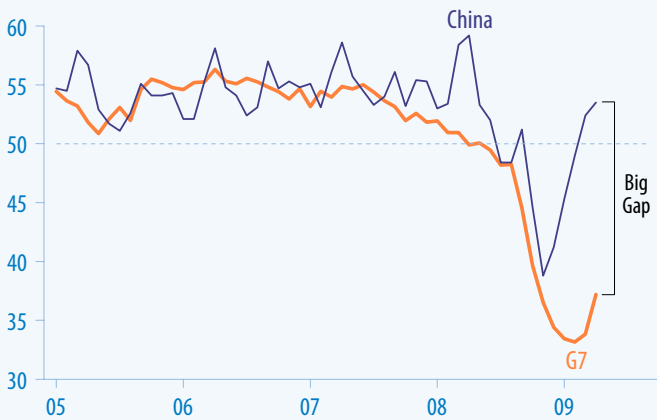
To even pose the possibility of global decoupling threatens ridicule, especially in the wake of the steep and highly synchronized global downturn in the past eight months. However, there are many recent signs that some emerging markets are forging a limited version of decoupling from the still very weak developed economies. Massive fiscal stimulus, especially in China, is paying quick dividends. Moreover, since many emerging markets are unencumbered by a wounded financial sector, these economies may be responding more readily to traditional stimulus measures. China and India saw their purchasing managers' indexes push above 50 in April, back into growth territory for the first time since the middle of last year, even as the G7 is just turning the corner (*Chart 1*).

In addition, there are plenty of minor indicators in China that have perked up in recent months. Retail sales were up 15% y/y in Q1, a comedown from last year's 21.7% rise, but largely due to a drop in inflation, not volumes. And, China's April auto sales rose to a record high, handily outperforming the 34% y/y drop in U.S. sales—reinforcing the fact that vehicle sales in China have risen above those in the U.S. (*Chart 2*). This is all part of a rapidly emerging pattern of a diminishing role for U.S. consumers, and a shifting in global economic power.

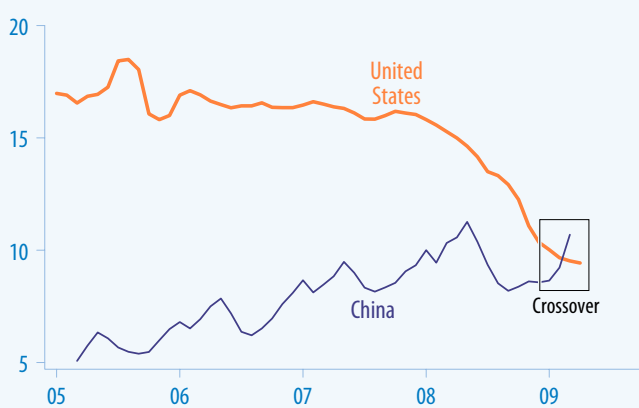
As well, financial markets are loudly pointing to at least some decoupling. While the S&P 500 just managed to claw back into positive terrain on a year-to-date basis this week, the emerging country equity markets remain on an absolute tear (*Chart 3*). Of course, some of this reflects a correction from last year's extraordinarily steep declines in these markets. Still, the emerging markets seem to present some of the most compelling medium-term opportunities, given their relatively stronger growth outlook, and generally improved underlying fundamentals (lower foreign debt burdens, inflation, and budget deficits) compared with previous decades.

**Bottom Line:** While all economies were dragged into the mire late last year, and global GDP is set for its worst year in the post-war era in 2009, there are reasons to believe that emerging markets can emerge relatively faster and stronger than the developed world in the recovery phase.

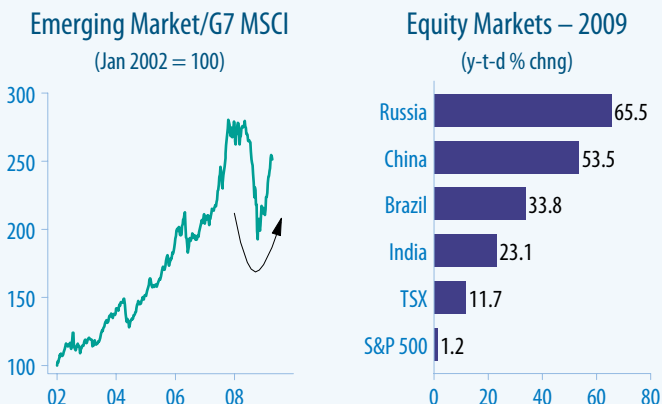
**CHART 1**  
**PMI: A NEW GROWTH LEADER**  
Purchasing Managers' Index



**CHART 2**  
**CHINA IN THE PASSING LANE**  
Vehicle Sales (mlns: 3-mnth ma : a.r.)



**CHART 3**  
**EMERGING MARKETS RE-EMERGING**



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