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Ashmore

Stronger global growth is good for EM

By Gustavo Medeiros

The International Monetary Fund (IMF) forecasts stronger global GDP growth at its spring meeting. Recent developments in commodity prices. Preliminary election results in Ecuador and Peru. Postponement of Constitutional Assembly and municipal elections in Chile due to Covid-19. Higher than expected producer prices inflation in China. Declining approval ratings for Brazilian President Bolsonaro. India's central bank leaves the policy rate unchanged, but announces a formal bond purchase programme. JP Morgan places Egyptian and Ukrainian local bonds for inclusion in its main index for local currency bonds, the GBI-EM GD.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	13.3	–	-0.56%
MSCI EM Small Cap	11.7	–	1.55%
MSCI Frontier	10.3	–	1.18%
MSCI Asia	14.5	–	-0.60%
Shanghai Composite	11.3	–	-0.45%
Hong Kong Hang Seng	9.6	–	-0.39%
MSCI EMEA	9.8	–	-0.91%
MSCI Latam	11.1	–	2.48%
GBI-EM-GD	4.91%	–	1.05%
China GBI-EM GD	3.27%	–	0.18%
ELMI+	2.70%	–	0.40%
EM FX spot	–	–	0.50%
EMBI GD	5.17%	343 bps	0.61%
EMBI GD IG	3.33%	154 bps	0.31%
EMBI GD HY	7.54%	585 bps	0.96%
CEMBI BD	4.44%	299 bps	0.16%
CEMBI BD IG	3.20%	174 bps	0.08%
CEMBI BD HY	6.10%	464 bps	0.28%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	20.6	–	2.75%
1-3yr UST	0.16%	–	0.02%
3-5yr UST	0.86%	–	0.13%
7-10yr UST	1.65%	–	0.21%
10yr+ UST	2.32%	–	0.08%
10yr+ Germany	-0.30%	–	0.12%
10yr+ Japan	0.68%	–	0.36%
US HY	4.02%	292 bps	0.54%
European HY	3.08%	355 bps	0.31%
Bloomberg-Barclays	1.13%	-52 bps	0.60%
VIX Index*	16.69	–	-0.64%
DXY Index*	92.26	–	-0.33%
EURUSD	1.189	–	0.65%
USDJPY	109.53	–	-0.59%
CRY Index*	186.7	–	0.04%
Brent	62.8	–	0.98%
Gold	1,739	–	0.59%
Bitcoin	60,111	–	2.23%

Note: Additional benchmark performance data is provided at the end of this document. *See last page for index definitions.

Emerging Markets

- IMF World Economic Outlook: The IMF Spring meetings took place last week. Most press coverage focused on the IMF's expectation of a short-term growth divergence between the United States (US) and the rest of the world as the US economy recovers faster than initially expected. We expect faster growth in developed markets (DM) in 2021 to be positive for EM markets. The US is likely to experience a 'sugar-rush' rebound over the next few quarters, as its fiscal expansion is much larger than its output gap.

The UK and US are further ahead in vaccinations against covid-19 than other countries. The faster pace of vaccinations has given these economies a short-term growth advantage, but much of this is reflected in market prices, in our view. We expect Europe and EM countries to increase the vaccinations faster from here, which sets them up for a similar rebound in H2 2021 that the US is experiencing this quarter and next. Furthermore, the European and EM rebounds may ultimately prove more solid as they will not rely as much on direct cash transfers as has been the case in the US, where the ratio of GDP growth per unit of fiscal stimulus (the so-called GDP multiplier) is likely to be very low, with little to no improvement in total factor productivity.

As for the medium term outlook, the IMF expects global growth rates to slow sharply in the coming years from 6% this year to 3.3% by 2026 (Figure 1). Growth will slow in both EM and DM economies. The slowdown to some extent reflects the normalisation from abnormal bounce in 2021 due to base effects but higher indebtedness, populism, protectionism and inequality also contribute to lower trend growth rates. However, DMs will suffer a more pronounced slowdown as the growth differential between EM and DM economies is set to rise from around 1.5% in 2021 and 2022 to about 3.0% by 2023-2026.

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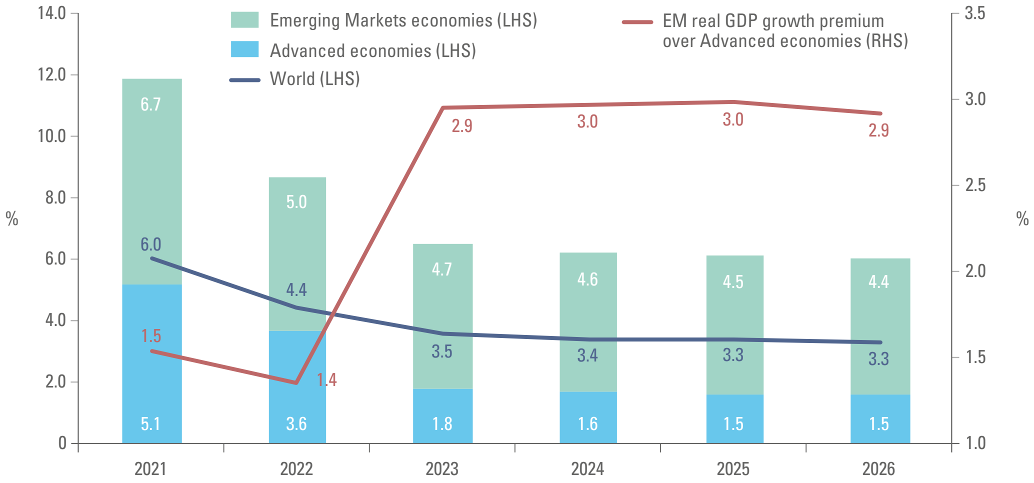
Emerging Markets

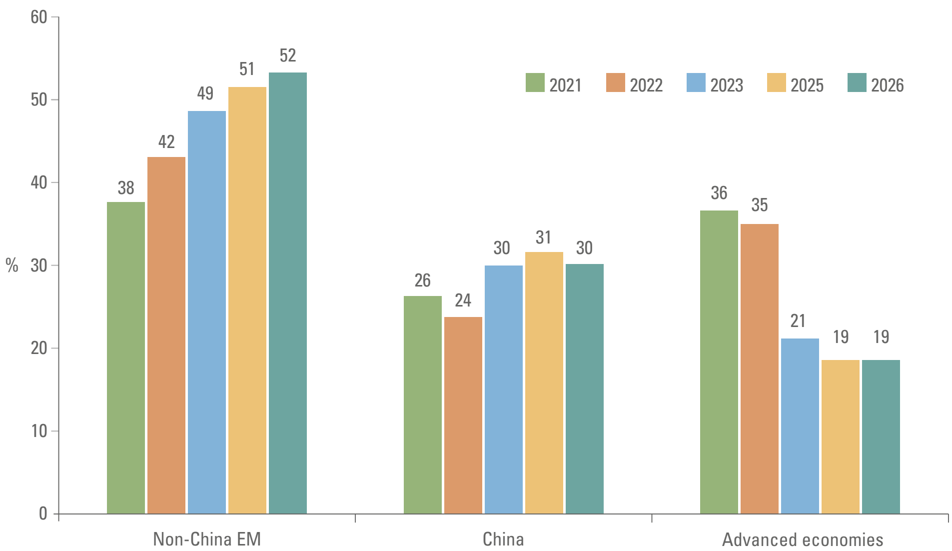
Fig 1: **IMF global real GDP growth rate projections (2021-2026)**



Source: Ashmore, IMF.

This big differential in growth projections for EMs and DMs implies that EM's contribution to global growth should rise steadily over the next five years from 64% this year to 81% by 2026 (Figure 2 shows contributions to real GDP growth from EM ex-China, China and Advanced economies). The regional contributions are calculated by weighting IMF's GDP growth rate estimates by region each year by each country's GDP (in PPP adjusted terms). The results are similar if the analysis uses current Dollar GDP instead of PPP-adjusted GDP with EM's contribution rising from 47% in 2021 to 69% by 2026. It is notable in Figure 2 that China alone accounts for between 24% and 31% of all global growth over the next five years but also that non-China EM's share is nearly twice as big.

Fig 2: **Contributions to global growth**



Source: Ashmore, IMF.

Looking further within EM, IMF expects some regions to outperform others in terms of GDP growth. For example, Figure 3 highlights the steadily rising contributions of EM Asia ex-China to global growth as well as growing contribution from the Middle East and North Africa regions. Sub-Saharan Africa's growth contribution also rises steadily over time, albeit from a low starting point. While Asia absolutely dominates EM growth, Latin America is steadily falling further and further behind on account of the region's low savings rates, corruption problems, reform fatigue, big income inequalities and proclivity for economic populism. This does not mean that investors should not consider Latin America; it just means that they need to be paid more for doing so (which is generally the case).

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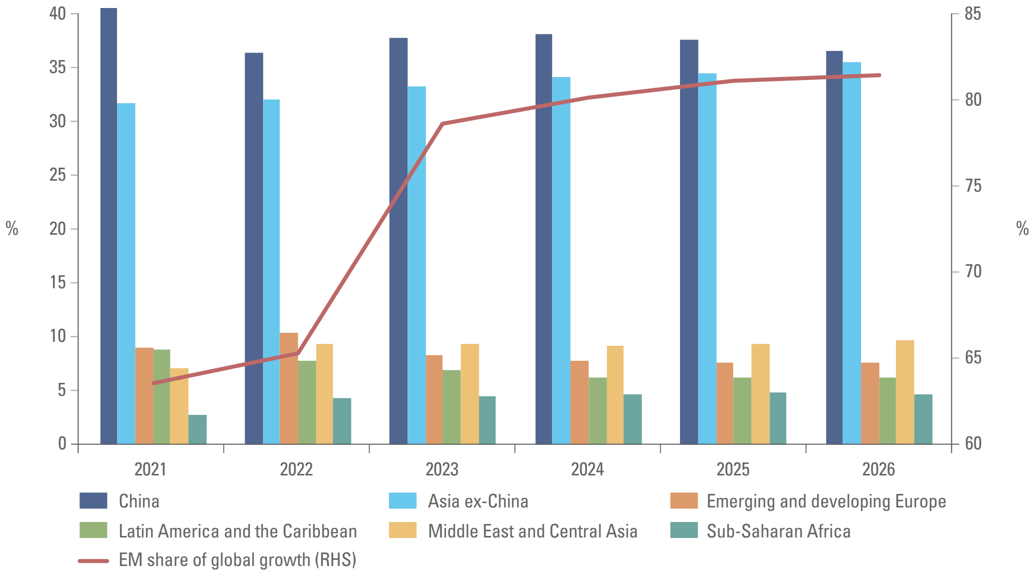
Fig 3: **Contribution to EM growth (excludes DM)**



Source: Ashmore, IMF.

- **Commodity prices:** On the other hand, Latin America as well as the Middle East will benefit significantly from the ongoing recovery in commodity prices. The ongoing US experiment with modern monetary theory (MMT) increases the risk of monetary policy mistakes.[1] Besides, a decade of declining prices and low investments has eroded production capacity in several commodity sectors, including a number of industrial metals. Meanwhile, the ongoing renewable energy boom boosts demand for key commodities like copper, lithium, nickel, platinum, manganese, etc. Europe has already committed to investing in infrastructure, while US President Joe Biden has submitted a USD 2.2tn plan to boost infrastructure. Both plans place strong emphasis on supporting renewable energy. The Paris Agreement introduces hard targets for emissions that are likely to boost incentives for adoption of renewable energy, attracting more investment in the sector, which in turn boosts the demand for scarce metals.

Meanwhile, agriculture commodities are under pressure due to the effects of climate change on global crops at a time when demand is elevated and inventories low. The oil market is more nuanced. The market is oversupplied but Saudi Arabia is exerting a strong grip on volumes to keep prices firm. In spite of higher oil prices, however, capex in oil exploration and production is low across the West as Biden dis-incentives shale production and traditional energy companies increasingly turn their attention to more renewable types of energy. This may over time lead to lower oil supply, which compensates for increase in production by Iran. With so many moving parts, it is difficult to call how oil prices will behave in the near future. Nevertheless, the strong push to reopen the US economy and the likelihood that the rest of the world will recover soon afterwards tilts the balance of risks seems to favour higher rather than lower prices, in our view.

Finally, commodities are sensitive to geopolitical tensions, which are rising at the onset of the Biden Administration. Increased tension in Eastern Ukraine and bickering over the Nord Stream 2 pipeline are keeping the relationship between US and Russia frosty. The relationship with Iran is also getting tenser. In Asia, with the US increasingly sees China as a threat to its erstwhile hegemony with Taiwan becoming an important focus. North Korea is firing rockets again. These factors all contribute to increasing the risk of logistical disruptions of supply chains, which also lends support to commodity prices.

- **Ecuador:** With 98.8% of the votes counted, Guillermo Lasso Mendoza is the new President of Ecuador receiving 52.4% votes against 47.6% from Andres Arauz Galarza. Mr. Arauz conceded defeat and called Lasso to congratulate him. Former President Rafael Correa, who was supporting Andres Arauz, also congratulated Lasso via Twitter. President Lasso is likely to fight for the economic reforms pursued by the Lenin Moreno administration, including the reforms suggested by the IMF. In other news, the yoy rate of CPI inflation was unchanged at -0.8% in March. Foreign exchange reserves were also stable at USD 5.8bn in March.

- **Peru:** The Presidential election is also going to a run-off in early June in Peru, but the candidates are uncertain. With 52.2% of the votes processed: the far-left candidate Jose Pedro Castillo Terrones had 16.3%, followed by the former Finance Minister Hernando de Soto Polar with 13.5%. The far-right Rafael Lopez Aliaga and Keiko Fujimori both had 12.9%. The Parliament will remain very fragmented, as expected which makes it hard to approve any meaningful legislation reform.[2] In other news, the central bank kept its policy rate unchanged at 0.25%, in line with consensus expectations.

[1] See: *'Beware of Big Fiscal'*, The Emerging View, 3 April 2019.

[2] See: *'A short note on Peruvian politics'*, The Emerging View, 30 March 2021.

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Emerging Markets

- **Chile:** The Senate voted to postpone elections to the Constitutional Assembly from 11 April to 15th or 16th of May due to the Covid-19 crisis. Meanwhile, Chile's trade surplus declined to USD 0.5bn in March from USD 1.5bn in February as imports rose faster than exports. The yoy rate of consumer prices index (CPI) inflation rose to 2.9% in March from 2.8% yoy in February. Total vehicle sales rose to 32.5k in March from 24.5k in February, which is 20.4% higher than the average of the last 5 years.

- **China:** The yoy rate of CPI inflation rose to 0.4% in March from -0.2% yoy in February, while the rate of producer price index (PPI) inflation rose to 4.4% yoy from 3.6% over the same period. In corporate news, online retail giant Alibaba received a USD 2.75bn fine due to anti-monopoly violations. Beijing also ordered several changes in Alibaba's business practices, including not allowing merchants to sell products on other platforms. Alibaba accepted the penalty and pledged to "ensure its compliance with determination". Whilst questions over the financial technology Ant Group remains, the anti-monopoly fine removes some regulatory uncertainty from the horizon, which is why Alibaba stocks rallied in response.

- **Brazil:** The approval rating of President Jair Bolsonaro declined to 24% from 27% in early March, while his disapproval rating rose to 52% from 49%, according to a poll by Exame/Ideia, a pollster. In economic news, the yoy rate of CPI inflation rose to 6.1% in March from 5.2% yoy in February, which was slightly lower than consensus expectations. The service purchasing managers' index (PMI) declined to 44.1 in March from 47.1 in February. Vehicle sales rose to 189k in March from 167k in February. Sales were 15% higher than March 2020 levels, but in line with the average number of cars sold over the past five years.

- **India:** The Reserve Bank of India (RBI) kept its policy rate unchanged at 4.0%, in line with consensus expectations. RBI also announced a formal INR 1trn purchase of government bonds in the secondary market during Q2 2021 and committed to buying INR 3tn in the financial year April 2021 to April 2022. The RBI has been purchasing bonds for some time (INR 3.1tn since the covid-19 shock), but this is the first time RBI announces a formal programme.

- **Index Matters:** JP Morgan placed the local currency government bonds of Egypt and Ukraine under review for possible inclusion in its local currency government bond benchmark index (GBI-EM GD). Egypt has 14 bonds with a notional value of USD 24bn that may be included, giving it a potential 1.8% weight in the Index, while Ukraine has a single USD 1.5bn bond, which would translate into an index weight of around 0.1%. JP Morgan said it aims to provide a further update about possible inclusion of these bonds in about six months' time.

Snippets:

- **Argentina:** Tax revenues rose to ARS 764bn in March from ARS 717bn in February. Vehicle sales rose to 32.5k in March from 27.7k in February, the highest level since 2018. In political news, Congress approved a bill that exempts workers earning less than ARS 150k (USD 1.6k) per month from income tax.
- **Colombia:** The City of Bogotá announced a full lockdown last weekend to contain the spread of coronavirus. The yoy rate of CPI inflation declined to 1.5% in March from 1.6% yoy in February. Exports rose to USD 2.9bn in February from USD 2.6bn in January.
- **Egypt:** The yoy rate of CPI inflation was unchanged at 4.5% in March.
- **El Salvador:** Rating agency S&P kept El Salvador's sovereign rating unchanged at B- with a stable outlook.
- **Indonesia:** Foreign exchange reserves declined by USD 1.7bn to USD 137.1bn – the first monthly decline since October 2020.
- **Malaysia:** Industrial production rose 6.3% in February after declining 0.3% in January.
- **Mexico:** The yoy rate of CPI inflation rose to 4.7% in March from 3.8% yoy in February. Industrial production growth was -4.5% on a yoy basis in February compared to -4.9% yoy in January.
- **Russia:** The yoy rate of CPI inflation rose to 5.8% in March from 5.7% yoy in February, while core CPI inflation rose to 5.4% yoy from 5.0% yoy over the same period.
- **Taiwan:** Exports rose 27.1% on a yoy basis in March from 9.7% yoy in February and imports rose 27.0% yoy over the same period. The trade surplus narrowed to USD 3.7bn in March from 4.5bn in February.

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Global backdrop

- **Coronavirus:** Over the past week, global vaccination campaigns accelerated at the fastest pace in Hungary, Brazil, India, Mexico, Argentina, Thailand, Turkey, and South Korea, according to the UBS vaccination tracker. Vaccinations are generally accelerating faster in EM countries now. The pace is consistent with 36.2% of EM's population receiving the vaccine by the end of 2021, up from 30.9% in the previous week. UBS estimates that DM countries will have 79% of their populations inoculated by the end of the year, down from 79.5% in the previous week. In other vaccine news, Chile announced that the Sinovac vaccination is 54% effective fourteen days after the second shot. Chile has vaccinated close to 40% of its population with at least one shot (and 22% of the population with two shots), but at the same time is struggling with more cases and high ICU occupation.

- **United States:** President Joe Biden proposed a USD 1.5tn additional to the 2022 budget, which means that the budget will be 8.4% bigger. Non-defence spending will increase 16% with education and healthcare rising 40% and 23%, respectively. A survey from the Federal Reserve of New York suggested that 42% of US households saved their recent stimulus checks compared to 36% in June 2020.[3] The higher savings rate reflects that fact that number of families using the cheques to pay debt has declined to 34% from 36%, while the number of families spending cheques for consumption has declined to 25% from 29%. The size of stimulus checks is likely to have been excessive, resulting in low multiplier effects.

  In terms of economic data, US durable goods orders declined 1.2% in February after a 1.1% decline in January and factory orders declined 0.8% from a 2.7% increase over the same period. The trade deficit increased to USD 71.1bn in February from USD 67.8bn in January. ISM services rose to 63.7 in March from 55.3 in February. The yoy rate of PPI inflation rose to 4.2% in March from 2.8% yoy in February, higher than consensus expectations of 3.8% yoy.

- **Eurozone:** Last week saw mixed economic data in the Eurozone. The unemployment rate was unchanged at 8.3% in February with the January unemployment rate revised from 8.1% to 8.3%. By contrast, the Sentix investor-confidence index rose to 13.0 in April from 5.0 in March, the highest level since Q3 2018. The composite PMI rose to 53.2 in March from 52.5 in February. The yoy rate of PPI inflation rose to 1.5% in February from 0.4% yoy in January.

- **Australia:** The Reserve Bank of Australia kept its monetary policy rate unchanged at 0.1% and the target on 3-year government bonds unchanged at 0.1%.

Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	1.09%	1.09%	3.33%	53.42%	7.44%	13.26%
MSCI EM Small Cap	2.41%	2.41%	10.28%	80.51%	6.06%	10.45%
MSCI Frontier	2.98%	2.98%	3.81%	42.31%	-0.23%	7.41%
MSCI Asia	1.25%	1.25%	3.88%	53.99%	9.59%	14.89%
Shanghai Composite	0.25%	0.25%	-0.64%	24.99%	5.70%	5.28%
Hong Kong Hang Seng	0.05%	0.05%	2.23%	16.33%	0.71%	8.96%
MSCI EMEA	0.09%	0.09%	8.21%	38.00%	1.07%	6.21%
MSCI Latam	1.57%	1.57%	-3.78%	42.28%	-4.92%	5.36%
GBI-EM-GD	1.27%	1.27%	-5.49%	12.40%	-0.09%	3.50%
China GBI-EM GD	-0.05%	-0.05%	0.25%	6.07%	na	na
ELMI+	0.46%	0.46%	-2.12%	8.12%	-0.27%	2.23%
EM FX spot	0.64%	0.64%	-2.99%	5.65%	-5.89%	-3.03%
EMBI GD	0.98%	0.98%	-3.60%	15.32%	4.32%	5.22%
EMBI GD IG	0.63%	0.63%	-4.70%	8.87%	6.52%	5.41%
EMBI GD HY	1.39%	1.39%	-2.33%	23.69%	1.88%	4.94%
CEMBI BD	0.27%	0.27%	-0.53%	17.16%	6.21%	6.14%
CEMBI BD IG	0.19%	0.19%	-1.51%	11.75%	6.31%	5.18%
CEMBI BD HY	0.38%	0.38%	0.79%	25.13%	6.07%	7.66%

[3] See: https://libertystreeteconomics.newyorkfed.org/2021/04/an-update-on-how-households-are-using-stimulus-checks.html

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Benchmark performance

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	3.97%	3.97%	10.38%	50.48%	18.67%	17.30%
1-3yr UST	0.00%	0.00%	-0.05%	0.31%	2.80%	1.70%
3-5yr UST	0.19%	0.19%	-1.15%	-0.39%	4.16%	2.22%
7-10yr UST	0.65%	0.65%	-5.13%	-5.16%	5.27%	2.35%
10yr+ UST	1.44%	1.44%	-12.26%	-15.07%	6.60%	3.17%
10yr+ Germany	0.12%	0.12%	-6.15%	-2.09%	5.46%	2.51%
10yr+ Japan	0.00%	0.00%	-0.77%	-1.66%	0.94%	0.18%
US HY	0.71%	0.71%	1.57%	20.77%	6.94%	8.11%
European HY	0.50%	0.50%	2.35%	19.70%	3.74%	4.78%
Bloomberg-Barclays Agg	0.69%	0.69%	-3.80%	4.89%	3.07%	2.62%
VIX Index*	-13.97%	-13.97%	-26.64%	-59.95%	-9.73%	12.39%
DXY Index*	-1.04%	-1.04%	2.59%	-7.29%	2.80%	-1.80%
CRY Index*	0.96%	0.96%	11.29%	46.10%	-6.30%	6.41%
EURUSD	1.36%	1.36%	-2.68%	8.94%	-3.54%	4.43%
USDJPY	-1.07%	-1.07%	6.08%	1.63%	2.05%	0.91%
Brent	-1.23%	-1.23%	21.16%	99.36%	-12.86%	40.43%
Gold	1.80%	1.80%	-8.42%	1.35%	30.25%	38.47%
Bitcoin	1.95%	1.95%	107.30%	780.27%	677.58%	14,031.68%

*VIX Index = Chicago Board Options Exchange SPX Volatility Index. *DXY Index = The Dollar Index. *CRY Index = Thomson Reuters / CoreCommodity CRM Commodity Index.
Source: Bloomberg, JP Morgan, Barclays, Merrill Lynch, Chicago Board Options Exchange, Thomson Reuters, MSCI, total returns.
Figures for more than one year are annualised other than in the case of currencies, commodities and the VIX, DXY and CRY which are shown as percentage change.

Contact

Head office

Ashmore Investment Management Limited
61 Aldwych, London
WC2B 4AE

T: +44 (0)20 3077 6000

@AshmoreEM

www.ashmoregroup.com

Bogota
T: +57 1 316 2070

Dubai
T: +971 440 195 86

Dublin
T: +353 1588 1300

Jakarta
T: +6221 2953 9000

Mumbai
T: +9122 6269 0000

New York
T: +1 212 661 0061

Riyadh
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Singapore
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