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Amundi
ASSET MANAGEMENT

October 2020

Emerging Markets Charts & Views

Market opportunities looking into 2021

Investment Insights | Market Stories



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Resurfacing after the Covid-19 crisis



Yerlan Syzdykov

Global Head of Emerging
Markets

“ *The Covid-19 crisis and its impact on the economy (both oil and commodities dynamics and trade) have been the main drivers of the slowdown in emerging markets. Despite the significant disruption, we see signs of improvement in the virus cycle in most EM economies. China is also engineering a fast rebound thanks to massive fiscal stimulus and, most recently, improvements on the internal demand front.*

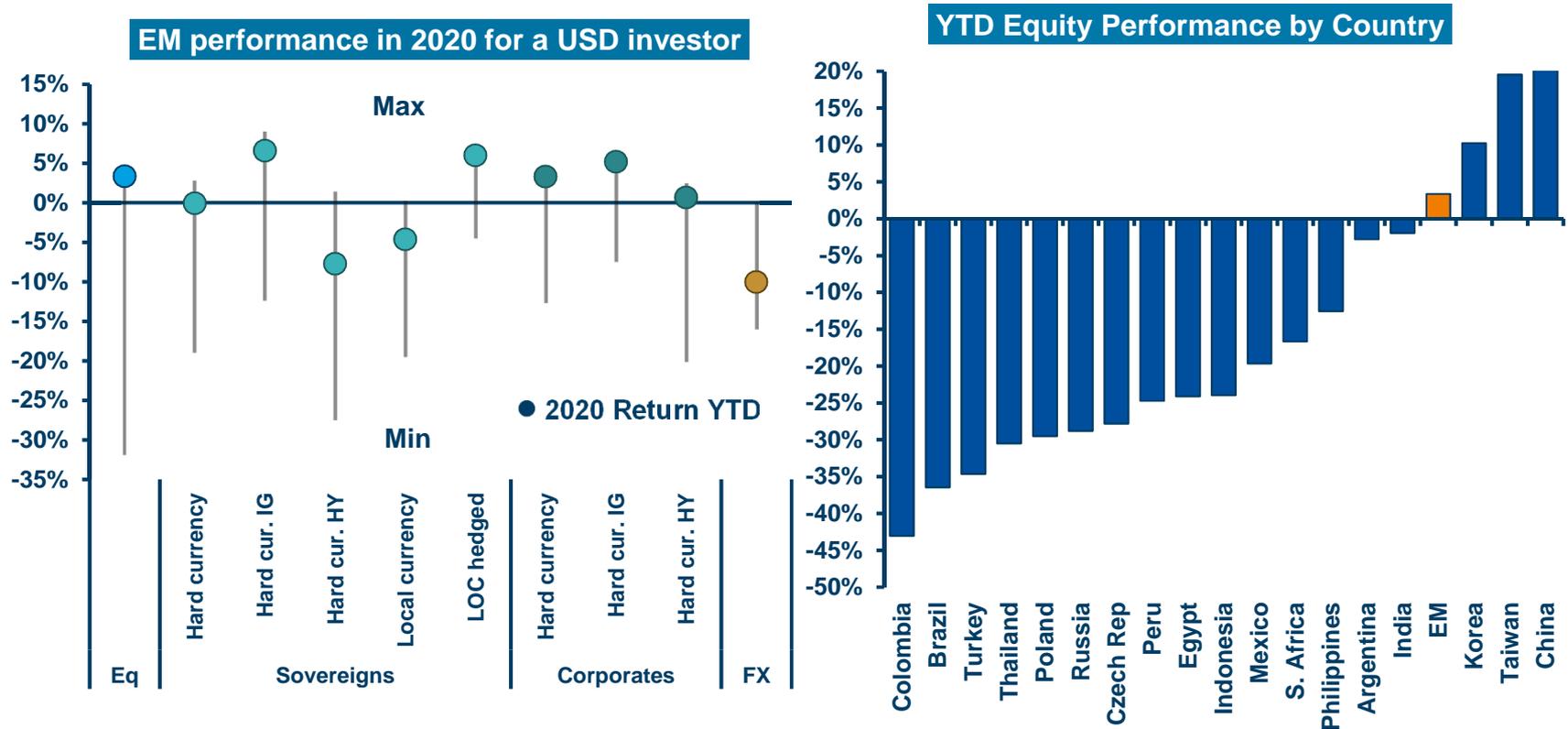
Overall, this paints a picture of cyclical improvement for many EM economies, starting with some Asian and CEMEA countries and most likely moving towards LatAm in the coming months.

Against this backdrop, there are still opportunities investors can grasp in EM bonds as the search for yield remains strong. We see value in the HY space, where spread compression has not completely materialised. The improvements in economic momentum also support selective equity investing and FX exposure.

To grasp these opportunities, however, investors should be highly selective in terms of countries, sectors and names in order to avoid areas of idiosyncratic risk.

”

EM performance: recovery from the dip



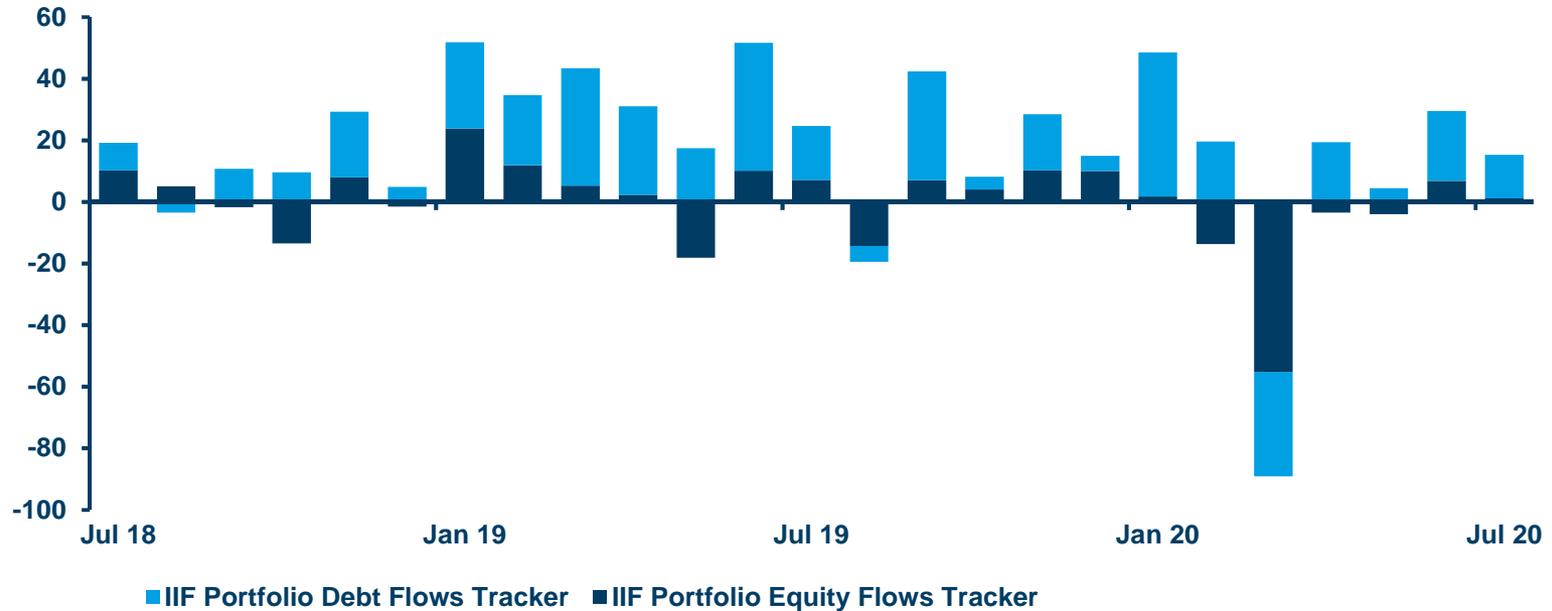
EM markets have recovered over recent months, after tumbling due to coronavirus worries. EM equities, currencies and HY have been hit hardest, while overall the corporate bond markets has proven quite resilient with positive YTD performances. Some Asian countries are resurfacing more fast from the crisis,

Source: Amundi, Bloomberg. Data as of 26 October 2020. Past performance is no guarantee of future results.

Source: Amundi, Bloomberg. Data as of 26 October 2020. Past performance is no guarantee of future results.

Some risk appetite already returning

IIF Tracker: total portfolio flows into emerging markets, \$ bn

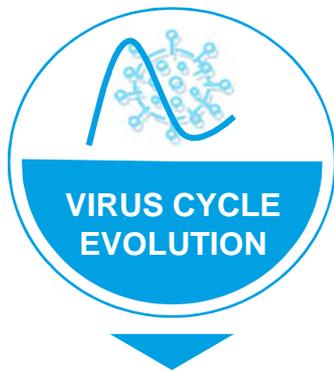


» Cumulative outflows since late January have surpassed the levels observed at the peak of the global financial crisis and in other stress episodes. Portfolio flows to emerging markets have recovered over the past month, supported by debt flows and China equity flows.

Source: National sources, Bloomberg, IIF. As of 31 August 2020.

Macro themes for 2021

Main drivers shaping the landscape for EM



The virus cycle is linked to the economic and financial cycles. EM are now in a virus containment phase and in many regions (southern hemisphere) moving towards a more favourable season. But the risks of a second wave are surging.



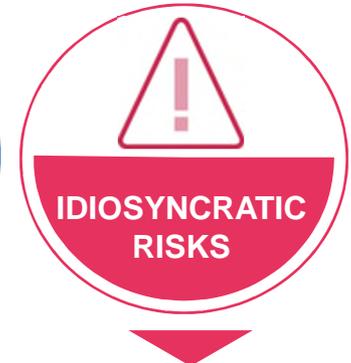
Global growth and global trade have been heavily impacted by the virus. Areas where internal demand is resilient, regional trade has been reinforced and the virus is largely under control are set to rebound first.



China's economy has been hit hard and the Chinese government's stimulus will play a key role in managing the nascent recovery. Recent data show that internal demand is also bouncing back, bringing further support to the recovery.



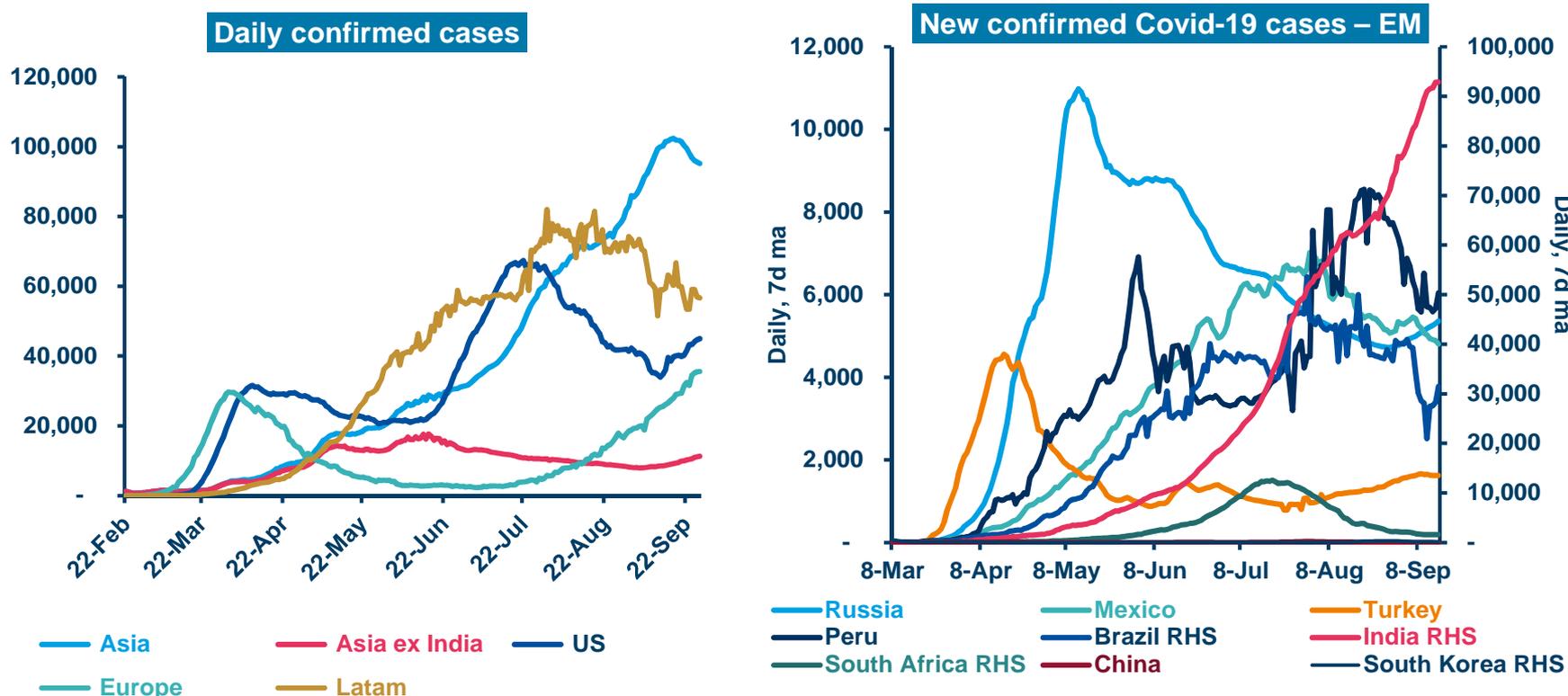
EM authorities have shifted to more aggressive easing, exacerbating vulnerabilities in some countries. More action is expected and should come on the fiscal side. The IMF and the World Bank have stepped in to support low-income countries.



In a global slowdown phase, some EM countries face higher risks due to pre-existing vulnerabilities. Understanding the strengths and weaknesses of each EM country is key in this phase.

Source: Amundi. As of 23 September 2020.

Covid-19 outbreak under control in most EM

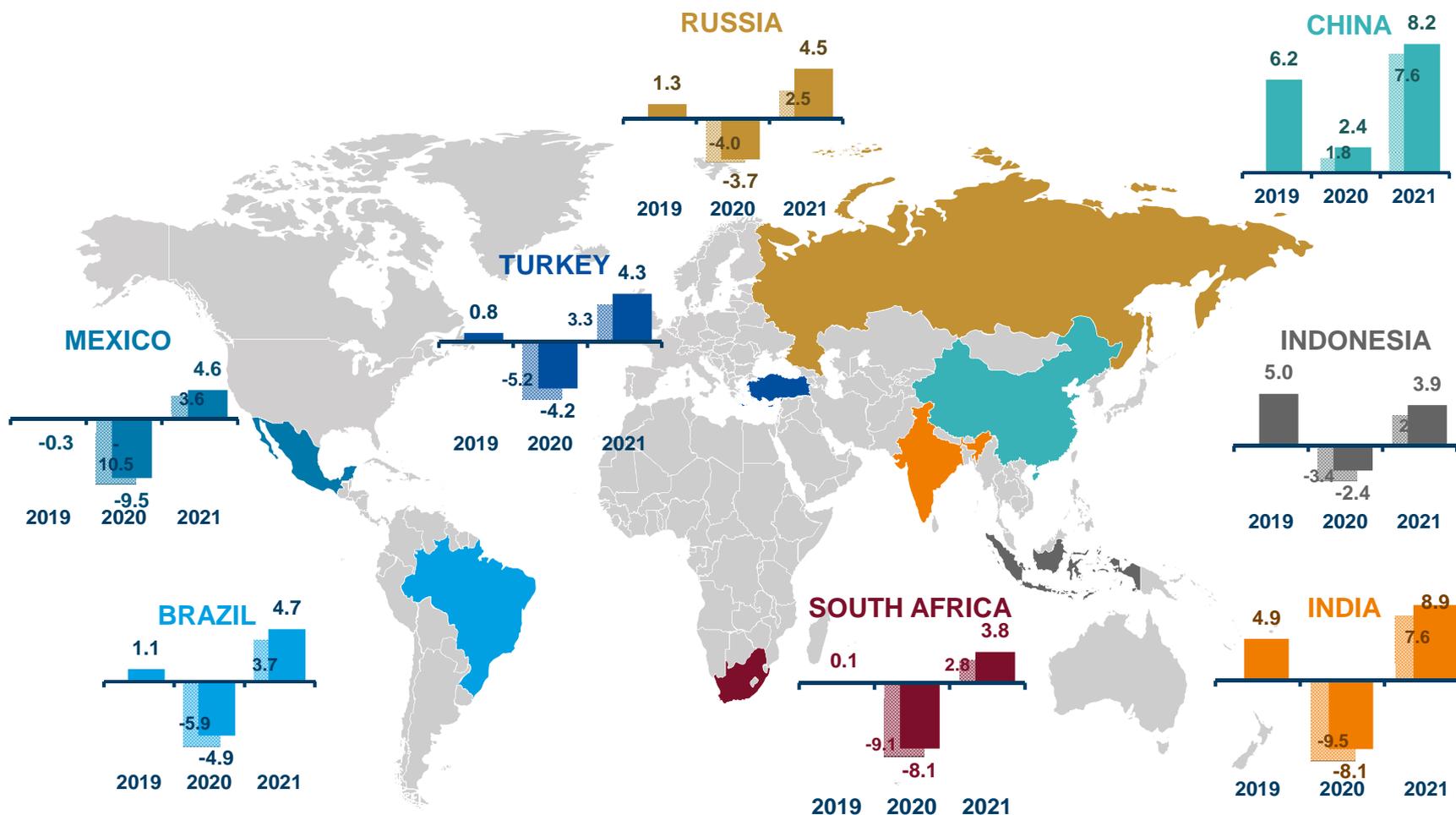


» Recent data show that the virus outbreak is starting to become under control in most EM countries with few exceptions, while a second wave is building up in Europe. With EM regions in the southern hemisphere moving into the summer season, we believe that the peak of the virus cycle could be behind us for many EM. China, for its part, has shown it has the ability to quickly contain outbreaks.

Source: Amundi elaborations on Worldometers data, approximation using main countries by continent. As of 27 September 2020.

Source: Amundi elaborations on Worldometers data as of 27 September 2020.

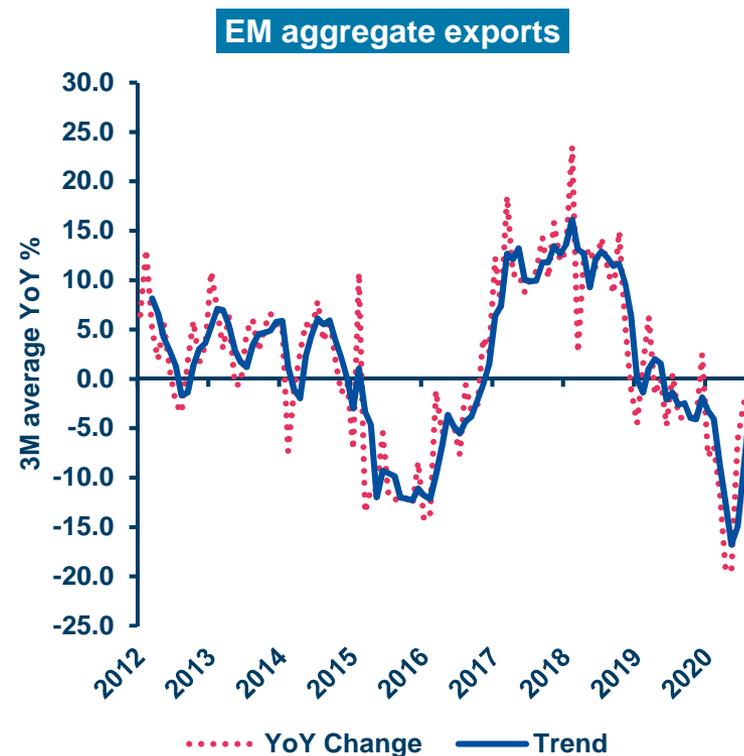
Varied growth across EM, only China seen positive in 2020



Source: Amundi Research. Latest forecasts are as of 21 September 2020. Bars represent real GDP growth (YoY%) forecasts.

Virus outbreak has disrupted manufacturing activity

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Emerging Asia Majors						
China	49.4	50.7	51.2	52.8	53.1	53.0
South Korea	41.6	41.3	43.4	46.9	48.5	49.8
Taiwan	42.2	41.9	46.2	50.6	52.2	55.2
Emerging South East Asia						
ASEAN	30.7	35.5	43.7	46.5	49.0	48.3
Vietnam	32.7	42.7	51.1	47.6	45.7	52.2
Thailand	36.8	41.6	43.5	45.9	49.7	49.9
Malaysia	31.3	45.6	51.0	50.0	49.3	49.0
Indonesia	27.5	28.6	39.1	46.9	50.8	47.2
Philippines	31.6	40.1	49.7	48.4	47.3	50.1
Myanmar	29.0	38.9	48.7	51.7	53.2	35.9
Emerging Americas						
Mexico	35.0	38.3	38.6	40.4	41.3	42.1
Brazil	36.0	38.3	51.6	58.2	64.7	64.9
Colombia	27.6	37.2	54.7	54.2	51.2	50.4
Emerging EME						
India	27.4	30.8	47.2	46.0	52.0	56.8
Turkey	33.4	40.9	53.9	56.9	54.3	52.8
Russia	31.3	36.2	49.4	48.4	51.1	48.9
Czech Republic	35.1	39.6	44.9	47.0	49.1	50.7
Poland	31.9	40.6	47.2	52.8	50.6	50.8

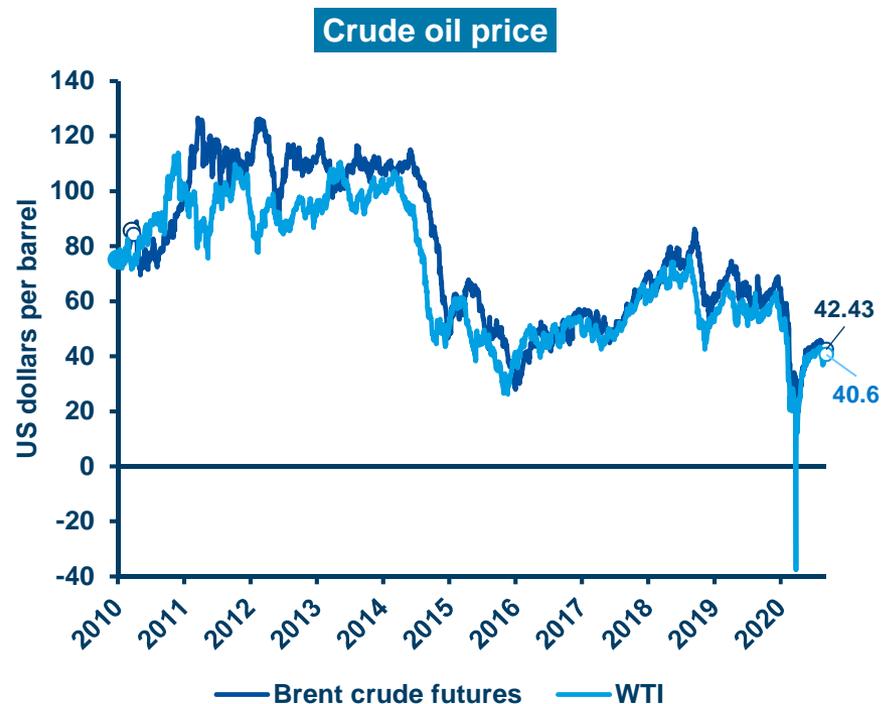
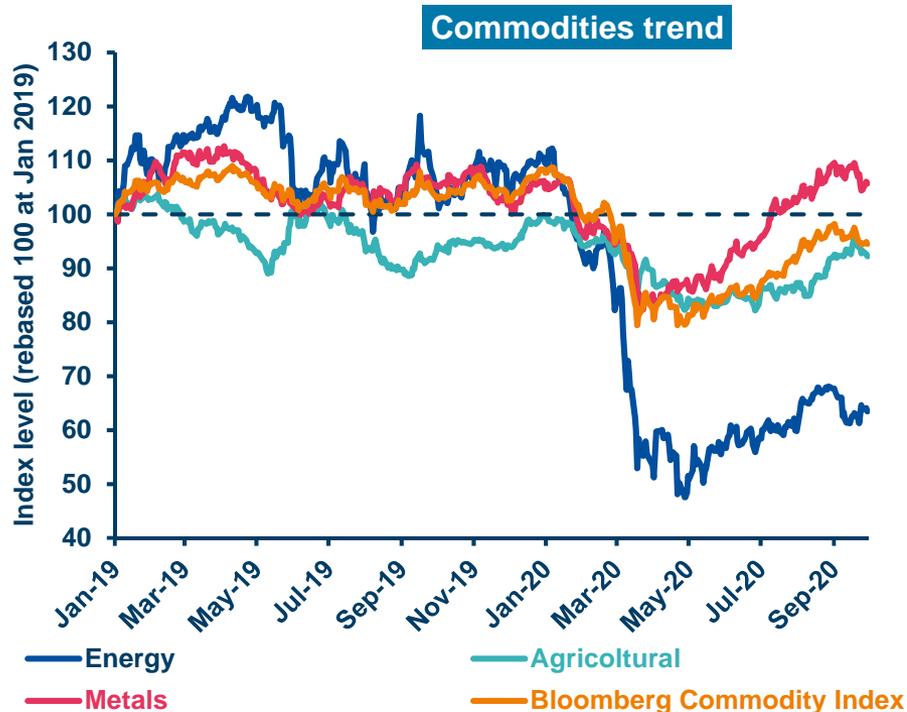


» A reading of manufacturing activity shows that economies in EM countries have taken a hit from the measures taken to contain the coronavirus. The economic activity lockdowns have significantly hurt the manufacturing sector, industrial production and retail sales. However, a rebound is under way, though of varying degrees across the different countries.

Source: Amundi, Bloomberg, Markit. Data as of 8 October 2020.

Source: Amundi, CPB World Trade Monitor. Data as of 8 October 2020.

Room for recovery for commodities

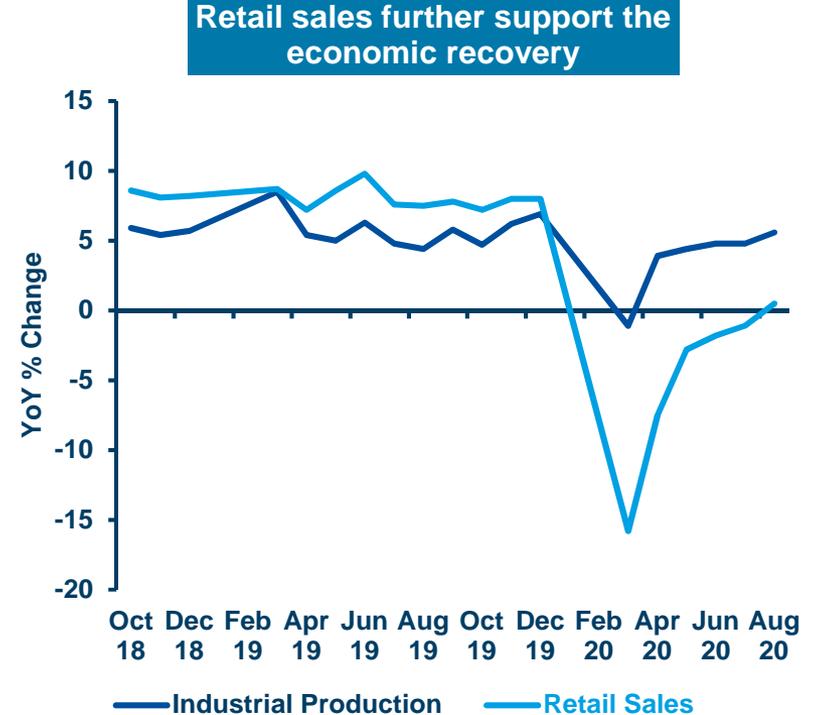
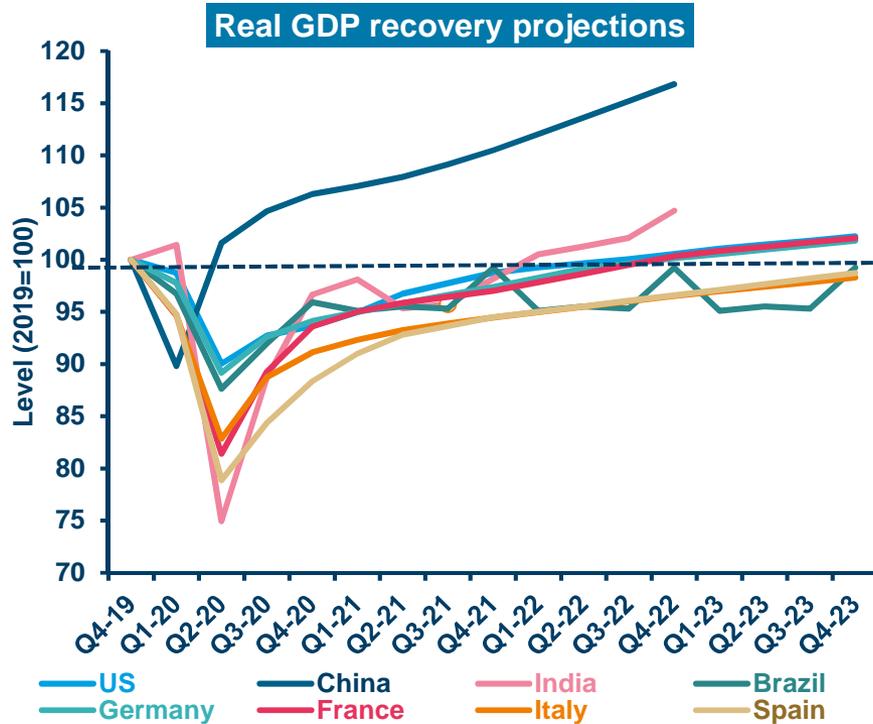


» Commodities remain quite cheap and may well benefit more than other sectors from an economic recovery, which will further support EM as they are more exposed to commodities. Global oil demand is also showing signs of a recovery after the record drop in 1H20, but it will take some time to return to 2019 levels.

Source: Amundi, Bloomberg. Data as of 28 September 2020.

Source: Amundi, Bloomberg. Data as of 28 September 2020.

China leading on global growth front

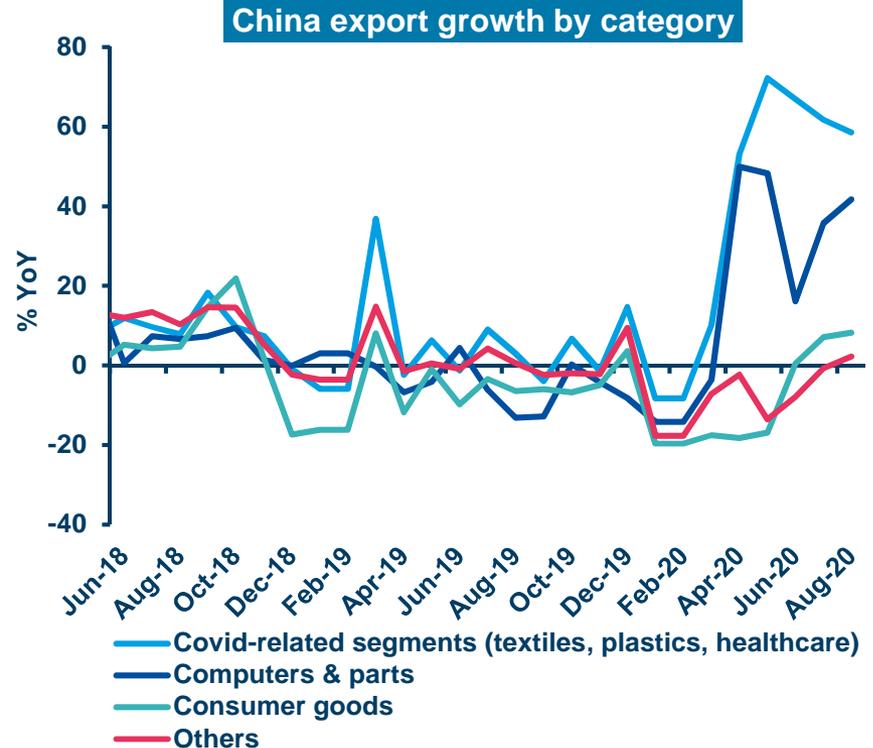
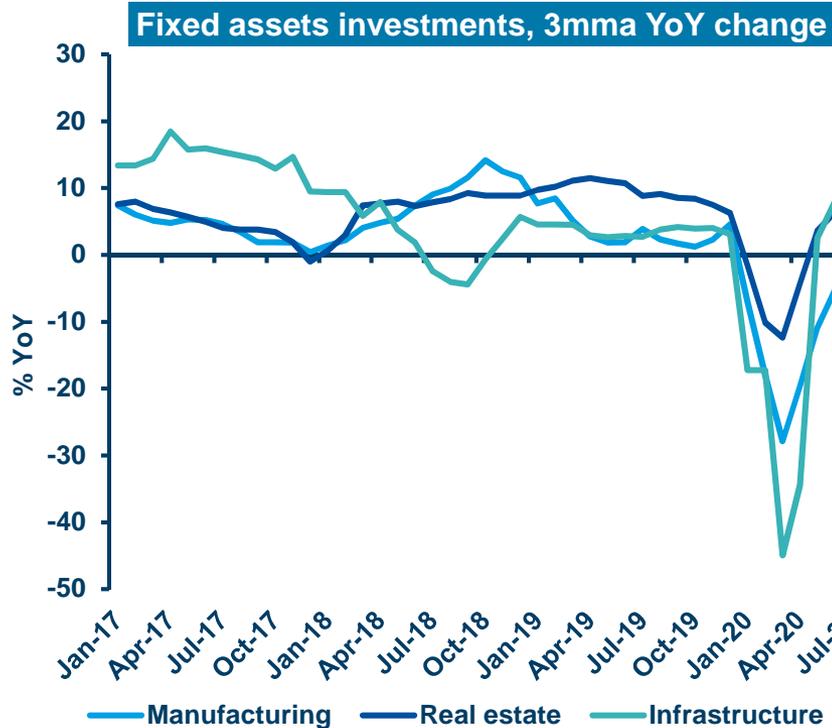


» In China in August retail sales and industrial production data surprised to the upside. As the first country to be hit by the pandemic, China has learnt how to control the outbreak and is now recovering quickly. It is set to be the only G20 country with positive GDP growth in 2020.

Source: Amundi Research forecast, Bloomberg. Data as of 18 September 2020.

Source: Amundi Research, Bloomberg. Data as of 18 September 2020.

China is driving the global post-Covid recovery

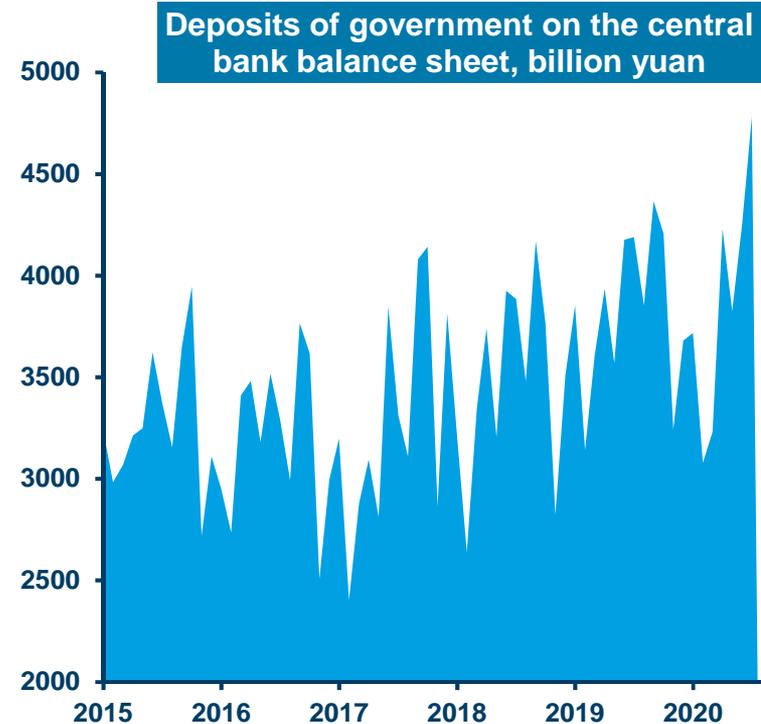
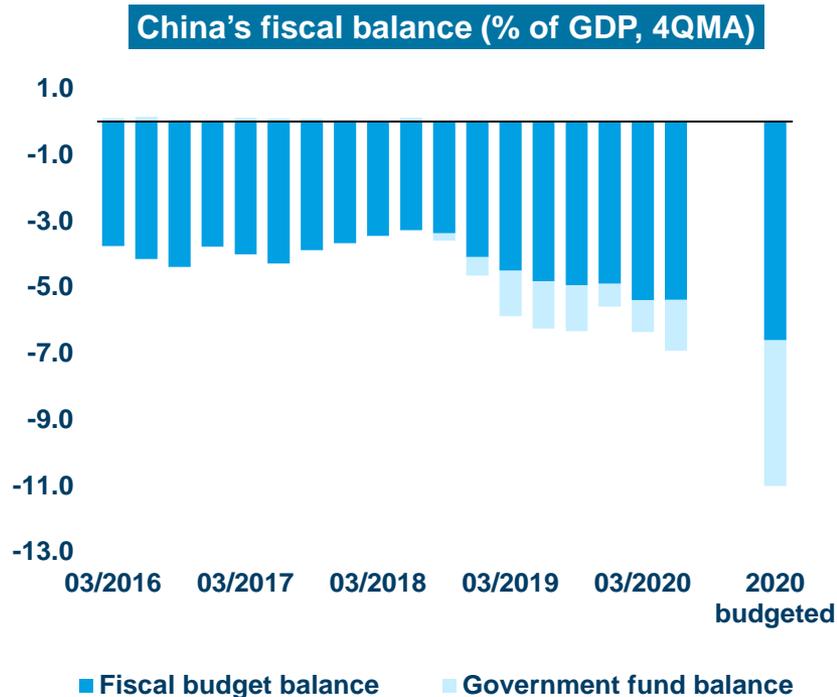


» In August the fixed asset investments acceleration was driven by manufacturing and property investments, while exports of non-Covid goods picked up, signalling improving global demand.

Source: Amundi, Bloomberg. Data as of 18 September 2020.

Source: GAC, CEIC, Amundi Research. Data as of 18 September 2020.

China's fiscal stimulus set to continue



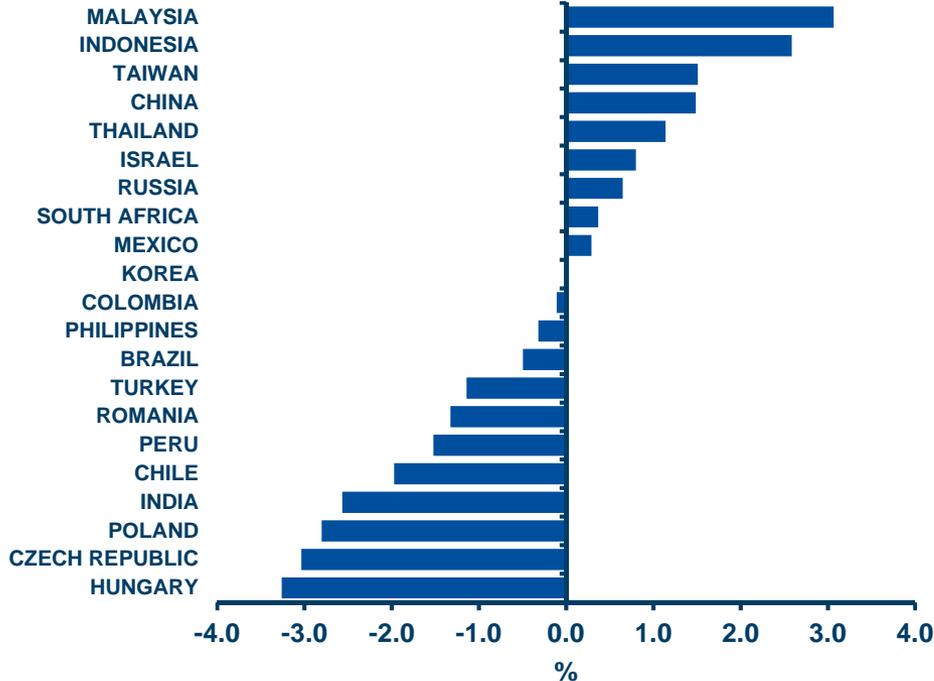
» China's fiscal stance will remain accommodative, but new stimulus is unlikely. The realised fiscal deficit in 2020 is likely to be smaller than budgeted thanks to strong land sales, which drove up fiscal revenues in the Government Fund. If the situation worsens, the government has a record amount of deposits to deploy to support the economy.

Source: Amundi Research, CEIC. As of September 2020.

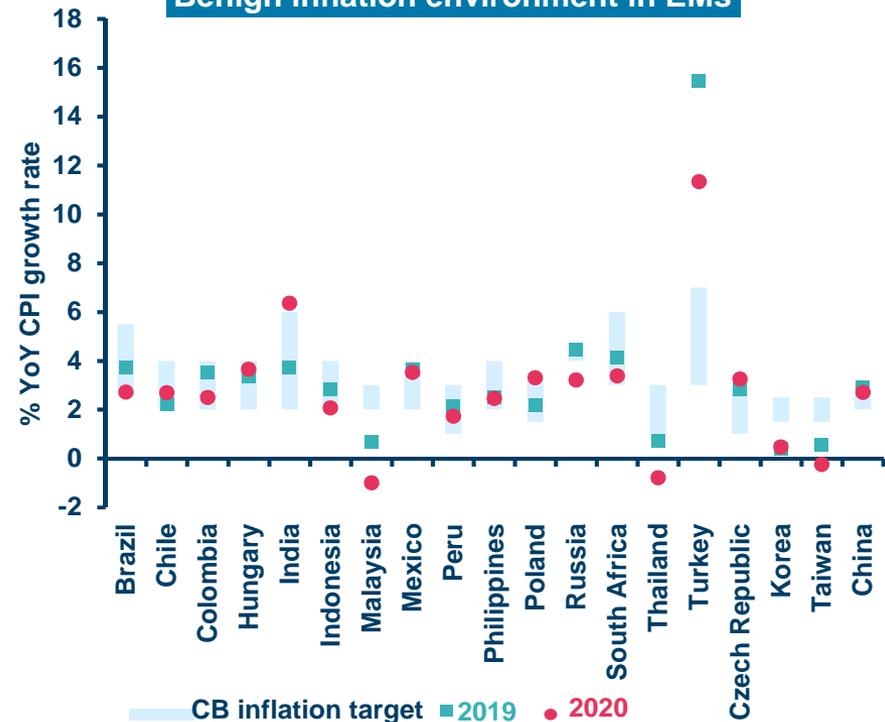
Source: Amundi, Bloomberg. Data as of end of August 2020.

EM still dovish, with inflation under control

EM real policy rates



Benign inflation environment in EMs

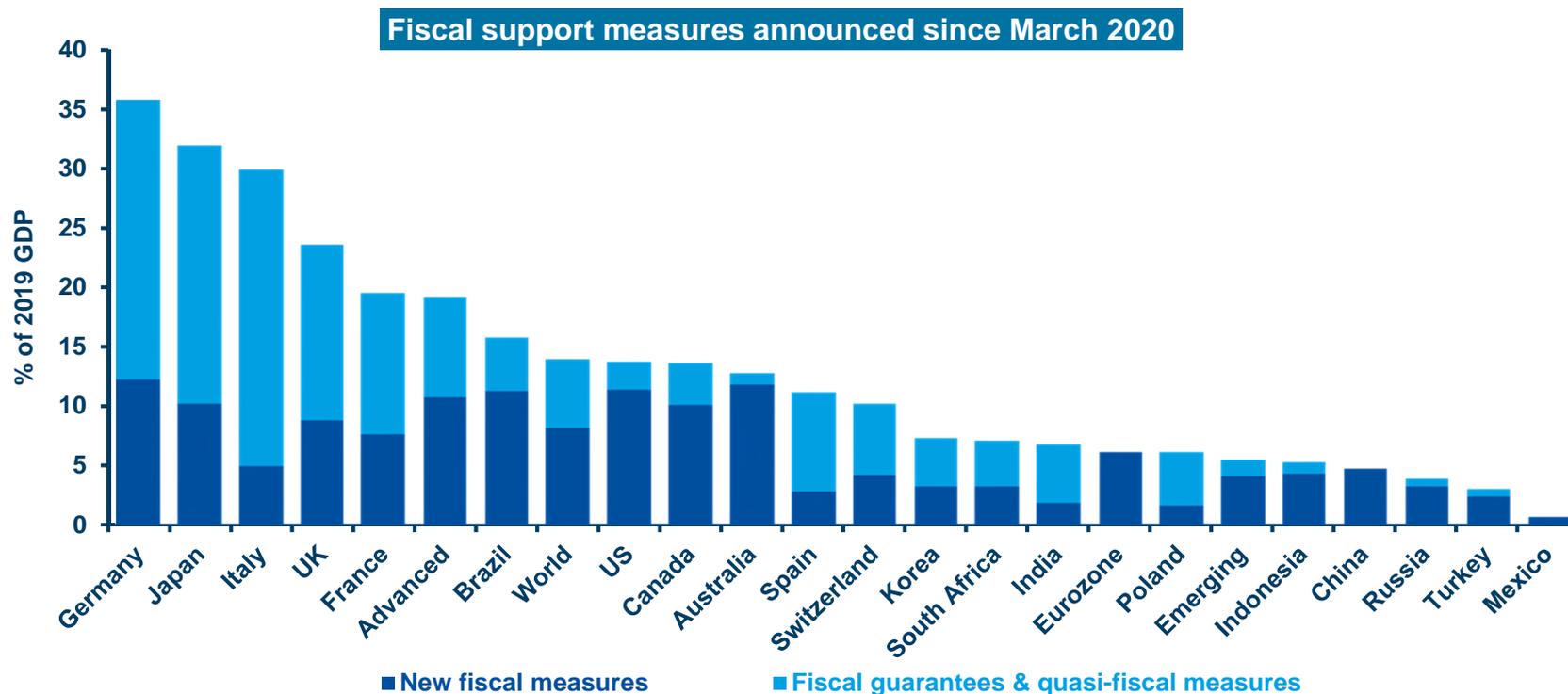


» In EM inflation should stay benign, with headline inflation generally within CBs' targets. However, this should be monitored given the huge policy accommodation put in place by CBs. Different EM countries also have different amounts of room for manoeuvre on the monetary side and this must be carefully assessed.

Source: Bloomberg, Amundi Research. Data as of 30 September 2020.

Source: Bloomberg, Amundi Research. Data as of 30 September 2020. Average 2020 inflation level.

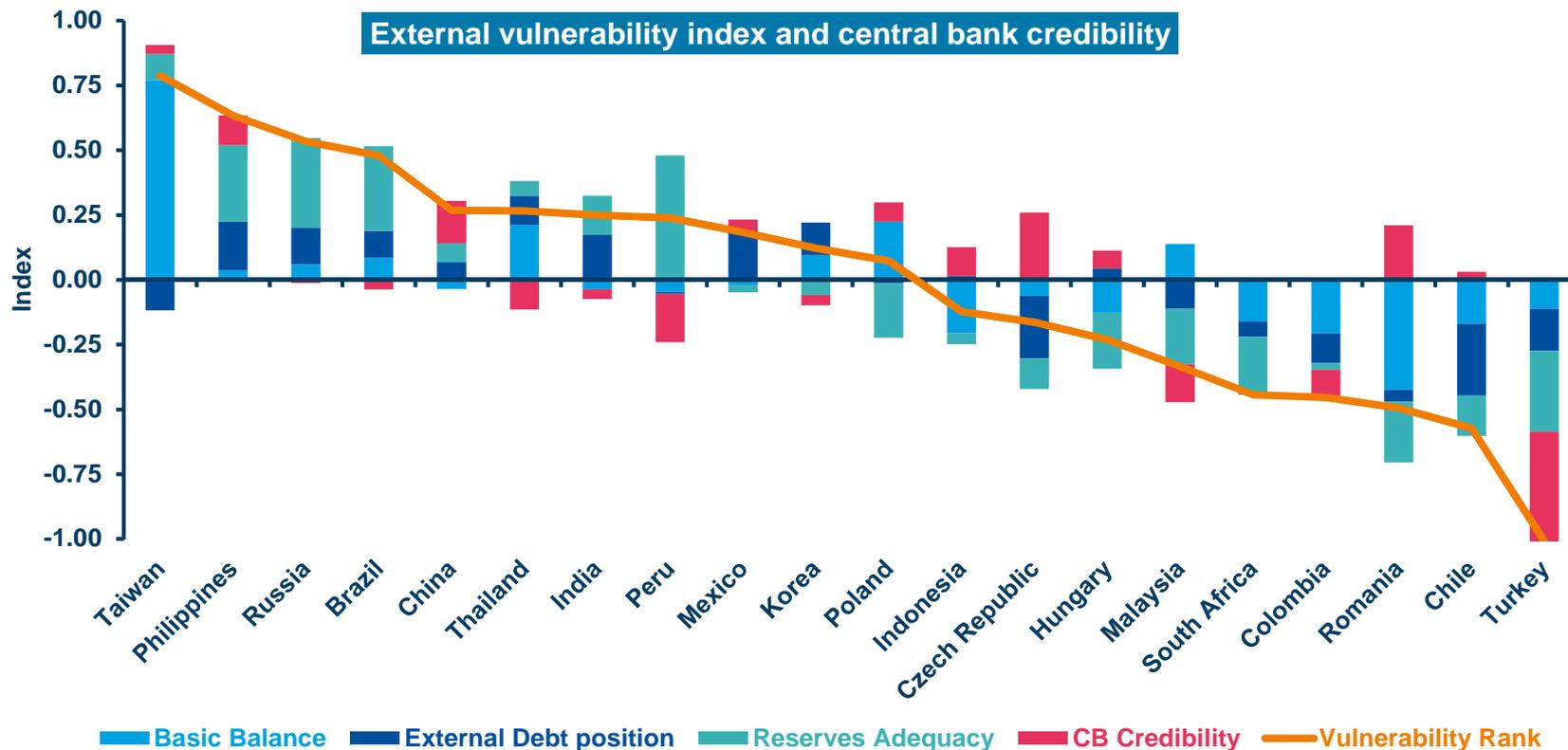
Fiscal measures to contain the damage from Covid-19



» Emerging market governments have responded to the crisis with fiscal measures designed to keep their economies afloat. We expect the continued recourse to monetary and fiscal support will help economies stabilise.

Source: Amundi. IMF Fiscal Monitor – April 2020. As of 8 April 2020.

Not all EM countries have the same risk profile



» Assessing each country's vulnerability level and virus evolution is crucial to identifying any idiosyncratic risks.

Source Amundi Research's external vulnerability rank. Source: Amundi Research, CEIC, IMF, WTO. As of 6 October 2020.

Investment ideas in emerging markets

Investment ideas in emerging markets



Search for yield in EM bonds

In a world of zero rates for longer, EM still offers a valuable opportunity for yield hunting



Gain exposure to attractive HY

EM sovereign HY is, in our view, the area with the potential to overperform in the coming months



Go green with EM green bonds

The green theme in EM will be further reinforced by the crisis, offering additional opportunities for investors



Play the recovery with equity

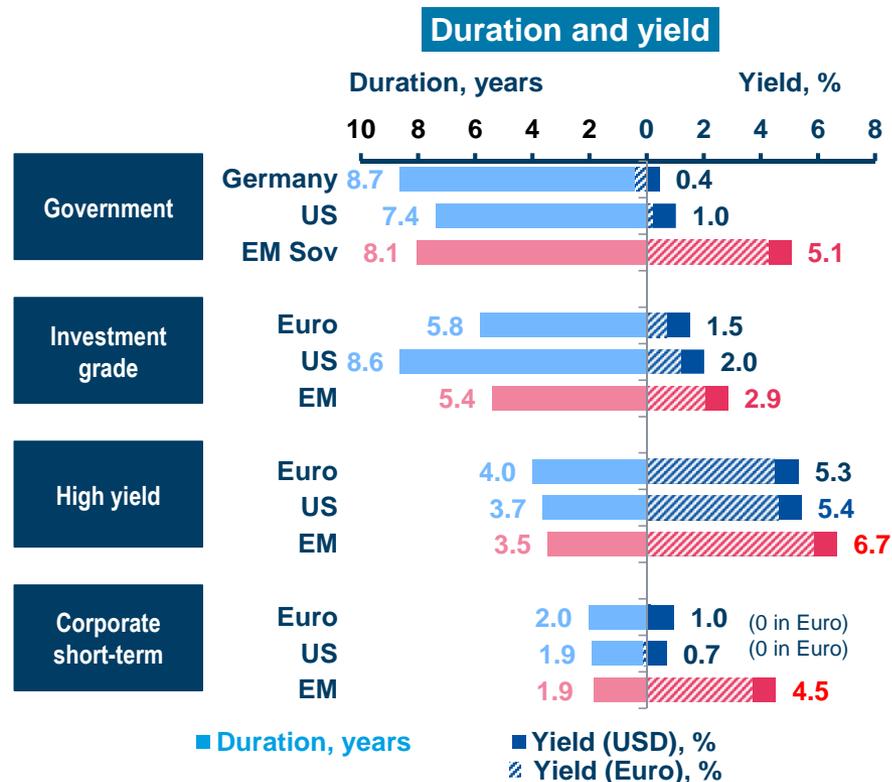
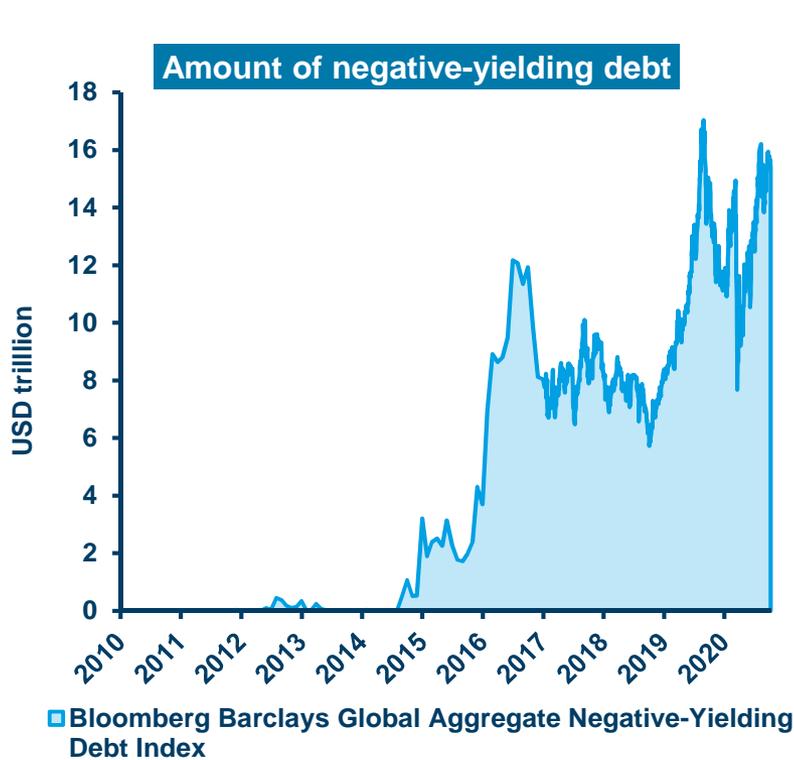
With the recovery on track in China, Asia is emerging as an area of opportunity in the equity space. It could be joined later by LatAm as the recovery advances further



Seek selective opportunities in EM currencies

The relative weakness of the US dollar is driving some selective repricing in EM currencies

Search for yield in EM bonds, but be selective

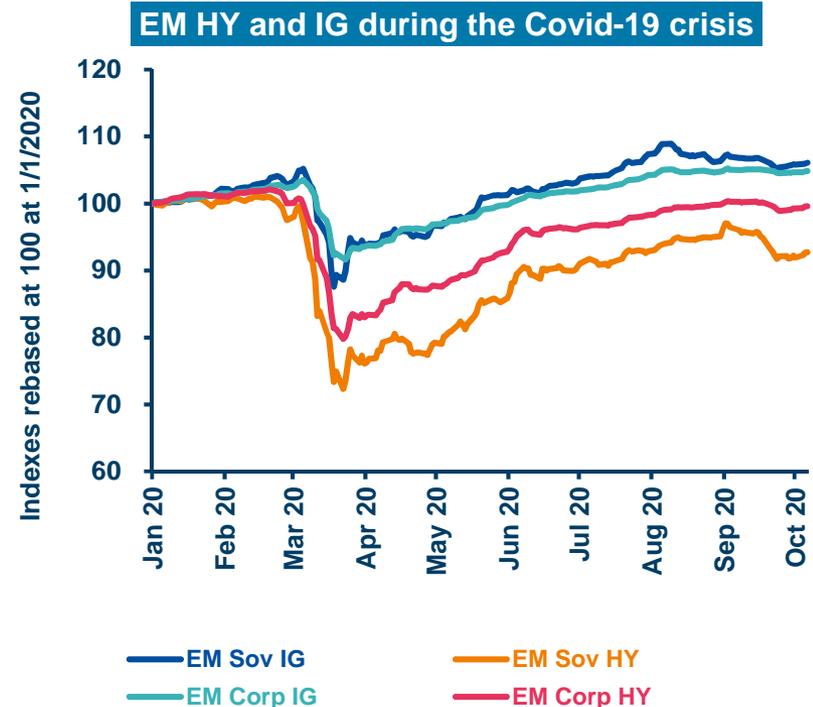
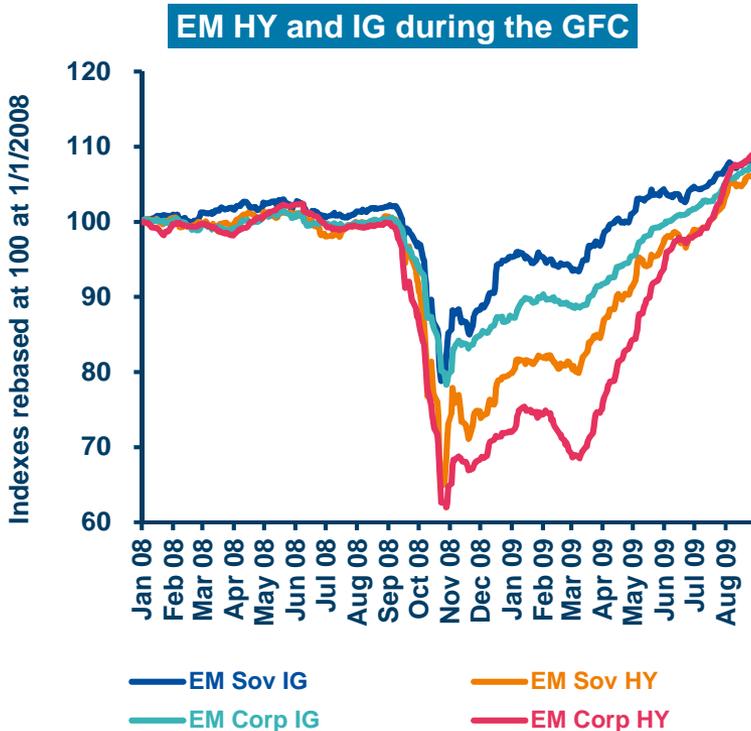


» With record negative-yielding bonds, investors could benefit from the higher yield levels of EM bonds. The dovish stance from central banks is favouring long duration bonds. However, greater selectivity is needed as the risks to global growth have increased and market liquidity may be challenged if there is any worsening of the global environment.

Source: Amundi analysis on Bloomberg data. As of 7 October 2020.

Source: Amundi analysis on Bloomberg data. As of 7 October 2020.

Look for opportunities in EM HY



» While the EM IG index has already recovered to its pre-crisis level and now looks fairly priced, we see space for a further recovery in HY spreads, where we also anticipate supportive technical factors due to lower issuance from HY countries compared with IG ones. As in the global financial crisis, we believe that HY has room to play catch-up in the recovery phase.

Source: Amundi analysis on Bloomberg data. As of 7 October 2020. Data refers to JPMorgan EMBI Global Diversified IG and HY Indices and JPMorgan CEMBI IG and HY.

Play EM green bonds

Determinants of potential for green bond market growth

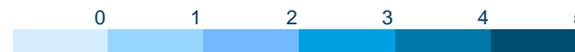
	SBN Score	Green Bond Momentum	
	Overall	Green Bond Issuance/ Total Bond Issuance	Sovereign Green Issuance: Total & Planned
China	5	4	5
Indonesia	5	4	5
Malaysia	4	4	5
Philippines	4	4	5
Thailand	4	4	5
Vietnam	4	4	5
Czech Republic	4	4	5
Estonia	4	4	5
Lithuania	4	4	5
Poland	4	4	5
Turkey	4	4	5
Ukraine	4	4	5
Argentina	3	4	5
Brazil	3	4	5
Chile	3	4	5
Colombia	3	4	5
Mexico	3	4	5
Paraguay	3	4	5
Peru	3	4	5
Uruguay	3	4	5
Egypt	3	4	5
Iraq	3	4	5
Morocco	3	4	5
UAE	3	4	5
India	3	4	5
Pakistan	3	4	5
Kenya	3	4	5
Nigeria	3	4	5
South Africa	3	4	5

The SBN score is based on the Sustainable Banking Network (SBN) measurement framework, which assesses national sustainable finance policies. Countries which are not SBN members are indicated in the lightest shade of blue.

Green bond issuance/total bond issuance is the percentage of green bond issuance out of total bond issuance from 2016-2019.

Sovereign green bond issuance is based on whether the sovereign has already issued green bonds or whether it has announced plans to do so.

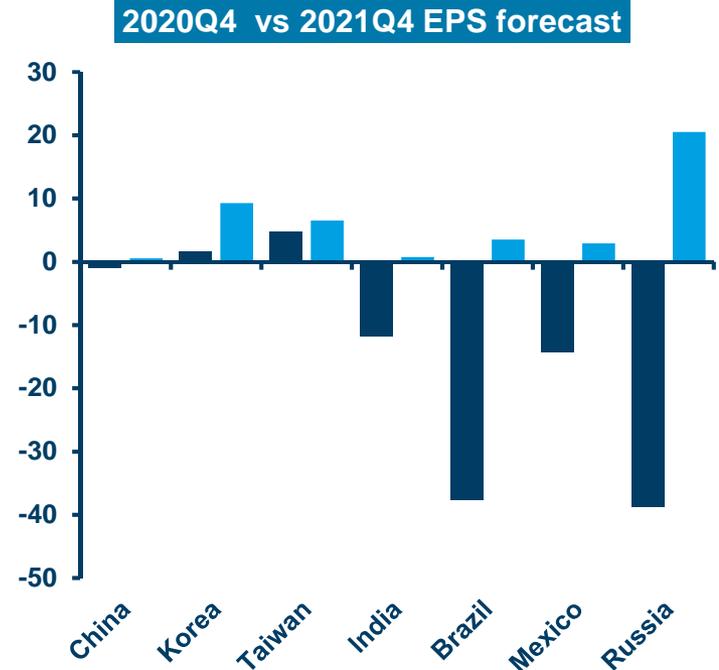
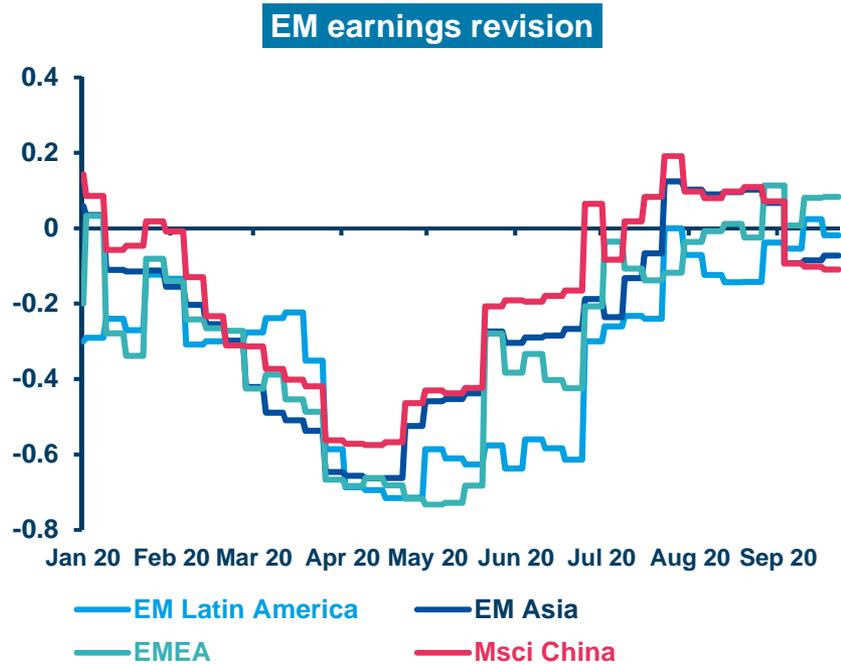
Countries are scored from 0 to 5 on each of the components, with 5 being the highest on a relative basis, according to available data.



» Green bond issuance in emerging markets has grown thanks to an increasing recognition among issuers and investors of the benefits they can provide. Market participants expect a greater and more diverse range of issuers to come to market as understanding grows that green bonds can help meet funding needs.

Source: IFC Global Macro & Market Research. From [Amundi EMERGING MARKET GREEN BONDS - REPORT 2019](#).

Play the EM recovery with equities ...

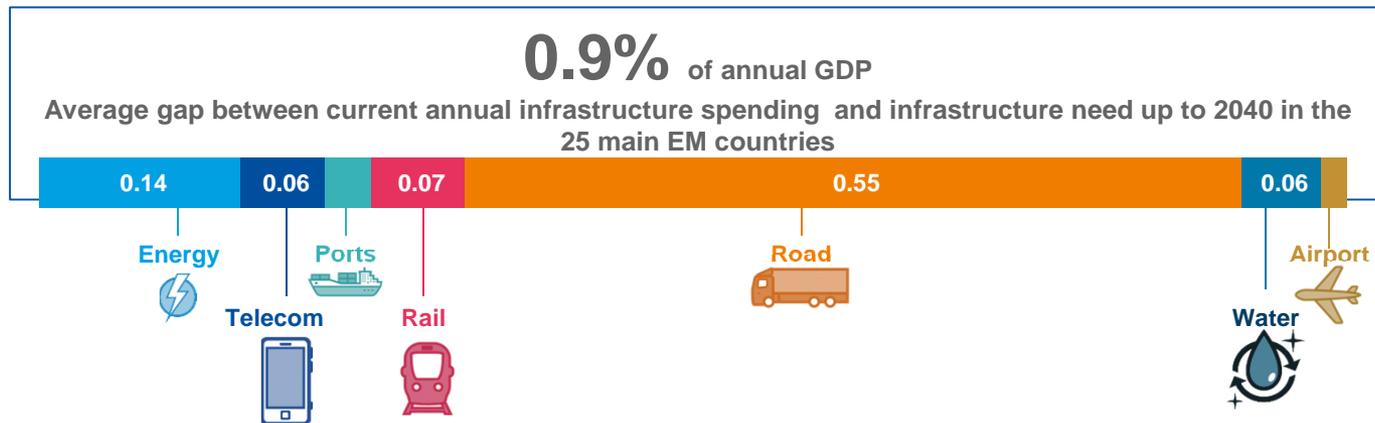
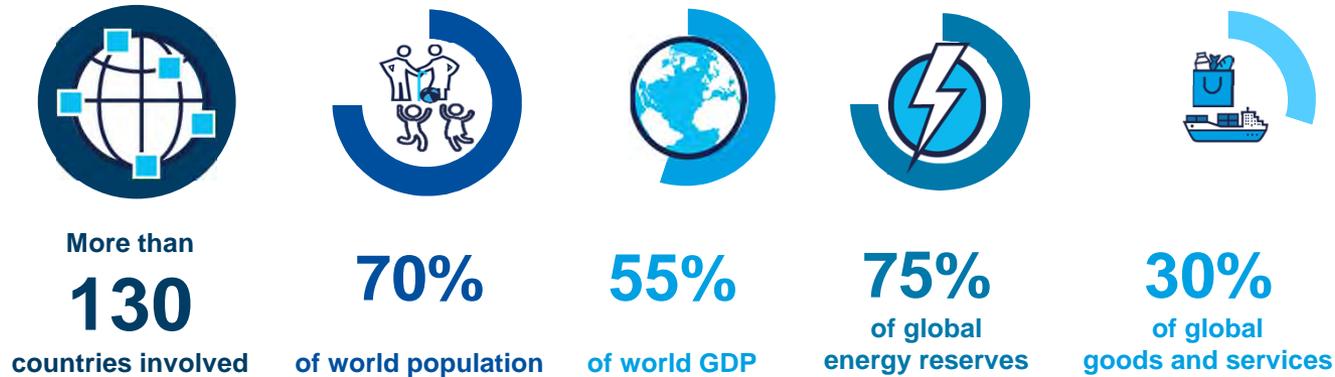


» Asia has been driving the recovery over the summer, with positive earnings revisions and improving EPS forecasts for year end. With the recovery continuing, we also see signs of improvement in LatAm and Russia, which could be the next areas to benefit from this cyclical bounce.

Source: IBES, Amundi Research. Data as of 22 September 2020. Chart shows the (number of upward revisions – number of downward revisions) / number of total revisions

Source: Amundi Research, Factset. Data as of 22 September 2020.

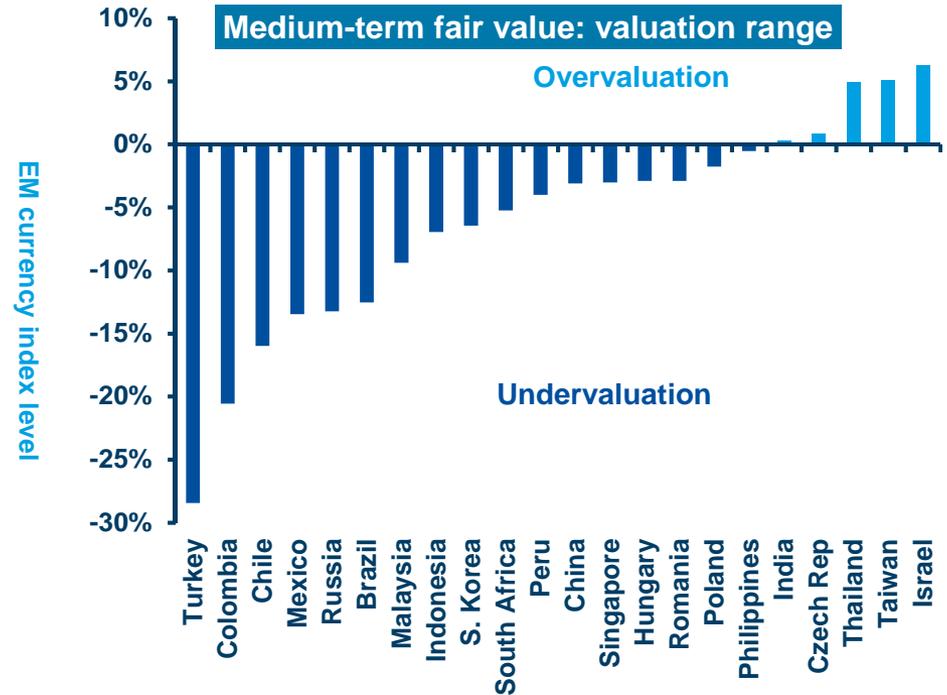
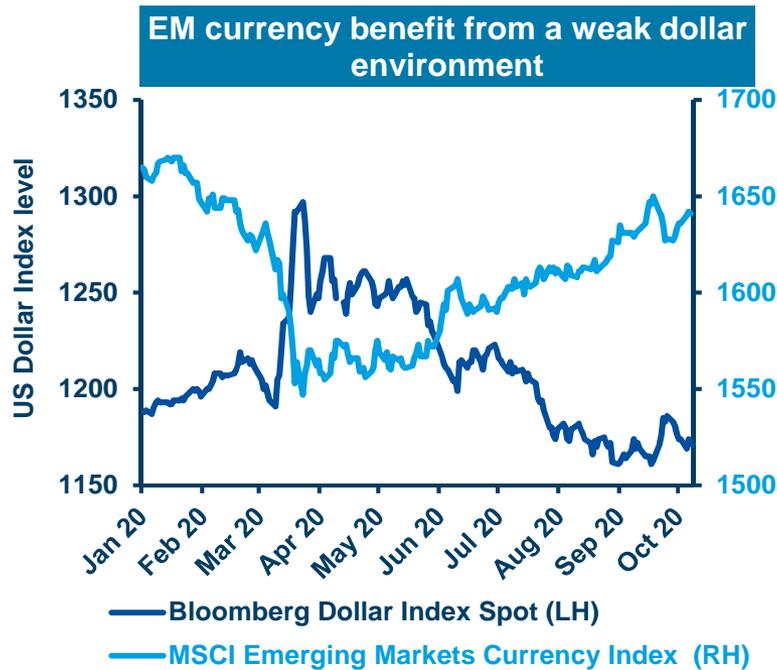
...and opportunities from the New Silk Road initiative



» Opportunities surrounding the New Silk Road are numerous and spread among all of the participating countries, especially those with a relatively large demographic dividend and a rapid urbanisation process. For these countries, spending under the initiative represents an opportunity to close their infrastructure gaps.

Source: Amundi. Data as of 28 September 2020. This slide is intended to present broad market themes related to the 2013 Chinese government initiative aimed at promoting integration along infrastructure conduits in China. These views should not be relied upon as investment advice, a security recommendation, or as an indication of trading for any Amundi product. This material does not constitute an offer or solicitation to buy or sell any security, fund units or services. Investment involves risks, including market, political, liquidity and currency risks.

EM currencies benefiting from the weak dollar



» On average, EM FX are currently slightly undervalued and the current scenario suggests some upside in the coming months, supported by a relatively weak dollar. Extreme liquidity conditions remain supportive for risky assets. The rally in CNY could see it continue to appreciate vs. the USD in the very short term, but at these levels the upside is limited.

Source: Amundi analysis on Bloomberg data as of 8 October 2020.

Source: Bloomberg, Amundi Research. Data as of 1 October 2020. Fair value calculated as an average of different measures (productivity, purchasing power parity, real effective exchange rate).

Key takeaways

EMERGING MARKETS

EM EQUITIES

EM BONDS

KEY THEMES

- Recovery supporting positive earnings revision and positive momentum

- Source of yield in a world of low rates
- Room for further HY appreciation

HOW TO PLAY?

- **Global:** diversified and selective approach, with focus on domestic growth drivers
- **Asia:** valuations and fundamentals, trade risk constantly monitored
- **Latin America:** resilient growth stories, political stability and reforms
- **New Silk Road:** play the new role of China in the geopolitical landscape

- **Hard currency bonds:** attractive carry, better risk-return balance, support from strong liquidity measures by central banks
- **Aggregate:** opportunity and diversification enhancement, with the ability to look out for benchmark opportunities in HY
- **Corporates:** selective opportunities, including HY
- **Green bonds:** new and fast-growing market opportunity

Contributors

EMERGING MARKETS PLATFORM

Yerlan SYZDYKOV

Global Head of Emerging Markets

Patrice LEMONNIER

Head of Emerging Markets Equity

Abbas AMELI-RENANI

PM Emerging Markets Debt

Sergei STRIGO

Co-Head of Emerging Markets Fixed Income

Colm D'ROSARIO

Deputy Head of Emerging Markets Fixed Income

ECONOMIC AND STRATEGY RESEARCH

Alessia BERARDI

Head of Emerging Markets Macro & Strategy Research

Karine HERVE

Senior Economist

Claire HUANG

Senior Economist

Debora DELBÓ

Senior Equity Strategist

Sosi VARTANESYAN

Senior Economist

INVESTMENT INSIGHTS UNIT

Claudia BERTINO

Head of Amundi Investment Insights Unit

Francesca PANELLI

Investment Insights Unit

Laura FIOROT

Deputy Head Amundi Investment Insights Unit

Ujjwal DHINGRA

Investment Insights Unit

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Available at the Amundi Research Center: <http://research-center.amundi.com/>

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23 July	The new silk road routes: why investors should care
19 May	Emerging Markets Chart & Views H2 2020
5 May	Emerging Market green bonds – Report 2019
30 April	Emerging markets, navigating among several shocks
17 April	Coronavirus crisis: impact and implications for Emerging Markets
17 April	Blue Convictions - SPECIAL COVID-19 - Emerging Markets: a lower pressure on outflows
21 February	Exports' dependence to China and Asia of more than 70 countries

Chief Editors

Pascal BLANQUÉ

Chief Investment Officer

Vincent MORTIER

Deputy Chief Investment Officer

Indices reference & definition

Bond Indices (JPMorgan)

Sov. HC HY = JPM EMBI Global Diversified High Yield; Sov. HC = JPM EMBI Global Diversified Composite; Sov. HC IG = JPM EMBI Global Diversified Inv. Grade; Local FX = JPM GBI-EM Global Diversified FX Return; Local HC = JPM GBI-EM Global Diversified Composite Unhedged USD; Local Euro = JPM GBI-EM Global Diversified FX Return in EUR; Local Rates = JPM GBI-EM Global Diversified Composite LOC; Corp. HC HY = JPM Corporate Broad EMBI Diversified High Yield; Corp. HC = JPM Corporate EMBI Broad Diversified Composite; Corp. HC IG = JPM Corporate Broad EMBI Diversified High Grade.

Equity Indices (MSCI)

Argentina = MSCI Argentina Net Total Return; Brazil = MSCI Brazil Net Total Return; China = MSCI China Net Total Return; Czech Republic = MSCI Czech Republic Net Total Return; Colombia = MSCI Colombia Net Total Return; Egypt = MSCI Egypt Net Total Return; India = MSCI India Net Total Return; Indonesia = MSCI Indonesia Net Total Return; Mexico = MSCI Mexico Net Total Return; Peru = MSCI Peru Net Total Return; Philippines = MSCI Philippines Net Total Return; Poland = MSCI Poland Net Total Return; Russia = MSCI Russia Net Total Return; South Africa = MSCI South Africa Net Total Return; South Korea = MSCI Korea Net Total Return; Taiwan = MSCI Taiwan Net Total Return; Thailand = MSCI Thailand Net Total Return; Turkey = MSCI Turkey Net Total Return; Emerging Markets = MSCI Emerging Net Total Return.

Yield & Duration Indices

German Govt Bonds = JP Morgan GBI Germany Index; US Govt Bonds = JPMorgan GBI US Index; Euro IG Bonds = Bloomberg Barclays Pan European Aggregate Corporate; US IG Bonds = Bloomberg Barclays US Aggregate Credit; Euro HY bonds = Bloomberg Barclays Pan-European High Yield ISMA; US HY Bonds = Bloomberg Barclays US Corporate High Yield; EMBI Div = JPMorgan EMBI Global Diversified Blended; CEMBI BD = JPMorgan CEMBI Div Broad Composite Blended; CEMBI BD HY = JPMorgan CEMBI Broad Div High Yield; Euro Corp Short Term = Bloomberg Barclays Euro Corporate 1-3Yr; US Corp Short Term = Bloomberg Barclays US Corporate 1-3Yr; EMBI Short Term = JPMorgan EMBIG Diversified 1-3Yr.

Definitions

- Basis points: one basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
- Correlation: the degree of association between two variables; in finance, it is the degree to which assets or asset class prices have moved in relation to each other. Correlation is expressed by a correlation coefficient that ranges from -1 (perfectly negative correlated) through 0 (absolutely independent) to 1 (perfectly positive correlated).
- Credit spread: differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- Duration: a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- FX: FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- Volatility is a statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.

Important Information

Unless otherwise stated, all information contained in this document is from Amundi Asset Management and is as of 30 September 2020.

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