https://blog.en.erste-am.com/imf-meetings-in-washington-positive-outlook-for-emerging-markets/

IMF-meetings in Washington: positive outlook for emerging markets

Gast-AutorIn / Guest Author



© ANDREW CABALLERO-REYNOLDS / AFP / picturedesk.co

Guest Author: Felix Dornaus, Senior Fund Manager

The following points reflect my impressions at the presentations that I attended at the IMF-meetings in Washington from 12 to 15 October 2017.

Positive inflows into emerging market assets expected to continue in 2018

Total emerging markets-flows are still in the early stages of their comeback. 2017 saw a record USD 110bn in inflows. We expect the volume to exceed this number in 2018. US pension funds (as the biggest pool of funds in the USA) are still underweighted in the global emerging markets (GEM). The positive effects from the pressure created by the inflow are stronger than the negatives ones deriving from the G-3 central banks' tightening mood. Within the asset class, market participants expect emerging markets equities to benefit the most (mainly Latin American equities and countries like Brazil and Argentina in particular).

Global emerging markets are still going through an improving macroeconomic trend. For example, average current account deficits have halved in the past four years.

In the presentations given, no major sell-off of commodities was expected. The estimated bandwidth of the oil price (WTI USD/bbl) for the coming years is USD 50 to 60.

What also supports emerging markets is the fact that many local central banks are still biased towards easing monetary measures. That is to say that further interest rate cuts can be expected for 2018.

Venezuela is expected to deliver on loan payments that will be falling due throughout the rest of this year, but the looming debt restructuring will be quite complicated and prolonged.

Risks for GEM investors are more related to the US

There is a paradigm shift in global relations. Emerging markets nowadays harbour fewer idiosyncratic risks. Key threats to global financial stability are more tied to the USA. For example, the carrot and stick approach pursued by Trump's administration is really more of a stick and rather less of a carrot approach.

There is a wider use of sanctions (Russia, Venezuela, Iran, North Korea, maybe Chinese banks) and a greater bias towards protectionism (Nafta "renegotiation", car imports, etc.).

On Nafta: the Trump administration has indicated its preference for leaving, but the final decision may be passed to Congress, which could be seen as a silver lining for compromise. A US withdrawal could cost Mexico 0.6% of GDP.

Optimism towards Europe – China is currently not the focus

The pessimism towards Europe over the past few years has turned into astonishing optimism. Brexit is seen as a non-systemic, localised UK problem. Also, the political momentum in Italy is not seen as a manifest systemic threat. 18 out of 19 countries are growing above potential.

China is not dominating the discussion about risk. That being said, perhaps a certain degree of risk that the country might not be able to maintain growth could be looming on the horizon; also, US sanctions against Chinese banks doing business with North Korea can possibly trigger capital outflows. Trump's visit to China towards the end of the year may mitigate the latter risk.

Turkey is still a carry trade [1]. The higher risk profile is compensated by high interest rates. Frontier Markets (e. g. countries like Egypt, Sri Lanka, Ukraine or Kazakhstan) are attractive from a risk-return profile.

[1] A carry trade is a strategy in which an investor sells a certain currency with a relatively low interest rate (such as Euro or USD) and uses the funds to purchase a different currency yielding a higher interest rate (such as Turkish lira).

Legal note :

Prognoses are no reliable indicator for future performance.

Legal disclaimer

This document is an advertisement. Unless indicated otherwise, source: Erste Asset Management GmbH. The language of communication of the sales offices is German and the languages of communication of the Management Company also include English.

The prospectus for UCITS funds (including any amendments) is prepared and published in accordance with the provisions of the InvFG 2011 as amended. Information for Investors pursuant to § 21 AIFMG is prepared for the alternative investment funds (AIF) administered by Erste Asset Management GmbH pursuant to the provisions of the AIFMG in conjunction with the InvFG 2011.

The currently valid versions of the prospectus, the Information for Investors pursuant to § 21 AIFMG, and the key information document can be found on the websitewww.erste-am.com under “Mandatory publications” and can be obtained free of charge by interested investors at the offices of the Management Company and at the offices of the depositary bank. The exact date of the most recent publication of the prospectus, the languages in which the key information document is available, and any other locations where the documents can be obtained are indicated on the website www.erste-am.com. A summary of the investor rights is available in German and English on the website www.erste-am.com/investor-rights and can also be obtained from the Management Company.

The Management Company can decide to suspend the provisions it has taken for the sale of unit certificates in other countries in accordance with the regulatory requirements.

Note: You are about to purchase a product that may be difficult to understand. We recommend that you read the indicated fund documents before making an investment decision. In addition to the locations listed above, you can obtain these documents free of charge at the offices of the referring Sparkassen bank and the offices of Erste Bank der oesterreichischen Sparkassen AG. You can also access these documents electronically at www.erste-am.com.

N.B.: The performance scenarios listed in the key information document are based on a calculation method that is specified in an EU regulation. The future market development cannot be accurately predicted. The depicted performance scenarios merely present potential earnings, but are based on the earnings in the recent past. The actual earnings may be lower than indicated. Our analyses and conclusions are general in nature and do not take into account the individual characteristics of our investors in terms of earnings, taxation, experience and knowledge, investment objective, financial position, capacity for loss, and risk tolerance.

Please note: Past performance is not a reliable indicator of the future performance of a fund. Investments in securities entail risks in addition to the opportunities presented here. The value of units and their earnings can rise and fall. Changes in exchange rates can also have a positive or negative effect on the value of an investment. For this reason, you may receive less than your originally invested amount when you redeem your units. Persons who are interested in purchasing units in investment funds are advised to read the current fund prospectus(es) and the Information for Investors pursuant to § 21 AIFMG, especially the risk notices they contain, before making an investment decision. If the fund currency is different than the investor’s home currency, changes in the relevant exchange rate can positively or negatively influence the value of the investment and the amount of the costs associated with the fund in the home currency.

We are not permitted to directly or indirectly offer, sell, transfer, or deliver this financial product to natural or legal persons whose place of residence or domicile is located in a country where this is legally prohibited. In this case, we may not provide any product information, either.

Please consult the corresponding information in the fund prospectus and the Information for Investors pursuant to § 21 AIFMG for restrictions on the sale of the fund to American or Russian citizens.

It is expressly noted that this communication does not provide any investment recommendations, but only expresses our current market assessment. Thus, this communication is not a substitute for investment advice, does not take into account the legal regulations aimed at promoting the independence of financial analyses, and is not subject to a prohibition on trading following the distribution of financial analyses.

This document does not represent a sales activity of the Management Company and therefore may not be construed as an offer for the purchase or sale of financial or investment instruments.

Erste Asset Management GmbH is affiliated with the referring Sparkassen banks and Erste Bank.

Please also read the “Information about us and our securities services” published by your bank.

Subject to misprints and errors.

Gast-AutorIn / Guest Author