

# GLOBAL MARKET UPDATE

## EMERGING MARKETS TO REMAIN THE FLAVOUR OF THE YEAR

- *It will take at least one more year until Developed Economies climb out of the recessionary crater*
- *India is set to become one of the fastest growing countries*
- *Improving outlook on Brazil's reform agenda*

The pace of GDP recovery in the US slowed to 1% QoQ in 4Q20, following the 7.5% QoQ bounce in the previous quarter. The meagre sequential growth in the last quarter of 2020 translated into a 2.5% decline year-on-year. Investment activity sharply rose relative to the previous quarter (most likely due to release of pent-up demand from 2Q20), but the recovery of consumer spending came to a standstill in 4Q20 due to the headwinds posed by the pandemic. The Federal Reserve (Fed) acknowledged the softness in the jobs market and consumer spending. Consequently, Fed Chair Powell reaffirmed the new forward guidance that the FOMC had adopted in December with respect to asset purchases (USD 80bn Treasury and USD 40bn MBS purchases per month) – playing down any ideas of an imminent tapering. Furthermore, Mr Powell made it crystal clear that the first rate hike is years away.

On the other side of the Atlantic, the situation is even more dire, as the Eurozone entered the second phase of a double dip recession with its economy contracting 0.7% QoQ in 4Q20 (the UK will release its quarterly GDP print on the 12th February). In the context of the headwinds the Eurozone is facing (e.g. prolonged lockdowns, delayed roll out of vaccines, etc.), the European Central Bank (ECB) emphasised that it would do everything in its power to maintain accommodative financial conditions as long as needed.

Meanwhile, the Bank of England (BoE) delivered a more upbeat message on the UK's economic prospects. According to the BoE, the UK's enviable progress with vaccination means that the economy would almost immediately start to catch up to its pre-pandemic output level once the number of inoculated allow the loosening of mobility restrictions.

Overall, the outlook for GDP growth in Developed Economies is not the rosier, in the near term. Vaccination and the subsequent release of lockdowns will be key for the post-pandemic recovery. But, with the right economic policies, there is a chance that some will return to the pre-pandemic level of output by the end of this year, but it will take a considerably longer time for others.

## EM CONTINUES TO PROVIDE HOPE

The global economic recovery slowed slightly in January, according to the J.P. Morgan Global Composite PMI, which eased to 52.3 (from 52.7 in December). However, we see the glass as half full rather than half empty, as the gauge remained well above the 50-point threshold, despite the headwinds brought about by the pandemic – and that is key. From a regional point of view, business sentiment in the manufacturing sector was the strongest in the US, Asia (Taiwan, India, China and South Korea in particular) and Brazil.

We note that there may be a growing disconnect

between how US businesses perceive their prospects and reality, as manufacturing PMIs suggest a strong expansion, whilst actual industrial production continued to contract on year-on-year basis. Therefore, it would not come as a surprise if the growing optimism in the US would be somewhat scaled back over the coming months. In contrast to the US, the upbeat PMIs are more consistent with actual activity in Asia, which reinforces our view that EM Asian economies will continue to lead global GDP growth in 2021.

## INDIA: NEW AGRICULTURAL LAWS

The announcement of the Indian budget for FY2022 (ending in March 2022) and the subsequent monetary policy decision by the Reserve Bank of India (RBI) has recently taken centre stage. Our view is that policymakers on all fronts will promote steps to further boost the post-pandemic economic upcycle as well as enhance the longer-term GDP growth potential of India.

From a cyclical point of view, the new budget will primarily focus on infrastructure development, with a 26% rise in spending in FY2022 compared with the previous fiscal year. The amount represents ca. 15.9% of total budget expenditures – the highest since 2008. Meanwhile the RBI remains on an accommodative stance by maintaining negative to neutral real interest

rates in the economy (4% key interest rate vs. 4.3% YoY CPI inflation in January), which should oil the wheels and contribute to the efficient absorption of the fiscal impulse.

Overall, such a comprehensive and expansionary set of stimuli will help prolong the cyclical upswing in India that materialised in 3Q-4Q20. In that context the Bloomberg consensus for real GDP growth (10.4% in FY2022) looks reasonable, following an estimated contraction of almost 8% in FY2021. Should the expected double-digit growth be achieved, India will become one of the fastest growing country globally this year. The Indian country weighting was 15.4% in the Alquity Future World Fund and 21.1% in the Alquity Asia Fund as at 5th February.

## A RENEWED PUSH FOR REFORMS IN THE BRAZILIAN CONGRESS

Lawmakers in Brazil elected new leaders of the Senate (Mr Rodrigo Pacheco) and House (Mr Arthur Lira). Both candidates are considered centrists, who are aligned with and backed by President Bolsonaro. The outcome lowers the probability of the president being impeached (on the grounds of mismanaging the coronavirus pandemic). Furthermore, as opposed to many countries where the role of the Senate and House leaders are symbolic, they have actual influence on the legislative process in Brazil, as they set the agenda for Congress. Both newly appointed heads pledged to prioritise key economic reforms (e.g. reform the tax system and civil service, etc.) and additional Covid-related financial

assistance to households, whilst respecting the spending cap. Most importantly, Economy Minister Guedes seems to be on board and is showing willingness to find a compromise.

Although the nature of politics is often unpredictable and noisy, we believe that the travel of direction has turned favourable in Brazil, as the approach taken by key policymakers is constructive and keep the sustainability of the fiscal accounts and public debt in focus. The Brazilian country weighting was 4.9% in the Alquity Future World Fund as at 5th February.

## CALENDAR OF MAJOR FORTHCOMING EVENTS

DATE	COUNTRY	EVENT
February 2021	US	Congress starts hearings on Biden's economic relief bill
11 February 2021	South Africa	President Ramaphosa's State of the Nation Address
12 February 2021	China	Lunar New Year (11-17 February: national public holiday)
24 February 2021	South Africa	National Budget Speech by the Finance Minister
17 March 2021	US	FOMC meeting
March 2021	India	Renewal of the RBI's primary mandate
March 2021	China	National People's Congress meeting
March 2021	Pakistan	Senate elections for half of the seats
1Q 2021	Argentina	Negotiations with the IMF continue for a new credit line
1Q 2021	Pakistan	Resumption of the IMF programme
1Q 2021	India	Slower inflation may trigger further easing by the RBI
1Q 2021	Morocco	Restart of the follow up programme with the IMF
April 2021	ASEAN	38th Summit hosted in Brunei
April 2021	Mexico	Preliminary budget proposal for 2022
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
April/May 2021	India	State elections: Assam, Kerala, Puducherry, Tamil Nadu, West Bengal
June 2021	Mexico	Mid-term elections in both houses of Congress
1H 2021	Indonesia	Implementation of the Omnibus Law on labour and investments
1H 2021	Brazil	Progress on structural reforms, e.g. tax simplification
3Q 2021	Malaysia	Decision by FTSE Russell whether to keep Malaysia in the World Government Bond index
October 2021	Argentina	Mid-term elections in both houses
November 2021	Chile	General election

# GLOBAL MARKET DATA

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Equities				Return (USD)				
Name	BBG Code	Country	Price	1 Week	MTD	3M	YTD	1Y
North America and Developed Europe								
S&P 500 INDEX	SPX Index	US	3,906.03	4.65%	4.65%	10.75%	3.48%	16.17%
RUSSELL 2000 INDEX	RTY Index	US	2,270.37	7.70%	7.70%	35.83%	13.09%	33.14%
NASDAQ COMPOSITE	CCMP Index	US	13,949.99	6.01%	6.01%	16.49%	7.51%	44.76%
Euro Stoxx 50 Pr	SX5E Index	Europe	3,673.95	4.19%	4.19%	15.61%	1.33%	5.37%
FTSE 100 INDEX	UKX Index	UK	6,540.74	1.48%	1.48%	14.64%	1.05%	-8.19%
Asia Pacific								
NIKKEI 225	NKY Index	Japan	29,388.50	3.39%	3.39%	16.00%	2.77%	25.83%
S&P/ASX 200 INDEX	AS51 Index	Australia	6,880.68	3.89%	3.89%	16.57%	3.52%	10.46%
Straits Times Index STI	STI Index	Singapore	2,931.40	-0.21%	-0.21%	13.85%	1.25%	-6.59%
HANG SENG INDEX	HSI Index	Hong Kong	29,319.47	3.56%	3.56%	13.93%	7.57%	6.67%
SHANGHAI SE COMPOSITE	SHCOMP Index	China 'A'	3,532.45	-0.20%	-0.20%	7.94%	1.63%	31.50%
HANG SENG CHINA ENT INDX	HSCEI Index	China 'H'	11,560.01	3.16%	3.16%	10.15%	7.68%	7.55%
Nifty 50	NIFTY Index	India	15,115.80	9.57%	9.57%	23.63%	7.10%	20.21%
TAIWAN TAIEX INDEX	TWSE Index	Taiwan	15,802.40	4.49%	4.49%	24.20%	7.66%	44.44%
KOSPI INDEX	KOSPI Index	Korea	3,091.24	4.76%	4.76%	29.55%	5.82%	48.43%
JAKARTA COMPOSITE INDEX	JCI Index	Indonesia	6,208.87	5.13%	5.13%	17.27%	3.09%	0.15%
PSEI - PHILIPPINE SE IDX	PCOMP Index	Philippines	7,024.48	5.97%	5.97%	5.08%	-1.94%	-1.52%
STOCK EXCH OF THAI INDEX	SET Index	Thailand	1,516.43	1.61%	1.61%	20.97%	3.01%	1.04%
FTSE Bursa Malaysia KLCI	FBMCLCI Index	Malaysia	1,573.33	0.03%	0.03%	5.36%	-4.18%	2.98%
HO CHI MINH STOCK INDEX	VNINDEX Index	Vietnam	1,083.18	6.89%	6.89%	20.99%	2.53%	21.23%
KSE-100 INDEX	KSE100 Index	Pakistan	46,721.87	1.26%	1.26%	14.51%	7.62%	11.24%
DSE 30 Index	DS30 Index	Bangladesh	2,023.47	-0.79%	0.69%	25.98%	10.51%	43.71%
Latin America								
BRAZIL IBR X INDEX	IBX Index	Brazil	51,264.57	6.86%	6.86%	20.48%	-2.08%	-16.51%
S&P/BMV IPC	MEXBOL Index	Mexico	44,144.27	4.14%	4.14%	17.64%	-0.59%	-8.05%
S&P Merval TR ARS	Merval Index	Argentina	51,931.76	4.97%	4.97%	-5.45%	-4.71%	-13.94%
S&P/CLX IPSA (CLP) TR	IPSA Index	Chile	4,470.60	3.17%	3.17%	19.14%	2.84%	0.57%
S&P/BVLPeruGeneraITRPEN	SPBLPGPT Index	Peru	21,830.88	3.15%	3.15%	19.72%	4.05%	0.48%
COLOMBIA COLCAP INDEX	COLCAP Index	Colombia	1,383.23	2.05%	2.05%	22.43%	-8.20%	-21.23%
Emerging Europe, Middle East and Africa								
WIG 20	WIG20 Index	Poland	1,954.85	0.55%	0.55%	17.35%	-1.41%	-3.50%
MOEX Russia Index	IMOEX Index	Russia	3,444.57	5.25%	5.25%	21.55%	3.05%	-7.11%
FTSE/JSE AFRICA TOP40 IX	TOP40 Index	South Africa	59,647.94	5.21%	5.21%	19.58%	7.03%	14.35%
EGYPT HERMES INDEX	HERMES Index	Egypt	1,214.65	0.62%	0.63%	14.08%	8.89%	-4.61%
MASI Free Float Index	MOSENEW Index	Morocco	11,704.75	0.31%	0.31%	15.21%	3.01%	3.33%
NIGERIA STCK EXC ALL SHR	NGSEINDEX Index	Nigeria	41,564.31	-1.79%	-1.79%	34.92%	8.80%	41.60%
DFM GENERAL INDEX	DFMGI Index	Dubai	2,643.13	-0.98%	0.63%	23.62%	7.18%	-3.57%
FX (vs USD)				Return +ive-USD Stronger				
Name	BBG Code	Country	Price	1 Week	MTD	3M	YTD	1Y
DOLLAR INDEX SPOT	DX Index	USD Index	90.92	0.51%	0.51%	-1.29%	1.23%	-7.57%
USD-EUR X-RATE	USDEUR Curncy	Europe	0.83	0.79%	0.79%	-1.32%	1.58%	-8.83%
USD-GBP X-RATE	USDGBP Curncy	Russia	0.73	-0.21%	-0.21%	-4.22%	-0.57%	-5.82%
USD-AUD X-RATE	USDAUD Curncy	Turkey	1.30	-0.33%	-0.33%	-5.21%	0.30%	-12.15%
USD-JPY X-RATE	USDJPY Curncy	UK	105.20	0.62%	0.62%	1.99%	1.98%	-4.20%
Bloomberg JPMorgan Asia Dollar	ADXY Index	Asia USD Index	109.37	-0.20%	-0.20%	1.57%	0.00%	4.79%
USD-CNY X-RATE	USDCNY Curncy	Australia	6.45	0.58%	0.58%	-2.20%	-0.94%	-7.24%
USD-INR X-RATE	USDINR Curncy	China	72.87	-0.10%	-0.10%	-1.56%	-0.33%	2.28%
USD-TWD X-RATE	USDTWD Curncy	India	27.99	-0.10%	-0.10%	-1.93%	-0.37%	-6.89%
USD-KRW X-RATE	USDKRW Curncy	Japan	1,117.77	0.09%	0.09%	-0.32%	2.65%	-5.63%
USD-IDR X-RATE	USDIDR Curncy	Korea	14,021.00	-0.19%	-0.19%	-1.68%	0.61%	2.59%
USD-PHP X-RATE	USDPHP Curncy	Taiwan	48.06	0.17%	0.17%	-0.09%	0.26%	-5.05%
USD-BRL X-RATE	USDBRL Curncy	Argentina	5.33	-2.11%	-2.11%	-1.41%	3.13%	25.72%
USD-MXN X-RATE	USDMXN Curncy	Brazil	20.09	-1.38%	-1.38%	-2.61%	0.77%	7.90%
USD-ARS X-RATE	USDARS Curncy	Chile	88.16	0.78%	0.78%	11.35%	4.59%	45.02%
USD-PLN X-RATE	USDPLN Curncy	Mexico	3.71	-0.05%	-0.05%	-1.72%	-0.24%	-3.94%
Russian Ruble SPOT (TOM)	USDRUB Curncy	Egypt	74.27	-1.63%	-1.63%	-3.60%	0.55%	17.95%
USD-ZAR X-RATE	USDZAR Curncy	Nigeria	14.85	-2.35%	-2.35%	-5.09%	1.16%	-0.24%
Commodities				Return (USD)				
WTI CRUDE FUTURE Mar21	CLA Comdty	US	57.86	8.91%	8.91%	48.28%	16.90%	11.14%
BRENT CRUDE FUTR Apr21	COA Comdty	UK	60.31	7.81%	7.81%	46.19%	14.51%	7.13%
Baltic Dry Index	BDIY Comdty		1,333.00	-8.20%	-8.20%	11.45%	-2.42%	209.28%
Natural Gas Futures	NG1 Comdty		2.89	11.66%	11.66%	-0.87%	12.76%	53.76%
Gold Spot \$/Oz	XAU Curncy		1,838.03	-2.17%	-2.17%	-7.16%	-4.35%	15.75%
Silver Spot \$/Oz	XAG Curncy		27.51	0.81%	0.81%	5.70%	2.40%	51.32%
LME COPPER 3MO (\$)	LMCADSO3 Comdty		7,912.50	0.72%	0.72%	13.91%	1.89%	37.97%



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