

China is vaccinating more people than the rest of the world combined

By Gustavo Medeiros

The pace of vaccinations continues to accelerate fast in Emerging Markets (EM) as China is now responsible for more than half of the world's vaccinations. EM asset prices have outperformed in the year since the outbreak of the Covid-19 pandemic. Rating agency S&P downgraded Colombia's sovereign rating to sub-investment grade. The drought in Taiwan has deteriorated, increasing the risk of global supply chain disruptions. The Reserve Bank of India announced a larger than expected dividend payment to the government. Russia's foreign minister met with his United States (US) counterpart. The Reserve Bank of South Africa (SARB) kept its policy rate unchanged. In Peru, presidential candidate Pedro Castillo announced a less radical economic policy agenda. Indonesia's trade surplus improved in April. Argentina announced a 9-day lockdown to curb a large increase in Covid-19 cases. The Brazilian parliament approved a bill, which allows the privatization of the utility company Eletrobrás.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)	Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
MSCI EM	12.9	–	1.75%	S&P 500	20.0	–	-0.39%
MSCI EM Small Cap	11.6	–	1.64%	1-3yr UST	0.15%	–	0.00%
MSCI Frontier	10.7	–	1.27%	3-5yr UST	0.82%	–	-0.01%
MSCI Asia	14.0	–	2.01%	7-10yr UST	1.62%	–	0.05%
Shanghai Composite	11.6	–	-0.06%	10yr+ UST	2.32%	–	0.38%
Hong Kong Hang Seng	9.2	–	3.55%	10yr+ Germany	-0.13%	–	0.16%
MSCI EMEA	9.9	–	1.23%	10yr+ Japan	0.68%	–	-0.14%
MSCI Latam	10.6	–	-1.31%	US HY	4.18%	307 bps	-0.09%
GBI-EM-GD	4.96%	–	0.05%	European HY	3.09%	358 bps	0.09%
China GBI-EM GD	3.11%	–	0.36%	Bloomberg-Barclays	1.15%	-47 bps	0.30%
ELMI+	2.47%	–	0.20%	VIX Index*	20.15	–	1.34%
EM FX spot	–	–	-0.01%	DX Index*	89.99	–	-0.18%
EMBI GD	5.01%	330 bps	0.20%	EURUSD	1.219	–	0.29%
EMBI GD IG	3.32%	155 bps	-0.01%	USDJPY	108.83	–	-0.35%
EMBI GD HY	7.14%	549 bps	0.42%	CRY Index*	200.9	–	-2.42%
CEMBI BD	4.36%	295 bps	0.12%	Brent	66.9	–	-3.76%
CEMBI BD IG	3.15%	174 bps	0.09%	Gold	1,885	–	0.94%
CEMBI BD HY	5.99%	457 bps	0.16%	Bitcoin	34,919	–	-22.08%

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

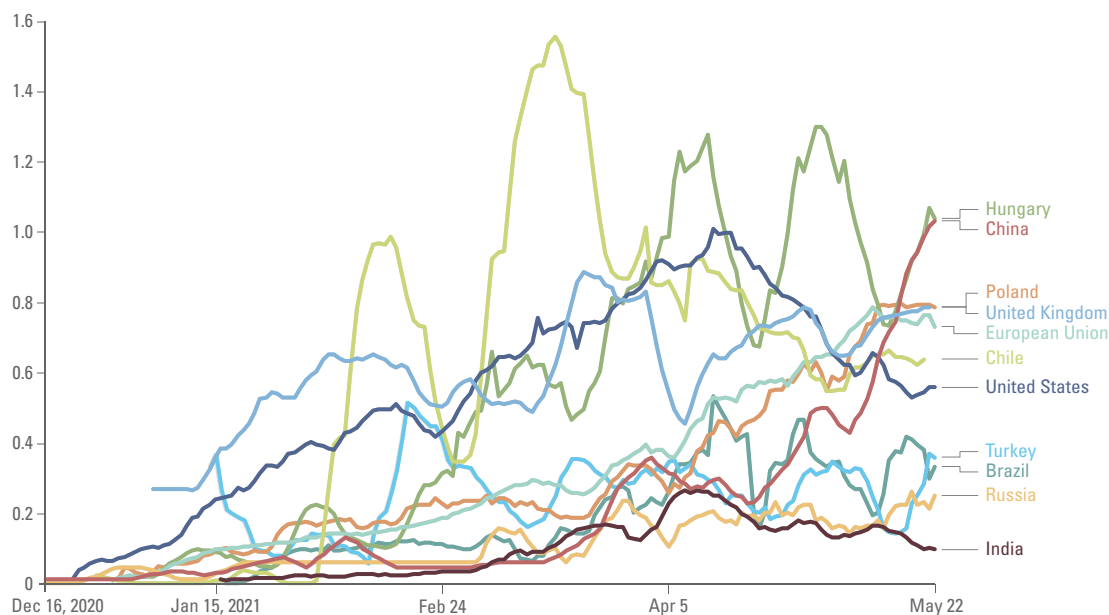
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- **Coronavirus:** Vaccinations continue to accelerate in EM as China is now responsible for more than 50% of global jabs. China vaccinated 13.6m individuals per day over the last week, which compares with 11.7m in the rest of the world. China is now vaccinating close to 1% of its population every day as per Figure 1, a pace consistent with inoculating of the entire adult population by September, which is roughly the same time as the US and ahead of the EU. Several other EM countries are also accelerating vaccinations as supply of vaccines improves. BioNTech Chief Executive Officer (CEO) Uğur Şahin said the company aims to supply Turkey with 120m doses of Covid-19 vaccines over the next four months, which would be enough to inoculate more than two-thirds of Turkey's population with two doses.

Last week Brazil, Poland, Hungary, Russia and Turkey vaccinated their populations at a faster pace than the previous week, but the pace of vaccinations slowed again in India. A faster vaccination stride in EM will provide important support for economic activity and asset prices, in our view.

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Fig 1: Daily vaccinations (per 100 people)



Source: <https://ourworldindata.org/covid-vaccinations>. Data as at 22 May 2021.

EM asset prices have rebounded strongly a year after the Covid-19 outbreak:

Market prices bottomed out roughly 12 months ago and have since rebounded strongly as investors realised that the large fiscal stimuli and easing of monetary policies implemented during and after the outbreak of the pandemic would be sufficient to sustain demand in spite of lockdowns imposed to contain the pandemic. In our opinion, buying EM assets during crises has usually worked extremely well for long term investors and the sell-off associated with the Covid-19 pandemic was no different. Over the last 12 months, EM equities rebounded 46%, outperforming the MSCI World, which rose 42%. Similarly, local currency bonds have returned 9% in US dollar terms, thereby outperforming 5-year US Treasury bonds (UST), which are down about 0.5% over the same period. The performance of EM local currency bonds was boosted by EM currencies, which rose 7% amidst broad Dollar weakness (the Dollar is down 10% over the past year). Dollar-denominated EM sovereign debt is up 10% while 10-year US Treasury bonds with similar duration are down 5%. In our view, the results highlight the importance of using asset price dips to add exposure to EM assets, a signal, which, unfortunately most investors have still not understood how to exploit.

The 12-month performance for EM assets was strong despite the soft patch in returns for EM assets in Q1 2021 as yields on US Treasury bonds rose, which in turn drove the Dollar marginally higher. However, even last quarter EM assets outperformed long duration DM sovereign debt, which will probably remain a testing asset class over the next few years. As an example, investors holding 100-year Austrian bonds (RAGB 0.85% 2120) lost a whopping 34% of their investment since December against a rise in yields of just 62bps (to 1.07%). Investors would lose another 42% of their invested capital if yields on these bonds rise to just 2.0%. Yet, this level is still far below the level required to compensate investors for a century of credit risk in any country, even Austria. In our view, long-term investors are likely to find far better value in lower duration and higher yielding EM assets, in particular local currency bonds that pay positive real interest rates.

- Colombia:** Rating agency S&P downgraded Colombia's sovereign credit rating to 'BB+' from 'BBB-' (with a stable outlook) after the government withdrew a tax reform proposal earlier in the month in response to widespread popular protests. The downgrade may have been premature as Colombian Finance Minister José Manuel Restrepo Abondano said a second version of the tax reform would be put to a vote in Congress after the 20 July. The other two rating agencies Fitch and Moody's could conceivably downgrade Colombia to sub-investment grade (IG) rating as well, which would lead dedicated investment-grade (IG) investors to sell sovereign and corporate bonds. The local currency rating is likely to remain IG, so forced selling would only impact US dollar assets. Historically most of the impact on the currency and credit spreads from downgrades to sub-IG have come ahead of the downgrades themselves. We believe this time is no different. In spite of the lingering risk of a second downgrade, the worst impact on prices are likely to be behind us.

In other news, President Ivan Duque announced a youth employment program to address a key concern of protesters. He also ordered the military to remove roadblocks from the streets. It remains unclear if the broader population will side with protesters as Colombians have historically voted for conservative politicians, such as former President Alberto Uribe. Uribe called on people to support the police and soldiers during the protests.

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- Taiwan:** Export orders increased at a yoy rate of 42.6% in April from 33.3% yoy in March. However, industrial production lowered to a yoy rate of 13.6% in April from 16.1% yoy in March. The government has started to ration electricity to industrial companies as the drought deteriorated, threatening the supply of energy from hydroelectric sources. A shortage in Taiwanese production represents a key risk to global supply chains, as the country is responsible for good part of key electronic components.
- India:** The Reserve Bank of India announced a dividend payment of INR 991bn (equivalent to USD 13.5bn, or 0.5% of GDP) to the government, twice the amount estimated in the budget. The larger than expected payment will increase the government's ability to expand its social safety net, including the free food distribution, which may reach as many as 800m people for a cost of INR 260bn. In economic news, the yoy rate of wholesale prices inflation increased to 10.5% in April from 7.4% yoy in March.
- Russia:** The Russian Foreign Secretary Sergey Lavrov had a first face-to-face meeting with his US counterparty Anthony Blinken. This was the first high-level meeting between the countries since the Biden Administration took office. Blinken said the US would "seek a predictable, stable relationship with Russia". Consultations for a summit between Russia and Ukraine took place, mediated by France and Germany. In economic news, the yoy rate of real GDP growth declined 1.0% in Q1 2021, which is an improvement from -1.8% yoy in Q4 2020. The yoy rate of producer prices index (PPI) inflation surged to 27.6% in April from 16.0% yoy in March, slightly above consensus expectations. In other news, Russia issued EUR 1.5bn of Eurobonds in a dual tranche offer with a EUR 0.5bn Nov 2027 bond priced at a 1.37% yield and a EUR 1.0bn May 2036 tranche priced at 2.65% and both bonds rose 0.5% to 1.0% in the secondary market. This is the first time Russia issued Eurobonds since the US imposed restrictions on US investors' access to Russian fixed income.
- South Africa:** The South African Reserve Bank (SARB) kept its policy rate unchanged at 3.5%, in line with consensus expectations. SARB sees inflation risks skewed to the upside and emphasised willingness to act should price pressures increase. The hawkish tone seeks to anchor inflation expectations after the yoy rate of consumer prices index (CPI) inflation rose to 4.4% in April from 3.2% yoy in March, while core CPI inflation rose to 3.0% yoy from 2.5% yoy over the same period. In other economic data, retail sales declined 3.7% mom in March after rising 6.9% mom in February.
- Peru:** Presidential candidate Pedro Castillo published a more moderate new economic plan (called 'Bicentennial Plan'), which promotes private investment, respects central bank autonomy, and aims not to nationalise the private pension system. At the same time, the Bicentennial Plan calls for increases in public capital spending on roads, irrigation, hospitals, schools, urban rehabilitation, and the environment. The plan envisages higher taxes on corporations to pay for the higher spending. Over the weekend, two polls by IPSOS and Datum showed Castillo widening his lead over Keiko Fujimori to an average of 5% (45% vs. 40%) compared to 2.5% the week before. The run-off between Castillo and Fujimori is on 6 June. A third poll by IEP showed a wider lead of 10% for Castillo. In other news, the rating agency Moody's lowered the outlook for Peru's sovereign credit rating to negative from stable. Peru is rated 'A3' by Moody's which is equivalent to 'A-' on the scale used by Fitch and S&P.
- Argentina:** The government announced a 9-day lockdown due to a surge in coronavirus cases. Economic activity declined 0.2% mom in March after rising 0.9% in February. The government announced a ban on beef exports, leading producers to announce a strike. Other economic data improved as the trade surplus increased to USD 1.5bn in April from USD 0.4bn in March, while the fiscal deficit narrowed to ARS 11.5tn in April from ARS 75.5tn in March.
- Indonesia:** The trade surplus improved to USD 2.2bn in April from 1.6bn in March as exports and imports rose at yoy rates of 52% and 30%, respectively. The Q1 2021 current account deficit was USD 1.0bn compared to a surplus of USD 0.9bn in Q4 2020. The 12m cumulative current account surplus narrowed to USD 3.1bn in Q1 2021 from USD 5.1bn in Q4 2020.
- Brazil:** The Lower House of Congress approved a bill, which allows the government to privatise the national utility company Eletrobras. Specifically, the government may now reduce its shareholding in the company to 45% from close to 60% currently. In other news, tax collections surprised to the upside at BRL 157bn in April from BRL 138bn in March, the highest level since the beginning of the series in 1995.

Snippets:

- Belarus:** The government intercepted an airplane to arrest leading opposition activist Roman Protasevich. The flight was crossing the Belarussian airspace from Athens in Greece to Vilnius in Lithuania. The EU and US promptly condemned the Belarussian action while Russia sided with Belarus.
- Hungary:** The National Bank of Hungary kept its 7-day policy deposit rate unchanged at 0.75% but signalled interest rates increases in the coming months as a response to greater inflationary pressures. In other news, the yoy rate of real GDP growth fell 2.3% in Q1 2021, which was an improvement compared to the 3.6% yoy decline in Q4 2020.

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- **Israel:** The Palestinian group Hamas agreed on a cease-fire with Israel after an 11-day conflict in Gaza, which left at least 250 people dead.
- **Malaysia:** The yoy rate of CPI inflation surged to 4.7% in April from 1.7% in March, buoyed by higher transport and electricity costs. Base effects in non-core inflation items were to blame. Broader inflationary pressure remain contained, so far, as core CPI inflation was unchanged at 0.7% yoy over the same period.
- **Mexico:** Mexico City and some surrounding towns face water rationing after a severe drought brought water levels in the largest dams in the country to close to 40% capacity. Ratings agency Fitch affirmed the Mexico's foreign currency credit rating of 'BBB-' (with stable outlook).
- **Nigeria:** The government is planning to issue USD 3bn or more of Eurobonds over the next months.
- **Sri Lanka:** The central bank kept its deposit and lending rates unchanged at 4.5% and 5.5% respectively.
- **South Korea:** The 20 first days of exports increased to 53.3% in May from 45.4% yoy in April while imports improved to 36.0% yoy from 31.3% yoy over the same period.
- **Thailand:** The yoy rate of real GDP growth declined 2.6% in Q1 2020, which was better than the 4.2% yoy decline in Q4 2020. The consensus expectation was for a contraction of 3.3% yoy. The government is considering a THB 700bn (4.5% of GDP) borrowing program to compensate for the revenue shortfalls expected in the 2021 Budget.
- **Turkey:** The government increased the special consumption taxes on gasoline by 54%, on diesel by 78%, and on auto gas by 189%.
- **Zambia:** The Bank of Zambia kept its policy rate unchanged at 8.5%.

Global backdrop

- **Commodities:** The Thompson Reuters broad commodity index (CRY) declined 2.4% last week as Brent oil futures were down 3.8% to 66.9 after Iranian President Hassan Rouhani said a broad outline of a deal with the US is in place to remove economic sanctions, thus potentially boosting global oil supply in the short term. Iron ore and copper prices declined 11.8% and 3.5%, respectively, after Chinese Premier Li Keqiang asked for further efforts to prevent rising commodity prices from passing through to consumers. The price action for agricultural goods was mixed as wheat and soybeans declined 4.7% and 4.8%, but corn and coffee prices rose 2.4% and 4.1% respectively.
- **United States:** The US Treasury Department announced a proposal for a 15.0% minimum global corporate tax. The US tax rate proposal is closer to the 12.5% rate suggested at a recent meeting of the Organisation for Economic Co-operation and Development (OECD) than the 21.0% tax rate originally put forward by the Biden administration. The Congressional Budget Office (CBO) published a study¹ where it shows government debt increasing to 202% of GDP by 2051 in the baseline scenario. The debt increase is due to an ever-growing interest payments burden on the large stock of outstanding US Federal Government debt. The base cases assumes that the 10yr US Treasury yield averages 1.6% from 2021 to 2025, 3.0% from 2026 to 2031, and then rises steadily to 4.9% by 2051. The study has not yet included the impact of the large USD 1.9tn stimulus package approved in March, which is likely to worsen the US debt profile even more.

In economic news, initial jobless claims declined to 444k in the week of 15 May from 478k in the previous week, but continuing claims rose to 3.75m in the week of 8 May from 3.64m in the prior week. Existing home sales declined to 5.85m in April from 6.01m in March. Future activity surveys had mixed results. The US manufacturing purchasing managers' index (PMI) preview rose to 61.5 in May from 60.5 in April and the services PMI surged to 70.1 from 64.7. On the other hand, the Philadelphia Fed of Business Outlook declined to 31.5 from 50.2 and the Empire manufacturing slid to 24.3 from 26.3 over the same period. Total credit card spending from Bank of America rose 18% over a 2-year period in the week to the 15 May. This week the US Treasury is due to auction USD 183bn of 2 year, 5 year, and 7-year bonds.
- **Eurozone:** Euro Area Markit manufacturing PMI inched down to 62.8 in the May preview from 62.9 in April, while the services PMI rose to 55.1 from 50.5 over the same period, thereby outperforming consensus expectations.

¹ See: <https://www.cbo.gov/publication/57038#:~:text=In%20CBO's%20projections%2C%20the%20average,over%20the%202021%E2%80%932051%20period.>

Emerging Markets

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	-1.21%	1.26%	3.53%	46.44%	8.27%	14.15%
MSCI EM Small Cap	-1.38%	4.60%	12.64%	69.86%	7.97%	11.72%
MSCI Frontier	2.83%	9.85%	10.73%	39.34%	5.00%	7.83%
MSCI Asia	-2.21%	0.23%	2.87%	45.14%	9.17%	15.57%
Shanghai Composite	1.23%	1.43%	0.52%	24.46%	5.24%	6.66%
Hong Kong Hang Seng	-0.93%	-2.14%	0.00%	13.00%	-0.85%	9.51%
MSCI EMEA	3.12%	5.54%	14.11%	40.26%	4.05%	8.28%
MSCI Latam	4.09%	7.96%	2.27%	52.10%	0.47%	6.74%
GBI-EM-GD	1.55%	3.84%	-3.09%	9.10%	3.43%	4.45%
China GBI-EM GD	1.20%	3.14%	3.44%	10.42%	-	-
ELMI+	0.93%	2.57%	-0.07%	9.11%	1.79%	2.98%
EM FX spot	1.32%	2.85%	-0.85%	7.01%	-3.33%	-2.10%
EMBI GD	0.61%	2.84%	-1.83%	9.98%	6.18%	5.36%
EMBI GD IG	0.25%	1.14%	-4.22%	3.25%	7.63%	5.46%
EMBI GD HY	1.01%	4.80%	0.97%	18.52%	4.53%	5.19%
CEMBI BD	0.42%	1.03%	0.22%	11.44%	7.10%	5.98%
CEMBI BD IG	0.21%	0.54%	-1.16%	6.98%	6.98%	5.08%
CEMBI BD HY	0.71%	1.67%	2.08%	17.86%	7.26%	7.35%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	-0.49%	4.82%	11.28%	43.21%	17.13%	17.37%
1-3yr UST	0.04%	0.08%	0.03%	0.23%	2.90%	1.76%
3-5yr UST	0.14%	0.50%	-0.85%	-0.46%	4.55%	2.40%
7-10yr UST	0.23%	1.24%	-4.57%	-5.25%	6.12%	2.65%
10yr+ UST	-0.63%	1.68%	-12.06%	-14.68%	7.78%	3.44%
10yr+ Germany	-1.14%	-2.76%	-8.85%	-6.99%	4.66%	2.22%
10yr+ Japan	0.01%	0.37%	-0.40%	-1.57%	1.18%	0.01%
US HY	-0.06%	1.02%	1.88%	16.79%	6.95%	7.50%
European HY	-0.06%	0.68%	2.53%	16.67%	3.74%	4.62%
Bloomberg-Barclays Agg	0.47%	1.74%	-2.80%	4.72%	4.55%	3.02%
VIX Index*	8.28%	3.87%	-11.43%	-28.44%	60.81%	39.74%
DXY Index*	-1.42%	-3.48%	0.05%	-9.89%	-4.04%	-5.84%
CRY Index*	0.56%	8.60%	19.71%	55.07%	-2.33%	9.56%
EURUSD	1.39%	3.90%	-0.25%	11.83%	3.99%	9.39%
USDJPY	-0.44%	-1.71%	5.40%	1.04%	-0.40%	-1.05%
Brent	-0.59%	5.21%	29.05%	90.29%	-15.15%	37.52%
Gold	6.52%	10.35%	-0.73%	8.81%	44.45%	53.56%
Bitcoin	-38.54%	-40.78%	20.43%	291.72%	362.35%	7,749.98%

*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.

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