



December 2020

Emerging Markets Charts & Views 2021 Outlook and Beyond

Investment Insights | Market Stories

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Amundi
ASSET MANAGEMENT

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A positive outlook for 2021



Yerlan Syzdykov

Global Head of Emerging
Markets

“*The US election outcome and the hopes that the Covid-19 vaccine will be a tangible reality by the end of the year or the beginning of 2021 bode well for a worldwide economic recovery.*

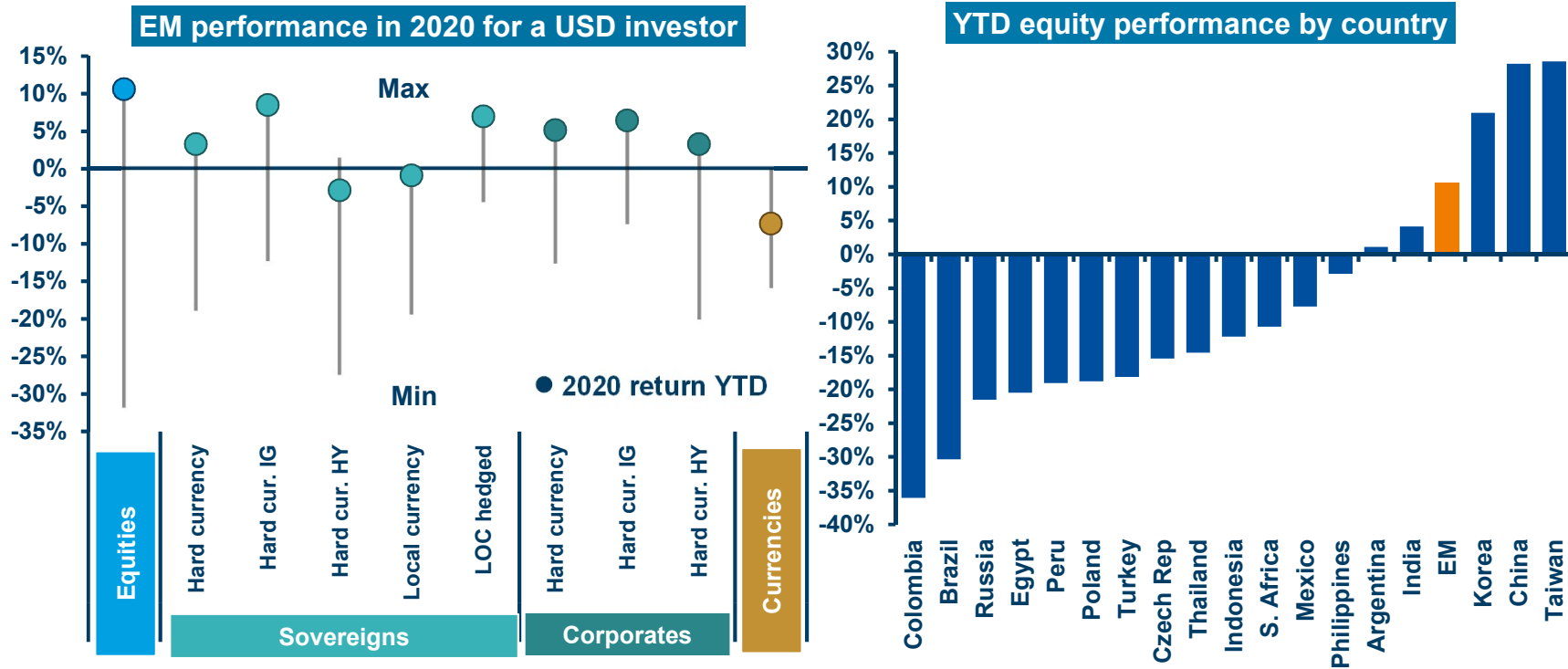
China is leading the global recovery, owing to its virus containment and strong rebound, which is being driven by internal demand, exports and services. It is set to be the only major economy with positive GDP growth this year. This is supporting our positive view on China and most of the Asian countries, and we believe the recovery will expand to Latin America and CEMEA next year.

In an accommodative policy framework, the hunt for yield will remain and will provide a positive backdrop for EM debt in 2021. There is still room to tighten spreads, especially in HY, and the expected weakening of the USD will likely support local currencies.

In 2021, EM equities will likely gain traction thanks to the earnings rebound. Investors may play the growth theme, adding exposure to China, the New Silk Road and domestic growth stories, as well as broadening their allocations to LatAm and CEMEA. However, selection will be key in mitigating the potential risks, such as a resurgence of inflation, a liquidity crisis or idiosyncratic fallouts.



EM performance: recovery from the dip

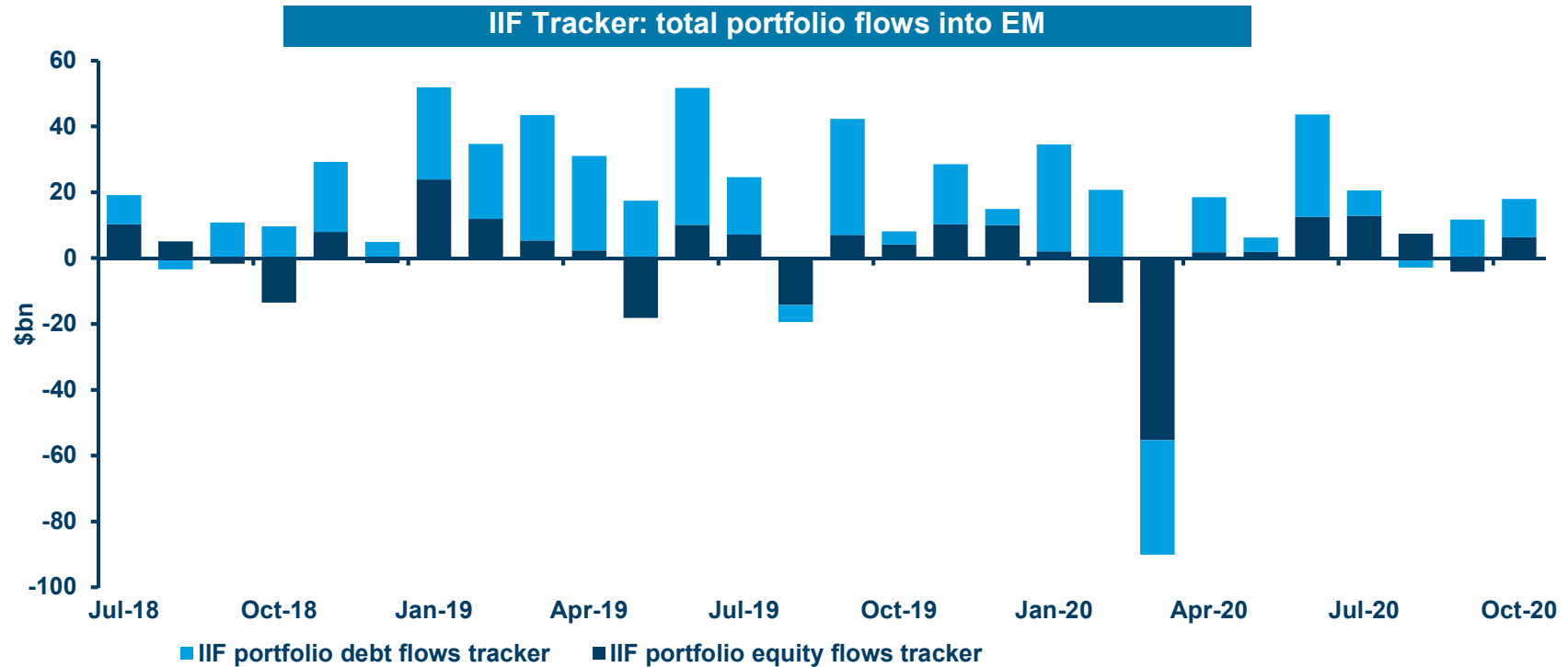


EM have recovered over recent months after tumbling due to coronavirus worries. This positive trend has accelerated since October amid positive vaccine developments and the resulting expectations of an economic rebound in 2021. In particular, Asian equity markets have shown strong returns. An improvement in economic conditions could broaden the rebound and help lagging markets, such as LatAm and CEMEA, catch up.

Source: Amundi, Bloomberg. Data as of 23 November 2020. Past performance is no guarantee of future results.

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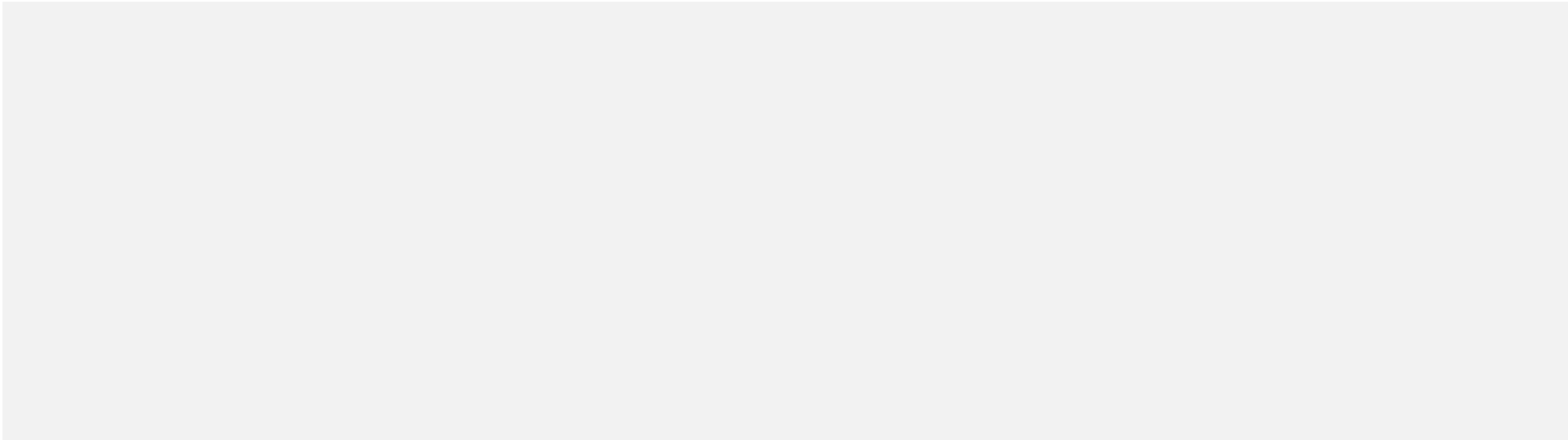
Some investor appetite for EM assets has already returned



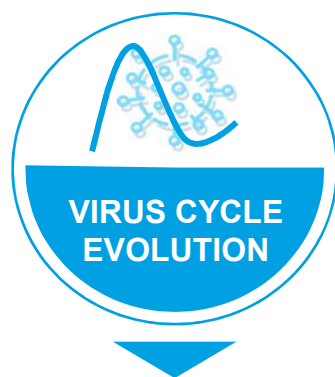
» The cumulative outflows since late January have surpassed the levels observed at the peak of the global financial crisis and in other stress episodes. However, portfolio flows to emerging markets have recovered since March, thanks to a stabilisation of economic and financial conditions and investor appetite for risk assets.

: Source: National sources, Bloomberg, IIF. Data as of 23 November 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. The new Asia-Pacific free trade deal is expected to boost this trend.



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



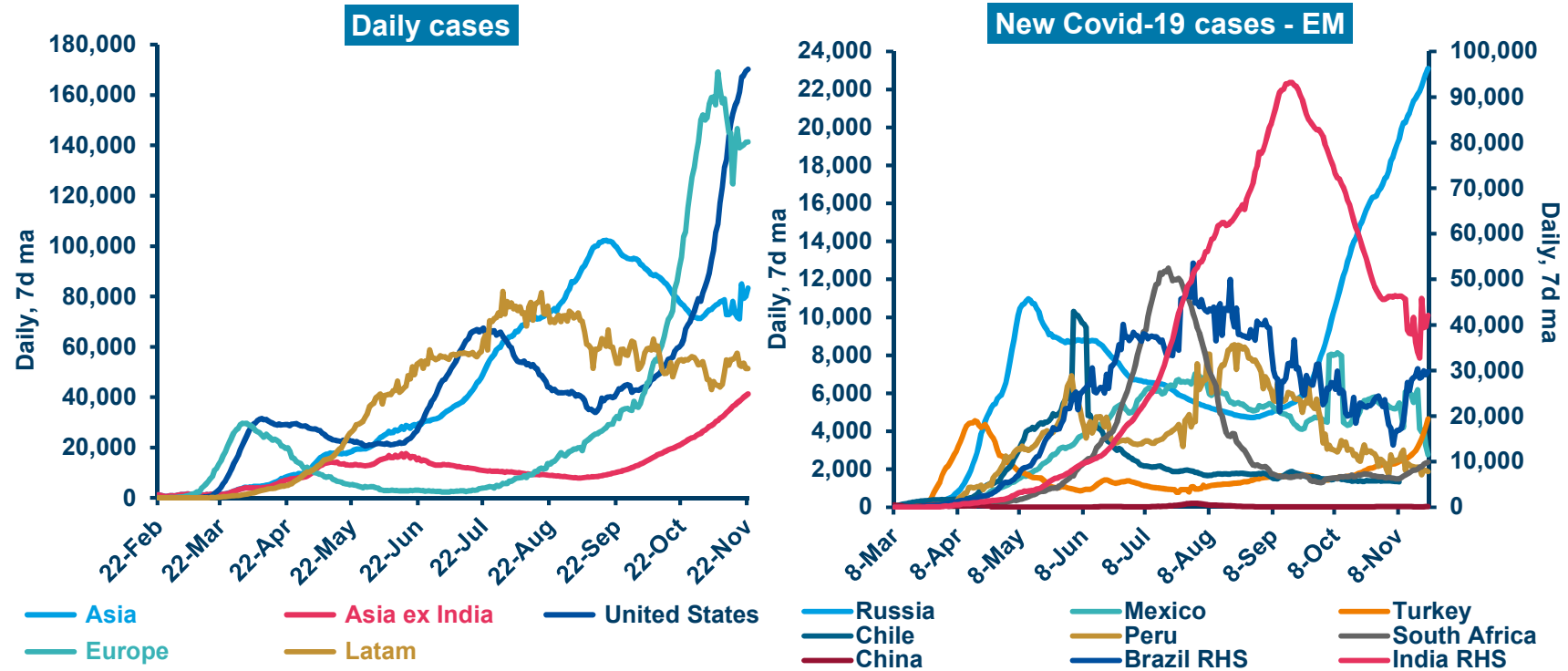
EM authorities have shifted to more aggressive easing, exacerbating vulnerabilities in some countries. The policy mix is still tilted towards a very accommodative stance. The IMF and the World Bank have stepped in to support low-income countries.



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 25 November 2020.

Covid-19 outbreak under control in most EM

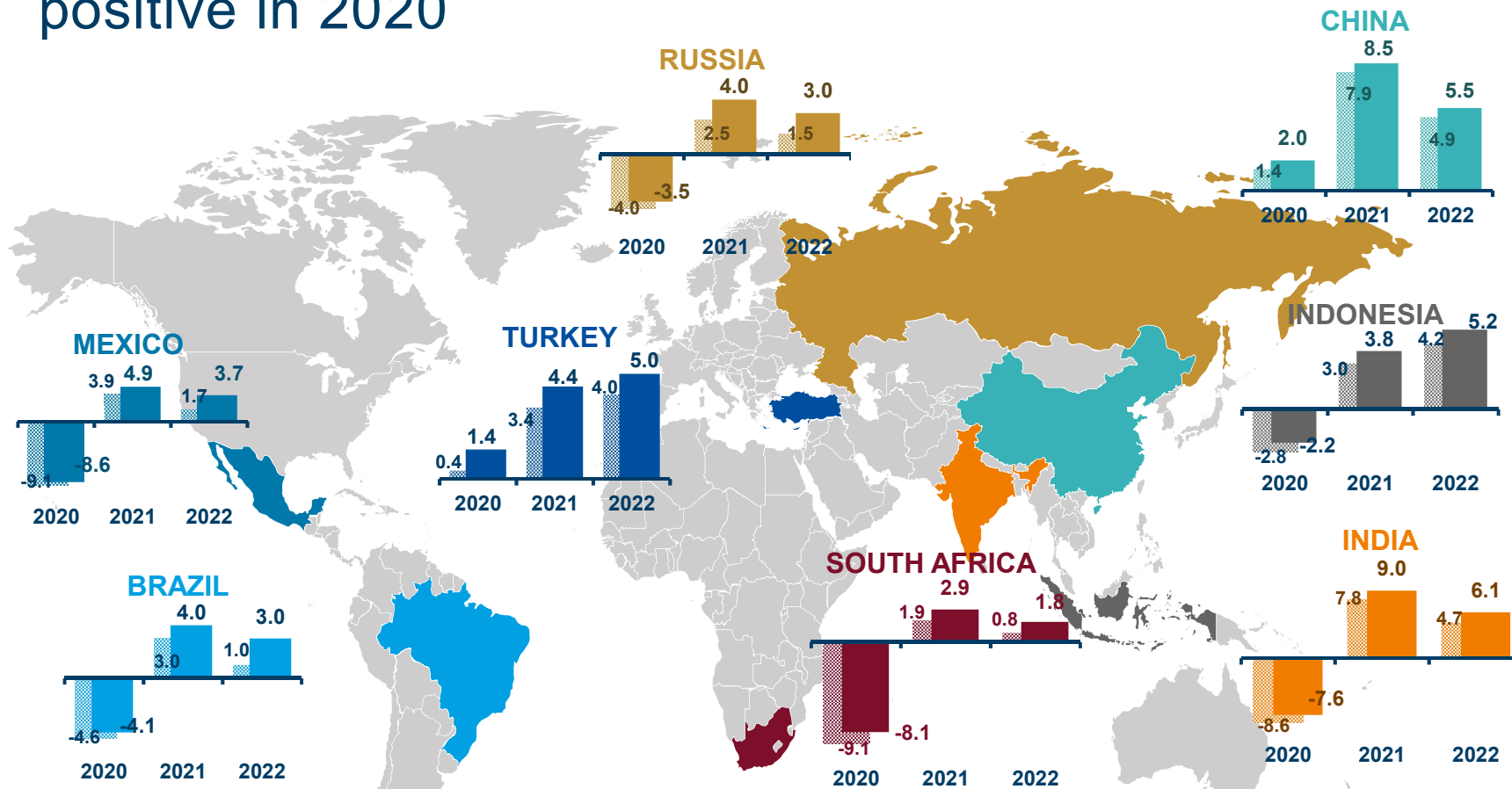


Recent data show that the virus outbreak remains under control in most EM countries with few exceptions, while a second wave is hitting Europe and the US. With EM regions in the southern hemisphere now in their summer season, the peak of the virus cycle should be behind many EM, though with contagious risks increasing from DM. China, for its part, has shown it has the ability to contain outbreaks quickly.

Source: Amundi elaborations on Bloomberg data as of 23 November 2020.

Source: Amundi elaborations on Bloomberg data as of 23 November 2020.

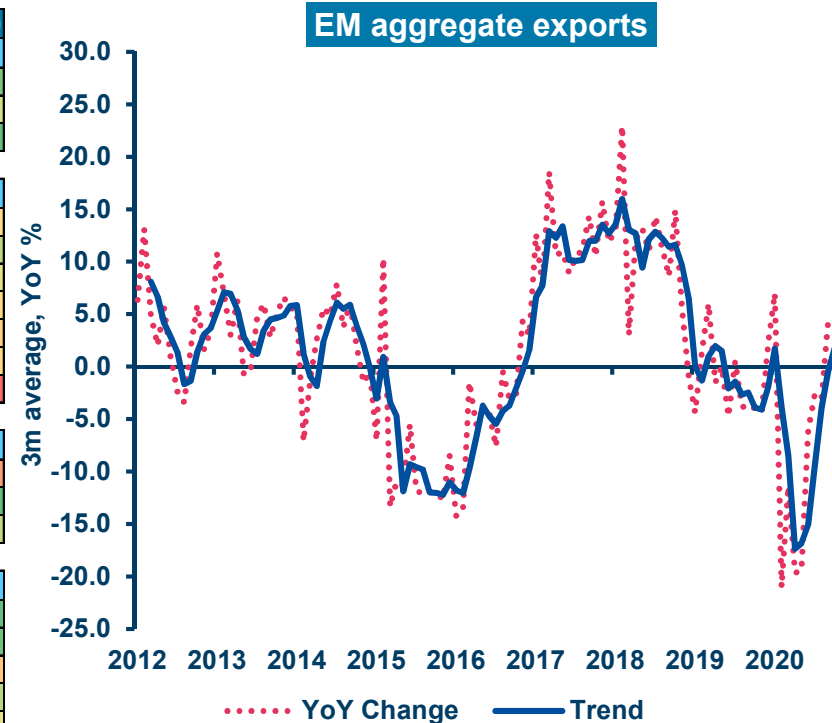
Varied growth rates across EM, China and Turkey seen positive in 2020



Source: Amundi Research. Latest forecasts are as of 30 November 2020. Bars represent real GDP growth (YoY%) forecast range: solid bars represent the best-case scenario, while shaded bars represent the worst-case scenario of the forecasting range. For EMs, we assume no new additional fiscal impulse in 2021 vs. 2020 according to the national budget laws announced so far. National daily economic activity data and local lockdowns as of 27 October 2020 have been included, together with the boost to growth from the above fiscal packages and trade linkages.

Manufacturing sector recovery not homogeneous

	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Emerging Asia Majors						
China	50,7	51,2	52,8	53,1	53,0	53,6
South Korea	41,3	43,4	46,9	48,5	49,8	51,2
Taiwan	41,9	46,2	50,6	52,2	55,2	55,1
Emerging South East Asia						
ASEAN	35,5	43,7	46,5	49,0	48,3	48,6
Vietnam	42,7	51,1	47,6	45,7	52,2	51,8
Thailand	41,6	43,5	45,9	49,7	49,9	50,8
Malaysia	45,6	51,0	50,0	49,3	49,0	48,5
Indonesia	28,6	39,1	46,9	50,8	47,2	47,8
Philippines	40,1	49,7	48,4	47,3	50,1	48,5
Myanmar	38,9	48,7	51,7	53,2	35,9	30,6
Emerging Americas						
Mexico	38,3	38,6	40,4	41,3	42,1	43,6
Brazil	38,3	51,6	58,2	64,7	64,9	66,7
Colombia	37,2	54,7	54,2	51,2	50,4	51,7
Emerging EME						
India	30,8	47,2	46,0	52,0	56,8	58,9
Turkey	40,9	53,9	56,9	54,3	52,8	53,9
Russia	36,2	49,4	48,4	51,1	48,9	46,9
Czech Republic	39,6	44,9	47,0	49,1	50,7	51,9
Poland	40,6	47,2	52,8	50,6	50,8	50,8

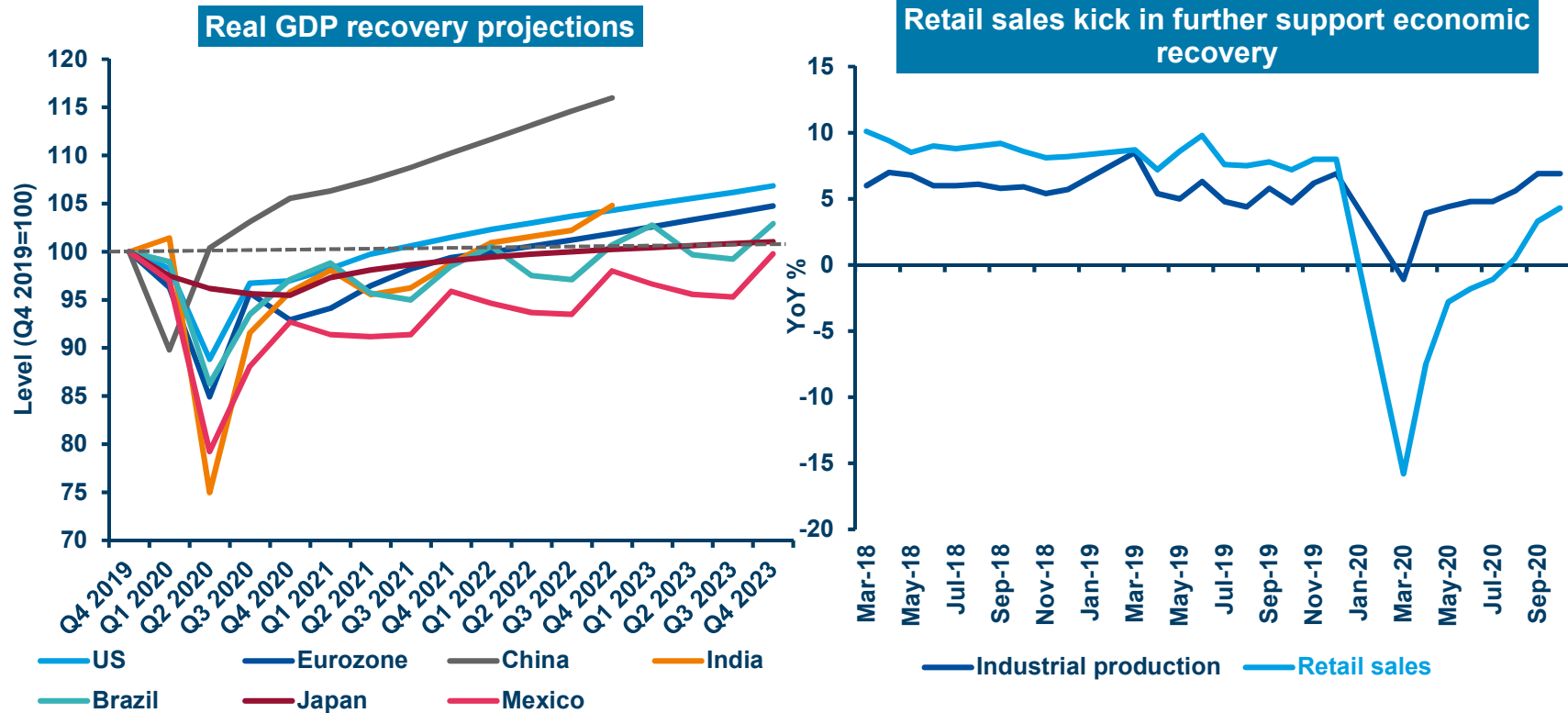


» A reading of manufacturing activity shows that the recovery in EM economies is back on track. Exports have rebounded, showing a positive trend that most manufacturing-oriented EM have benefited from. However, the recovery is taking place at varying degrees across the different countries.

Source: Amundi, Bloomberg, Markit. Data as of 23 November 2020.

Source: Amundi, CPB World Trade Monitor. Data as of 24 November 2020.

China is driving the global post-Covid-19 recovery...

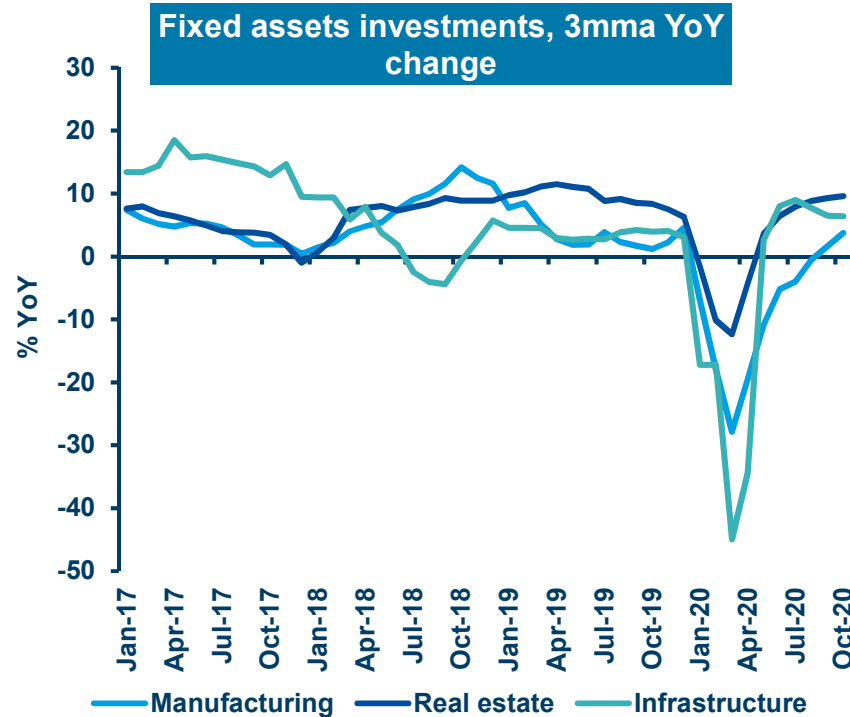


» China's growth is expanding, driven by services and industrial production. As the first country to be hit by the pandemic, China has learnt how to control the outbreak and is now recovering quickly, posting a V-shape recovery. It is set to be the only G20 country with positive GDP growth in 2020.

Source: Amundi Research. Data as of 25 November 2020. China and India forecasts are available up to Q4 2022.

Source: Amundi, Bloomberg. Data as of 24 November 2020.

...with growth across a range of metrics

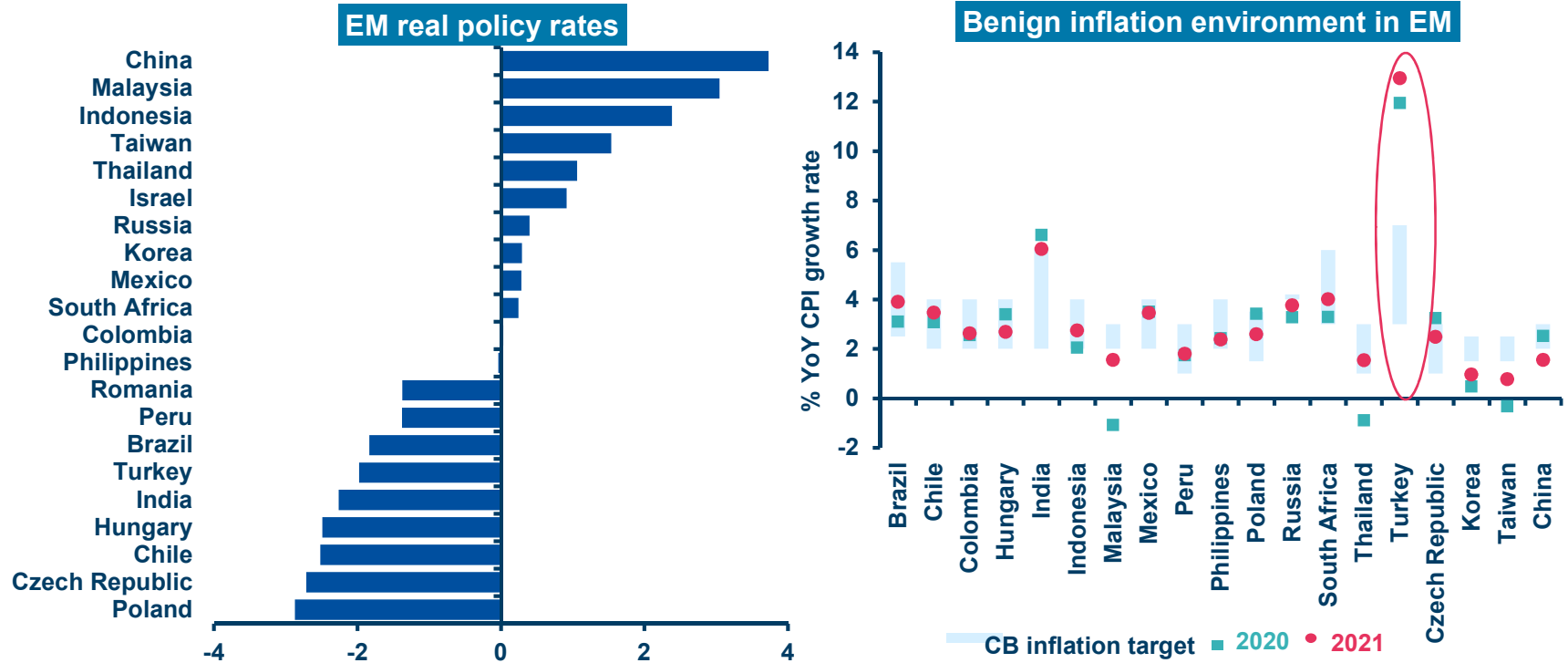


» The fixed asset investments acceleration was driven by infrastructure and property investments, while exports of non-Covid-19 goods are showing resilience, signalling improving global demand.

Source: Amundi, Bloomberg. Data as of 24 November 2020.

Source: GAC, CEIC, Amundi Research. Data as of 24 November 2020.

Varying policy room across emerging economies

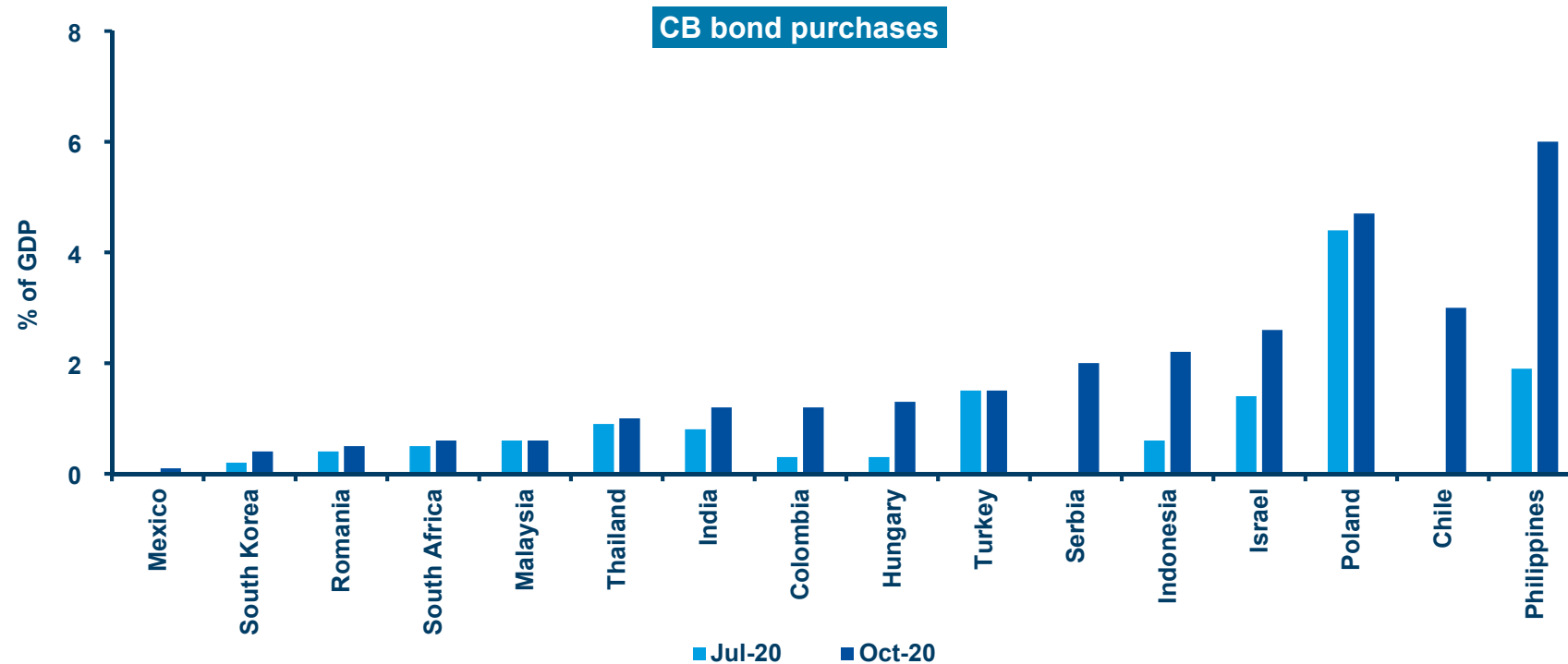


» In the short run, inflation should remain benign across EM, generally falling within CBs' targets. However, this trend should be monitored given the huge policy accommodation put in place and the fact it has been implemented using unconventional tools. Different EM countries also have different levels of room available for policy manoeuvre on the monetary side and these must be assessed carefully.

Source: Bloomberg, Amundi Research. Data as of 10 November 2020.

Source: Bloomberg, Amundi Research. Data as of 11 November 2020. Average 2020 and 2021 inflation levels according to Amundi Research's estimates.

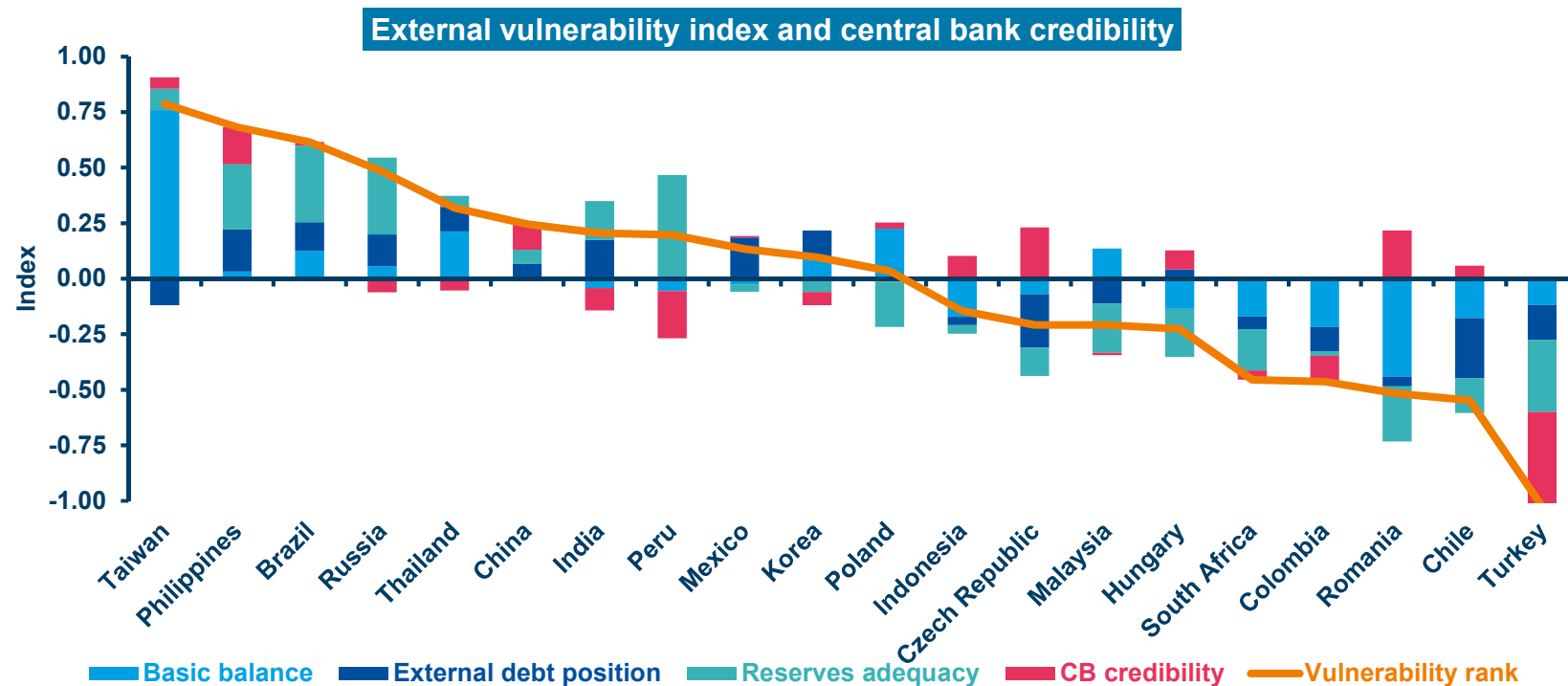
EM CBs are exploring uncharted waters



EM CBs have undertaken aggressive monetary easing, cutting policy rates to all-time lows despite currency weaknesses and capital outflows. Some have embarked on unconventional policy measures for the first time ever and even expanded those programmes over the summer months.

Source: JPMorgan, Amundi Research. Data as of 23 November 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, CEIC, IMF, WTO. Data as of 20 November 2020.

Investment ideas in emerging markets



Investment ideas in EM for 2021



Search for yield in EM bonds

In a world of zero rates for longer, EM still offer 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 and CEMEA as the recovery advances further

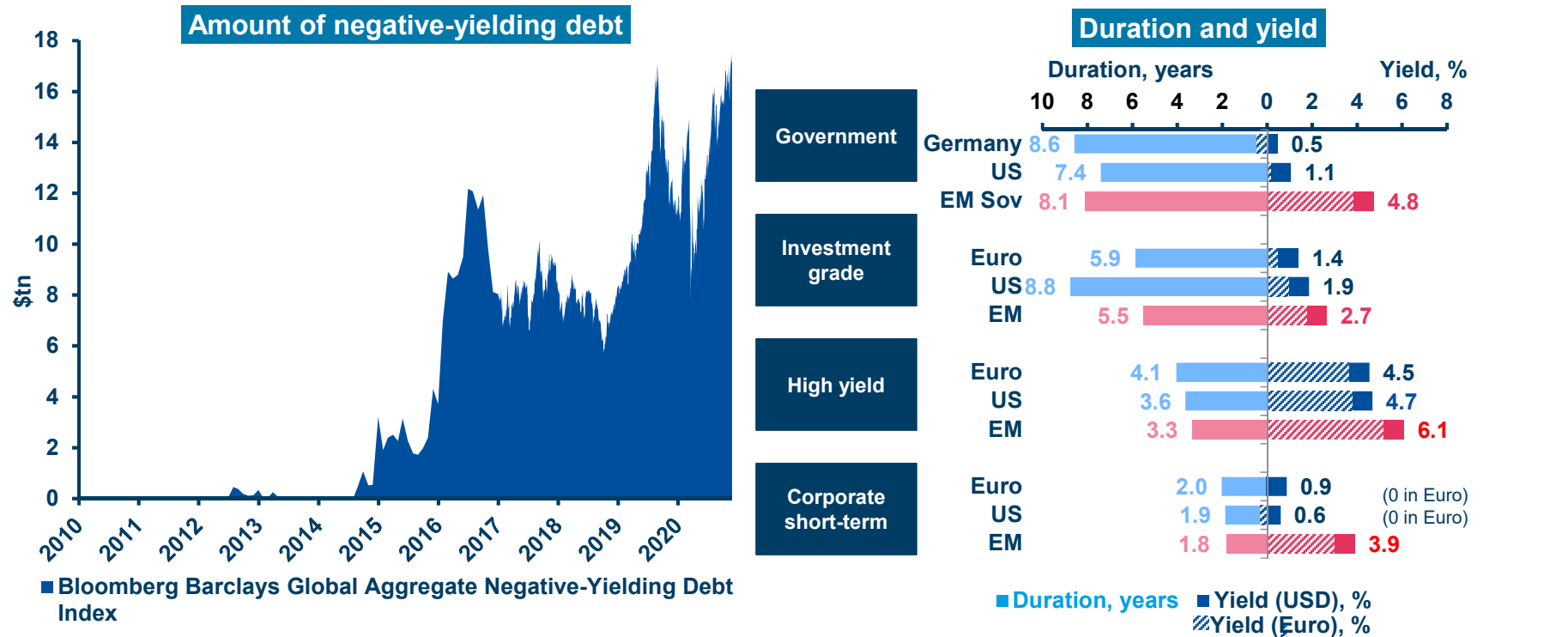


Seek selective opportunities in EM currencies

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

Source: Amundi. As of 25 November 2020.

Search for yield in EM bonds, but be selective



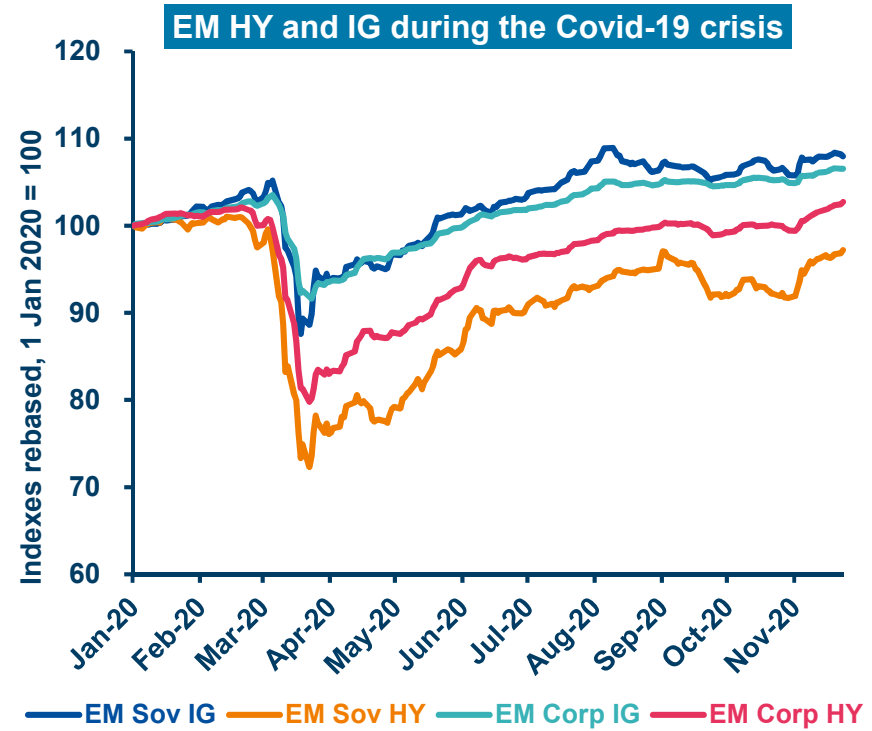
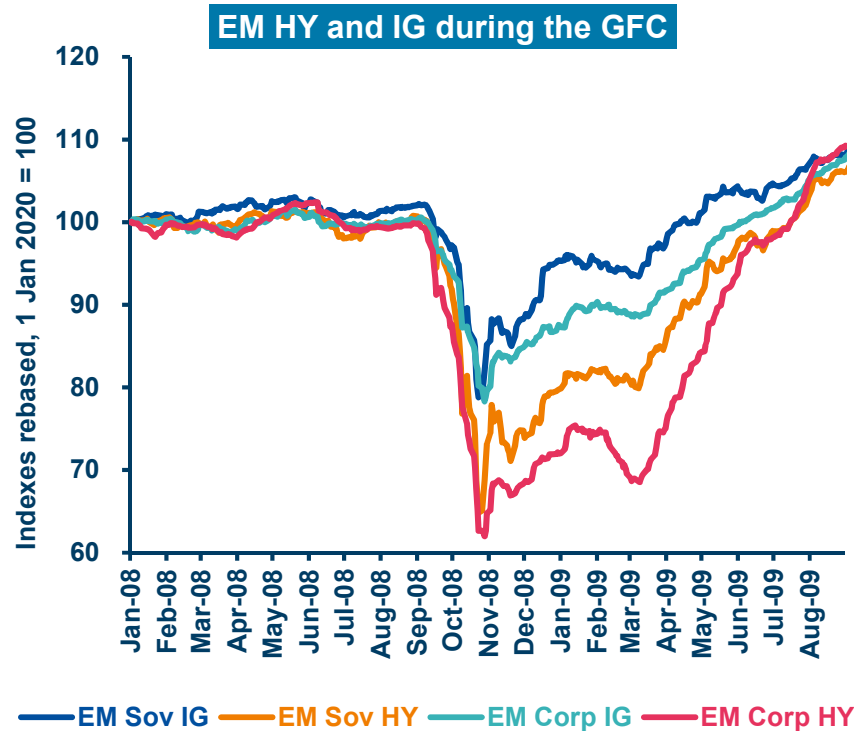
» With a record amount of negative-yielding bonds, investors could benefit from the higher yield levels of EM bonds. The dovish stance from central banks is favouring long duration bonds. However, greater selectivity is needed as the risks to global growth have increased and market liquidity may be challenged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

Source: Amundi analysis on Bloomberg data as of 25 November 2020.

Source: Amundi analysis on Bloomberg data as of 25 November 2020.



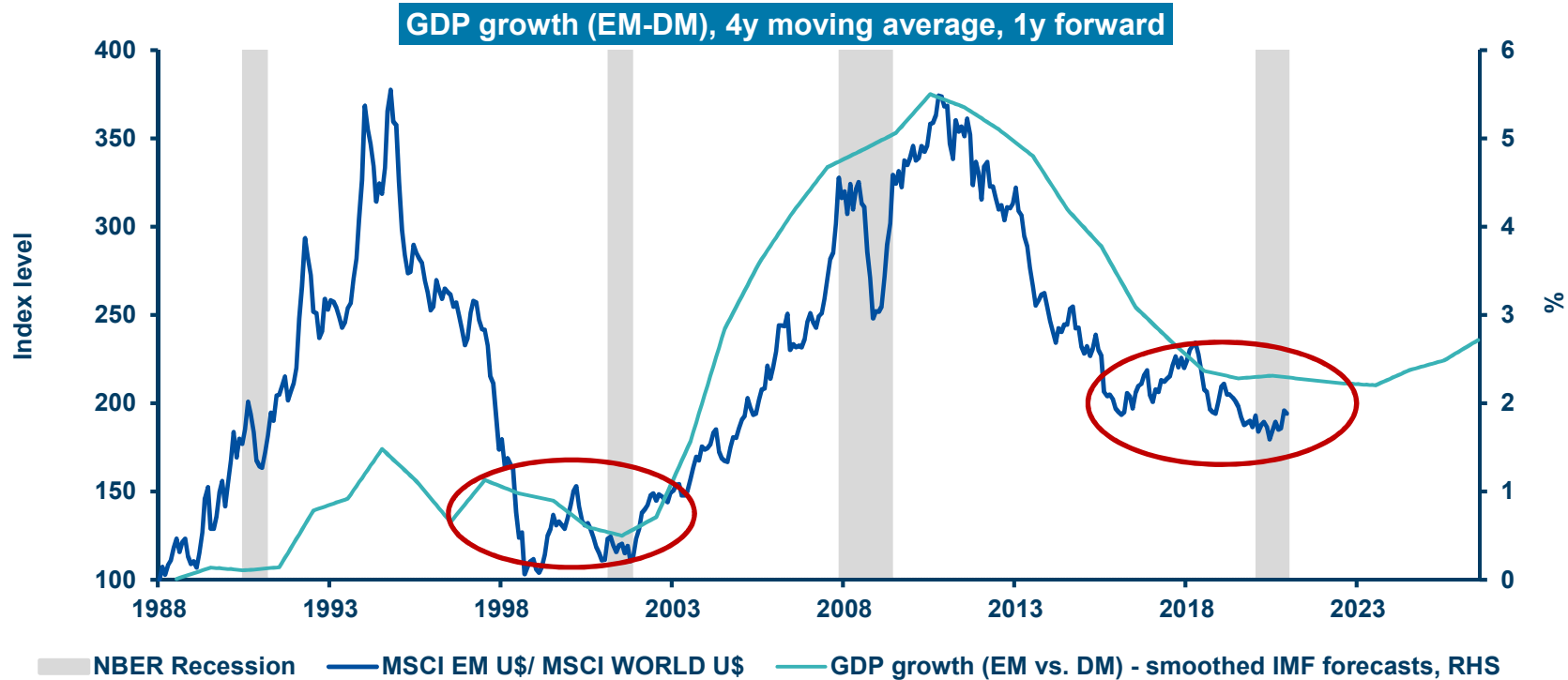
Look for opportunities in EM HY



» While the EM IG index has already recovered to its pre-crisis level and now looks fairly priced, we see room 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 was the case 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 25 November 2020. Data refers to JPMorgan EMBI Global Diversified IG and HY indices and JPMorgan CEMBI IG and HY.

EM equities to play the growth differential

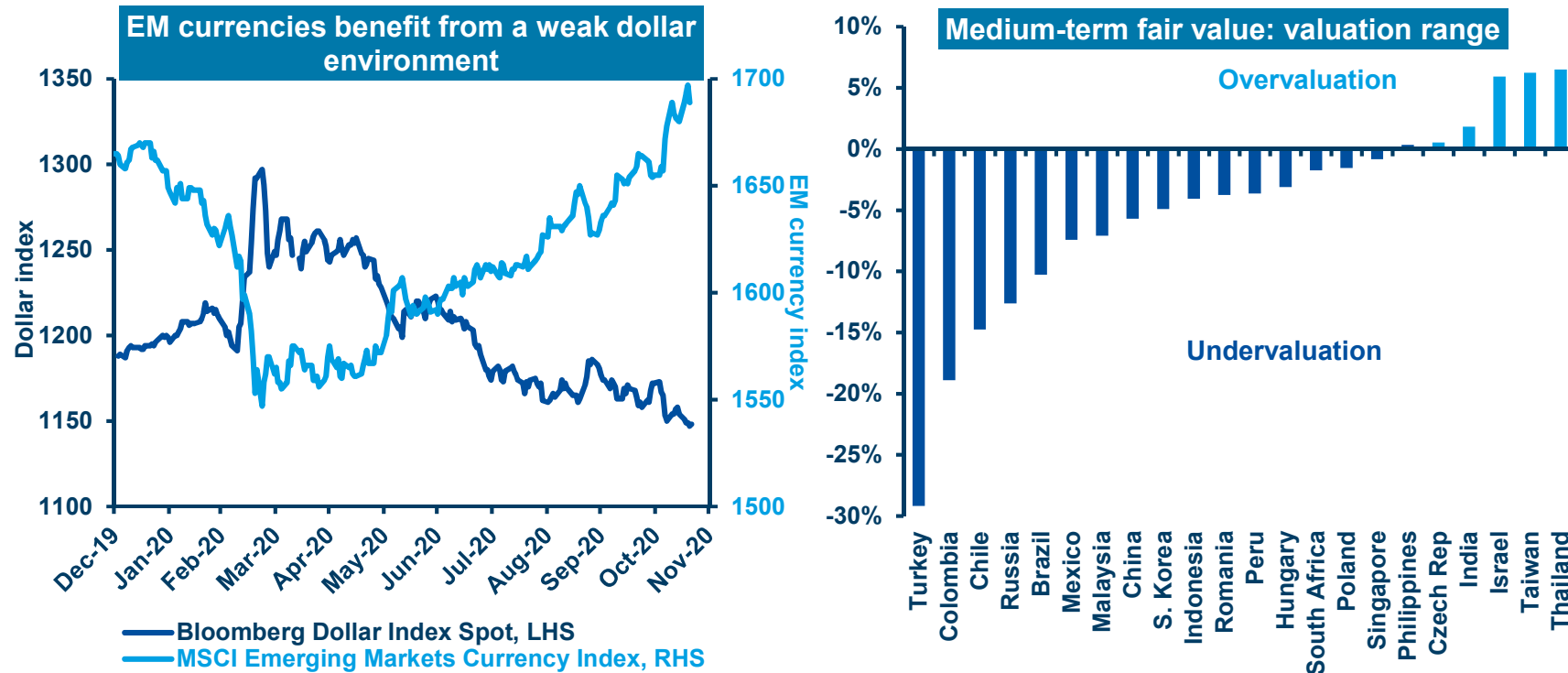


» EM are showing a quicker and stronger growth rebound than most DM, thanks to their containment of the pandemic, especially in Asia (first in, first out story). This growth differential should support EM equities as we enter 2021.

Source: Amundi Research. Data as of 25 November 2020.



EM currencies benefiting from the weak dollar

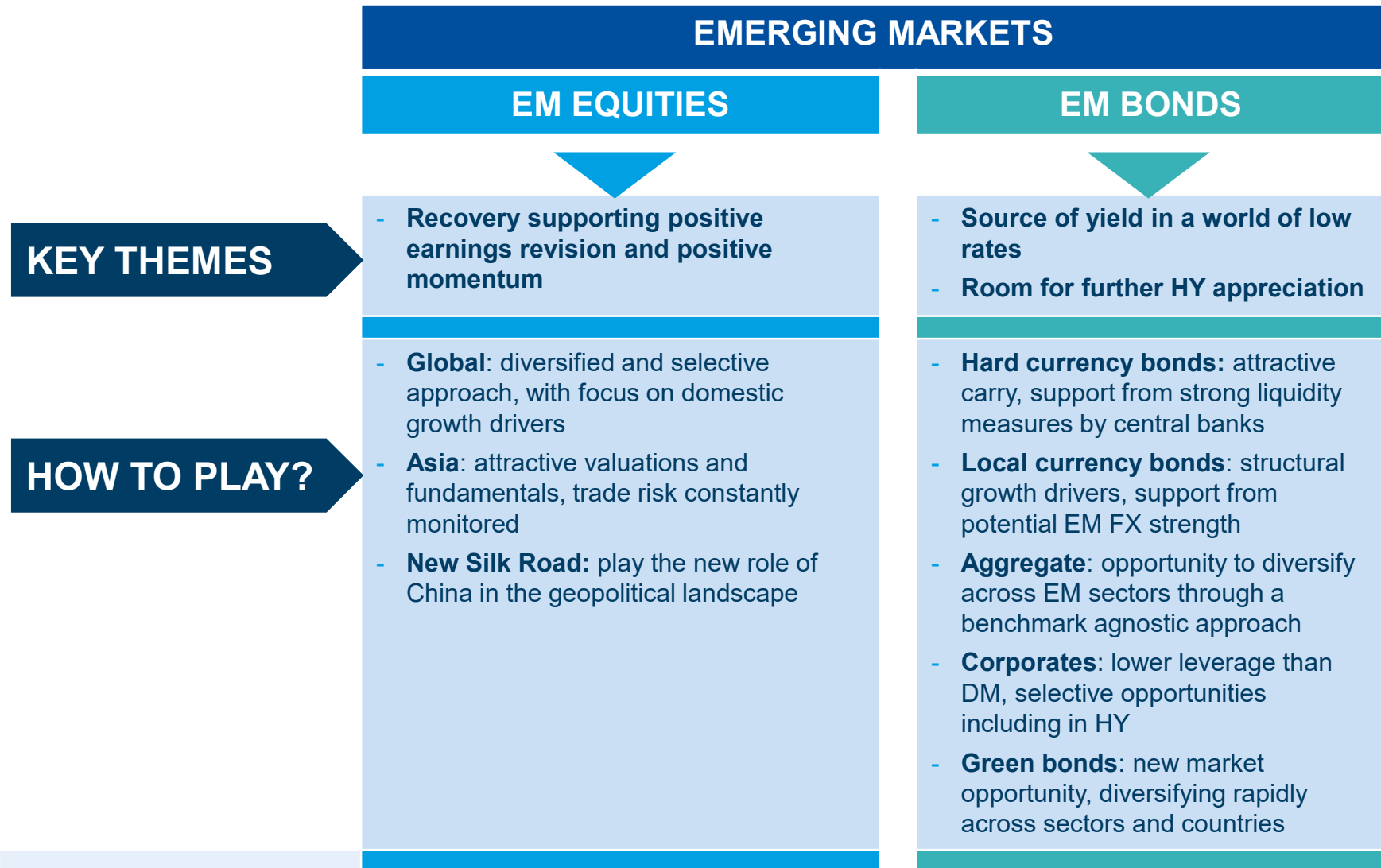


» On average, EM FX are currently slightly undervalued and the current scenario suggests some upside in the coming months, supported by a relatively weak dollar. We expect a positive contribution from EM FX next year in EM asset performances.

Source: Amundi analysis on Bloomberg data as of 25 November 2020.

Source: Bloomberg, Amundi Research. Data as of 25 November 2020. Fair value calculated as an average of different measures (productivity, purchasing power parity, real effective exchange rate).

Key takeaways



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
Emerging Markets Macro
Strategist

Debora DELBÓ
Senior Equity Strategist

Sosi VARTANESYAN
Senior Economist

Patryk Drozdziak
Emerging Markets Macro
Strategist

INVESTMENT INSIGHTS UNIT

Claudia BERTINO
Head of Amundi
Investment Insights Unit

Francesca PANELLI
Investment Insights Unit

Poi CARULLA
Investment Insights Unit

Laura FIOROT
Deputy Head Amundi
Investment Insights Unit

Ujjwal DHINGRA
Investment Insights Unit

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13 Oct	Emerging Markets Charts & Views Market opportunities looking into 2021
3 Sep	An earnings season better than expected but the valuations issue has not yet been resolved
7 Aug	Investing in the first in, first out theme: opportunities in asia
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

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%).
- Carry: the carry of an asset is the return obtained from holding it.
- 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.
- Spread: the difference between two prices or interest rates.
- 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.

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