Ashmore

Volatility is back

By Gustavo Medeiros and Ben Underhill

- Markets in panic mode this morning after position unwinding...
  ...coincided with economic data softening at a faster pace....
  ... leading to the first meaningful VIX spike since March 2022.
- US interest rates pricing very large short-term cuts. Historically coincided with a recession when the yield curve normalised from inverted levels (dis-inverted).
- US economy is indeed slowing, corroborated by manufacturing PMIs last week, but the sell-off may have moved ahead of itself, in our view.
- US political risks and geopolitical risks in the Middle East remain elevated.
- Tensions remain elevated in Venezuela.
- China's activity still sluggish.
- Korean exports softened but expected to remain elevated.
- Panama announced expenditure cuts to consolidate its large deficit.
- Pakistan upgraded last week, Bangladesh and Kenya downgraded.
- Ethiopia floated its currency. Protesters took to the streets in Nigeria.

Contents	Page

Last Week Performance and Comments

EM Debt	Yield	Change (bp)	Spread	5 day Change
GBI-EM GD	6.28%	-19	–	1.1%
GBI-EM China	2.05%	-4	–	0.0%
GBI-EM FX Spot	–	–	–	0.2%
ELMI+ (1-3m NDF)	6.75%	-64	–	0.3%
EMBI GD	8.12%	-14	427 bps	0.9%
EMBI GD IG	5.37%	-21	143 bps	1.8%
EMBI GD HY	11.58%	2	781 bps	-0.1%
CEMBI BD	6.65%	-24	293 bps	0.9%
CEMBI BD IG	5.44%	-24	172 bps	1.3%
CEMBI BD HY	8.37%	-21	464 bps	0.4%

EM Equity*	PE 1yr BF	5 day Change
MSCI EM	11.9	-1.0%
MSCI EM ex-China	11.4	-1.1%
MSCI EM Small Cap	6.2	-0.3%
MSCI Frontier	8.2	-3.2%
MSCI EM Asia	12.6	-0.9%
MSCI China	9.0	-0.6%
MSCI EMEA	16.5	-1.1%
MSCI Latam	9.1	-0.9%
MSCI EM Growth	13.7	-1.2%
MSCI EM Value	9.2	-0.4%

Comments

- EM IG debt rose but underperformed the Global Agg Index.
- IG spreads widened less than HY, as expected, during a risk-off move.
- EM Local bonds rose 1.1% despite the turbulent environment and the unwind of many carry trades. Asian and Eastern European currencies outperformed, buoyed by strong JPY and EUR.
- EM equities outperformed DM, with EMEA and China particularly resilient.
- EM small cap also posted only modest declines.

Global Debt	Yield	Change (bp)	Spread	5 day Change
2yr UST	3.88%	-50	–	1.0%
5yr UST	3.62%	-46	–	1.9%
10yr UST	3.79%	-40	–	3.1%
30yr UST	4.11%	-34	–	5.7%
10yr Germany	2.17%	-23	–	3.5%
10yr Japan	0.95%	-12	–	1.3%
Global Agg.**	3.44%	-28	41 bps	2.3%
US Agg. IG**	4.94%	-32	99 bps	2.4%
EU Agg. IG**	3.41%	-17	73 bps	1.2%
US Corp HY**	7.70%	7	359 bps	-0.1%
EU Corp HY**	6.82%	-14	389 bps	0.1%

Global Backdrop*	PE 1yr BF	5 day Change
MSCI ACWI	17.5	-2.0%
MSCI World (DM)	18.5	-2.1%
S&P 500	20.5	-2.0%
VIX Fut.*	21.9%	5.7%
DXY Index*	103.2	-1.1%
EUR*	1.091	0.4%
JPY*	146.5	4.8%
CRY Index*	270.1	-2.6%
Brent*	76.8	-5.3%
Gold*	2,443	2.3%
Bitcoin*	60,259	-8.9%

Comments

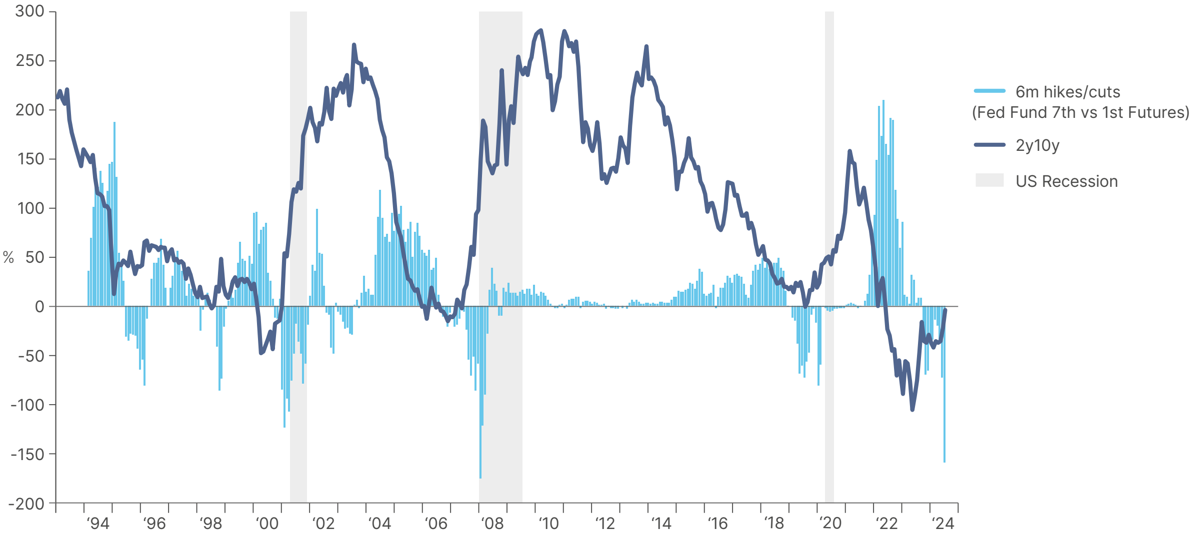
- US rates steepened, but rallied dramatically across the curve, as investors priced in the prospect of a steeper rate cutting cycle, given weakening economic data.
- Risk assets sold off, with high-beta Brent and Bitcoin leading the plunge.

Source & Notations: See end of document.

Global Macro

Volatility is back as markets price a wild ride. The biggest bond market in the world (US Treasuries) rallied so hard and fast that it issued an ominous signal to markets. Figs 1 and 2 show that the US economy has entered a recession every time that fed fund futures priced more than 50bps of cuts over the following six months and the yield curve *"disinverted"* over the last 30 years.

Fig 1: **US 2s10s vs. Fed Fund next 6m implied**



Source: Bloomberg, Ashmore. Data as at 5 August 2024.

Fig 2: **Episodes when market priced c. 50bps cuts or move over the next 6-months**

Date	Event	6m px	YC inv. prior?	Recession?
Jan-96	Tequila Hangover	-80	No	No
Sep-98	LTCM	-85	No	No
Jan-01	.com Bubble	-122	Yes	Yes
Oct-02	Argie – Lula	-48	No	No
Jan-08	GFC	-173	Yes	Yes
Jun-19	Slowdown	-68	No	No
Feb-20	Covid-19	-80	Yes	Yes
Aug-24	**AI Bubble**	**-157**	**Yes**	**?**

Source: Bloomberg, Ashmore. Data as at 5 August 2024.

The price action in rates is explained by the fact that many investors seemed to be positioned for a soft landing when several events led to an extreme unwind of positioning. The Japanese Yen rallying 20 big figures (from 162 to 142) in less than one month was one of them. The Bank of Japan's (BOJ) 15bps hike to 0.25% last week only led to an acceleration of this move. The vicious rotation from technology to small caps alongside cyclical companies showing poor guidance triggered a deflation of the ongoing bubble for NVIDIA and to some extent, the 'Magnificent Seven' in the US. In US politics, the market went from trading a Trump victory post-assassination attempt to a Harris honeymoon after the incumbent President dropped out of the race. Geopolitics remains a source of intense volatility (more below) and, finally, the US economy has been showing signs of slowing down that looked like a soft landing. The fiscal deficit, on a rolling 12-month basis, has also tightened significantly in the last few months, falling from -6.5% to -5.6% of GDP between December 2023 and June 2024, tightening financial conditions at the margin.

Global Macro (continued)

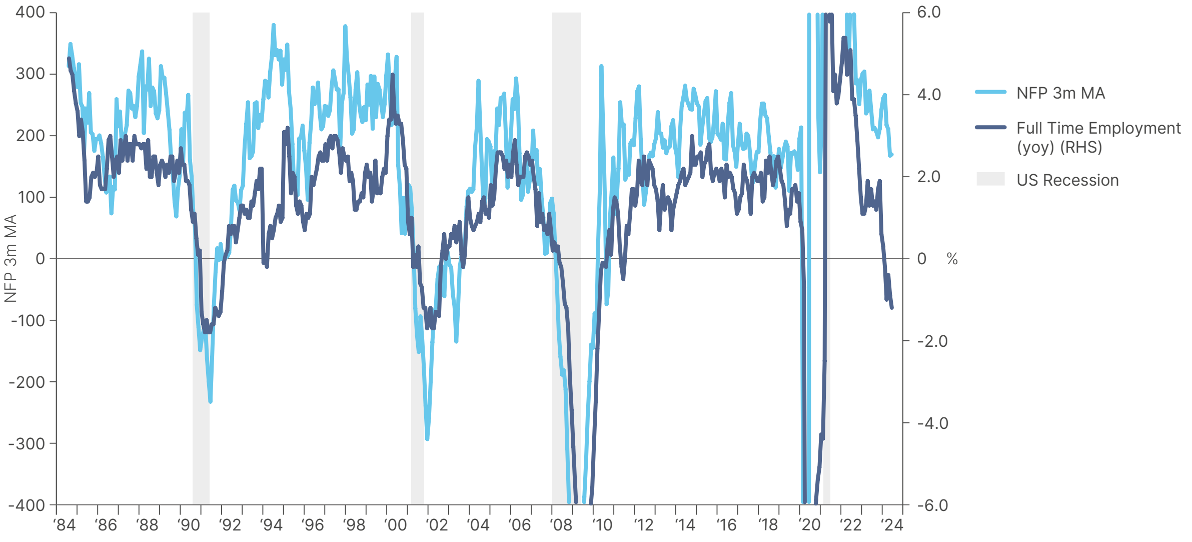
We've argued, in our 2024 outlook, that bond investors would have the opportunity to trade both "tails" of no landing and hard landing during the year, but ultimately investors should be long bonds as the economy deceleration and disinflation would allow global central banks to cut rates. This is precisely how things have played out so far. Last week's price action is exaggerated and can only be explained by a large unwind of soft landing bets, in our view.

Global manufacturing, aside from semiconductors, has been sluggish, and the recent surveys are consistent with recessionary levels in Developed Markets (DM), but not so far in Emerging Markets (EM). The darling of global markets over the last decade took notice. The volatility in US stocks rose sharply, with the VIX rising above 30% today, from 11.9% at the end of June. Despite this, the S&P was down only 5.7% (until last Friday) from its historical highs, still far from discounting the same odds of a hard landing that are reflected in the US Treasury market.

In our view, there is a significant rotation from US stocks to other assets still waiting to happen. Perhaps bond markets rallying ahead simply reflects part of this adjustment as investors bet the US Federal Reserve (Fed) would have to cut rates to a much larger extent, should the economy face a hard landing. Importantly, previous events of VIX spikes were great opportunities to add exposure to EM assets in the past. A more detailed market commentary on the subject to be published this week.

The main fundamental factor driving today's panic was the US labour market, which cooled more than expected in July, adding 114k jobs as unemployment rose. Fig 3 shows that not only is job creation declining fast, but full employment has been at negative levels in yoy terms since February. The unemployment rate already rose by more than 0.5% against its 12-month moving average in Canada, New Zealand, Sweden, Norway, the UK, South Africa, and now the US. It is also near it in Hungary and Australia. Economist Claudia Sahm noticed that when the unemployment rate rises above this threshold, self-fulfilling dynamics take place, which explains why the US economy has hit recession every time this threshold was crossed since 1950. Sahm recently downplayed the importance of her own rule in a blog post-pandemic.[1] Nevertheless, while the supply of labour has increased, the overall data (including the Job Openings and Labor Turnover Survey (JOLTS) and claims suggests the demand for labour is indeed weakening at an increased pace.

Fig 3: **Episodes when market priced c. 50bps cuts or more over the next 6months.**



Source: Bloomberg, Ashmore. Data as at 1 August 2024.

[1] See – https://stayathomemacro.substack.com/p/sahm-thing-more-on-the-sahm-rule

Global Macro (continued)

Global Manufacturing Purchasing Managers' Index (PMI's)

Manufacturing PMI down across the world, but stronger in EM vs DM (-40 bp vs -90bp). EM PMI remains above 50 as per Fig 4. Within EM, China PMI slumped the most, with Indonesia and Mexico also weaker. On the other hand, India, Taiwan and Malaysia were resilient, with Thailand and South Africa strong. Within DM, the biggest surprise was the large drop on the US ISM survey to 46.8, including large declines in the employment sub-component.

Fig 4: **Global Manufacturing PMI data**

Region	Jul '23	Aug '23	Sep '23	Oct '23	Nov '23	Dec '23	Jan '24	Feb '24	Mar '24	Apr '24	May '24	Jun '24	Jul '24
DM Manuf.	47.1	46.8	47.4	47.5	47.7	47.0	48.9	49.3	49.3	48.6	50.0	49.7	48.8
EM Manuf.	50.2	51.3	50.9	50.1	50.9	50.9	51.1	51.5	52.0	52.0	52.0	52.1	50.7

Man. PMI	Jul '23	Aug '23	Sep '23	Oct '23	Nov '23	Dec '23	Jan '24	Feb '24	Mar '24	Apr '24	May '24	Jun '24	Jul '24
China	49.2	51.0	50.6	49.5	50.7	50.8	50.8	50.9	51.1	51.4	51.7	51.8	49.8
China Official	49.3	49.7	50.2	49.5	49.4	49.0	49.2	49.1	50.8	50.4	49.5	49.5	49.4
South Korea	49.4	48.9	49.9	49.8	50.0	49.9	51.2	50.7	49.8	49.4	51.6	52.0	51.4
Taiwan	44.1	44.3	46.4	47.6	48.3	47.1	48.8	48.6	49.3	50.2	50.9	53.2	52.9
India	57.7	58.6	57.5	55.5	56.0	54.9	56.5	56.9	59.1	58.8	57.5	58.3	58.1
Indonesia	53.3	53.9	52.3	51.5	51.7	52.2	52.9	52.7	54.2	52.9	52.1	50.7	49.3
Philippines	51.9	49.7	50.6	52.4	52.7	51.5	50.9	51.0	50.9	52.2	51.9	51.3	51.2
Thailand	50.7	48.9	47.8	47.5	47.6	45.1	46.7	45.3	49.1	48.6	50.3	51.7	52.8
Malaysia	47.8	47.8	46.8	46.8	47.9	47.9	49.0	49.5	48.4	49.0	50.2	49.9	49.7
Vietnam	48.7	50.5	49.7	49.6	47.3	48.9	50.3	50.4	49.9	50.3	50.3	54.7	54.7
Brazil	47.8	50.1	49.0	48.6	49.4	48.4	52.8	54.1	53.6	55.9	52.1	52.5	54.0
Mexico	53.2	51.2	49.8	52.1	52.5	52.0	50.2	52.3	52.2	51.0	51.2	51.1	49.6
Colombia	48.4	46.8	47.8	48.1	49.4	52.0	55.1	51.2	50.6	49.2	49.8	49.8	50.0
South Africa	47.9	49.4	46.2	45.4	48.2	50.9	43.6	51.7	49.2	54.0	43.8	45.7	52.4
Turkiye	49.9	49.0	49.6	48.4	47.2	47.4	49.2	50.2	50.0	49.3	48.4	47.9	47.2
Hungary	45.9	46.7	47.4	52.3	52.2	51.0	50.1	52.3	52.2	51.8	51.3	49.1	49.2
Poland	43.5	43.1	43.9	44.5	48.7	47.4	47.1	47.9	48.0	45.9	45.0	45.0	47.3
Czechia	41.4	42.9	41.7	42.0	43.2	41.8	43.0	44.3	46.2	44.7	46.1	45.3	43.8
Russia	52.1	52.7	54.5	53.8	53.8	54.6	52.4	54.7	55.7	54.3	54.4	54.9	53.6

Country	Jul '23	Aug '23	Sep '23	Oct '23	Nov '23	Dec '23	Jan '24	Feb '24	Mar '24	Apr '24	May '24	Jun '24	Jul '24
US	49.0	47.9	49.8	50.0	49.4	47.9	50.7	52.2	51.9	50.0	51.3	51.6	49.6
US ISM	46.5	47.6	48.6	46.9	46.6	47.1	49.1	47.8	50.3	49.2	48.7	48.5	46.8
Canada	49.6	48.0	47.5	48.6	47.7	45.4	48.3	49.7	49.8	49.4	49.3	49.3	47.8
Europe	42.7	43.5	43.4	43.1	44.2	44.4	46.6	46.5	46.1	45.7	47.3	45.8	45.8
Germany	38.8	39.1	39.6	40.8	42.6	43.3	45.5	42.5	41.9	42.5	45.4	43.5	43.2
France	45.1	46.0	44.2	42.8	42.9	42.1	43.1	47.1	46.2	45.3	46.4	45.4	44.0
UK	45.3	43.0	44.3	44.8	47.2	46.2	47.0	47.5	50.3	49.1	51.2	50.9	52.1
Italy	44.5	45.4	46.8	44.9	44.4	45.3	48.5	48.7	50.4	47.3	45.6	45.7	47.4
Norway	54.6	51.1	52.3	47.9	50.4	52.0	51.0	51.8	50.1	52.1	51.7	47.7	56.9
Sweden	48.2	46.2	43.8	46.3	49.2	49.1	47.2	49.7	50.3	51.6	54.0	53.0	49.2
Japan	49.6	49.6	48.5	48.7	48.3	47.9	48.0	47.2	48.2	49.6	50.4	50.0	49.1
Australia	49.6	49.6	48.7	48.2	47.7	47.6	50.1	47.8	47.3	49.6	49.7	47.2	47.5

Source: Bloomberg.

Global Macro (continued)

Geopolitics

Last Tuesday, the Israeli military apparently killed Fuad Shukr, Hezbollah's most senior military commander, in an air strike in Beirut. The following day, Ismail Haniyeh, a top Hamas leader, was murdered in a high-security building in Tehran with a remotely detonated bomb which was smuggled into the building two months before. Iran accused Israel of the assassination. The breach appeared to be a catastrophic failure of intelligence and security for Iran, and a tremendous embarrassment for its Revolutionary Guards. Afterwards, the Iranian Supreme Leader Ali Khamenei summoned the members of Iran's Security Council to his compound for an emergency meeting and issued an order to strike Israel in retaliation.

Hezbollah leader Nasrallah said his group was not behind the attacks on civilian settlements in the Golan Heights on 27 July and said Israel crossed a red line with its strike on Beirut, pledging to respond, "in a real way, no theatrics" as the conflict entered a "new phase". Nevertheless, markets remain calm about the possibility of a fully-fledged regional conflict. Perhaps that is complacent, but to this moment neither Hezbollah nor Iran appears willing to escalate matters into a regional conflict, particularly because the US has continued to reaffirm its commitment to defend Israel against any attack.

In Iran, Masoud Pezeshkian was sworn in as the country's ninth president (Ismail Haniyeh had been in Tehran for the inauguration). He has promised to fight corruption, fix the ailing economy and improve relations with the West, but will probably struggle to implement any major reforms, in our view.

Venezuela: Opposition leader María Corina Machado called for her supporters to mobilise peacefully after President Nicolás Maduro pledged to hold on to power. The opposition has released a very detailed (by district) and large (c. 80%) set of voting data showing their candidate Edmundo Gonzales defeated Maduro by a wide margin, as pre-election polls had suggested. Over the weekend, a very large peaceful protest took place in Caracas with the presence of Machado. Foreign governments are still applying mild pressure on the government as the US, Europe, Brazil and Colombia asked Maduro to publish the detailed vote data, but the large South American neighbours stopped short of publicly condemning Maduro.

Russia-US: The *Wall Street Journal* journalist Evan Gershkovich was released from jail and fled Russia in a prisoner swap in Türkiye along with two other Americans and eight Russians. This was a diplomatic victory for the Democratic Party.

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EM Asia

Economic data

Korean exports slowed sequentially.

Country	Event	Period	Actual	Survey	Prior/Revised	Comments
Indonesia	CPI (YoY)	Jul	2.1%	2.4%	2.5%	• Slowest in more than two years, food driven.
South Korea	Exports (YoY)	Jul	13.9%	18.4%	5.1%	• Adjusting for business days, exports grew just 7% in yoy terms, from a 12% in June, but the slowdown was due to idyossincratic factors.
	Imports (YoY)	Jul	10.5%	13.4%	-7.5%	
	Trade Balance (USD)	Jul	3,617m	5,000m	7,991m	
	Industrial Production (YoY)	Jun	3.8%	2.8%	4.3%	• The BOK sees chips production up through 1H25.
	Industrial Production SA (MoM)	Jun	0.5%	0.8%	-0.6%	
	CPI (MoM)	Jul	0.3%	0.3%	-0.2%	• Inflation broadly in line as the core CPI was unchanged at 2.2% yoy.
	CPI (YoY)	Jul	2.6%	2.5%	2.4%	
Taiwan	GDP (YoY)	2Q A	5.1%	4.8%	6.6%	• Imports grew faster than exports.
Thailand	BoP Current Account Balance (USD)	Jun	1,950m	350m	647m	• Exports and imports both lower mom, but exports dropped by a greater margin.
	Exports (YoY)	Jun	0.3%	–	7.5%	
Vietnam	Industrial Production (YoY)	Jul	11.2%	–	10.9%	
	CPI (YoY)	Jul	4.4%	4.3%	4.3%	
	Imports (YoY)	Jul	24.7%	19.5%	13.1%	
	Trade Balance (USD)	Jul	2,120m	2,000m	2,940m	
	Exports (YoY)	Jul	19.1%	13.5%	10.5%	• Export strength electronics, machinery.

Source information is at the end of the document.

Commentary

Bangladesh: S&P downgraded the sovereign rating by one notch to 'B+,' due to a sustained decline in foreign exchange (FX) reserves, as the economy faces headwinds, including a government-imposed curfew to quell widespread student protests. Fitch had already downgraded Bangladesh in late May.

China: China Real Estate Information Corporation (CRIC) growth in contract sales volumes for top 100 developers dropped to -22.7% yoy in July from -22.4% in June, despite the low base.

China's manufacturing activity fell for a third consecutive month in July, according to an official survey on Wednesday, increasing pressure on policymakers to speed up stimulus measures to boost the world's second-biggest economy. The country's official manufacturing PMI came in at 49.4, in line with a Bloomberg poll of analysts' forecasts and down from 49.5 in June.

South Korea: Daily exports softened to 7.1% yoy in July down from 12.4% in June. The full-month data was significantly lower than the +11.8% yoy daily increase in the first 20 days of the month, a strong sequential decline in the later part of July. Much of the weakness came from the export of semiconductors and autos. Both were affected by idiosyncratic factors, so it seems the overall gentle recovery in these cyclical industries remains in place.

Pakistan: Fitch Ratings upgraded Pakistan's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'CCC+' from 'CCC'. The upgrade reflects greater certainty over the continued availability of external funding in the context of Pakistan's staff-level agreement with the International Monetary Fund (IMF) on a new 37-month USD 7bn Extended Fund Facility (EFF). Strong performance on the previous, more temporary IMF arrangement helped the country narrow fiscal deficits and rebuild FX reserves, and further improvements are likely. Nevertheless, Pakistan's large funding needs leave it vulnerable if it fails to implement challenging reforms, which could undermine programme performance and funding.[2]

[2] See – https://www.fitchratings.com/research/sovereigns/fitch-upgrades-pakistan-to-ccc-29-07-2024

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Latin America

Economic data

Rates held firm in Brazil and Chile, Colombian cuts continue.

Country	Event	Period	Actual	Survey	Prior/Revised	Comments
Argentina	Government Tax Revenue	Jul	–	–	11,297.6bn	
Brazil	Selic Rate	11505	10.50%	10.5%	10.5%	• COPOM kept rates unchanged and introduced a balanced scenario for future risks. Governor Campos Neto has recently expressed his concern about tigher liquidity hitting EM economies suggesting the bar for hikes are elevated.
	FGV Inflation IGPM (YoY)	Jul	3.82%	3.68%	2.5%	
	Net Debt % GDP	Jun	62.20%	62.50%	62.1%	
	FGV Inflation IGPM (MoM)	Jul	0.61%	0.47%	0.81%	
	FGV CPI IPC-S	11505	0.54%	–	0.34%	
	Industrial Production (YoY)	Jun	3.2%	1.6%	-1.0%	• Solid industrial production data.
Chile	Overnight Rate Target	11505	5.75%	5.50%	5.75%	• Rates unchnaged against an expected final cut as economic activity surprised to the upside and weaker CLP weights on inflation and financial stability risks.
	Retail Sales (YoY)	Jun	7.9%	4.0%	1.2%	
	Unemployment Rate	Jun	8.3%	8.3%	8.3%	
	Manufacturing Production (YoY)	Jun	-4.8%	-1.6%	-2.2%	
	Economic Activity (MoM)	Jun	0.30%	0.20%	-0.4%	
	Economic Activity (YoY)	Jun	0.10%	1.50%	1.1%	
Colombia	Overnight Lending Rate	01/07/1931	10.75%	10.75%	11.25%	• 50bps cut in line with consensus.
	Urban Unemployment Rate	Jun	10.2%	10.40%	10.3%	
	National Unemployment Rate	Jun	10.3%	–	10.3%	
Mexico	GDP SA (QoQ)	2Q P	0.2%	0.4%	0.3%	• Weaker GDP growth, but record remittances.
	GDP NSA (YoY)	2Q P	2.2%	2.4%	1.6%	
	International Reserves Weekly (USD)	01/07/2026	22,1725m	–	22,1621m	
	Remittances Total (USD)	Jun	6,213m	5,525.0m	5,624.5m	

Source information is at the end of the document.

Commentary

Panama: The Finance Ministry approved a plan to cut up to USD 1.39bn, 1.7% of GDP, in expenditure for this year to cover the fall in revenue budgeted. We expect the administration to target reducing staffing inefficiencies and subsidies, based on early comments from authorities, but there were no details included in the announcement. Through June, current revenues have come in at USD 3.44bn, USD 521m, 0.6% of GDP, below that budgeted according to administrators. The previous finance minister noted expectations of revenue continuing to slow throughout the second half of this year and even recommended a spending freeze that could reach USD 2bn. This is a step forward, but concerns around this year's deficit remain as the cut to expenditure would likely mainly cover the under-collection in revenue compared with that budgeted, which is expected to continue throughout this year. The USD 3.1bn, 3.9% of GDP, adjustment line in the budget that incorporates an assumption of under-execution of expenditure remains ambitious, in our view. The approval is in line with authorities' fiscal consolidation plans to focus on cutting expenditure. The Ministry has not released its revised 2024 budget, which we expect to be presented alongside the 2025 draft budget on 1 October. The Finance Minister noted that they expect arrears to reach USD 853m as of 30 June, which compares to USD 700m noted by the prior Finance Ministry.

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Central and Eastern Europe

Economic data

Economic Activity softer across region.

Country	Event	Period	Actual	Survey	Prior/Revised	Comments
Czech Republic	GDP (YoY)	2Q A	0.40%	0.60%	0.30%	
	GDP (QoQ)	2Q A	0.30%	0.50%	0.20%	
	Repurchase Rate	Aug-01	4.50%	4.50%	4.75%	• In line with all expectations.
Hungary	GDP NSA (YoY)	2Q P	1.50%	2.30%	1.10%	• Soft EV battery demand, FM blamed weakness on lower exports from Germany and western Europe, reflected in lower trade surplus.
	PPI (YoY)	Jun	2.70%	–	-0.20%	
	Trade Balance	May F	1,001m	–	1,146m	
Poland	CPI (MoM)	Jul P	1.40%	1.60%	0.10%	• Streak of dovish inflation surprises extend, however CB still unlikely to cut this year.
	CPI (YoY)	Jul P	4.20%	4.40%	2.60%	
Russia	Unemployment Rate	Jun	2.40%	2.60%	2.60%	
	Retail Sales Real (YoY)	Jun	6.30%	6.40%	7.50%	
	Gold and Forex Reserve (USD)	Jul-26	606.7bn	–	611.3bn	

Source information is at the end of the document.

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Central Asia, Middle East & Africa

Economic data

Saudi Arabia propped up by non-oil revenues.

Country	Event	Period	Actual	Survey	Prior/Revised	Comments
Saudi Arabia	SAMA Net Foreign Assets (SAR)	Jun	1,669.9bn	–	1,667.6bn	
	GDP Constant Prices (YoY)	2Q P	-0.4%	–	-1.7%	• Oil sector fell -8.5%, non oil rose 4.4%.
South Africa	Money Supply M3 (YoY)	Jun	4.2%	–	4.7%	
	Trade Balance (Rand)	Jun	24.2bn	22.3bn	20.0bn	• Imports fell by 7%, while exports dipped 4%.
	Monthly Budget Balance	Jun	38.6bn	40.1bn	0.0%	• Revenue growth remains tepid.
Türkiye	Trade Balance	Jun	-5.87bn	-6.40bn	-6.48bn	
	Foreign Tourist Arrivals (YoY)	Jun	5.0%	–	14.0%	

Source information is at the end of the document.

Commentary

Kenya: Fitch downgraded the sovereign rating by one notch to 'B-.' This reflects "heightened risks to Kenya's public finances after the government backtracked on revenue measures in the Finance Bill 2024 in response to violent social protests, the increased risk to political stability, and rising domestic debt costs, even as the authorities embark on expenditure cuts. Fitch also see a moderately greater risk to external financing, partly reflecting elevated external commercial borrowing costs in the context of foreign-exchange reserves that are below the 'B' median".[3]

Ukraine: S&P Global cut Ukraine's credit rating to 'selective' default on Friday, with the country missing an international bond payment this week, as it finalises terms on a major debt restructuring. While the USD 34m interest payment is still in its 'grace period' (10 days), S&P said there was little chance it would be made after Ukraine's President Volodymyr Zelenskyy signed a law allowing debt payments to stop while it completes its restructuring.

Ethiopia: Ethiopia plans to float its currency as part of a long-overdue reform aimed at alleviating chronic foreign currency shortages and attracting foreign investment. This move is expected to pave the way for a multilateral funding deal, aligning with Prime Minister Abiy Ahmed's efforts to secure over USD 10bn in funding from the IMF and World Bank and restructure debt following a default in December. State Finance Minister Eyob Tekalign said on Friday that Ethiopia will enjoy USD 4.9bn in relief from debt repayments when it completes its current restructuring exercise.

The big picture is that prior to the civil war the economy was performing well. Ethiopia didn't have a debt capacity problem per se, but an FX problem. Restructuring the Eurobonds was unnecessary and opportunistic, in our view. Political and geopolitical (Sudan, Eritrea, Somalia) stability and the ability to convert local currencies to dollars are likely to remain the main concerns, in the foreseeable future. The country's massive hydroelectric dam in the Nile is a potential source of FX directly (via energy exports) or indirectly (manufacturing), but carries its own risks, including causing/exacerbating droughts in Egypt.

Nigeria: Over the last few months, Nigeria has found itself amid conversations on where anti-government sentiments could shift to next in sub-Saharan Africa, following the social unrest in Kenya. With the risk now materialising and nationwide protests over the cost-of-living crisis and poor governance set to begin on 1 August, we do not expect the consequences to be as severe for Nigeria as they were for Kenya. This speaks to our neutral position on Nigeria compared to our underweight position on Kenya, and reflects the fiscal authority's performance on reforms year-to-date and more importantly, the low expectations for 2024. However, the protests could expedite long-delayed initiatives to curb price pressures, particularly on food, and improve transparency and accountability. Despite these potential positive outcomes, we believe the demands for a reduction in energy prices are likely to be ignored.

[3] See – https://www.fitchratings.com/research/sovereigns/fitch-downgrades-kenya-to-b-outlook-stable-02-08-2024

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Developed Markets

Economic data

Job market continues to slide in US.

Country	Event	Period	Actual	Survey	Prior/Revised	Comments
Eurozone	GDP SA (QoQ)	2Q A	0.3%	0.2%	0.3%	• Slighly stronger GDP and inflation data unlikely to change the ECB reaction function.
	GDP SA (YoY)	2Q A	0.6%	0.5%	0.5%	
	CPI Estimate (YoY)	Jul	2.6%	2.5%	2.5%	
	CPI (MoM)	Jul P	0.0%	-0.1%	0.2%	
	CPI Core (YoY)	Jul P	2.9%	2.8%	2.9%	
Japan	BOJ Target Rate	11505	0.25%	0.10%	0.10%	• BOJ hiked rates by 15bps despite the strong price action on the Yen suggests a change in the reaction funciton of the monetary authority.
	Jobless Rate	Jun	2.5%	2.6%	2.6%	
	Retail Sales (YoY)	Jun	3.7%	3.2%	2.8%	
	Industrial Production (MoM)	Jun P	-3.6%	-4.5%	3.6%	
UK	Bank of England Bank Rate	37104	5.00%	5.00%	5.25%	• A hawkish BOE cut with a 5×4 plit within the MPC, but further rate cuts are likely.
	Nationwide House Px NSA (YoY)	Jul	2.1%	1.8%	1.5%	
United States	Conf. Board Consumer Confidence	Jul	100.3	99.7	97.8	
	MBA Mortgage Applications	Jul-26	-3.9%	–	-2.2%	• Unequivocally weaker data across indicators, starting with a decline on quits rates and job creations in the JOLTS report and culminating with the second lowest non-farmpayrolls since Q4 2020.
	Pending Home Sales (MoM)	Jun	4.8%	1.5%	-1.9%	
	Employment Cost Index	2Q	0.9%	1.0%	1.2%	
	Initial Jobless Claims	Jul-27	249k	236k	235k	
	MNI Chicago PMI	Jul	45.3	45.0	47.4	
	Construction Spending (MoM)	Jun	–	0.2%	-0.1%	
	FOMC Rate Decision (Upper Bound)	Jul-31	5.50%	5.50%	5.50%	• Powell all but confirmed the beggining of the easing cycle in July. The market implied 80% odds of +50bps in Sep and +110bps in '24.
	Change in Nonfarm Payrolls	Jul	114,000	175,000	179,000	
	Unemployment Rate	Jul	4.3%	4.1%	4.1%	
	Factory Orders	Jun	-3.3%	-3.2%	-0.5%	
	Durable Goods Orders	Jun F	-6.7%	-6.6%	-6.6%	
	Durables Ex Transportation	Jun F	0.4%	0.5%	0.5%	

Source information is at the end of the document.

Commentary

United States: Fed Chair Jerome Powell all but nailed a September cut in a statement following the Federal Open Market Committee (FOMC) meeting. Powell acknowledged a moderation in job gains (a change from strong) and the increase in unemployment. The statement also added an uncertain economic outlook, highlighting the need for the committee to be attentive to the risks to both sides of the mandate – inflation at 2% and the economy at full employment. Indeed, the labour market has been softening and inflation is running at much lower levels. The unemployment rate rose by nearly 0.5% above its 12-month moving average, a level that in the past was seen as a sharp acceleration of unemployment and a recession. The demand side of the labour market is weakening, made evident by the declining quit rates in the JOLTS report and the declining trend in job openings on the JOLTS report. On the inflation front, the three-month annualised CPI, core CPI and core PCE declined to 0.8%, 2.1%, and 2.3%, respectively. Unlike the EU, US mom inflation usually has a very small seasonal drift, and, if anything, inflation tends to increase in the summer months, making the low three-month

Developed Markets (continued)

annualised data particularly surprising. Some point to the risk of an oil price increase preventing the cut. Nevertheless, there is a case to be made that an oil price shock would lead to a stronger softening of the economy as family incomes and company profits get squeezed by higher energy costs while their revenue growth is declining. This would make the case for sharper cuts as the unemployment rate would likely increase alongside the increase in inflation, an unbearable social situation, in our opinion.

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Benchmark Performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	-2.2%	-1.9%	5.5%	6.7%	-3.8%	3.6%
MSCI EM ex-China	-2.2%	-1.3%	7.0%	14.6%	1.4%	7.3%
MSCI EMEA	-1.6%	2.0%	4.7%	7.4%	-6.5%	-1.0%
MSCI Latam	-3.3%	-2.3%	-17.6%	-9.5%	1.4%	0.2%
MSCI Asia	-2.1%	-2.2%	7.3%	6.6%	-4.4%	4.1%
MSCI China	-2.2%	-3.5%	1.1%	-11.4%	-14.9%	-4.1%
MSCI EM Growth	-2.2%	-2.2%	6.0%	5.2%	-6.9%	3.3%
MSCI EM Value	-2.1%	-1.4%	4.9%	8.3%	-0.4%	3.8%
MSCI EM Small Cap	-1.6%	-1.7%	5.3%	13.6%	2.1%	10.5%
MSCI Frontier	-0.9%	0.9%	6.9%	6.1%	-2.9%	1.9%
GBI-EM-GD	0.7%	3.0%	-0.9%	2.5%	-2.3%	-0.6%
GBI-EM China	-0.1%	1.1%	2.2%	4.8%	0.5%	3.2%
EM FX spot	0.1%	0.8%	-4.5%	-4.6%	-4.0%	-3.7%
ELMI+ (1-3m NDF)	0.3%	1.1%	-0.3%	3.3%	-0.6%	0.4%
EMBI GD	0.5%	2.4%	4.8%	11.0%	-2.0%	0.2%
EMBI GD IG	1.1%	3.0%	2.5%	6.7%	-4.2%	-0.5%
EMBI GD HY	-0.2%	1.7%	7.1%	15.5%	0.2%	0.8%
CEMBI BD	0.6%	2.1%	6.0%	10.8%	0.3%	2.4%
CEMBI BD IG	0.9%	2.4%	4.6%	8.9%	-1.3%	1.2%
CEMBI BD HY	0.2%	1.7%	8.2%	13.8%	2.4%	4.1%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI ACWI	-3.3%	-1.7%	9.4%	15.6%	4.4%	10.7%
MSCI World (DM)	-3.4%	-1.7%	9.8%	16.7%	5.5%	11.6%
S&P 500	-3.2%	-2.0%	13.0%	20.2%	8.5%	14.6%
DXY Index*	-0.9%	-2.5%	1.9%	0.6%	12.1%	5.2%
EUR*	0.9%	1.7%	-2.3%	-1.9%	-4.1%	-1.8%
JPY*	2.7%	9.2%	-7.0%	-7.7%	-11.1%	-7.2%
CRY Index*	-2.9%	-7.0%	2.4%	-3.3%	8.5%	11.5%
Brent*	-4.8%	-11.1%	-0.3%	-7.7%	1.8%	4.8%
Gold*	0.7%	5.0%	18.4%	26.2%	11.5%	13.9%
Bitcoin*	-9.2%	-2.0%	41.5%	106%	17.5%	96%
1-3yr UST	0.7%	1.9%	3.1%	6.1%	0.9%	1.4%
3-5yr UST	1.3%	3.3%	3.3%	6.9%	-0.9%	0.8%
7-10yr UST	2.0%	4.9%	3.3%	6.8%	-3.7%	-0.5%
10yr+ UST	3.7%	7.4%	2.0%	6.2%	-9.7%	-3.4%
10yr+ Germany	1.9%	4.8%	-0.6%	6.7%	-11.3%	-6.8%
10yr+ Japan	1.5%	1.6%	-5.1%	-6.3%	-5.9%	-4.1%
Global Agg.**	1.5%	4.3%	1.0%	5.7%	-4.7%	-1.3%
US Agg. IG**	1.6%	3.9%	3.2%	7.7%	-2.2%	0.4%
EU Agg. IG**	0.5%	2.6%	1.3%	6.4%	-4.2%	-2.1%
US Corp HY**	-0.3%	1.6%	4.3%	11.5%	2.1%	4.2%
EU Corp HY**	-0.2%	1.1%	4.3%	10.9%	1.5%	2.9%

Source and notations for all tables in this document:
Source: Bloomberg, JP Morgan, Barclays, Merrill Lynch, Chicago Board Options Exchange, Thomson Reuters, MSCI. As at latest data available on publication date.
*Price only. Does not include carry. **Global Indices from Bloomberg. Price to Earnings: 12 months blended-forward.
Index Definitions: VIX Index: Chicago Board Options Exchange SPX Volatility Index. **DXY Index:** The Dollar Index. **CRY Index:** Thomson Reuters/CoreCommodity CRM Commodity Index.
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.

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