

Fed Funds lower, but 10-year higher: Can it last?

By Gustavo Medeiros and Ben Underhill

- US 10-year Treasury yield 75bps higher since start of rate cuts.
- Israel continued to strike Syrian air defences and weapon depots, as Turkish-backed opposition assumed control.
- China's Central Economic Work Conference signalled ongoing commitment to reforms.
- South Korean President impeached and the People Power Party leader resigns.
- Vietnam's Politburo issued warnings to former prime minister and state president for violations of party regulations during his tenure, as anti-corruption campaign scaled-up.
- Brazil hiked rates 100bps and pledged to keep this pace in January and March 2025.
- Petrobras and Ecopetrol announced Colombia's biggest-ever offshore natural gas discovery.
- S&P affirmed Mexico's credit rating at BBB, with a stable outlook.

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Last Week Performance and Comments

EM Debt	Yield	Change (bp)	Spread	5 day Change	EM Equity*	PE 1yr BF	5 day Change	Comments
GBI-EM GD	6.35%	2	-	-0.2%	MSCI EM	12.2	0.3%	<ul style="list-style-type: none"> • EM local bonds was down 0.2% last week, as the dollar continued its strong streak. • EM sovereign bonds sold off 0.8%, outperforming the Global Agg (-1.2%). • EM equities outperformed, returning 0.3% as MSCI World dropped 1.0%
GBI-EM FX Spot	-	-	-	-0.2%	MSCI EM ex-China	13.1	0.2%	
ELMI+	7.37%	21	-	-0.2%	MSCI EMEA	10.4	0.7%	
EMBI GD	7.68%	-1	324 bps	-0.8%	MSCI Latam	8.6	0.1%	
EMBI GD ex-default	6.90%	12	247 bps	-0.8%	MSCI EM Asia	12.9	0.2%	
EMBI GD IG	5.65%	16	114 bps	-1.1%	MSCI China	10.3	0.4%	
EMBI GD HY	10.09%	13	571 bps	-0.4%	MSCI India	22.8	0.2%	
EMBI HY ex-default	8.09%	9	371 bps	-0.4%	MSCI EM Growth	17.3	0.4%	
CEMBI BD	6.73%	12	238 bps	-0.3%	MSCI EM Value	9.2	0.1%	
CEMBI BD IG	5.62%	14	127 bps	-0.5%	MSCI EM Small Cap	14.2	-0.2%	
CEMBI BD HY	8.24%	8	389 bps	0.1%	MSCI Frontier	9.1	0.1%	

Global Debt	Yield	Change (bp)	Spread	5 day Change	Global Backdrop*	PE 1yr BF	5 day Change	Comments
2yr UST	4.25%	14	-	-0.2%	MSCI ACWI	18.6	-0.8%	<ul style="list-style-type: none"> • US Treasury curve bear steepened, with the 10-year moving 24bps higher to 4.40%. • The Dollar rose 0.9% driven by yields, as commodities and Brent Crude also moved higher. • US stocks corrected -0.6%, but Bitcoin rose another 3.4%.
5yr UST	4.25%	21	-	-0.7%	MSCI World (DM)	19.8	-1.0%	
10yr UST	4.40%	24	-	-1.6%	S&P 500	22.4	-0.6%	
30yr UST	4.60%	27	-	-4.0%	VIX Fut.**	14.5%	0.2%	
10yr Germany	2.26%	15	-	-2.3%	DXI Index**	107.0	0.9%	
10yr Japan	1.04%	-2	-	0.3%	EUR*	1.050	-0.5%	
Global Agg.***	3.59%	10	34 bps	-1.2%	JPY*	153.7	-2.5%	
US Agg. IG***	5.17%	19	72 bps	-1.4%	CRY Index**	294.0	2.7%	
EU Agg. IG***	3.08%	5	81 bps	-0.7%	Brent**	74.5	4.7%	
US Corp HY***	7.19%	14	262 bps	-0.2%	Gold**	2,648	0.6%	
EU Corp HY***	5.92%	-3	307 bps	0.2%	Bitcoin**	103,230	3.4%	

Global Macro

The US Treasury market experienced a bear steepening last week, with the 10-year yield rising by 24 basis points (bps) to 4.4% following stronger-than-expected consumer price index (CPI) and producer price index (PPI) data. This movement coincided with stronger sentiment surveys and higher stock prices, which is not what the Federal Reserve (Fed) needed to justify easing monetary policy.

Since the first 50bps federal fund (FF) rate cut in this cycle, the 10-year yield has increased by 75 bps. This kind of movement is quite rare and has historically occurred mostly at the end of easing cycles, including the following instances:

- **Q1 2008:** FF rate from 5.25% to 2.25%.
- **Q1 2003:** FF rate from 1.75% to 1.00%.
- **Q4 2001:** FF rate from 6.50% to 1.75%.
- **Q1 1996:** FF rate from 6.00% to 5.25%.
- **Q4 1991:** FF rate from 8.25% to 4.00%.
- **Q4 1989:** FF rate from 9.75% to 8.00%.
- **Q3 1986:** FF rate from 6.37% to 5.87%.

Conversely, a similar pattern emerged when the Fed cut rates, but economic activity improved, forcing it to reverse course and hike rates:

- **Q4 1998:** Federal Funds rate decreased from 5.5% to 4.75% (LTCM crisis).
- **Q1 1988:** Federal Funds rate decreased from 6.87% to 6.5%.

In other cases, this occurred during early cycles under in the 1970s and 1980s, when the Fed targeted liquidity and interest rates were more volatile.

It would be even more unusual if US Treasuries would move higher from here. When the 10-year sold off after the first three months, rates continued to rise on the following three months only in the following cycles:

- **Q1-1996:** The economy re-accelerated, forcing the Fed to hike in early 1997 and 10-year settled at a higher level.
- **Q4-2001:** 10yr rates resumed the downward path after rising for c. 5 months following the penultimate cut of the cycle.

Notwithstanding the fact that this historical analysis took place during a secular bull market in bonds, our view is that higher yields from here are likely weight on asset prices, which would circle back to the economy. Therefore, the historical analysis and current asset price levels suggests receiving rates into weakness to be the right strategy.

Given recent data, the Federal Open Market Committee (FOMC) summary of economic projections (SEP) this Wednesday is likely to show revisions to the 2024 economic forecasts, with growth and inflation revised up and the unemployment rate down. The dot-plot is likely to show an additional two or three cuts in 2025, close to current expectations of two cuts.

Geopolitics

Israel's heavy bombardment of Syria's air defences and weapon depots leaves the path clear for more direct attacks on Iran and its nuclear facilities via Syria and Iraq. Iran is in disarray. The powerful Hezbollah network in Lebanon and Syria built over decades is now significantly weaker, after the last three-month war in Lebanon and the regime change in Syria. This means the balance of power in the Middle East is changing rapidly. It may be a welcome situation in the medium term, particularly if the end game is regime change in Iran, but very dangerous in the short term, raising the potential of Iran lashing out if backed into a corner. Within Syria, Türkiye seems to be in a good position to take advantage of the return of Syrian emigrants and the reconstruction of the country. The new rebel leader, Ahmed al-Sharaa, said that he is not interested in engaging with any new conflicts with Israel, as the country focuses on rebuilding.

EM Asia

Economic data

Chinese economy remains in deflation.

Country	Event	Period	Actual	Survey	Prior/Revised	Comments
China	PPI (YoY)	Nov	-2.5%	-2.8%	-2.9%	• Economy remains in deflation.
	CPI (YoY)	Nov	0.2%	0.4%	0.3%	
	Exports (YoY)	Nov	6.7%	8.7%	12.7%	• Exports to US front-loaded: +9.7% vs. -7.4% Oct Auto exports -7.8% (+4.0% Oct) led by Russia and Brazil.
	Imports (YoY)	Nov	-3.9%	0.9%	-2.3%	
	Trade Balance (USD)	Nov	97.44bn	93.50bn	95.72bn	• Trade surplus up on lacklustre domestic demand.
	Money Supply M2 (YoY)	Nov	7.1%	7.5%	7.5%	
	Aggregate Financing (CNY / YTD)	Nov	29,400bn	29,791bn	-	• Private sector loan demand softened.
	New Yuan Loans (CNY / YTD)	Nov	17,100bn	17,515bn	16,520bn	
India	CPI (YoY)	Nov	5.5%	5.5%	6.2%	• CPI ex-vegetables at 3.7% (within the target).
	Industrial Production (YoY)	Oct	3.5%	3.6%	3.1%	• Food down from 10.9% yoy to 9.0% (still too high)
Malaysia	Industrial Production (YoY)	Oct	2.1%	2.6%	2.3%	• Slump in oil extraction led decline.
South Korea	Unemployment rate SA	Nov	2.7%	2.8%	2.7%	
Taiwan	Exports (YoY)	Nov	9.7%	8.4%	8.4%	
Thailand	Gross International Reserves (USD)	Dec-06	239.3bn	-	237.5bn	
Vietnam	Domestic Vehicle Sales (YoY)	Nov	49.8%	-	49.7%	

Source information is at the end of the document.

Commentary

China: The annual Central Economic Work Conference (CEWC) was held on 11-12 December, and a memo was released.

The memo called for more specific measures to support consumption, including increasing basic pension payments, raising fiscal subsidies for basic medical insurance, and developing policies to boost fertility. In detail, the memo mentioned that the fiscal deficit ratio will be raised, more special government bonds will be issued and cuts to interest rates and the reserve requirement ratio (RRR) should be implemented at the proper time. The National People's Congress meeting in March next year is expected to give more specific numbers for these policy measures. The CEWC also referenced improved incentives for entrepreneurship to flourish in order to support employment.

The offshore yuan (CNH) dropped 0.5% to 7.29 per dollar after Reuters reported policymakers were mulling letting the currency depreciate, possibly to around RMB 7.5 per dollar. That is roughly a 3.5% depreciation from current levels of around 7.25. In Trump's first term as president, the yuan weakened more than 12% against the dollar during a series of tit-for-tat tariff announcements between March 2018 and May 2020. However, the RMB was trading at 6.4 before the beginning of the first trade war, a very different, much stronger level than it is now. Weaker levels and the risk of financial instability means that is unlikely, in our view, that China will let its currency depreciate as much over the incoming period.

In the seven days leading up to 11 December, road congestion in the 15 Chinese cities with the highest number of vehicle registrations increased by 9.7 percentage points week-on-week, reaching 151% of January 2021 levels, according to Bloomberg NEF analysis of Baidu data.

EM Asia (continued)

India: The Reserve Bank of India has a new governor, Sanjay Malhotra, who has taken charge for a three-year term. Markets had expected the former Governor to be handed another extension to his term and his appointment contributed to the recent volatility in the INR. Malhotra is currently the revenue secretary for the ministry of Finance and is a technocratic, career bureaucrat who will take over at a time where Indian growth is beginning to slow, while headline inflation remains above the RBI target, a challenging backdrop for monetary policy.

South Korea: Parliament voted to impeach President Yoon Suk Yeol, almost two weeks after his short-lived declaration of martial law. Han Duck-soo has taken over as acting President. Han has worked in various high-ranking government leadership positions for more than 30 years, including as Prime Minister from 2007-2008, and is perceived as a steady, technocratic hand. Han's role in leadership is expected to last for months until the Constitutional Court decides whether to remove Yoon or restore his powers within the next 6-months. If Yoon is removed, a presidential election must be held in 60 days, until which Han will stay at the helm.¹

People Power Party leader Han Dong-hoon resigned after Yoon's impeachment. He said he couldn't fulfil his duties after all five Supreme Council members of the party resigned. He took responsibility for failing to find an "orderly" exit for President Yoon and reaffirmed his support for impeachment.

Vietnam: The Politburo recently issued warnings to former prime minister and state president Nguyen Xuan Phuc for violations of party and state regulations during his tenure, citing significant consequences and a notable erosion of public trust. Nguyen Xuan Phuc resigned in January 2023 from all his positions, including President, Politburo member, and Central Committee member. His resignation was framed as an acknowledgment of political responsibility for misconduct among senior officials under his leadership.

Former Politburo members Truong Hoa Binh and Truong Thi Mai also faced disciplinary actions for violations committed during their tenures in high-ranking roles. These measures underscore the Party's strong commitment to accountability as part of its ongoing anti-corruption campaign and governance reforms led by General Secretary To Lam. The actions serve as a clear message that violations of Party ethics and governance standards will not be tolerated, regardless of the rank or status of the officials involved.

¹ See – *'Bashar al-Assad falls in two weeks after a 13-year Civil War in Syria'*, Weekly Investor Research, 9 December 2024.

Latin America

Economic data

Brazil more hawkish than expected.

Country	Event	Period	Actual	Survey	Prior/Revised	Comments
Argentina	National CPI (MoM)	Nov	2.4%	2.8%	2.7%	• Annualised November inflation below 33%, another milestone for Milei's economic progress.
	National CPI (YoY)	Nov	166.0%	167.2%	193.0%	
Brazil	Selic Rate	Dec-11	12.25%	12.00%	11.25%	• 100bps hike, slightly higher than consensus, but the statement pledged two hikes of 100bps each over the next meetings in January and March 2025.
	IBGE Inflation IPCA (YoY)	Nov	4.87%	4.85%	4.76%	
	IBGE Inflation IPCA (MoM)	Nov	0.39%	0.38%	0.56%	
	Retail Sales (YoY)	Oct	6.5%	4.8%	2.3%	• CPI inflation slightly above consensus and economic activity continues to surprise to the upside.
	Retail Sales (MoM)	Oct	0.4%	-0.2%	0.6%	
	Economic Activity (YoY)	Oct	7.3%	6.4%	5.3%	
	Economic Activity (MoM)	Oct	0.1%	-0.2%	0.9%	
Chile	Trade Balance (USD)	Nov	1,383m	1,600m	1,449m	
Colombia	Consumer Confidence Index	Nov	-570.0%	-480.0%	-370.0%	
Mexico	CPI Core (MoM)	Nov	0.05%	0.07%	0.28%	• Slightly lower than consensus CPI and core CPI with last 15 days sequentially lower than the first fortnight.
	Bi-Weekly Core CPI	Nov-30	-0.05%	-0.01%	0.04%	
	CPI (MoM)	Nov	0.44%	0.47%	0.55%	
	Bi-Weekly CPI	Nov-30	-0.12%	-0.06%	0.37%	
	CPI (YoY)	Nov	4.55%	4.60%	4.76%	
	International Reserves Weekly (USD)	Dec-06	228,753m	-	228,392m	
	Industrial Production NSA (YoY)	Oct	-2.2%	-0.6%	-0.3%	
Peru	Reference Rate	Dec-12	5.00%	5.00%	5.00%	• Pace of cuts slower as policy nears neutral levels.

Source information is at the end of the document.

Commentary

Argentina: The government and the International Monetary Fund (IMF) are making progress in discussions toward a new USD 26bn loan arrangement that would have a high share of the principal disbursed at the start of the programme, according to a Friday report published in La Nación citing a "diplomatic source".

Brazil: Brazilian assets oscillated as President Lula undertook two medical procedures to contain bleeding in his brain. He gave a press conference this weekend and is likely to be released from hospital this week but was asked not to travel and to avoid getting too stressed for 60-days.

The Brazilian Central Bank hiked its policy rate by 100bps to 12.25%, as anticipated, but pledged to hike it by another 200bps over the next two consecutive meetings on 30 January and 20 March 2025 to 14.25%. The forward guidance was more hawkish than market expectations and may have been a clever way of release any political pressure on the incoming Governor. Current Monetary Policy Director Gabriel Galipolo is due to assume the institution in January for a 4-year term, from Roberto Campos Neto, who oversaw the institution during the period it gained formal independence by Congress.

Colombia: Congress's rejected President Gustavo Petro's proposed tax reform, which sought to generate an additional COP 9.8trn (USD 2.24bn) to fund the 2025 budget. As a result, the COP 523trn budget remains partially unfunded. Finance Minister Diego Guevara has pledged a responsible approach to reduce the fiscal deficit, targeting a reduction to

Latin America (continued)

5.1% of GDP in 2025 from the projected 5.6% in 2024. In parallel, the Ministry of Finance addressed obligations to Ecopetrol, the state-owned oil company, by issuing COP 1.8trn in TES bonds maturing in August 2026 as part of efforts to manage the Fuel Price Stabilization Fund.

Petrobras and Ecopetrol announced Colombia's biggest-ever offshore natural gas discovery. The Sirius-2 well was confirmed as having more 170 billion cubic metres of potential oil. This could triple the country's reserves, should the deposit be commercially viable. Petrobras expects to confirm the commercial viability of the discovery by 2027, and it would then take three years to reach first production after getting the project licensed. This project aims to produce around 13m cubic meters a day for 10 years, which would represent nearly half of Colombia's current domestic demand. There are no plans to export the gas.

Mexico: S&P affirmed the country's credit rate at BBB, with a stable outlook, expecting Mexican President Claudia Sheinbaum to handle the relationship with US president-elect Donald Trump pragmatically.

Central and Eastern Europe

Economic data

Inflation continues to fall in region.

Country	Event	Period	Actual	Survey	Prior/Revised	Comments
Czech Republic	CPI (MoM)	Nov	0.1%	0.2%	0.3%	• Core CPI down by 10bps to 2.3% led by food and regulated prices.
	CPI (YoY)	Nov	2.8%	3.0%	2.8%	
	Current Account Monthly (CZK)	Oct	12.99bn	5.15bn	-7.68bn	• Primary income deficit improved significantly.
Hungary	CPI (YoY)	Nov	3.7%	3.7%	3.2%	• Core CPI moderated to 4.4% – 60bps below central bank expectation.
	CPI (MoM)	Nov	0.5%	0.5%	0.1%	
Poland	Current Account Balance	Oct	1,064m	-100m	-1,434m	• Driven by EU funds and portfolio inflows.
	CPI (MoM)	Nov F	0.5%	–	0.4%	• Glapinski sees inflation risk due to faster growth, higher wages, and loose fiscal policy.
	CPI (YoY)	Nov F	4.7%	–	4.6%	
Romania	Trade Balance	Oct	-3,724.6m	–	-2,570.5m	• EU exports down, imports from non-EU up.
	Current Account (YTD)	Oct	-2,4210m	–	-19,777m	• Record goods deficit drove CA deficit.
	Industrial Output (YoY)	Oct	-0.9%	–	-3.6%	• External orders contraction and high costs weighing on industrial output.
	CPI (MoM)	Nov	0.4%	0.3%	0.6%	
	CPI (YoY)	Nov	5.1%	5.0%	4.7%	• Led by non-food despite energy deflation.

Source information is at the end of the document.

Commentary

Romania: Romania is preparing for presidential elections likely in Q1 2024, while its four-party coalition (PSD, PNL, USR, UDMR) faces immediate challenges. The coalition must nominate a new prime minister to stabilise governance and finalise a national budget amidst the EU's largest deficit. So far, internal disagreements over fiscal policies, particularly USR's demand for tax and spending clarity, have delayed progress and tested the coalition's unity.

Slovakia: Moody's downgraded the sovereign rating to A3, bringing its rating in line with Fitch and two notches below S&P which holds Slovakia at A+.

Central Asia, Middle East & Africa

Economic data

Egypt inflation lowest in two years, South Africa macro strong.

Country	Event	Period	Actual	Survey	Prior/Revised	Comments
Egypt	CPI Core (YoY)	Nov	23.7%	-	24.4%	• Inflation eased to lowest in nearly 2 years, reversing 3 month acceleration trend.
	Urban CPI (YoY)	Nov	25.5%	-	26.5%	
Qatar	GDP Constant Prices (YoY)	2Q	0.8%	-	1.5%	
South Africa	Manufacturing Prod NSA (YoY)	Oct	0.8%	0.3%	-1.4%	• Monthly inflation well below target on both a core and non core basis, coupled with good expansion in retail sales, highlight strong backdrop to continued economic recovery in 2025, supported by further rate cuts.
	Manufacturing Prod SA (MoM)	Oct	0.4%	0.6%	-0.2%	
	CPI (MoM)	Nov	0.0%	0.2%	-0.1%	
	CPI Core (MoM)	Nov	0.0%	0.1%	0.2%	
	Retail Sales (MoM)	Oct	1.6%	-	-0.6%	
	CPI (YoY)	Nov	2.9%	3.1%	2.8%	
	CPI Core (YoY)	Nov	3.7%	3.8%	3.9%	
	Retail Sales Constant (YoY)	Oct	6.3%	2.0%	1.1%	
	PPI (YoY)	Nov	-0.1%	0.2%	-0.7%	
Türkiye	Industrial Production (MoM)	Oct	-0.9%	-	1.6%	
	Industrial Production (YoY)	Oct	-3.1%	-	-2.3%	
	Current Account Balance	Oct	1.88bn	1.30bn	3.01bn	

Source information is at the end of the document.

Commentary

Türkiye: The current account was in surplus for the fifth consecutive month in November, at USD 1.9bn dollars. These are very good numbers, and evidence that the TRY is not overvalued, despite a high real effective exchange rate (REER).

United Arab Emirates: Emaar Property PJSC announced changes to its dividend policy, declaring dividends at 100% of its share capital for 2024 (c. AED 7.7bn) and the following few years, doubling the dividend yield to c. 9.1% at current market prices. This led to the Dubai Financial Market General Index gaining 4.4%, to the highest level since October 2014, led by Emaar which rose by 15% the maximum price increase permitted by the exchange. Emirates Bank also rallied to a record high, with Aldar Properties in Abu Dhabi up 4.7%.

Developed Markets

Economic data

EU has reason to be more dovish, US more hawkish.

Country	Event	Period	Actual	Survey	Prior/Revised	Comments
Eurozone	ECB Main Refinancing Rate	Dec-12	3.15%	3.15%	3.40%	• Third straight cut, dovish tone from Lagarde, highlighted trade frictions as adding downside risk to growth.
	ECB Deposit Facility Rate	Dec-12	3.00%	3.00%	3.25%	
	ECB Marginal Lending Facility	Dec-12	3.40%	3.40%	3.65%	
Japan	Money Stock M2 (YoY)	Nov	1.2%	-	1.2%	• PPI fastest in 16 months, points to growing price pressure in economy and further policy normalisation from BOJ.
	Money Stock M3 (YoY)	Nov	0.7%	-	0.7%	
	PPI (YoY)	Nov	3.7%	3.4%	3.6%	
	Tankan Large Mfg Index	4Q	14	13	13	
	Tankan Large Non-Mfg Index	4Q	33	33	34	
	Tankan Large All Industry Capex	4Q	11.3%	10.0%	10.6%	
	Industrial Production (MoM)	Oct F	2.8%	-	3.0%	
	Tankan Large Mfg Outlook	4Q	13	12	14	
	Tankan Large Non-Mfg Outlook	4Q	28	28	28	
UK	Industrial Production (YoY)	Oct	-0.7%	0.2%	-1.8%	• Contracting industry a symptom of generally weak economic momentum since Labour took power.
	Manufacturing Production (MoM)	Oct	-0.6%	0.2%	-1.0%	
	Industrial Production (MoM)	Oct	-0.6%	0.3%	-0.5%	
	Trade Balance (GBP/Mn)	Oct	-£3,718m	-£3,500m	-£3,462m	
United States	Wholesale Inventories (MoM)	Oct F	0.2%	0.2%	0.2%	• CPI core remains above target, but in line with estimations. Bloomberg estimates that core PCE will come in softer on 20 December at 0.13%, which should give the Fed more than enough room to cut rates another 25bps.
	CPI Ex Food and Energy (MoM)	Nov	0.3%	0.3%	0.3%	
	CPI (YoY)	Nov	2.7%	2.7%	2.6%	
	PPI Final Demand (YoY)	Nov	3.0%	2.6%	2.6%	
	MBA Mortgage Applications	Dec-06	5.4%	-	2.8%	
	CPI (MoM)	Nov	0.3%	0.3%	0.2%	
	CPI Ex Food and Energy (YoY)	Nov	3.3%	3.3%	3.3%	
	Federal Budget Balance (USD)	Nov	-366.8bn	-356.5bn	-314.0bn	
	PPI Final Demand (MoM)	Nov	0.4%	0.2%	0.3%	
	PPI Ex Food and Energy (MoM)	Nov	0.2%	0.2%	0.3%	
	PPI Ex Food and Energy (YoY)	Nov	3.4%	3.2%	3.4%	
	Initial Jobless Claims	Dec-07	242k	220k	225k	• Labour market data weaker on both initial and continuing claims as labour market cools, but not a major enough for any panic.
	Continuing Claims	Nov-30	1,886k	1,877k	1,871k	
	Import Price Index (MoM)	Nov	0.1%	-0.2%	0.1%	
	3m Moving Average CPI	Nov	2.8%	-	2.4%	• Acceleration in annualised 3m MA mom CPI.

Source information is at the end of the document.

Developed Markets (continued)

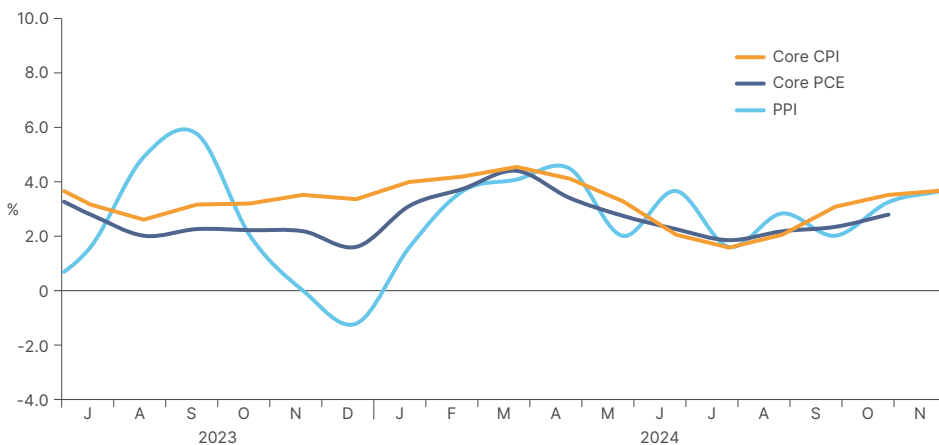
Commentary

United States: Small business optimism has surged following November's presidential election, despite facing significant challenges from elevated inflation and higher interest rates that have squeezed profitability. For this optimism to be fully realised, an economic environment akin to a "goldilocks" scenario or a robust boom – where nominal growth far outpaces interest costs – would be necessary, just like with the stock market.

Trump has nominated Ronald Johnson as ambassador to Mexico. Johnson, an Army veteran and former CIA officer who previously served as US Ambassador to El Salvador during Trump's first term, is expected to work with Secretary of State nominee Marco Rubio to advance strong "America First" foreign policies. Trump announced the nomination on his Truth Social platform Tuesday night.

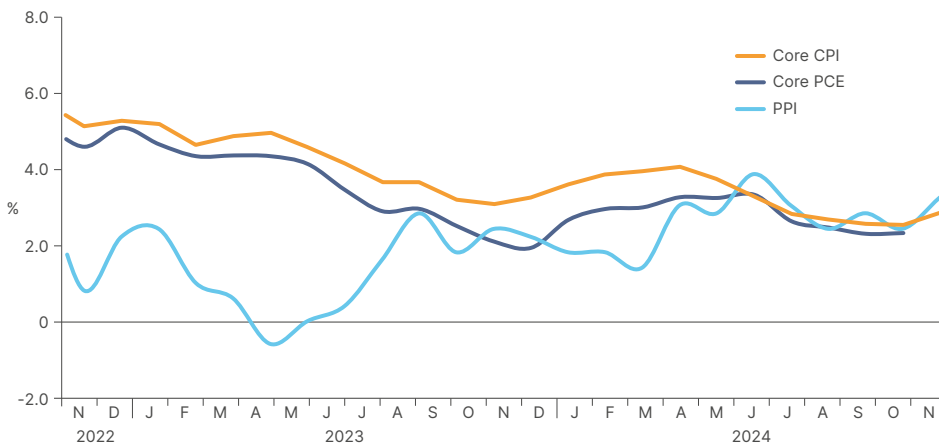
US inflation data has been surprising to the upside in recent readings driving the 3-month moving average of CPI and PPI higher (Fig 1). Now the 6-month moving average is pointing upwards as well (Fig 2). Looking at these moving averages is useful to remove noise from the data and examine longer-term trends, which now are moving in the wrong direction for the Fed, even before Trump's inauguration, where he is expected to begin implementing policies that bring further upside risk to prices.

Fig 1: US CPI 3-month moving average



Source: Ashmore, Bloomberg. Data as at 16 December 2024.

Fig 2: US CPI 6-month moving average



Source: Ashmore, Bloomberg. Data as at 16 December 2024.

France: Moody's downgraded France's credit rating to Aa3 from Aa2, assigning a stable outlook. This unscheduled move late on Friday aligned Moody's rating with those of S&P and Fitch. In response to the fiscal challenges, Prime Minister François Bayrou is set to meet with far-right leaders Marine Le Pen and Jordan Bardella on Monday morning to initiate discussions on reaching a budget agreement.

Benchmark Performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	2.7%	-5.4%	10.6%	16.5%	-0.9%	2.8%
MSCI EM ex-China	2.6%	-4.6%	7.5%	14.2%	2.0%	5.7%
MSCI EMEA	3.6%	-1.4%	8.4%	14.5%	-4.8%	-0.8%
MSCI Latam	0.2%	-10.2%	-21.5%	-16.2%	5.1%	-1.5%
MSCI Asia	2.7%	-5.3%	14.8%	20.9%	-0.9%	3.5%
MSCI China	3.1%	-7.3%	19.9%	23.2%	-6.9%	-2.7%
MSCI India	2.7%	-6.2%	17.7%	22.3%	10.1%	13.8%
MSCI EM Growth	3.4%	-4.2%	13.6%	18.5%	-3.1%	2.5%
MSCI EM Value	2.0%	-6.7%	7.4%	14.2%	1.4%	3.0%
MSCI EM Small Cap	1.4%	-4.9%	7.3%	12.1%	3.5%	9.8%
MSCI Frontier	1.5%	0.2%	10.9%	13.5%	-2.5%	2.6%
GBI-EM-GD	-0.1%	-5.3%	-0.6%	3.0%	-0.1%	-1.1%
GBI-EM China	1.0%	-1.1%	4.5%	6.6%	0.5%	3.9%
EM FX spot	-0.1%	-5.2%	-5.9%	-3.7%	-3.0%	-4.0%
ELMI+ (1-3m NDF)	-0.2%	-3.5%	0.1%	2.5%	0.6%	0.1%
EMBI GD	0.0%	-0.6%	8.0%	10.9%	-0.5%	0.5%
EMBI GD IG	-0.5%	-3.0%	2.0%	4.5%	-4.4%	-1.3%
EMBI GD HY	0.5%	1.8%	14.3%	17.6%	3.6%	2.3%
CEMBI BD	0.0%	-0.2%	8.3%	10.2%	1.2%	2.4%
CEMBI BD IG	-0.2%	-1.0%	5.6%	7.3%	-0.9%	1.0%
CEMBI BD HY	0.4%	0.8%	12.2%	14.4%	4.0%	4.3%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI ACWI	0.5%	1.9%	20.9%	24.0%	7.2%	11.1%
MSCI World (DM)	0.2%	2.7%	22.1%	24.9%	8.2%	12.2%
S&P 500	0.4%	5.3%	28.6%	30.4%	10.7%	15.6%
DXY Index**	1.2%	6.2%	5.6%	4.0%	3.6%	1.9%
EUR*	-0.7%	-6.2%	-6.6%	-4.2%	-4.1%	-2.5%
JPY*	-2.8%	-7.7%	-12.8%	-10.4%	-13.4%	-9.2%
CRY Index**	2.4%	3.2%	11.4%	10.9%	9.0%	9.7%
Brent**	2.1%	3.8%	-3.3%	0.3%	0.0%	2.7%
Gold**	-0.5%	0.3%	28.4%	33.6%	14.0%	12.4%
Bitcoin**	6.6%	62.6%	142%	143%	29.0%	71.9%
1-3yr UST	0.0%	-0.3%	3.8%	4.4%	1.4%	1.4%
3-5yr UST	-0.4%	-1.7%	2.4%	3.3%	-0.5%	0.5%
7-10yr UST	-1.2%	-3.6%	0.3%	1.7%	-4.2%	-1.3%
10yr+ UST	-3.2%	-6.6%	-4.3%	-1.6%	-11.7%	-5.2%
10yr+ Germany	-2.3%	0.0%	-0.8%	1.1%	-11.7%	-6.2%
10yr+ Japan	0.4%	-1.7%	-5.7%	-5.0%	-5.9%	-3.9%
Global Agg.***	-1.0%	-4.0%	-0.5%	2.0%	-4.3%	-1.7%
US Agg. IG***	-0.9%	-2.4%	2.0%	3.3%	-2.2%	-0.2%
EU Agg. IG***	-0.5%	0.7%	3.2%	4.6%	-3.4%	-1.6%
US Corp HY***	0.2%	0.8%	8.9%	11.4%	3.4%	4.5%
EU Corp HY***	0.7%	2.0%	9.1%	10.9%	3.1%	3.0%

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. *EMBI GD and EMBI GD HY Yield/Spread ex-default yields and spreads calculated by Ashmore. Defaulted EMBI securities includes: Ethiopia, Ghana, Lebanon, Sri Lanka, and Venezuela. **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. DX Y 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, DX Y and CRY which are shown as percentage change.

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Annual Outlook

2025 Emerging Markets Outlook

4 December 2024

By Gustavo Medeiros and Ben Underhill



The theme of our 2024 Outlook was a hit. Emerging market (EM) economies' newfound resilience had more legs this year, despite a lacklustre performance from China.

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The positive effects of post-pandemic structural reforms and fiscal discipline have been visible in the last two years' economic data, with EM GDP growth consistently surprising to the upside. Economic fundamentals improving alongside credit metrics in most countries meant we saw far more sovereign credit rating upgrades than downgrades this year. We expect this trend to continue into 2025.

On the flip side, countries that neglected fiscal discipline and approved detrimental reforms – like Brazil and Mexico – struggled.

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