Investing in emerging markets

Political twists and turns

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UBS

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Investing in emerging markets
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Editors-in-Chief
Alejo Czerwonko
Michael Bolliger

Authors (in alphabetical order)
Michael Bolliger
Tatiana Boroditskaya
Alejo Czerwonko
Tilmann Kolb
Kathy Li
Pedro Quintanilla-Dieck
Emre Tekmen
Xingchen Yu

Project management
Chinenyenwa (Chi) Amaechi

Editors
Steven Faucher
Aaron Kreuscher

Editorial deadline
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Desktop Publishing
CIO Content Design

Contact
wmrfeedback@ubs.com

Cover photo
UBS image database

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Please note there may be changes to our House View and tactical asset allocation strategies prior to the next edition of *Investing in Emerging Markets*. For all updated views, please refer to the UBS House View *Investment Strategy Guide*.

Editorial

US dollar centricity, revisited

Alejo Czerwonko, Ph.D.
Chief Investment Officer,
Emerging Markets Americas

Solita Marcelli
Chief Investment Officer Americas
UBS Global Wealth Management





The global reserve and trading currency order is undoubtedly evolving. We have been receiving inquiries from our clients on the sustainability of US-dollar dominance on a regular basis.

Based on a wide range of indicators we track to try to gauge where the global monetary system may be headed, we believe a US-dollar-centric world will continue for years to come, even as the landscape becomes more diverse going forward, with several currencies and even commodities—gold central among them—playing critical roles. Here's why:

Global currency regimes are sticky: The US dollar dominates financial markets and international trade. Changes in the world's dominant currency have historically taken a long time to materialize. Even as great economic powers rise and fall, their currencies' reserve status tend to survive well past the peak of their influence. The latest IMF survey on the currency composition of global foreign exchange reserves reveals that the share of US dollars held by central banks still stands at almost 60% (Fig. 1), roughly stable over the last four years. The greenback is also used in over 47% of global payments and dominates 84% of trade finance contracts, according to SWIFT. For comparison, 23% of all global payments were made in euros, with its trade finance share at just 6%. The numbers for the Chinese renminbi were less than 5% and 5%, respectively.

Liquidity is king: Liquidity ranks near the top of the properties that global reserve managers and those involved in international trade look for in a currency. The US dollar remains the world's dominant currency in this realm: it is on one side of 88% of all trades, according to the latest survey by the Bank for International Settlements (BIS). It also offers deep derivatives markets—forwards, swaps, options, etc.—giving market participants the ability to efficiently hedge exposure.

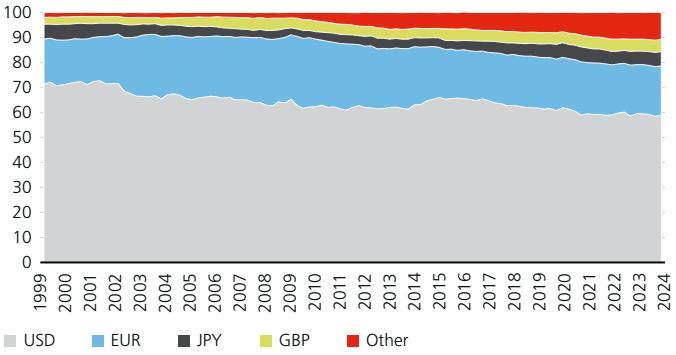
Stability and safety matter: The US political atmosphere and fiscal accounts are no doubt experiencing serious challenges, yet the situation in competing jurisdictions is also dire; in the land of the blind, the one-eyed man can remain king. The US still ranks highly in various gauges of institutional strength including market openness (the prevalence of capital controls, for example), regulatory quality and efficiency, and rule of law. In this context, the US continues to attract large flows of foreign investment. The US-centric AI technological revolution is cementing the country's reputation for innovation and acting like a magnet for foreign capital. Of course, the US must treat the privilege of issuing the world's preeminent currency with care. Outsized fiscal deficits, together with recurrent debt limit sagas, are eroding confidence. Foreign investors are watching the electoral race with angst, and reports that the independence of the Fed may be questioned aren't helping. Please see our latest Election Watch report for more information.

Geopolitics enter the equation: Although shifts in the global currency order typically take place at a glacial pace, rising geopolitical tensions can trigger quicker adjustments. China, for instance, is working to accelerate the yuan's internationalization as relations remain tense with the US. These efforts are unlikely to

Figure 1

Changing global reserve currency landscape

Currency composition of global foreign exchange reserves, % of total allocated reserves

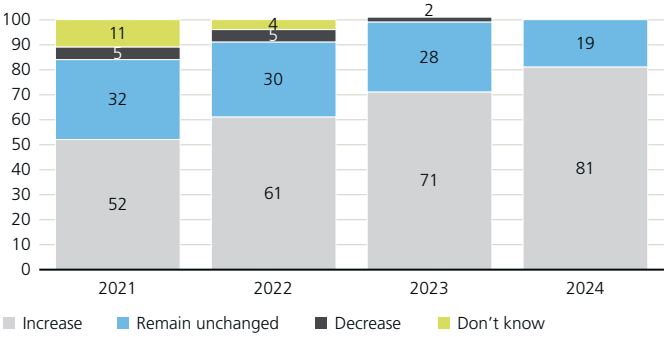


Source: IMF, UBS, as of 1Q 2024

Figure 2

Central banks expect gold to play a larger role in allocations

Answer to question "How do you expect global central bank gold holdings to change over the next 12 months?"



Source: UBS, World Gold Council's 2024 Central Bank Gold Reserves (CBGR) survey, as of July 2024

yield overnight success, and de-dollarization initiatives from groups like BRIC represent today more bark than bite, yet they do plant the seeds of a more diversified currency landscape ahead.

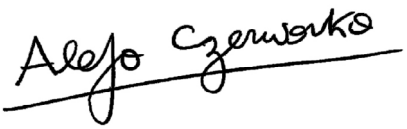
Gold has become the diversifier of choice

All in all, we think the dollar's reign will live on. At the same time, it will likely make some room for competitors along the way. As of late, gold has stood out amongst them.

Central bank buying of gold accelerated after Russia's invasion of Ukraine. Central banks have purchased well over two thousand tons of gold in the last two years—the fastest pace in history, according to the World Gold Council. As the yellow metal carries no credit or counter-party risk, some deem it as being better insulated from financial sanctions, particularly those from the emerging world. These institutions look set to continue accumulating gold going forward, with 81% of those polled in a recent World Gold Council survey expecting to see higher global gold holdings by central banks in the year ahead (Fig. 2).

In addition to strong central bank buying, lower US rates and recovering exchange-traded-fund demand should push the gold price higher: we see it rising to USD2,600/oz by yearend. Gold can also be an effective hedge against concerns about geopolitical polarization, the US fiscal deficit, inflation, or a weaker US dollar.

Those looking for opportunities outside of the US dollar should also consider the Swiss franc, which we rate as most preferred. The Swiss National Bank is unlikely to cut interest rates much further from here, and the currency offers safe-haven qualities amid political uncertainty in the US and Europe.



Alejo Czerwonko, Ph.D.
Chief Investment Officer,
Emerging Markets Americas



Solita Marcelli
Chief Investment Officer Americas



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Global investment views

Financial market outlook	In our global strategy, we keep our preference for bonds over equities. Within equities, we retain our preference for quality. Our most preferred region is the United Kingdom. Within bonds, we prefer investment grade over emerging market credit and high yield. Within commodities, we hold a preference for both oil and gold. Within foreign exchange, the CHF is our most preferred currency. We stay neutral on the other major currencies.
Equities	Global equities kept grinding higher over the last few months. Leadership was concentrated in the tech sector in June but has broadened in July as US inflation softened. Inflation is normalizing, while economic growth is slowing modestly from elevated levels. This leaves room for central banks to cut rates, which should support both corporate earnings and valuations. We expect earnings to keep recovering in the coming quarters. Tech should lead, but other sectors should contribute positively as well. The equity outlook is constructive but well priced in, in our view, which limits the risk-reward of chasing the rally. We recommend keeping equity allocations at strategic weights. Regionally, we prefer the UK.
Bonds	We are most preferred on fixed income given the all-in yields on offer and as central banks across parts of the developed world start reducing the level of official policy rates. Specifically, we maintain a preference for investment grade bonds and remain neutral on emerging market credit and high yield. Despite the stalling in the disinflationary progress earlier in the year, recent data suggest that the stickiness in core service items is rolling over. This, combined with weak goods prices and some loosening of the tightness in labor markets, has allowed central banks in Switzerland, Sweden, Canada, and Europe to reduce the level of monetary policy restrictiveness. Others, such as the Federal Reserve, remain in data-watch mode but have signaled that the next policy rate move will be lower later this year.
Foreign exchange	The USD has been running out of steam lately. The risks are skewed toward additional USD weakness, as more macro disappointments are likely. This could lead to a test of existing ranges in key pairings such as EURUSD or GBPUSD. The Swiss franc stays most preferred, as rate differentials should narrow and as uncertainty is likely to rise in 2H. Bouts of uncertainty in the months ahead should be used to engage in yield-pickup strategies. Emerging market currencies have stabilized. And although we believe the outlook should improve once the Fed begins to cut rates, not all currencies are expected to perform well. We expect the CNY to remain under pressure, while the BRL could lag.
Commodities	Commodities have given up some gains of late, outside of precious metals where gold has made new record highs. Indeed, weaker Chinese and US macro data have hurt sentiment across industrial metals and crude oil markets. But we expect key sectors to bottom over the coming months. We therefore maintain a positive outlook on the asset class into 2025. Over six to 12 months, we forecast total returns of around 10% for the UBS CMCI. While gold remains a good hedge, we also see opportunities to engage in selling downside in crude oil, silver, sugar, and platinum.

Focus

China: Third plenum concluded amid slowing growth momentum

Xingchen Yu
Strategist

Kathy Li
Economist

Key message

The Chinese Communist Party's (CCP) long-awaited third plenum concluded last week. This took place while China's 2Q economic report underwhelmed market expectations, with relatively weaker consumption growth dragging down headline GDP growth. As expected, based on the communiqué and the full Reform Resolution released over the weekend, greater focus has been put on implementing reform initiatives over a medium-term horizon (by 2029). The repeated mentions of China's "new productive forces" and the lack of concrete steps to boost consumption outlined in the official documents emphasize Beijing's focus on the industrial space, which is also relevant amid an evolving geoeconomic and geopolitical backdrop.

Economic momentum has slowed

China's 2Q24 GDP growth of 4.7% y/y was well below market expectations, with momentum dipping notably from 1Q. Among the key activity data, retail sales growth slowed the most to 2.7% y/y, down from 4.7% y/y in 1Q24. Fixed-asset investment was in line with expectations at 3.9% y/y for January–June and still showed a sharp divergence between real estate investment (low-teens contraction) and manufacturing investment (high-single-digit expansion). One of the few positive surprises was the resilience of net exports, which grew 4.5% y/y from –1.7% y/y in 1Q24. In this context, we think the government's around 5% GDP growth target for 2024 faces some downside risk, as domestic demand remains soft while exports may face headwinds in 2H from geopolitical developments. We expect policy support to continue, including faster government bond issuance, up to 100 basis points of cuts to the reserve requirement ratio, and incremental property easing. The latest 7-day reverse repo and LPR rate cuts indicate PBoC's supportive stance in response to the lingering growth pressure as well as the gradual strategic shift to rate-based monetary policy framework, as highlighted at the June Lujiazui Forum.

A medium- to long-term vision

As expected, the third plenum delivered no major policy surprises related to near-term economic stimulus, which will likely be discussed during the Politburo meeting at the end of this month. Instead, the third plenum further clarified (and doubled down) on the CCP's continued focus on developing "new productive forces" to promote "Chinese-style Modernization." High-tech and advanced manufacturing, the digital economy, production services, modern infrastructure, and supply chains are among Beijing's core areas of focus. This indicates policymakers' intent to continue bolstering its production and manufacturing sectors as well as their leading role globally.

It is also worth noting that at the plenum, leaders vowed to protect the private sector and to encourage privately owned enterprises to participate in key sectors of the economy by lowering entry barriers. Measures mentioned to conduct fiscal reform included increasing central government spending, adjusting the consumption tax split with local governments, and exploring new taxes at the local level to improve their fiscal positions.

Other covered topics from the third plenum include improving the monetary policy transmission to the market and banking system, enhancing the yuan's internationalization development, designing a blueprint for further progress on rural land reform, and expanding the scope of economic liberalization to include the service segment. The further push in strategic areas (as mentioned above) to achieve technological and supply chain self-sufficiency, and the more determined stance to trade with more countries and regions (especially emerging markets) were likely motivated by increasingly contentious US-China relations and the various restrictions from the West.

Our positioning

We think healthy corporate fundamentals, driven by the large internet names, should help lift the offshore Chinese equity market by around 10%. As for positioning within Chinese equities, we continue to favor a balance between growth and value stocks. For growth, we recommend investing in quality internet stocks with a solid growth profile and strong capital management capabilities. For value, investors should maintain exposure to select state-owned enterprises (SOEs) that are active in capital management to buffer against potential volatility from any escalation in US-China tensions. As for the medium to longer term, we highlight three key areas: value proposition driven retail trends, an increasing global presence, and strengthening technology supply chains. Sectors that benefit the most from these drivers include autos, consumer, technology, and gaming, in our view.

While the election outcome is far from certain, the likelihood of a Trump victory has increased, which could pressure the Chinese yuan in the coming months—though the pace of depreciation would likely be managed by the People's Bank of China. In this context, we reiterate our recommendation to hedge CNY exposure. Long USDCNY positions also provide a positive yield carry of around 2.5% p.a.

Economy

Türkiye on the cusp of disinflation

Tilmann Kolb, CFA
Analyst

Emre Tekmen
Analyst

Key message

Turkish economic policies have moved toward orthodoxy since last year's presidential election. The benefits of the shift have already been showing in enlarged FX reserves and increased investor interest in the country. The coming months should further underline progress, as inflation is likely set to moderate rapidly amid positive current account seasonality. We think the Turkish lira is the most attractive currency in the emerging market space to collect carry against this backdrop, and we see the Turkish sovereign's credit profile on an improving path.

After last year's general election, Turkish policymakers started to reverse a range of unorthodox policy measures that had created large imbalances in the Turkish economy. The rather disappointing showing of President Erdogan's AKP in March's municipal election did not lead to a reversal of this path, as feared by some, but rather further crystallized high inflation as a key issue to address to gain the favor of the public.

The good news is that inflation should moderate rapidly in the coming months. The June inflation release was lower than expected, coming in at (a still far-too-high) 71.6% y/y (from 75.5%), and we expect sizeable step-downs in inflation over the coming quarters. Falling inflation would add to the progress Türkiye has made in addressing macroeconomic imbalances: The central bank's FX reserves have grown rapidly over the past months as portfolio flows into Türkiye picked up and locals started to de-dollarize. Net foreign assets have turned positive, a big improvement to the deeply negative balance only a couple of months back. And outstanding FX-protected deposits have more than halved since September 2023 to roughly USD 60bn, with a clear downward trend since autumn last year.

A continued focus on bringing down inflation is still necessary. The Turkish central bank currently holds its policy rate at 50%, and in a recent interview, central bank governor Fatih Karahan underlined once again the institution's focus on achieving a sustainable decline in the inflation trend and inflation expectations. We think this puts the central bank on a rather cautious path toward monetary policy easing, which should keep the Turkish lira's carry elevated and thereby attractive for investors. Paired with Türkiye's current account seasonality—the coming months are historically the strongest months for the external balance — this should allow the lira to outperform the priced forward rates in the months ahead.

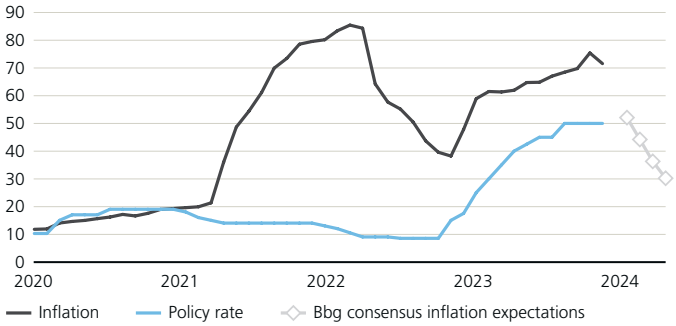
We also have an Improving outlook for the Turkish sovereign given the aforementioned positive dynamics. Rating agencies tend to agree with our view: Türkiye has seen some upgrades already and all three major credit rating agencies hold a positive credit rating outlook. Fiscal policy and administrative choices will play an important role in the disinflation process, in our view, as monetary policy tightness would be ineffective if public expenditures are expansive. The absence of a mid-year adjustment to minimum wages should also support disinflation. Please refer to our weekly published Emerging Market Bond List for guidance on individual Turkish securities.

Risks to our views stem from a faltering commitment to the current policy stance, the central bank failing to respond to potential additional inflationary pressure or starting to ease monetary policy too soon, or fiscal policy remaining too loose. External factors such as the Fed turning more hawkish, rising oil prices, and geopolitical escalation can pose challenges as well.

Figure 1

Passing the inflation hump

Turkish policy rate (in % p.a.), inflation (in % y/y) and Bloomberg consensus inflation expectations

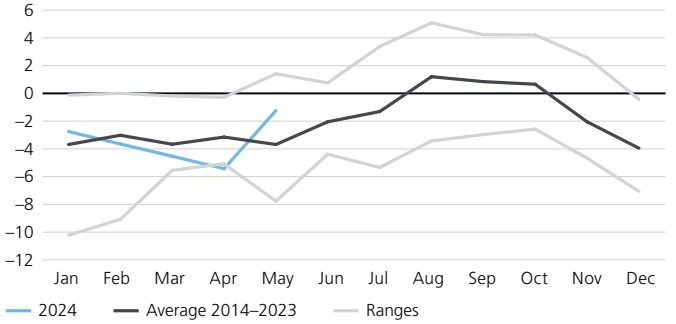


Source: Bloomberg, UBS, as of July 2024

Figure 2

Summer months usually lead to better flows

Monthly current account balance (in USD bn)



Source: Bloomberg, UBS, as of July 2024

Equities

Volatility regime

Xingchen Yu
Strategist

Key message

We rate emerging market stocks as neutral in our global equity strategy. By geography, we rate mainland China and South Korea as most preferred. We are closing our tactical call on EM tech but continue to believe investors should focus on select secular growth companies by shifting their positioning from the broad EM tech index to key names highlighted in our preferred global themes. Additionally, we favor ESG leaders for their ability to mitigate downside risks as well as their attractive valuations. Key risks include a strong US dollar, sharply higher US rates, an uptick in geopolitical tensions, a pronounced US recession, and an underwhelming growth and policy outlook in China.

Our view

We rate emerging market equities as neutral in our global strategy. From a macroeconomic standpoint, although activity in emerging markets remains resilient, the positive momentum has slowed, especially with China's economic data rolling over during 2Q24. Markets are closely watching signs of additional policy support measures addressing various short- and medium-term challenges in the world's second largest economy. At the same time, the disinflationary progress in the US appears to be back on track, giving the Federal Reserve greater confidence to implement its first interest rate cut in the coming months. In addition, strong corporate earnings momentum led by North Asia continued, which should support the performance of emerging markets during 2H24. From here until the year-end, we are penciling in mid-single-digit total returns for the MSCI EM benchmark.

How to position

At a sector level, tech has continued to outperform its EM peers. We upgraded the segment to most preferred in March, although during recent sessions, signs of market rotation have emerged. Earnings prospects from EM tech companies continue to lead with mid- to high-double-digit profit growth expected for the year, while valuation multiples have already moved higher and now trade above their historical norms. From here, we believe investors should take advantage of recent weakness to add their strategic exposure to key secular growth leaders in the sector; in the short term, however, volatility could continue to stay elevated and we advise investors to shift their positioning from the broad EM tech index to individual names highlighted in our preferred themes (see our reports: Asia's Super 8, 9 July 2024 and AI: Sizing and seizing the investment opportunity, 18 July 2024).

From a **geographic** standpoint, we rate China and South Korea as most preferred. South Korea's manufacturing PMI continued to improve in June. In addition, higher global orders should continue to lift the country's export growth, which also supports the currency. Furthermore, earnings growth expectations keep trending upward, with key constituents of the Korean market printing better-than-expected revenue and profit growth as well as guidance. At the same time, valuations remain attractive compared to other tech-focused markets. Key risks to monitor include prolonged labor strikes at the country's largest tech company, global trade tensions, higher US rates, and a stronger US dollar. We also rate China as most preferred. We think valuations as well as positioning have yet to reflect a relatively constructive corporate fundamental outlook. We also believe continued policy tailwinds, especially those related to the "destocking" of the housing inventory, should help stabilize the property sector and in turn eventually lift consumer sentiment. Additional positive policy surprises to boost consumption could help lift market sentiment too. Key risks include US-China trade tensions on the back of US elections, and currency volatility.

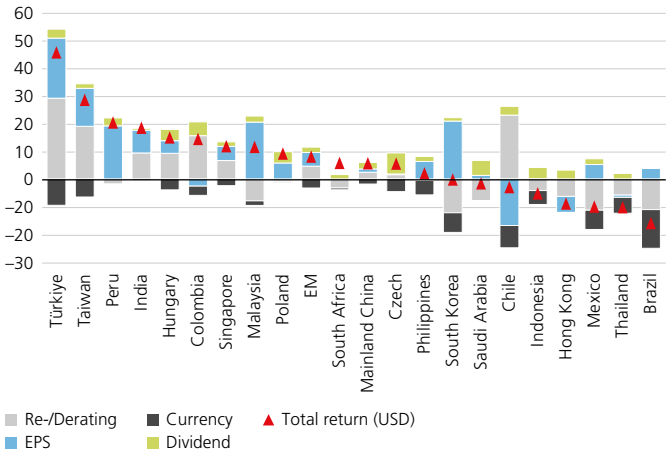
From a **thematic** angle, we like environmental, social, and governance (ESG) leaders in emerging markets. We think these stocks can help mitigate downside risks and believe they are trading at attractive valuations.

For detailed EM equities preferences, please refer to our latest deep-dive report "Volatility regime."

Figure 1

Performance breakdown by markets

Total return for various markets since January 2024, in %



Source: Bloomberg, UBS, as of 23 July 2024

USD bonds strategy

Attractive yields, but spreads are tight already

Tatiana Boroditskaya, Ph.D.
Analyst

Pedro Quintanilla-Dieck, CFA
Analyst

Key message

We expect emerging market (EM) credit investors to collect an appealing interest rate carry given elevated yields and as bond spreads are likely to trend sideways over the next six to 12 months. Some capital appreciation, thanks to lower benchmark yields, should add to total returns. However, tight spreads leave little buffer for setbacks.

EM sovereign and corporate bond spreads remained relatively flat since mid-June. In our view, the resilience of the asset class can be explained by favorable fundamental dynamics reflected in credit rating upgrades, supportive technicals with new issuances well-absorbed by the markets, and diminished recession risks. Range-bound spreads and attractive yields of 8.3% on EM sovereign bonds (JP Morgan EMBIG Div index) and 6.9% on EM corporate bonds (J.P. Morgan CEMBI Div index), should enable investors to collect an appealing interest rate carry. Investors would also benefit from gradual capital appreciation, with the latest inflation and labor market data preparing the ground for the Federal Reserve to start easing monetary policy conditions in September, in our view. That said, we believe EM credit spreads are moderately expensive, which makes the asset class more vulnerable to shocks arising from renewed recession concerns, inflation, and flare-ups in geopolitical tensions.

Strong primary market activity continues, with new issuances well-absorbed by market participants. Saudi Aramco recently raised USD 6bn across three tranche offerings, the company's first issuance since 2021, which was well-received by investors; Emirate of Sharjah raised EUR 500mn; and Türkiye once again tapped the Eurobond markets, raising USD 1.75bn. So far, sovereign issuance has exceeded USD 130bn, with multiple high-yield issuers successfully placing bonds in the market. We expect several other issuers to seize the current environment to place new bonds. All else being equal, we think the ongoing market access for these lower-rated names should bolster credit fundamentals and reduce the risk of spread widening.

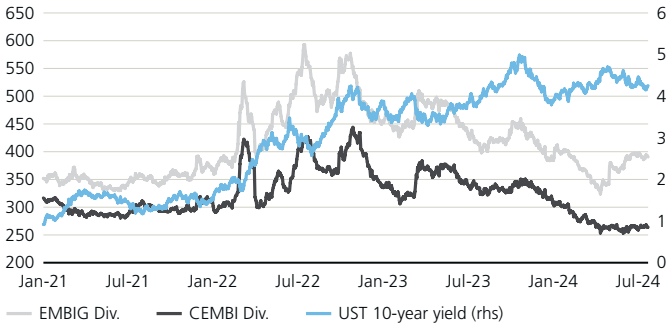
We continue to see bottom-up opportunities in the EM commodity bond space, where robust fundamentals and higher commodity prices in our base-case scenario should provide solid returns, with attractive upside emerging if the economy moves into our "Roaring 20s" upside scenario. For further opportunities across the full EM coverage, please refer to our weekly published Emerging Market Bond List.

That said, we also turned to a more defensive selection lately on bonds from Gulf Cooperation Council issuers, and signaled more caution on Egyptian bonds as the situation at Israel's northern border with Lebanon has deteriorated in recent months and remains unstable. Within our bond selections, Gulf Cooperation Council and Egyptian issuers are among the most exposed to the conflict, given their geographic proximity. We also highlight a period of likely spread volatility for Kenyan bonds after public protests triggered the cancelation of planned tax increases—there is a risk of a delay in International Monetary Fund disbursements due to uncertainties about the fiscal and political backdrop now, in our view. Finally, in Argentina, the Milei administration managed to have Congress approve a range of structural reforms in late June, a key step towards improving the sustainability of government debt. However, reserve accumulation has stalled. Argentina will likely meet external payments next year, though the room for maneuvering is small. We expect Argentine bonds to trade largely sideways in the coming months, with positive catalysts likely having to wait until 4Q.

Figure 1

Spreads have already tightened, benchmark yields expected to come down

EMBIG Div. and CEMBI Div. Spreads (in bps), and US 10-year treasury yield (in % p.a.)



Source: JPM, Bloomberg, UBS, as of July 2024

Figure 2

More selective on Argentine and Egyptian credit after the rally

Spreads of Argentine and Egyptian sovereign credit (in bps)



Source: JPM, Bloomberg, UBS, as of July 2024

Currencies

Twists and turns in monetary policy

Tilmann Kolb, CFA
Analyst

Key message

Emerging market currencies have recovered in total return terms from the May sell-off over the past month. This still leaves them roughly flat for the year. With the developed world on its way to or already having delivered first rate cuts, the monetary policy backdrop in emerging markets is a diverse one. Yield differentials will likely continue to play a role in performance, but the carry backdrop doesn't seem as clear cut as in recent quarters. We prefer the Turkish lira for carry accrual and think the South African rand can strengthen further in the near term, but are wary with regard to the Chinese yuan.

Developed market central banks have started to cut their policy rates in recent months, and the latest US economic data releases provide a good base for the Federal Reserve to start cutting its policy rate in September, in our view. We then expect the Fed to cut every quarter—in general, a positive backdrop for emerging market currencies, assuming that the rate-cutting cycle unfolds during a period of economic slowdown but not a bigger growth slump.

With pressure from global rates diminishing, will this result in broad-based interest rate cuts in the emerging world as well? The monetary policy cycle in emerging markets, excluding the less-inflation-impacted APAC economies, has been leading developed markets not only on the way up for policy rates, but also on the way down. This has led to a diverse outlook for emerging market central banks.

The Brazilian central bank looks most advanced: Between July 2023 and June 2024, it lowered its policy rate by 325 basis points to 10.50%, but last month it shifted to a holding pattern as higher inflation expectations became more worrisome again. The Czech National Bank lowered its policy in a string of 50bps cuts as inflation receded rapidly, but indicated at its last meeting that the next step will likely be of smaller magnitude or even a pause in the cutting cycle, depending on the economic data. The Polish, Israeli and potentially also the Turkish central banks, meanwhile, look set to remain on hold until after the Fed starts cutting its policy rate. Lastly, Mexico's Banxico (which cut once in March and has been on hold since then) and the South African Reserve Bank are likely to deliver some cautious cuts over the coming quarters.

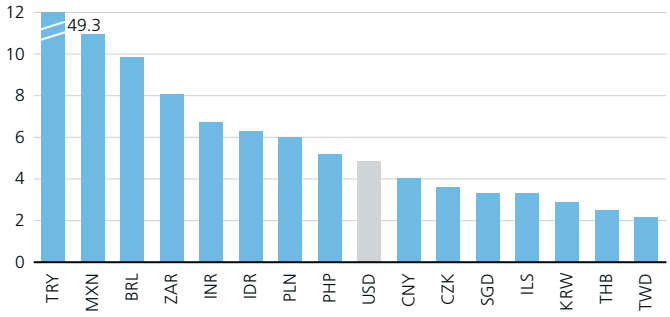
For many currencies, a yield gap will likely persist, and higher nominal rates in emerging market currencies compared to developed market peers will add to total returns. That said, it's not all monetary policy and yields though, as clearly evidenced by the carry unwind in late May and early June. Domestic political and fiscal dynamics matter—rather negative drivers lately for the Brazilian real for example, and positive ones for the South African rand. On the global stage, the US presidential election's impact can range from volatility-inducing to rather negative if global trade faces more obstacles. This is especially so for the Chinese yuan and currencies that are linked to the health of China's economy. Geopolitics continue to present risks, and in the case of the Israeli shekel, dominate the monetary policy angle.

Our preferred picks in the emerging market space are the Turkish lira for accruing carry and the rand given the current positive sentiment toward South Africa. Apart from the domestic economic struggles in China, we think positioning for CNY weakness against safe-haven currencies like the USD or the CHF also allows one to prepare for US election risks.

Figure 1

Many emerging market currencies will likely retain a yield advantage over the US dollar…

12-month implied forward yields (in % p.a.)

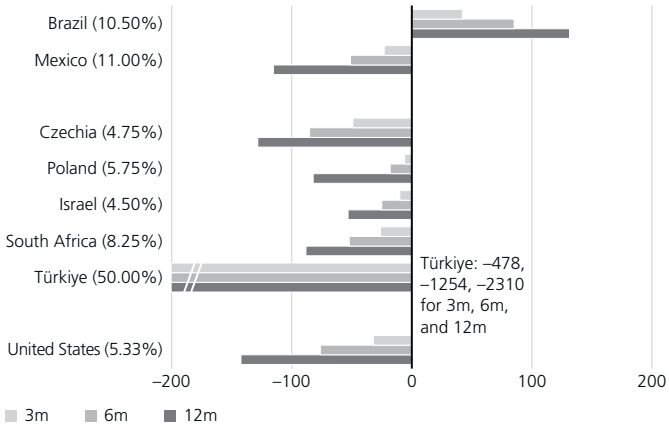


Source: Bloomberg, UBS, as of 20 July 2024

Figure 2

… with markets pricing slower cutting cycles in many EMs

Market implied aggregate policy rate cuts (in basis points); current policy rate in parenthesis



Source: Citi, Bloomberg, UBS, as of 19 July 2024

Emerging market asset snapshot

Asset performance, USD total returns, in % (red=negative return; green=positive return)

	Equity (MSCI)			USD sov debt (EMBI)			USD corp debt (CEMBI)			Loc curr govt debt (GBI–EM)			FX (ELMI+)		
	1m	3m	YTD	1m	3m	YTD	1m	3m	YTD	1m	3m	YTD	1m	3m	YTD
Asia	**–0.4**	**9.6**	**10.9**	**0.3**	**3.5**	**2.6**	**0.8**	**3.5**	**4.7**	**1.5**	**2.5**	**–1.4**	**0.5**	**1.3**	**–1.7**
China	–1.2	5.9	5.7	0.6	2.8	2.1	0.8	3.7	5.0	–	–	–	0.3	1.2	0.2
India	3.3	10.8	18.6	0.5	3.5	1.9	1.2	4.2	5.9	–	–	–	0.4	1.3	3.3
Indonesia	8.5	0.8	–5.2	0.2	3.7	–0.6	0.9	4.3	5.2	2.6	2.1	–3.5	1.9	1.7	–1.8
Korea	1.1	6.6	–0.2	–	–	–	0.7	2.7	2.9	–	–	–	0.3	0.2	–5.5
Malaysia	3.7	7.6	11.6	–0.1	3.9	–0.2	0.5	3.1	2.8	1.3	3.8	0.5	0.9	2.8	–0.3
Philippines	13.7	4.2	2.0	0.4	4.0	–0.4	0.4	2.5	7.0	0.8	–	–5.9	1.3	0.1	–2.1
Taiwan	–1.9	22.2	28.6	–	–	–	0.5	3.1	1.5	–	–	–	–1.2	0.2	–5.8
Thailand	2.6	–0.2	–10.2	–	–	–	0.4	3.5	2.9	1.9	3.0	–3.6	1.4	2.8	–4.6
EMEA	**3.9**	**5.7**	**5.8**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Czech Republic	5.2	12.6	5.5	–	–	–	1.3	3.1	6.0	–	–	–	1.3	3.7	–0.6
Hungary	9.0	13.9	15.0	1.0	4.1	0.6	0.7	3.0	5.6	6.3	7.5	–1.8	4.4	5.4	1.1
Poland	3.1	2.8	9.2	0.5	3.7	0.1	0.7	2.5	5.4	3.9	5.1	1.6	3.5	4.6	3.2
South Africa	–1.1	14.6	5.8	1.3	6.6	2.1	1.0	4.2	4.9	0.2	16.1	8.9	–1.3	6.8	4.7
Turkey	3.2	17.6	45.8	1.3	3.9	4.4	1.0	2.5	5.3	3.7	7.4	–2.2	3.7	10.2	13.6
Latin America	**4.2**	**–5.1**	**–12.1**	**0.8**	**2.9**	**3.7**	**0.9**	**3.5**	**4.6**	**1.5**	**–2.3**	**–6.2**	**1.4**	**–1.8**	**–2.1**
Argentina	–2.5	–2.6	18.9	–4.6	–11.6	26.9	1.7	3.7	9.6	–5.2	–17.4	62.3	0.1	–10.0	7.3
Brazil	3.6	–5.2	–16.0	1.2	3.6	1.0	0.8	3.6	4.7	–1.1	–6.0	–10.9	–1.3	–4.4	–8.5
Chile	–0.2	1.1	–2.9	0.2	4.2	0.5	1.4	4.5	6.3	–0.7	1.7	–7.8	–0.8	2.0	–4.7
Colombia	7.6	5.2	14.5	1.3	3.7	–2.1	0.9	3.4	5.2	5.2	0.1	–1.6	4.5	1.1	2.1
Mexico	6.3	–7.5	–10.0	0.0	4.1	2.2	0.9	3.3	3.8	2.6	–3.5	–5.2	2.6	–1.6	0.5
Peru	2.2	3.1	20.5	0.3	4.2	0.0	0.9	3.3	5.5	3.4	2.6	1.5	2.1	0.1	2.3
Emerging Markets	**0.5**	**7.8**	**8.1**	**0.9**	**3.5**	**3.6**	**0.8**	**3.4**	**4.6**	**1.9**	**2.9**	**–1.7**	**1.2**	**1.8**	**–0.4**

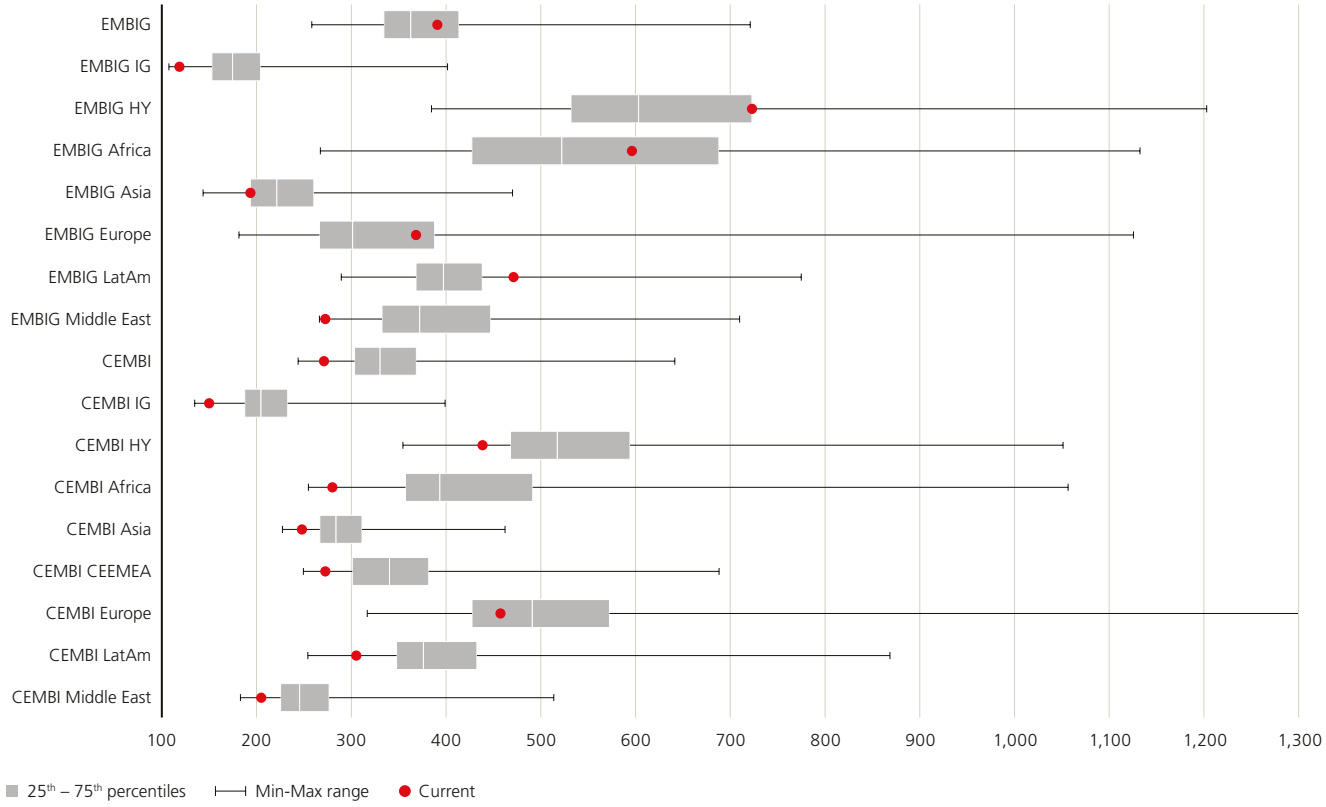
CIO key forecasts (red=depreciation; green=appreciation)

	GDP (%)		Inflation (%)		FX					
	2024	2025	2024	2025	FX	Current	3Q2024	4Q2024	1Q2025	2Q2025
Asia	**5.1**	**5.0**	**1.7**	**2.3**						
China	4.9	4.6	0.4	1.4	USDCNY	7.27	7.30	7.35	7.40	7.45
India	7.0	7.0	4.2	4.5	USDINR	83.72	83.50	83.00	82.70	82.50
Indonesia	4.9	5.0	2.7	2.3	USDIDR	16,215	16,600	16,400	16,200	16,200
Korea	2.3	2.1	2.2	1.9	USDKRW	1,381	1,360	1,340	1,320	1,300
Malaysia	4.9	4.4	2.5	3.1	USDMYR	4.67	4.70	4.65	4.60	4.55
Philippines	5.7	6.1	3.3	2.6	USDPHP	58.44	58.00	57.60	57.30	57.00
Taiwan	3.8	3.1	2.3	1.9	USDTWD	32.85	32.40	31.80	31.40	31.00
Thailand	2.8	3.3	0.8	1.8	USDTHB	36.17	36.50	35.50	35.20	35.00
EMEA	**3.1**	**2.8**	**17.3**	**9.7**						
Czech Republic	1.2	3.0	2.1	2.0	EURCZK	25.41	25.20	25.20	25.20	25.00
Hungary	2.1	3.3	3.5	3.1	USDHUF	362.16	–	–	–	–
Israel	n.a.	n.a.	n.a.	n.a.	USDILS	3.64	3.70	3.70	3.60	3.55
Poland	2.2	3.4	4.2	5.0	EURPLN	4.29	4.30	4.35	4.35	4.35
South Africa	1.4	2.0	4.8	4.1	USDZAR	18.31	18.00	17.80	17.80	17.80
Turkey	4.7	2.6	58.8	28.6						
Latin America	**1.9**	**2.2**	**28.5**	**12.7**						
Argentina	–0.8	1.4	212.1	83.3	USDARS	927.50	–	–	–	–
Brazil	2.2	2.2	4.0	3.0	USDBRL	5.64	5.30	5.30	5.30	5.30
Chile	2.5	2.2	4.1	4.2	USDCLP	949.03	–	–	–	–
Colombia	1.4	2.6	6.7	4.2	USDCOP	4,054	–	–	–	–
Mexico	2.2	1.9	4.5	3.4	USDMXN	18.39	18.70	18.50	18.00	18.00
Peru	2.8	2.6	2.4	2.4	USDPEN	3.77	–	–	–	–
Emerging Markets	**4.4**	**4.4**	**8.2**	**5.1**						

Note: The forecast cycle does not always coincide with the Investing In Emerging Markets cycle and may therefore not reflect latest CIO views.
Source: UBS, Bloomberg, as of 23 July 2024

Emerging market asset snapshot

EM credit spreads, last 10 years, in bps



Key EM equity metrics (red=unfavorable relative to history; green=favorable relative to history)

	MSCI EM weight	P/E, 12m forward* (10Y average)	P/B (10Y average)	Dividend yield (10Y average)	EPS growth, 12m forward*
Asia	**80.0%**	**13.0x (12.6x)**	**1.8x (1.7x)**	**2.5% (2.7%)**	**20.8%**
China	25.1%	9.3x (11.5x)	1.3x (1.6x)	3.0% (2.6%)	12.7%
India	19.4%	23.6x (19.2x)	4.6x (3.5x)	1.3% (1.6%)	12.6%
Indonesia	1.7%	12.6x (14.7x)	2.3x (2.7x)	4.8% (3.2%)	4.9%
Korea	12.1%	9.6x (10.4x)	1.1x (1.0x)	2.2% (2.3%)	50.7%
Malaysia	1.4%	14.1x (15.1x)	1.5x (1.6x)	4.2% (3.7%)	10.4%
Philippines	0.6%	11.7x (16.4x)	1.7x (2.2x)	2.9% (2.0%)	11.2%
Taiwan	19.1%	18.1x (14.3x)	3.0x (2.1x)	2.8% (4.0%)	22.5%
Thailand	1.4%	15.1x (15.5x)	1.6x (2.0x)	3.5% (3.2%)	13.6%
EMEA	**12.5%**	**10.5x (10.1x)**	**1.7x (1.3x)**	**4.6% (4.6%)**	**14.2%**
Czech Republic	0.1%	12.2x (13.1x)	1.6x (1.5x)	6.1% (6.4%)	3.3%
Hungary	0.3%	5.5x (9.0x)	1.1x (1.3x)	5.6% (3.6%)	–3.6%
Poland	1.0%	8.8x (11.0x)	1.2x (1.2x)	5.5% (4.2%)	8.6%
Saudi Arabia	5.2%	16.7x (17.4x)	2.3x (2.2x)	4.1% (3.8%)	0.2&x
South Africa	3.0%	9.5x (12.3x)	1.7x (2.2x)	4.4% (3.9%)	24.7%
Turkey	0.8%	5.4x (6.8x)	1.6x (1.3x)	4.3% (5.4%)	28.7%
Latin America	**7.5%**	**8.4x (11.6x)**	**1.5x (1.7x)**	**6.3% (4.5%)**	**8.7%**
Argentina	0.3%	– –	1.1x (1.6x)	10.8% (2.6%)	–
Brazil	4.4%	7.3x (10.4x)	1.3x (1.7x)	6.8% (5.2%)	5.5%
Chile	0.4%	9.7x (13.7x)	1.2x (1.5x)	6.0% (4.5%)	10.0%
Colombia	0.1%	6.2x (10.6x)	1.0x (1.2x)	15.3% (4.9%)	1.6%
Mexico	2.3%	11.6x (14.9x)	1.9x (2.1x)	5.2% (3.4%)	19.0%
Peru	0.3%	12.1x (12.5x)	2.2x (2.1x)	5.0% (3.3%)	19.2%
Emerging Markets	**100.0%**	**12.1x (12.1x)**	**1.7x (1.6x)**	**3.1% (3.1%)**	**18.4%**

Note: *IBES forecasts.
Source: UBS, Bloomberg, Thomson Reuters, as of 23 July 2024

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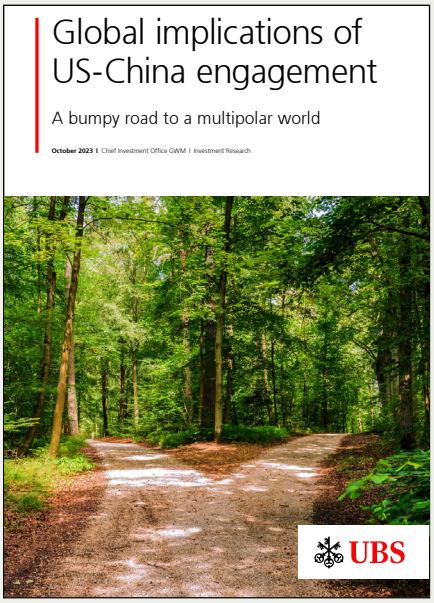

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