

GLOBAL MARKET UPDATE

STRENGTHENING TAILWINDS FOR EMERGING MARKETS

- *Deepening negative interest rates in the US will spur capital flows to Emerging Markets*
- *China will deliver strong GDP growth, again*
- *The government and farmers in India negotiate the new agricultural laws*

President-elect Joe Biden has a chance to deliver swift and efficient crisis management measures as soon as he is inaugurated on the 20th January. His Democratic Party will have a thin majority in the House (D222-R211), whilst Vice President-elect Kamala Harris will hold the tiebreaking vote in the Senate, where both parties will have an equal number of votes after the Democrats clinched both seats in the Georgia runoff election. It is already known that former Fed Chair Janet Yellen will steer the Treasury and be responsible for engineering both the economic relief package and subsequently lead the transformation of the economy post crisis. Ms Yellen is known for her somewhat left-leaning views, whilst strongly holding onto the idea of macro-financial stability. In our understanding, the incoming Treasury Secretary will stick to a very lax fiscal stance in the near term, which will drive the US economy's recovery from the second-leg of the double dip recession in 2Q21 at the earliest. Such a lax budgetary approach combined with the Federal Reserve's ultra-accommodative stance will further deepen negative real interest rates, which in turn will accelerate the depreciation of the US dollar and boost investors' appetite for riskier assets. We hold the view that the Mexican economy is going to be one of the beneficiaries of the US' cyclical bounce (given that 77% of Mexico's merchandise exports flow to the US), which supports our investment thesis for Vesta.

PMIs were for December were released and painted a surprisingly upbeat picture across some Developed and many Emerging Markets. China (53), India (56.4) and Brazil (61.5) produced stronger manufacturing PMI prints in December than many of their peers. Overall, the global gauge for manufacturing activity finished the year at 53.8 - suggesting the continuation of economic recovery's healthy pace and sustained growth across the globe, despite the risks posed by the pandemic. Going forward growth will continue in key Asian economies, whilst momentum in the Latin American region will further build and begin to catch up with the leading EM Asian countries. We hold the view that the recent resurgence in covid cases (the second wave) will not derail the recuperation of the underlying macro fundamentals. Although the news flow related to the spread of the virus could create some volatility in asset prices in the near term, we believe that the arrival of mass vaccinations will override the temporary jitters and trigger further sustained capital flows to Emerging Markets equities.

CHINA: GROWTH MOMENTUM WILL CONTINUE

China was one of the very first countries around the globe to emerge from the covid-induced slump. Not only has the world's second largest economy shrugged off the economic consequences almost immediately, but it has also returned to its pre-crisis growth trajectory by the end of 2020 as if nothing ever happened. As a result of the Chinese authorities' concerted efforts to bolster domestic drivers (such as public investments), the overall size of the economy was larger at the end of 2020 than in the previous year, according to the publicly available monthly macro indicators (we will see the actual 2020 GDP figure on the 18th January). Compared with developed economies, China performed exceptionally well economically under unprecedented circumstances, as GDP in most major economies (including the US, the UK and Euro Area) will not surpass their pre-crisis highs before 2022-23. Looking forward, growth momentum in China will undoubtedly continue, as for example evidenced by all PMI prints in December. Although the government has not announced an official GDP growth target for 2021, it is likely that they would not be content with anything below 5.5% as they want to double the size of the economy by 2035 (as previously outlined by President Xi Jinping).

However, since the administration's longstanding preference of financial stability over excessive growth still stands (i.e. slowly withdrawing monetary accommodation and reducing the degree of macro leverage in a gradual and orderly manner), it would be too optimistic to expect stellar double-digit growth in 2021, in our opinion (the median of the Bloomberg consensus is at 8.2% at the time of writing). By abandoning the announcement of an explicit GDP growth target, the government has increased its own flexibility and thus will be able to put more emphasis on other important objectives, such as cutting carbon emissions, promoting green solutions, and achieving greater control over debt. Overall, we retain our positive view on the outlook Chinese economy but given the government's objective of rebalancing the economy, ESG concerns and the lingering geopolitical risks, we remain selective with our allocation with respect to sectors. China was the largest country allocation in the Alquity Asia Fund (31.9% as at 7th January) as well as in the Alquity Future World Fund (30.4% as at 7th January).

INDIA: NEW AGRICULTURAL LAWS

Farmers from Northern India have been protesting three laws that were brought by the government to deregulate the buying and selling of agricultural goods. The new regulations would allow food processors and big retailers to directly buy from farmers, replacing the government-regulated wholesale markets. As a result, the buying and selling of agricultural goods would move towards the open markets, which – farmers argue – could lead to corporations exploiting them threatening their livelihood.

According to the government, the state-regulated markets will continue to exist alongside the new open markets and have offered to give written assurances to the farmers they will continue to get a minimum price for their crops. This has been accepted by farmers in many regions, but the Northern farmers continue to negotiate with the government towards an amicable resolution. We do not envisage any impact in the near term to our portfolios from this uncertainty.

CALENDAR OF MAJOR FORTHCOMING EVENTS

| DATE | COUNTRY | EVENT |
|-----------------|-----------|--|
| 20 January 2021 | US | Inauguration of Joe Biden as President |
| 27 January 2021 | US | FOMC monetary policy meeting |
| January 2021 | Asia | India and Indonesia to start vaccination |
| February 2021 | Brazil | Internal elections for the leadership of Congress |
| March 2021 | India | Renewal of the RBI's primary mandate |
| March 2021 | China | National People's Congress meeting |
| 1Q 2021 | Argentina | Negotiations with the IMF continue for a new credit line |
| 1Q 2021 | India | Slower inflation may trigger further easing by the RBI |
| April 2021 | Chile | Election of the convention delegated to draw up the new constitution |
| April 2021 | Peru | General election |
| May 2021 | Vietnam | National Assembly election |

GLOBAL MARKET DATA

11 JANUARY

| Equities | | | | Return (USD) | | | |
|---|-----------------|--------------|-----------|--------------------------|--------|---------|---------|
| Name | BBG Code | Country | Price | MTD | 3M | YTD | 1Y |
| North America and Developed Europe | | | | | | | |
| S&P 500 INDEX | SPX Index | US | 3,824.68 | 1.83% | 10.96% | 1.83% | 16.79% |
| RUSSELL 2000 INDEX | RTY Index | US | 2,091.66 | 5.91% | 28.44% | 5.91% | 25.63% |
| NASDAQ COMPOSITE | COMP Index | US | 13,201.98 | 2.43% | 15.59% | 2.43% | 43.45% |
| Euro Stoxx 50 Pr | SX5E Index | Europe | 3,627.10 | 2.63% | 16.47% | 2.63% | 5.75% |
| FTSE 100 INDEX | UKX Index | UK | 6,841.40 | 5.84% | 20.67% | 5.84% | -5.95% |
| Asia Pacific | | | | | | | |
| NI KKEI 225 | NKY Index | Japan | 28,139.03 | 1.80% | 21.31% | 1.80% | 24.82% |
| S&P/ASX 200 INDEX | AS51 Index | Australia | 6,697.16 | 3.49% | 20.03% | 3.49% | 11.35% |
| Straits Times Index STI | STI Index | Singapore | 2,983.90 | 4.91% | 20.62% | 4.91% | -6.00% |
| HANG SENG INDEX | HSI Index | Hong Kong | 27,908.22 | 2.36% | 15.15% | 2.36% | -2.24% |
| SHANGHAI SE COMPOSITE | SHCOMP Index | China "A" | 3,531.50 | 3.63% | 16.36% | 3.63% | 23.51% |
| HANG SENG CHINA ENT INDEX | HSCEI Index | China "H" | 11,059.51 | 2.00% | 13.75% | 2.00% | -2.74% |
| Nifty 50 | NIFTY Index | India | 14,484.75 | 2.18% | 21.17% | 2.18% | 13.97% |
| TAI WAN TAI EX INDEX | TWSE Index | Taiwan | 15,557.30 | 5.31% | 23.55% | 5.31% | 38.26% |
| KOSPI INDEX | KOSPI Index | Korea | 3,148.45 | 9.20% | 38.73% | 9.20% | 52.82% |
| JAKARTA COMPOSITE INDEX | JCI Index | Indonesia | 6,382.94 | 4.08% | 29.63% | 4.08% | -2.14% |
| PSEI - PHILIPPINE SE IDX | PCOMP Index | Philippines | 7,304.79 | 1.96% | 23.72% | 1.96% | -1.46% |
| STOCK EXCH OF THAI INDEX | SET Index | Thailand | 1,536.49 | 5.43% | 24.83% | 5.43% | -2.30% |
| FTSE Bursa Malaysia KLCI | FBM KLCI Index | Malaysia | 1,617.25 | 0.12% | 10.76% | 0.12% | 3.88% |
| HO CHI MINH STOCK INDEX | VNI NDX Index | Vietnam | 1,184.89 | 5.92% | 27.73% | 5.92% | 22.18% |
| KSE-100 INDEX | KSE100 Index | Pakistan | 45,605.42 | 4.48% | 15.65% | 4.48% | 3.70% |
| DSE 30 Index | DS30 Index | Bangladesh | 2,123.97 | 4.17% | 22.74% | 4.17% | 45.73% |
| Latin America | | | | | | | |
| BRAZIL IBrX INDEX | IBX Index | Brazil | 53,302.19 | 1.83% | 33.36% | 1.83% | -17.15% |
| S&P/BMV IPC | MEXBOL Index | Mexico | 46,729.30 | 5.59% | 30.05% | 5.59% | -1.30% |
| S&P Merval TR ARS | Merval Index | Argentina | 51,673.77 | -0.28% | 2.91% | -0.28% | -13.61% |
| S&P/CLX IPSA (CLP) TR | IPSA Index | Chile | 4,560.02 | 9.62% | 40.64% | 9.62% | 0.78% |
| S&P/BVL Peru General TRPEN | SPBVLPGPT Index | Peru | 21,625.37 | 4.21% | 19.04% | 4.21% | -2.54% |
| COLOMBIA COLCAP INDEX | COLCAP Index | Colombia | 1,453.12 | -0.23% | 35.57% | -0.23% | -17.50% |
| Emerging Europe, Middle East and Africa | | | | | | | |
| WIG 20 | WIG20 Index | Poland | 2,077.28 | 5.50% | 24.83% | 5.50% | -0.46% |
| MDEX Russia Index | IMOEX Index | Russia | 3,504.59 | 5.43% | 26.47% | 5.43% | -8.53% |
| FTSE/JSE AFRI CA TOP40 IX | TOP40 Index | South Africa | 58,713.86 | 2.99% | 26.26% | 2.99% | 6.80% |
| EGYPT HERMES INDEX | HERMES Index | Egypt | 1,174.11 | 2.05% | 3.02% | 2.05% | -6.67% |
| MASI Free Float Index | MOSENEW Index | Morocco | 11,249.14 | 0.73% | 15.82% | 0.73% | -1.18% |
| NI GERI A STOK EXC ALL SHR | NGSEI NDX Index | Nigeria | 40,105.66 | 4.52% | 41.38% | 4.52% | 29.67% |
| DFM GENERAL INDEX | DFMG Index | Dubai | 2,698.68 | 5.36% | 18.58% | 5.36% | -4.50% |
| FX (vs USD) | | | | Return +ive=USD Stronger | | | |
| Name | BBG Code | Price | MTD | 3M | YTD | 1Y | |
| DOLLAR INDEX SPOT | DXY Index | 90.46 | 0.18% | -3.75% | 0.18% | -7.54% | |
| USD-EUR X-RATE | USDEUR Curncy | 0.82 | -0.01% | -3.88% | -0.01% | -9.19% | |
| USD-GBP X-RATE | USDCBP Curncy | 0.74 | 0.56% | -4.70% | 0.56% | -3.80% | |
| USD-AUD X-RATE | USDAUD Curncy | 1.30 | -0.88% | -7.73% | -0.88% | -11.72% | |
| USD-JPY X-RATE | USDJPY Curncy | 104.16 | 0.67% | -1.91% | 0.67% | -5.04% | |
| Bl oonberg JPMrgan Asi a Doll ar | ADXY Index | 109.30 | 0.13% | 3.48% | 0.13% | 4.05% | |
| USD-CNY X-RATE | USDCNY Curncy | 6.48 | -0.81% | -4.66% | -0.81% | -6.60% | |
| USD-INR X-RATE | USDINR Curncy | 73.47 | 0.42% | 0.05% | 0.42% | 3.05% | |
| USD-TWD X-RATE | USDTWD Curncy | 28.02 | -0.33% | -2.88% | -0.33% | -6.56% | |
| USD-KRW X-RATE | USDKRW Curncy | 1,098.10 | 0.48% | -5.01% | 0.48% | -5.66% | |
| USD-IDR X-RATE | USDIDR Curncy | 14,192.00 | 1.36% | -4.20% | 1.36% | 1.91% | |
| USD-PHP X-RATE | USDPHP Curncy | 48.09 | 0.14% | -0.85% | 0.14% | -5.13% | |
| USD-BRL X-RATE | USDBRL Curncy | 5.47 | 3.43% | -3.88% | 3.43% | 31.50% | |
| USD-MXN X-RATE | USDMXN Curncy | 20.20 | 0.43% | -6.44% | 0.43% | 6.22% | |
| USD-ARS X-RATE | USDARS Curncy | 85.13 | 1.16% | 10.40% | 1.16% | 42.30% | |
| USD-PLN X-RATE | USDPLN Curncy | 3.72 | -1.30% | -3.46% | -1.30% | -3.49% | |
| Russi an Ruble SPOT (TCM) | USDRUB Curncy | 74.63 | 0.07% | -4.03% | 0.07% | 21.14% | |
| USD-ZAR X-RATE | USDZAR Curncy | 15.46 | 4.31% | -7.70% | 4.31% | 7.44% | |
| Commodities | | | | Return (USD) | | | |
| WTI CRUDE FUTURE Feb21 | CLA Comdty | 51.84 | 7.67% | 23.97% | 7.67% | -5.35% | |
| BRENT CRUDE FUTR Mar21 | COA Comdty | 55.26 | 8.09% | 26.08% | 8.09% | -6.21% | |
| Baltic Dry Index | BDI Y Comdty | 1,606.00 | 17.57% | -18.48% | 17.57% | 108.03% | |
| Nat ural Gas Futures | NG1 Comdty | 2.60 | 6.34% | 2.78% | 6.34% | 24.65% | |
| Gold Spot \$/Oz | XAU Curncy | 1,849.20 | -2.65% | -2.19% | -2.65% | 19.03% | |
| Silver Spot \$/Oz | XAG Curncy | 24.96 | -5.45% | 4.93% | -5.45% | 39.42% | |
| LME COPPER 3MO (\$) | LMCADS03 Comdty | 8,131.00 | 4.70% | 21.67% | 4.70% | 31.57% | |



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