

Ecuador approved further structural reforms

By Gustavo Medeiros

The Ecuadorian National Assembly approved the Law for the Defence of Dollarization. India announced measures to boost Covid-19 vaccinations. The Russian Central Bank hiked rates by 50bps to 5.0%. The Brazilian Lower House approved the 2021 budget that exceeds the debt ceiling. The United States (US) government said the mass killing of Armenians in Turkey in 1915 was a genocide. Mexico's parliament approved populist hydrocarbon and labour market reforms. In Peru, polls showed the leftist presidential candidate Pedro Castillo ahead in the run-off. Rating agency S&P kept Colombia's sovereign rating unchanged at BBB- with a negative outlook.

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	13.3	–	0.35%	S&P 500	20.7	–	-0.11%
MSCI EM Small Cap	11.8	–	1.07%	1-3yr UST	0.16%	–	0.02%
MSCI Frontier	10.5	–	0.90%	3-5yr UST	0.83%	–	0.08%
MSCI Asia	14.6	–	0.48%	7-10yr UST	1.57%	–	0.20%
Shanghai Composite	11.6	–	1.43%	10yr+ UST	2.25%	–	0.56%
Hong Kong Hang Seng	9.7	–	0.49%	10yr+ Germany	-0.26%	–	0.00%
MSCI EMEA	9.8	–	-0.43%	10yr+ Japan	0.65%	–	0.35%
MSCI Latam	10.9	–	0.52%	US HY	4.04%	298 bps	-0.03%
GBI-EM-GD	4.87%	–	0.05%	European HY	3.09%	360 bps	-0.13%
China GBI-EM GD	3.19%	–	0.62%	Bloomberg-Barclays	1.10%	-47 bps	0.35%
ELMI+	2.67%	–	0.12%	VIX Index*	17.33	–	1.08%
EM FX spot	–	–	0.12%	DX Index*	90.73	–	-0.34%
EMBI GD	5.00%	336 bps	0.01%	EURUSD	1.211	–	0.59%
EMBI GD IG	3.29%	159 bps	-0.27%	USDJPY	107.74	–	-0.39%
EMBI GD HY	7.19%	560 bps	0.34%	CRY Index*	196.1	–	2.85%
CEMBI BD	4.40%	303 bps	0.07%	Brent	65.7	–	-2.00%
CEMBI BD IG	3.15%	178 bps	0.07%	Gold	1,782	–	0.62%
CEMBI BD HY	6.06%	469 bps	0.06%	Bitcoin	52,501	–	-6.60%

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

Emerging Markets

- Ecuador:** The National Assembly approved the Law for the Defence of Dollarization, which grants political and financial autonomy to the Central Bank of Ecuador. The bill was negotiated for months with parliament before approval and is extremely important as it significantly reduces the risk of the Central Bank monetisation (printing money) which would be an unsustainable policy in a dollarized economy. The bill also allows President-elect Guillermo Lasso to focus on other structural reforms, including a tax reform he has pledged to submit in his first day in the office.
- India:** Faced with rising case numbers, India announced measures to boost Covid-19 vaccinations. The government granted permission for all Indians over 18 years of age to receive Covid-19 vaccine from 1 May. Vaccine manufacturers can also release up to half of their supply to local governments and into the open market at a pre-declared, but otherwise unregulated prices. A freer market should encourage more supply of vaccine from manufacturers in India and abroad, thereby helping to meet the government's target of vaccinating 576m individuals by year-end. For context, in spite of a large second wave, as of this morning Indian deaths from Covid-19 per million of population is 140. This compares to 1,869 deaths per million in the UK and 1,762 deaths per million in the United States. India is 119th in the Covid-19 death rankings compared to UK and the US at 13th and 16th, respectively. In other news, the rating agency Fitch affirmed India's sovereign rating at 'BBB-' with a negative outlook. Fitch sees a strong medium-term growth profile and resilient external accounts compensating for high levels of public debt and various unresolved issues in the financial sector, including insolvent public sector banks.

Emerging Markets

- Russia:** The Central Bank of Russia (CRB) increased its policy rate by 50bps to 5.0%, above consensus expectations. CRB cited the strong recovery in aggregate demand, which exceeds output capacity in certain sectors leading to concerns over a more permanent impact from short-term inflationary pressures. The unemployment rate declined to 5.4% in March from 5.7% in February, but retail sales slowed with yoy rate of -3.4% compared to -1.5% yoy over the same period. In geopolitical news, tensions with the US de-escalated markedly after Russia announced a withdrawal of troops from the border with Ukraine and imprisoned opposition politician Alexei Navalny agreed to end a hunger strike following hospital treatment.
- Brazil:** The Congress reached a deal with President Jair Bolsonaro to put an end to the 2021 budget imbroglio. Bolsonaro approved BRL 125bn of expenditure in excess of the fiscal ceiling imposed by the Constitution, but he vetoed a further BRL 19.8bn of spending from the original budget proposal. Leader of the Lower House, Arthur Lira, said he would present a tax reform to Congress by 3 May. In economic news, the trade surplus increased to USD 3.0bn in the week ending 18 April from 2.1bn in the previous week. The President of the Brazilian Central Bank (BCB) Roberto Campos Neto's term was extended until the end of 2024. Most other board members will also remain in place until 2023 or 2024. In corporate news, Petrobras CEO, General Joaquim Silva e Luna said one of the main challenges of his job is to reconcile the interest of the consumers and shareholders, but pledged to keep fuel prices in line with international prices.
- Turkey:** US President Joe Biden labelled the mass killing of Armenians during the First World War a genocide. Previous US administrations avoided this designation due to the importance of Turkey as a member of the North Atlantic Treaty Organisation (NATO). However, President Recep Tayyip Erdogan's confrontational style, including recent purchases of Russian S-400 anti-missile systems, has led to a material deterioration in relations with both the US and the EU. Last week the US formally removed Turkey from its F-35 fighter jet programme, signed in 2007. Under Erdogan, Turkey's erstwhile standing as a highly influential intermediary trusted not only by Western allies but also by Iran, Israel and other key parties in the region has diminished sharply.
- Mexico:** The Lower House of Parliament approved three hydrocarbon reforms that increase Pemex's control over Mexico's fuel market. The legislation now moves to the Senate for approval. Last week the Senate also approved a reform of labour laws, which forbids subcontracting of personnel, except for specialised work in non-core activity areas. The labour law bill also contains a new profit-sharing model whereby companies must share 10% of annual profits with employees (up to a maximum equivalent to three months' salary). In economic news, the yoy rate of consumer prices index (CPI) inflation rose to 6.1% in the first 15 days of April from 5.2% over the same period in January. Retail sales rose 1.6% in February from no change in January.
- Peru:** The first three polls ahead of a run-off in the presidential election scheduled for 6 June showed far-left candidate Pedro Castillo with a substantial lead over competing candidate Keiko Fujimori. The poll by IPSOS gave Castillo 42% of voting intentions, an 11% lead over Fujimori. A poll from Datum gave Castillo 41% of voting intentions compared to 26% for Fujimori while a third poll from IEP shows Castillo with 20% ahead of Fujimori with 41% of votes. Last week Keiko Fujimori won the support of the Nobel Prize winning author Mario Vargas Llosa, who campaigned against her in previous elections. Vargas Llosa called Fujimori "the lesser of two evils". Keiko also received permission from the Attorney General to travel outside of Lima to campaign – she was previously allowed to campaign only in Lima as she is under investigation for corruption.
- Colombia:** Rating's agency S&P affirmed Colombia's sovereign rating at 'BBB-' with a negative outlook. The negative outlook applies pressure to approve a tax reform in order to consolidate the fiscal deficit. President Iván Duque is likely to submit a new version of its tax reform as the first version is suffering fierce opposition from congress members. In other political news, Duque's approval rate declined 3% to 33% in April, according to a poll by Invomer from April. The same poll showed the Senator and former mayor of Bogota Gustavo Petro is the favourite to win the presidential elections in May 2022 with 38% of voting intentions, up from 26% in November. Petro now is well ahead of the two market-friendly candidates, the former mayor of Medellin Sergio Fajardo (16% of voting intentions, down from 21% in November) and Vice President Marta Lucía Ramírez (12%, down from 19% in November). In an eventual run-off between the two top contenders, Petro would win against Fajardo with 53% to 42% of the votes, according to Invomer. In economic news, the trade deficit declined to USD 715m in February from USD 1.0bn in January.

Snippets:

- Argentina:** The trade surplus declined to USD 400m in March from USD 1.06bn in February, surprising consensus expectations to the downside. While exports increased to USD 5.7bn from USD 4.8bn, imports rose to USD 5.3bn from USD 3.7bn.
- Chile:** The Lower House approved a new wealth tax, which imposes a 2.5% one-off levy on fortunes above USD 22m. The tax bill also introduces a temporary increase in the corporate tax rate to 30% from 27%.
- China:** Medium to long-term consumer loans, including mortgages increased to RMB 2.0trn in Q1 2021 from RMB 1.3trn in Q1 2020 and RMB 1.4trn in Q4 2020. In corporate news, the Government announced an anti-monopoly probe in food delivery company Meituan. The company had just issued USD 10bn of new equities in the week prior to the announcement.

Emerging Markets

- **Croatia:** The unemployment rate declined to 9.3% in March from 9.7% in February.
- **Hungary:** The central bank kept its policy rate unchanged at 0.75% in line with consensus expectations. The economic sentiment index improved to -6.7 in April from -16.7 in March, while business confidence recovered to -0.6 from -11.1 over the same period.
- **Indonesia:** Bank Indonesia kept its policy rate unchanged at 3.5% in line with consensus expectations.
- **Malaysia:** The yoy rate of CPI inflation rose to 1.7% in March from 1.6% in February, while core CPI inflation was stable at 0.7% yoy for the fifth consecutive month.
- **Philippines:** President Rodrigo Duterte set a target to cut 75% reduction in greenhouse emissions by 2030 vis-à-vis the government's previous projection. The target is part of the Philippines' commitment to the Paris Agreement on climate change.¹
- **Poland:** The yoy rate of retail sales growth surged to 17.1% in March from -2.7% yoy in February, while industrial output sales were up 18.9% yoy compared to 2.7% yoy over the same period.
- **South Africa:** The yoy rate of CPI inflation rose to 3.2% in March from 2.9% yoy in February and core CPI inflation declined to 2.5% yoy from 2.6% yoy over the same period, both slightly lower than consensus expectations.
- **South Korea:** Exports surged 36.0% on a yoy basis in the first twenty days of April (adjusted for business days). This compares to 16.1% yoy growth in March.
- **Taiwan:** The yoy rate of industrial production rose 16.8% in March from 2.5% yoy in February, much higher than consensus expectations, led by semiconductor exports.
- **Thailand:** The yoy rate of export growth surged to 8.5% in March from -4.0% in February, led by industrial exports including vehicles, electronics and electrical appliances. Import growth declined to a yoy rate of 14.1% in March from 22.0% yoy in February.
- **Tunisia:** Prime Minister Hichem Mechichi will travel to Washington on 3 May to request a new financial programme with the International Monetary Fund (IMF). Tunisia's fiscal deficit widened to 11.5% of GDP in 2020 and the 2021 total financing needs are expected to be close to USD 7.2bn, or nearly 20% of GDP.
- **Ukraine:** The yoy rate of industrial production increased to 2.1% in March from -4.6% yoy in February, while retail sales jumped to 13.1% yoy from 5.6% yoy over the same period.
- **Uruguay:** The government announced USD 900m in support measures after a second wave of Covid-19 infections hit the country. The measures include tax exemptions, unemployment benefits as well as subsidies for informal workers.

Global backdrop

- **United States:** Several news agencies reported that the US administration is looking to increase taxes on America's wealthiest individuals. The proposals include increasing the top marginal income tax rate (applicable to incomes in excess of USD 510k) to 39.6% from 37.0% and a doubling of capital gains tax for people earning more than USD 1m per year. The tax increases are designed to fund around USD 1trn of new spending on childcare, universal pre-kindergarten education and paid leave for workers. Just days before he celebrates his first 100 days in the office, the approval rating for President Joe Biden is 54%, according to a poll of 1,000 people conducted by NBC news. In comparison, over the same period only 40% of Americans approved of former President Donald Trump, while President Barack Obama and President George W. Bush enjoyed 61% and 57% approval ratings, respectively. Biden got 69% approval for his handling of the coronavirus crisis, but only 33% to 35% pertaining to issues of border security, guns and the relationship with China.
In US economic news, initial jobless claims declined to 547k in the week ending 17 April from 586k in the previous week, while continuing claims were unchanged at 3.7m for the week ending 10 April. Housing data was mostly stronger than consensus expectations with new home sales rising to 1.02m in March from 0.85m in February and mortgage applications surging 8.6% in the week ending in 16 April from -3.7% in the previous week. On the other hand, existing home sales declined to 6.0m from 6.2m over the same period. Markit's Services purchasing managers' index (PMI) rose to 63.1 in April from 60.4 in March, while manufacturing PMI rose to 60.6 from 59.1 over the same period.
- **Eurozone:** The Euro Area composite PMI rose to 53.7 in April from 53.2 in March. Household confidence rose 2.7 to -8.1 in April. In other news, the German Constitutional Court rejected requests for an injunction against the European Union's Recovery Fund, thereby reducing an important tail risk. The Recovery Fund is expected to allocate EUR 750bn in economic support between 2021 and 2027.

¹ For a discussion of the Paris Agreement see: ['Seven policy proposals to meet the Paris Agreement objectives'](#). The Emerging View, 13 April 2021.

Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	2.88%	2.88%	5.16%	55.29%	8.20%	12.87%
MSCI EM Small Cap	4.64%	4.64%	12.68%	79.70%	7.07%	10.48%
MSCI Frontier	6.57%	6.57%	7.43%	45.30%	1.68%	7.65%
MSCI Asia	2.76%	2.76%	5.44%	53.78%	10.33%	14.52%
Shanghai Composite	0.98%	0.98%	0.08%	25.33%	6.75%	5.61%
Hong Kong Hang Seng	1.00%	1.00%	3.20%	18.72%	1.23%	8.15%
MSCI EMEA	2.59%	2.59%	10.92%	47.80%	1.43%	5.72%
MSCI Latam	5.34%	5.34%	-0.21%	56.15%	-3.91%	5.06%
GBI-EM-GD	2.59%	2.59%	-4.26%	13.98%	0.81%	3.43%
China GBI-EM GD	1.52%	1.52%	1.82%	7.41%	-	-
ELMI+	1.38%	1.38%	-1.22%	10.21%	0.37%	2.31%
EM FX spot	1.59%	1.59%	-2.07%	8.93%	-5.19%	-2.97%
EMBI GD	2.45%	2.45%	-2.20%	17.97%	5.21%	5.25%
EMBI GD IG	1.17%	1.17%	-4.19%	9.37%	7.11%	5.31%
EMBI GD HY	3.92%	3.92%	0.12%	29.44%	3.11%	5.12%
CEMBI BD	0.59%	0.59%	-0.22%	15.03%	6.47%	5.98%
CEMBI BD IG	0.51%	0.51%	-1.19%	9.97%	6.61%	5.13%
CEMBI BD HY	0.69%	0.69%	1.10%	22.44%	6.28%	7.29%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	5.30%	5.30%	11.79%	51.90%	18.30%	17.09%
1-3yr UST	0.03%	0.03%	-0.02%	0.29%	2.89%	1.74%
3-5yr UST	0.38%	0.38%	-0.97%	-0.34%	4.48%	2.40%
7-10yr UST	1.46%	1.46%	-4.37%	-5.20%	6.02%	2.78%
10yr+ UST	3.26%	3.26%	-10.70%	-15.74%	8.00%	4.07%
10yr+ Germany	-0.51%	-0.51%	-6.74%	-4.20%	5.84%	2.97%
10yr+ Japan	0.74%	0.74%	-0.03%	-1.46%	1.25%	0.18%
US HY	0.88%	0.88%	1.74%	19.98%	6.84%	7.57%
European HY	0.53%	0.53%	2.37%	17.62%	3.57%	4.44%
Bloomberg-Barclays Agg	1.63%	1.63%	-2.91%	5.39%	3.80%	3.01%
VIX Index*	-10.67%	-10.67%	-23.82%	-51.77%	6.71%	24.14%
DXY Index*	-2.68%	-2.68%	0.88%	-9.61%	-0.91%	-4.06%
CRY Index*	6.00%	6.00%	16.84%	73.88%	-2.56%	8.03%
EURUSD	3.22%	3.22%	-0.89%	11.80%	0.04%	7.18%
USDJPY	-2.69%	-2.69%	4.35%	0.46%	-1.43%	-3.21%
Brent	3.42%	3.42%	26.85%	206.48%	-12.08%	43.66%
Gold	4.38%	4.38%	-6.10%	4.00%	35.35%	43.35%
Bitcoin	-10.96%	-10.96%	81.06%	581.11%	475.73%	11,091.83%

*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

T: +966 11 483 9100

Singapore

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