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IMF conference in Washington: cautiously upbeat sentiment about emerging markets

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I would like to summarise my learning points from the presentations by the International Monetary Fund in Washington on 20 to 23 April 2018.

Market barometer: I would call the sentiment as “hold” to cautiously optimistic. The market participants do not expect any surprises in either direction. The yield differential between emerging and developed markets is still seen as “attractive” in favour of emerging markets. The IMF regards equities, corporate bonds in hard currency, and government bonds in hard currency from emerging markets as the most interesting asset classes in the emerging markets segment, at roughly equal weightings. The investors’ opinion on Europe, generally speaking, is remarkable positive. As far as specific issues are concerned, the IMF is regarded as well-disposed towards Greece; here, a diffuse “positive surprise” is expected.

China: there is currently no “real” dialogue in the trade conflict between the USA and China, with potential for more friction. The tariff increases announced by the USA so far would for now come with only homoeopathic effects on the GDP of both countries. One cannot help the feeling again that the market is caught up in ill-advised complacency with regard to China. Especially the lead that China has generated in the development and use of artificial intelligence is being massively underrated. In general, one gets the feeling that foreign investors are still underinvested in China.

Nafta: there are numerous open questions with respect to the efforts made by the USA to reform the NAFTA. At this point, the negotiations are unlikely to be terminated prior to the summer break of the US Congress (scheduled to start on 30 June 2018).

Latin America: investors seem to be overweighted, but I would warn against underestimating possible negative surprises with regard to the imminent presidential elections in Mexico and Brazil.

Turkey: scepticism by investors despite an exceedingly positive presentation by the Turkish delegation. I had the impression that it was based more on hope than on hard facts that the economic situation would improve. The market participants tend to aim for a neutral positioning.

USA politics: the Democrats are currently expected to re-gain the House majority in the midterm elections in November 2018. In 2020, Donald Trump seems to want to run again as candidate for the Republicans.

Sanctions: the market participants envisage further sanctions against Russia, although they do not expect them to be directed against the sovereign. Also, more and stronger sanctions against Venezuela and the government and its beneficiaries are expected.

Commodities: the market currently perceives the oil price as kept artificially high. In general, commodities currently harbour upside risk rather than downside risk.

Market “darlings“: Egypt, Nigeria, Argentina

Market “loser“: Romania

My conclusion:

Emerging markets hard currency bonds remain attractive. At the moment, I do not expect any significant or sustainable shocks to the market, triggered by unexpected developments in the US interest market. Due to rising interest rates, I focus on those countries that have reduced their refinancing risk in our hard currency emerging markets funds.

Legal note:

Prognoses are no reliable indicator for future performance.

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