

July 2022

EMsights Capital Group

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Current Macro Environment

- Uncertainty reigns
- Inflation versus recession
 - Perhaps both?
- Ukraine/Russia war continues
- Fed tightening: early days but impacting markets
 - Crypto Winter
 - Mortgage Rates—up 96% YoY
 - Risk selloff—Equity, HY, IG, EMD selloff
 - US Treasury moves
- Europe's pending implosion
- Question: What does the next decade look like?

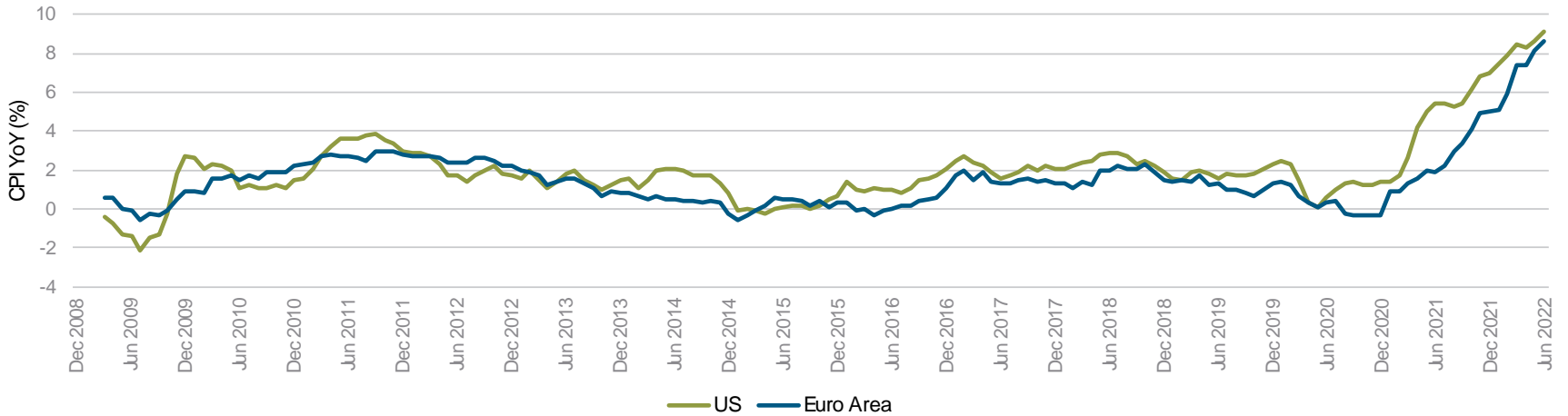
With more rate hikes ahead, should we expect heightened volatility?



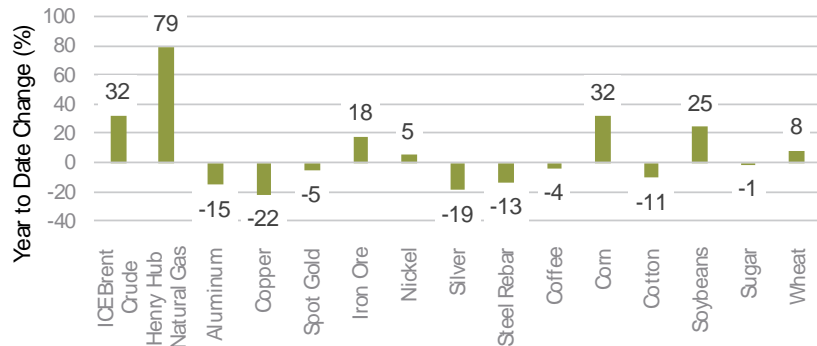
Source: Bloomberg as of 17 Jul 2022.

Inflation accelerating, commodities peaking?

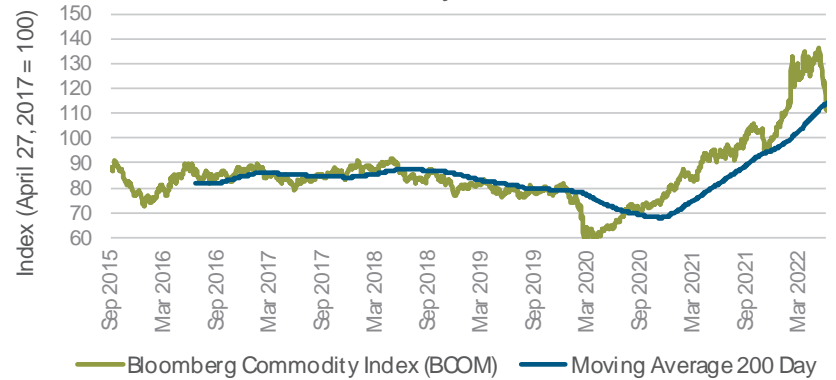
US and Euro Area CPI



Commodity Price Changes 2022



Commodity Prices



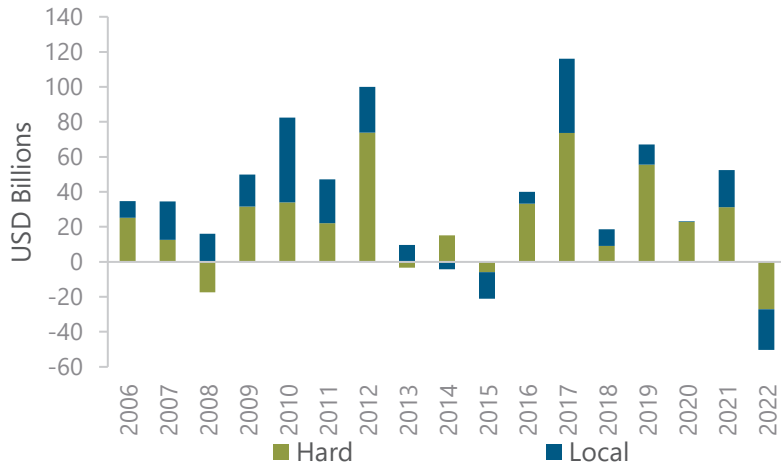
Source: Bloomberg. As of 12 Jul 2022.

Stress on multiple fronts

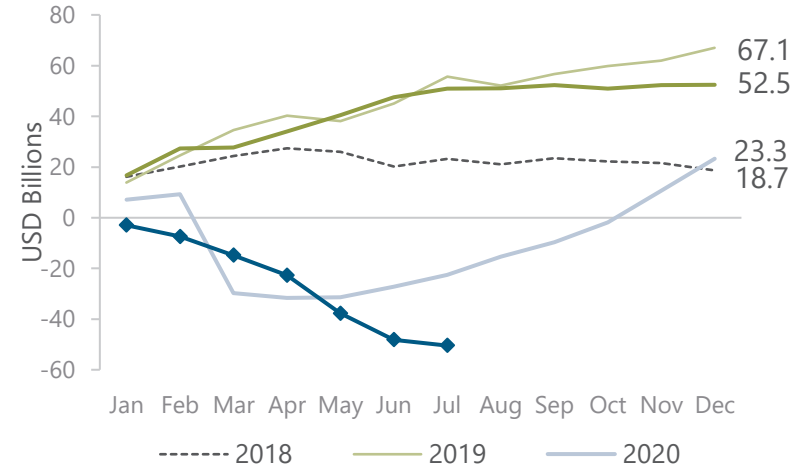
- Outflows in the asset class
- Adjustment to world with higher base rates going poorly
- Stressed and distressed lineup is growing

Emerging Markets Debt is experiencing outflows, first net outflows since 2015

Emerging Markets Debt Bond Flows By Currency Exposure

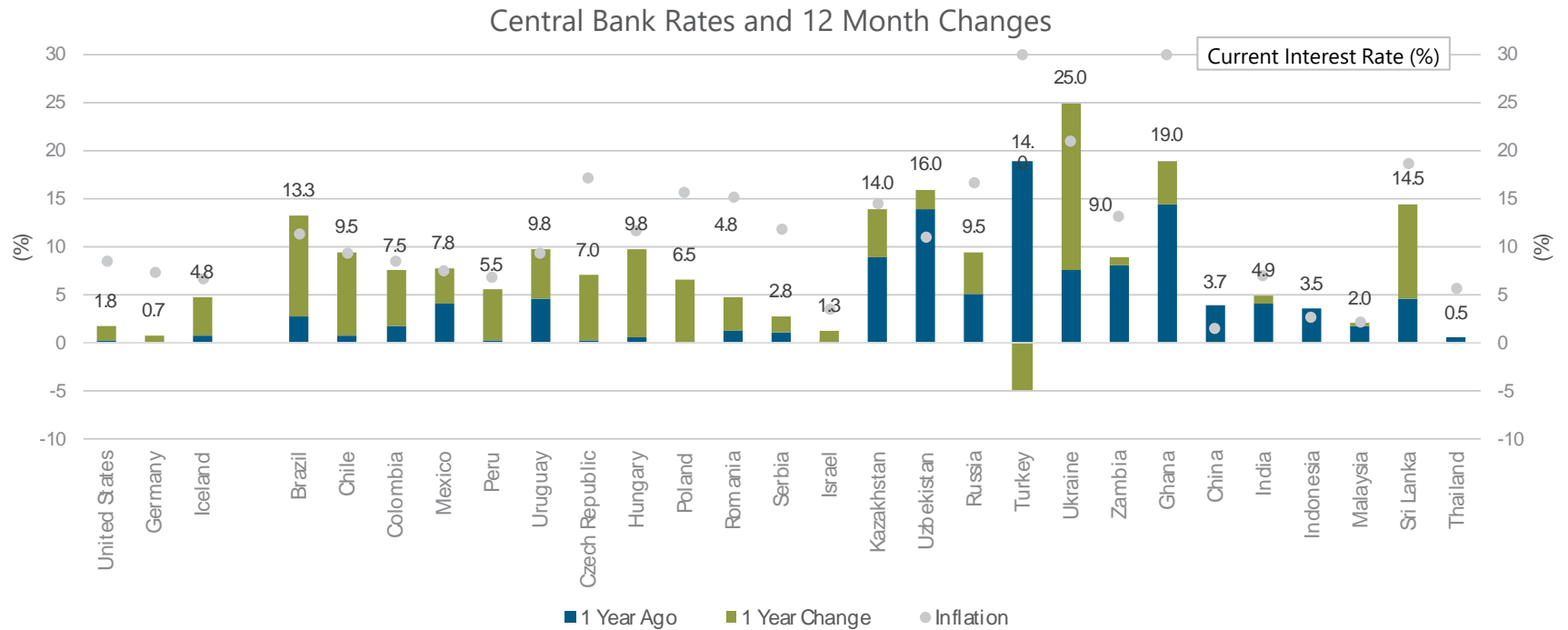


Emerging Markets Debt Cumulative Bond Flows



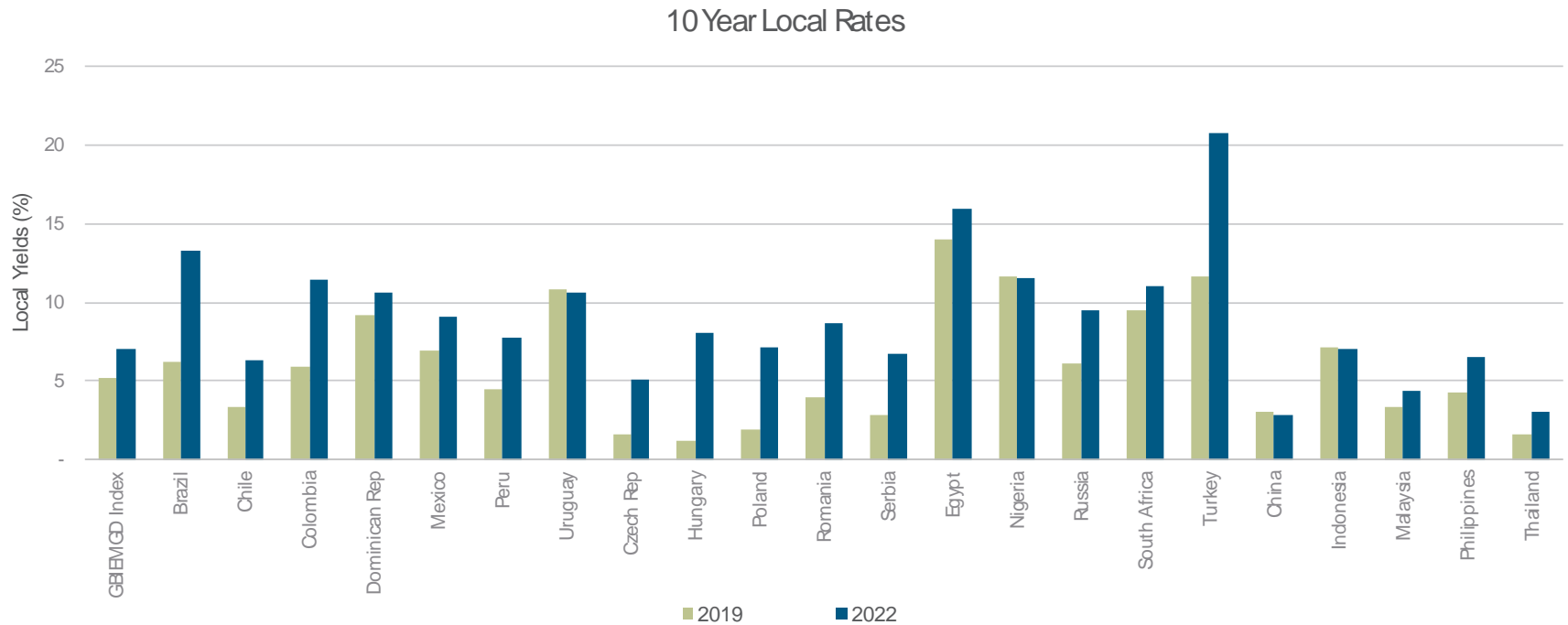
Source: J.P. Morgan as of 30 Jun 2022.

EM central banks are responding, some more than others



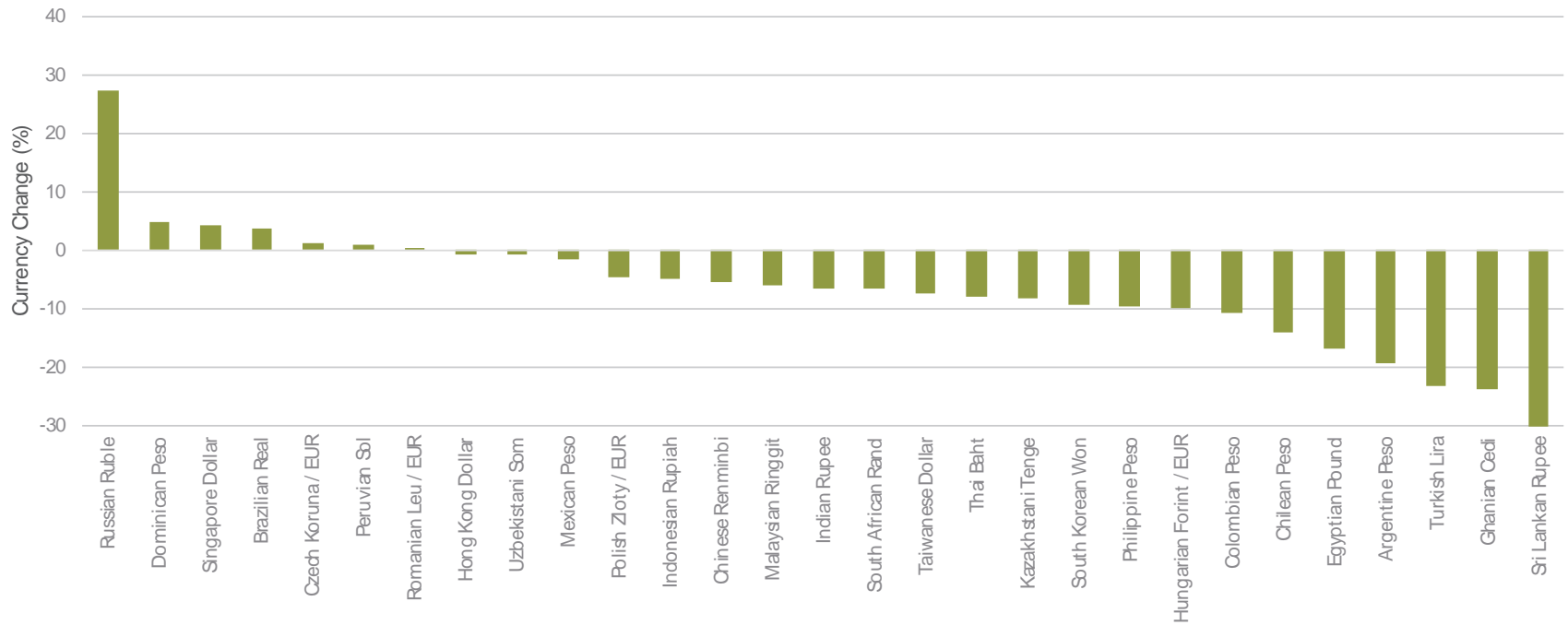
Source: Bloomberg/Trading Economics. As of 20 Jul 2022. Past performance does not guarantee and is not a reliable indicator of future results.

Local rates, in most countries, have reacted to inflation



Source: J.P. Morgan as of 30 Jun 2022. Past performance does not guarantee and is not a reliable indicator of future results. Includes current and prior countries within the GBIEMGD Index as reported by J.P. Morgan.

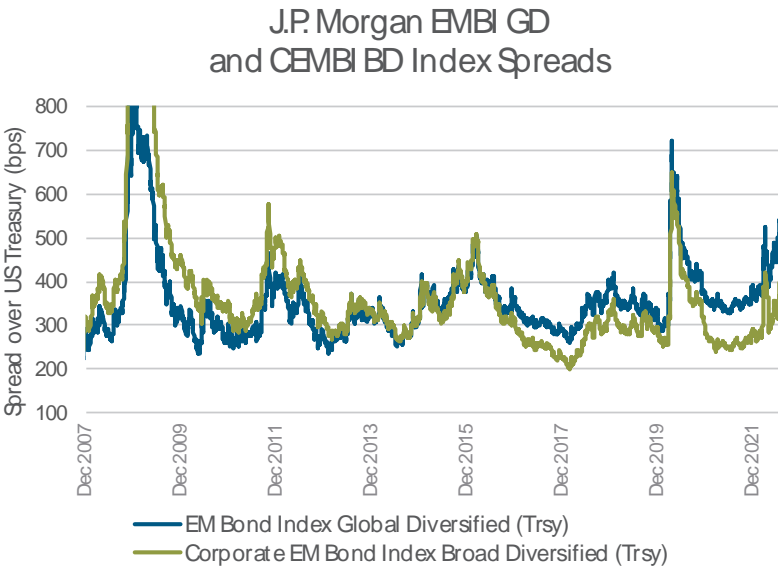
Foreign exchange performance - flight to the U.S. Dollar



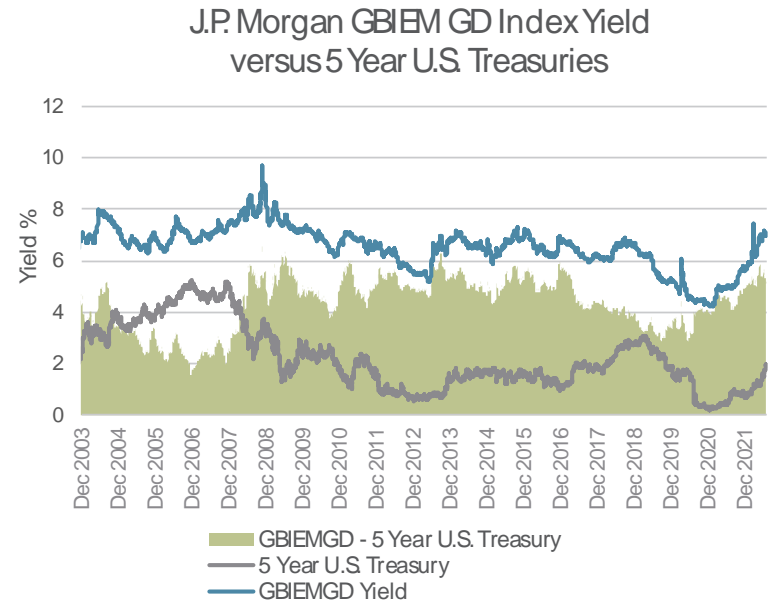
Source: Bloomberg. As of 7 Jul 2022. Illustrates each currency's relative exchange rate change to USD and EUR. Past performance does not guarantee and is not a reliable indicator of future results.

Local and hard currency yield and spread levels

EM hard currency spreads have widened since early 2021

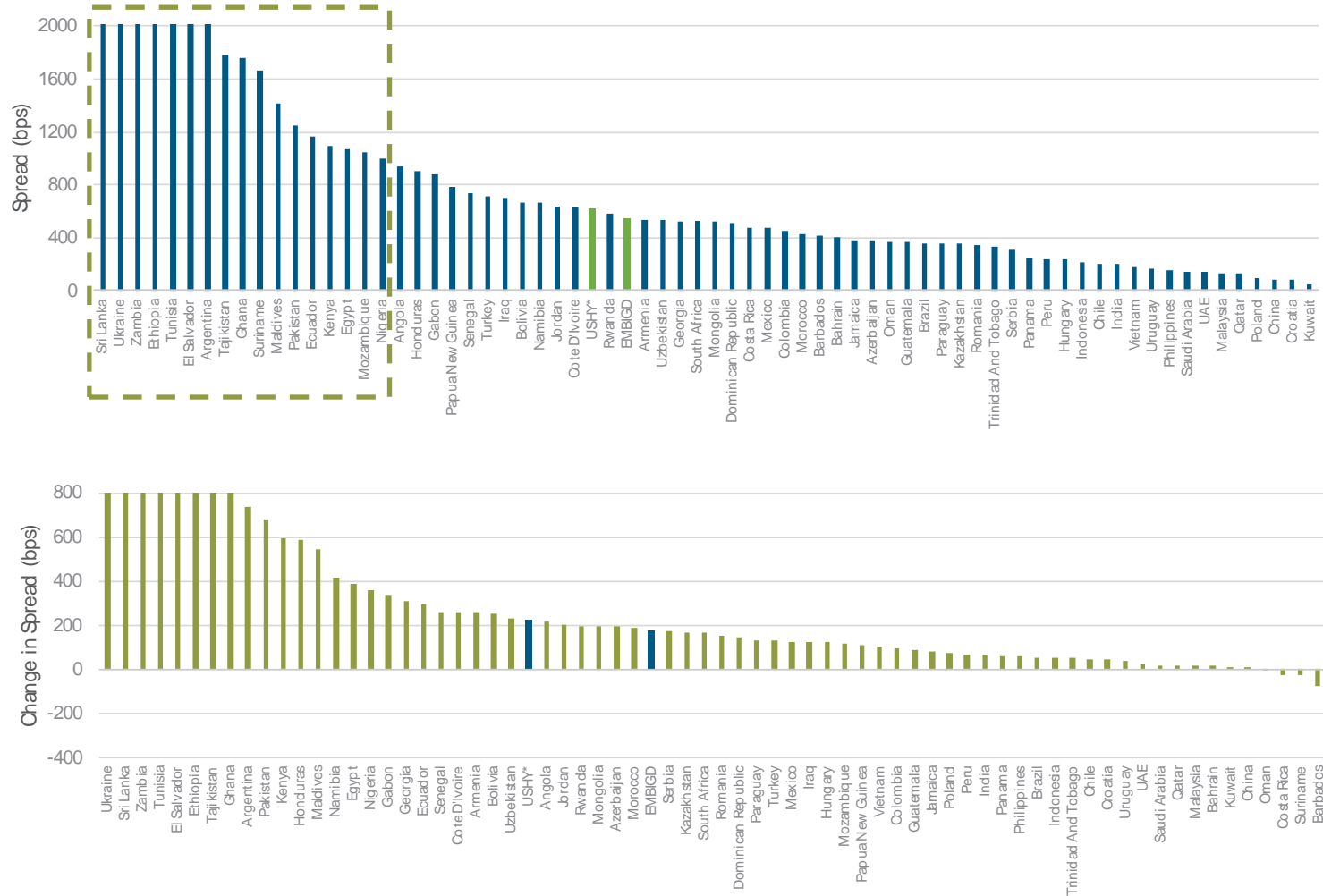


EM local yields have sold off significantly since their lows of December 2020



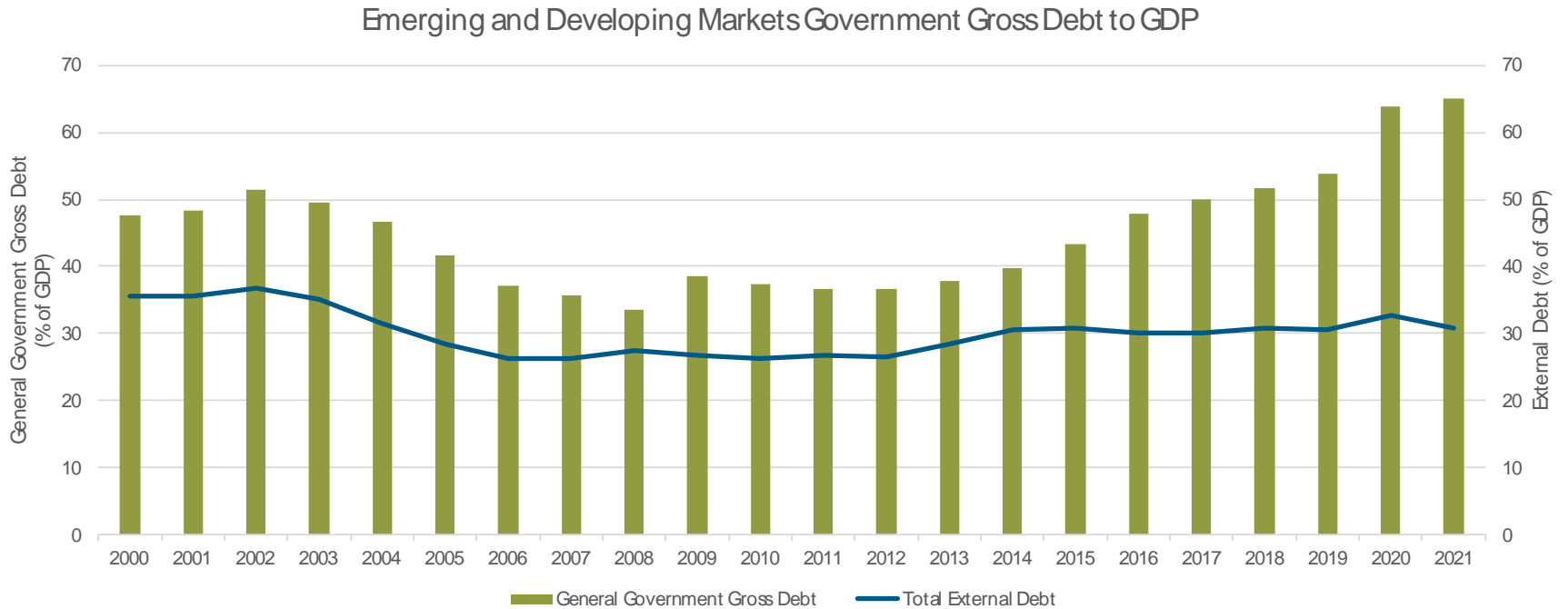
Source: J.P. Morgan as of 30 Jun 2022.

Number of distressed countries is growing



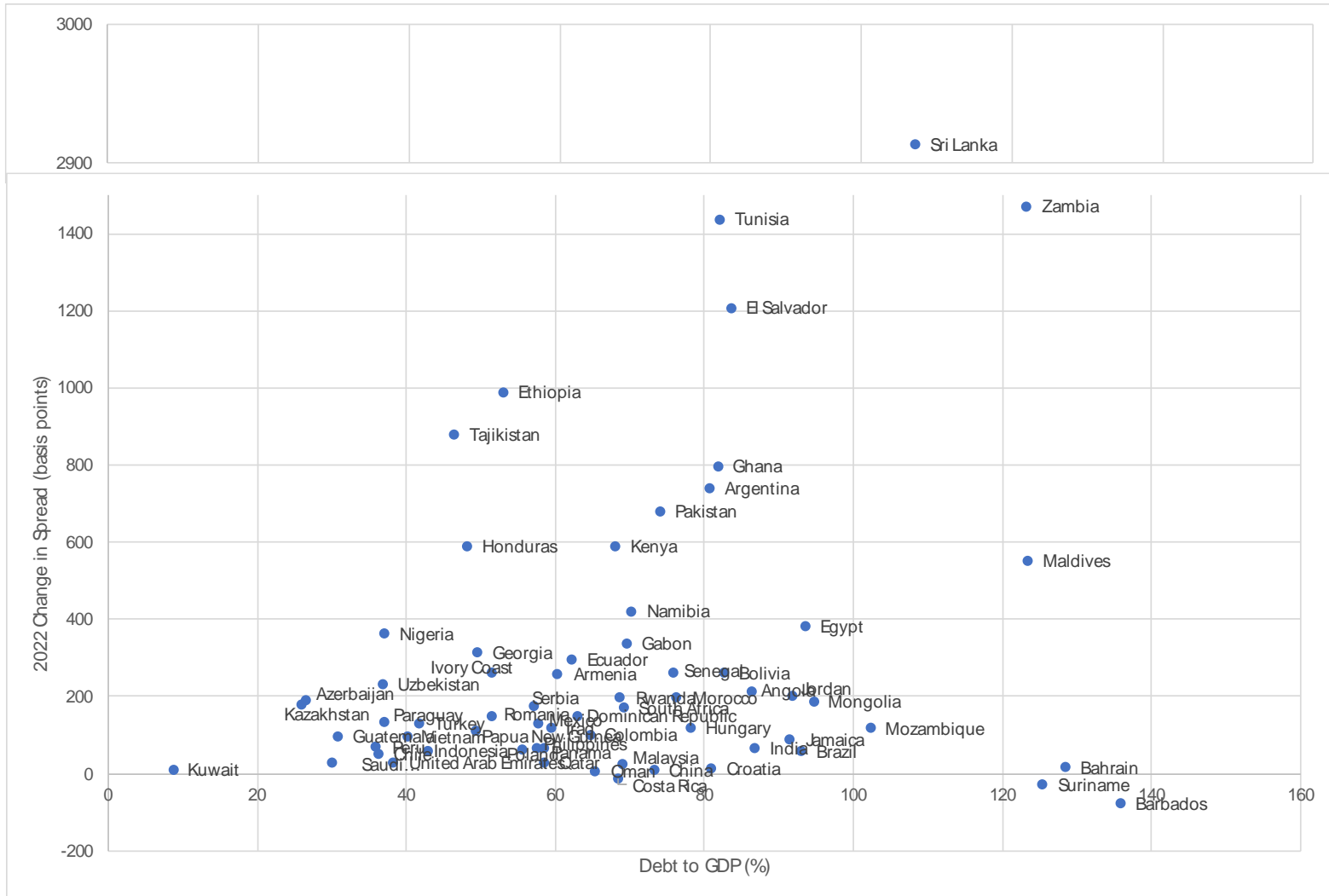
Source: J.P. Morgan as of 30 Jun 2022. *J.P. Morgan US High Yield Index.

Rising debt levels, a cause for concern?



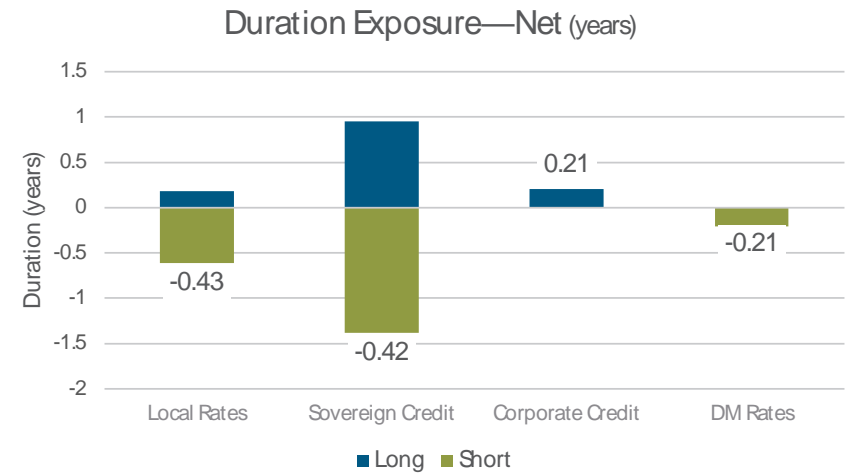
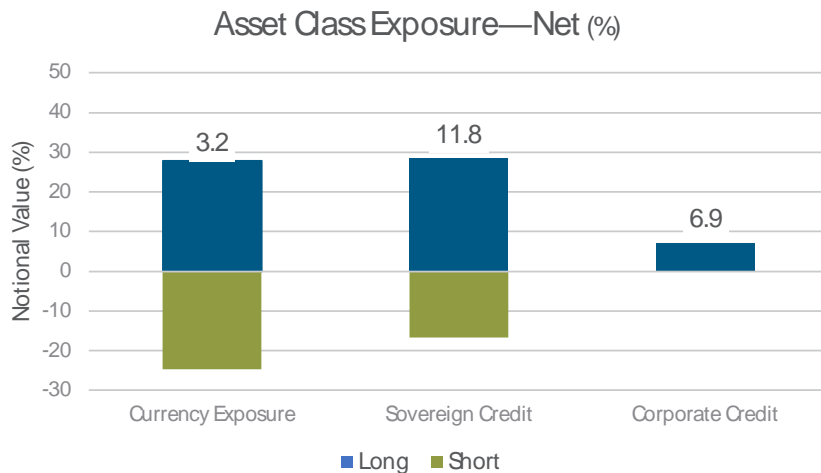
Source: General Government Debt to GDP source is IMF WEO 2022 is a forecast and J.P. Morgan EMBIGD is J.P. Morgan as of 11 Jul 2022.

With higher base rates, fundamentals are reasserting themselves



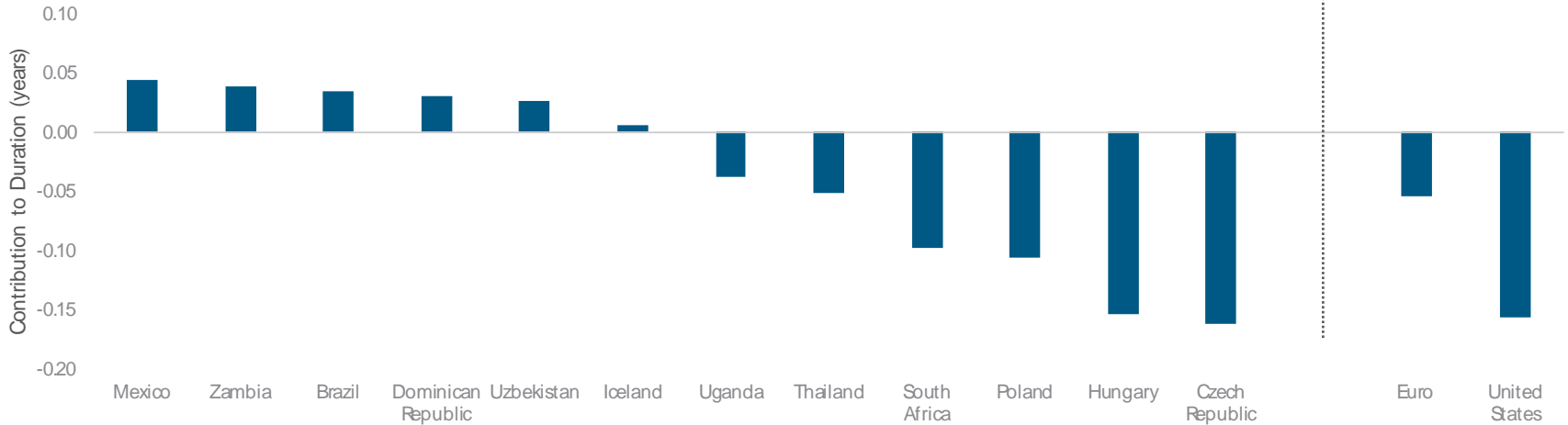
Source: General Government Debt to GDP source is IMF WEO 2022 is a forecast and J.P. Morgan EMBIGD is J.P. Morgan as of 30 Jun 2022.

- Selective positioning in long credits and Eastern European currencies
- There were opportunities to short rates and credit
- We remain conservative, but EM credit is getting more attractive by the day

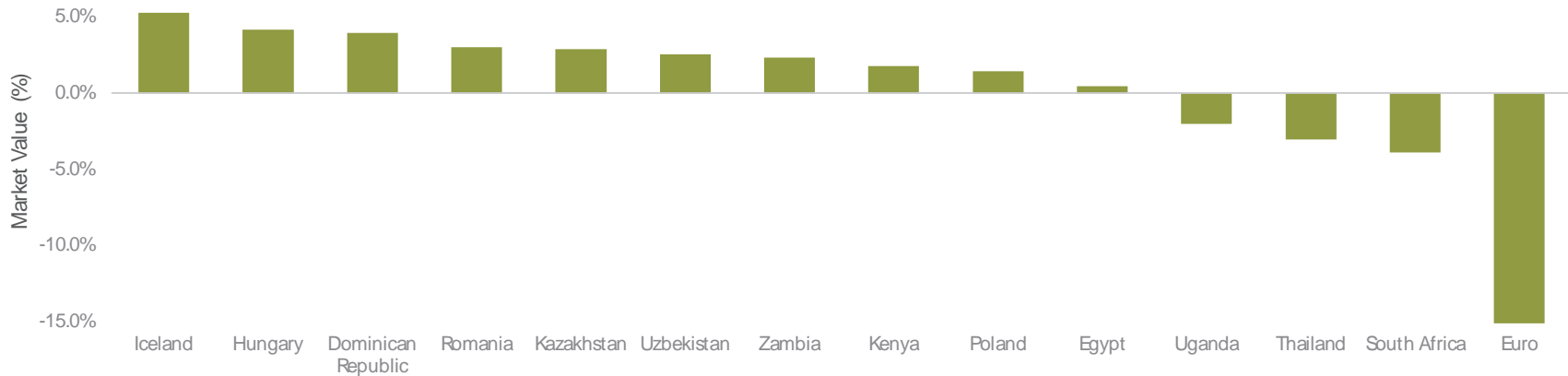


Source: Blackrock Aladdin/Artisan Partners. As of 30 Jun 2022. Notional Value represents the portfolio's exposures based on the economic value of investments by adjusting for derivatives exposure to the market value of the contract's underlying security. Currency Exposure excludes USD-denominated debt instruments, cash and cash equivalents. Sovereign and corporate credit are the sums of the notional exposure; notional bonds and derivatives (CDS). Currency Exposure is expressed in Market Value. Based on a representative account managed within the Artisan Global Unconstrained Composite.

Rates Exposure

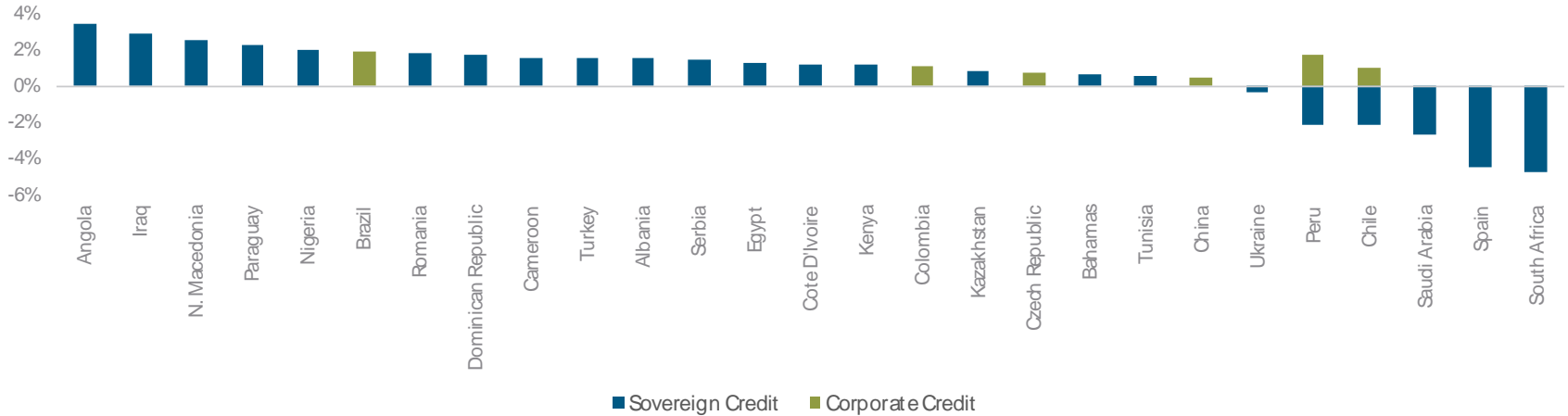


Currency Positioning

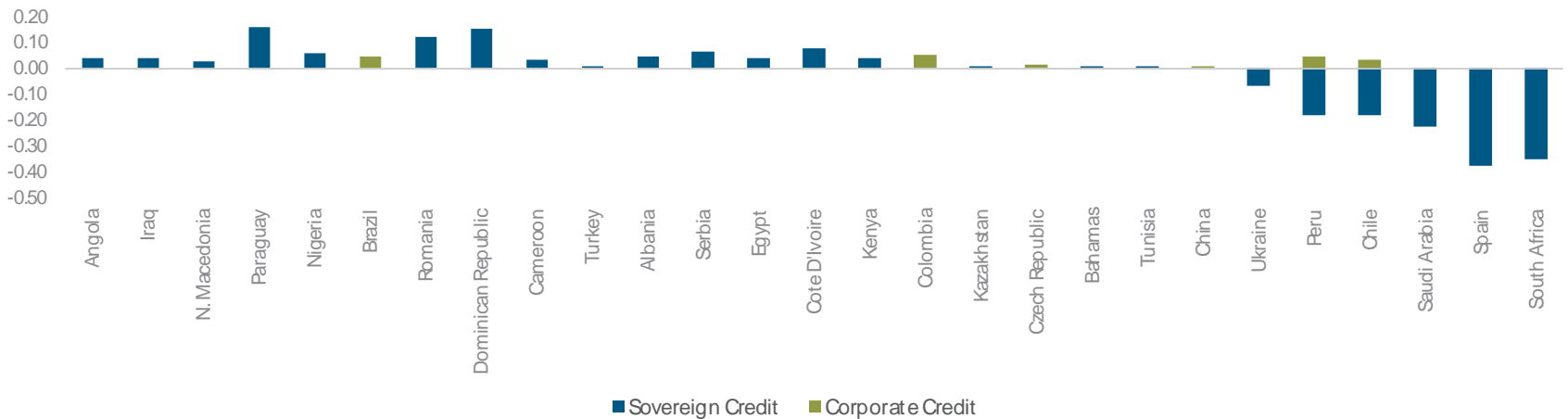


Source: Blackrock Aladdin/Artisan Partners. As of 30 Jun 2022. Currency Positioning excludes USD-denominated debt instruments, cash and cash equivalents. Based on a representative account managed within the Artisan Global Unconstrained Composite.

Sovereign and Corporate Credit Positioning



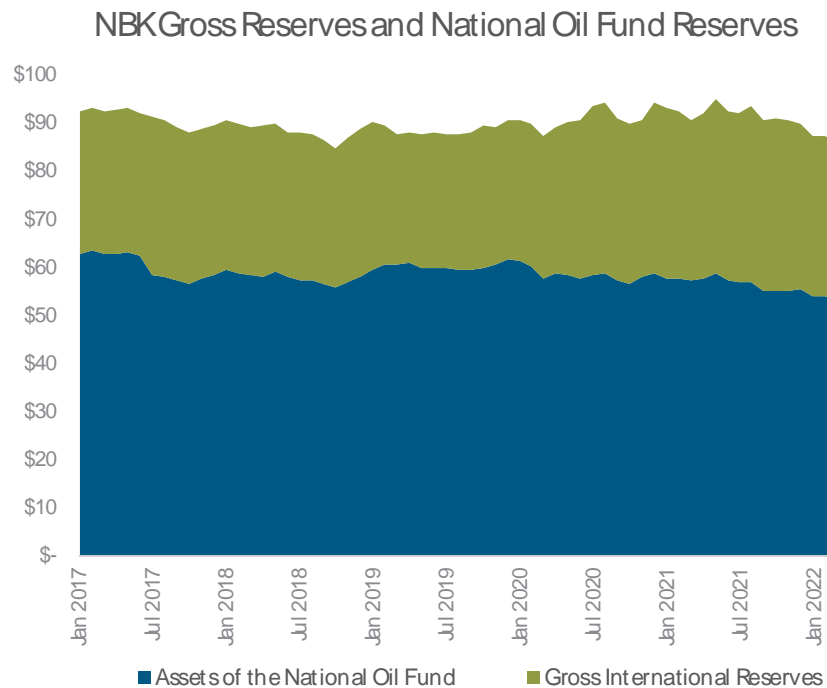
Sovereign and Corporate Credit Spread Contribution to Duration



Source: Blackrock Aladdin/Artisan Partners. As of 30 Jun 2022. Sovereign and Corporate Credit positions represent USD- and EUR-denominated debt instruments and derivatives (CDS). Based on a representative account managed within the Artisan Global Unconstrained Composite.

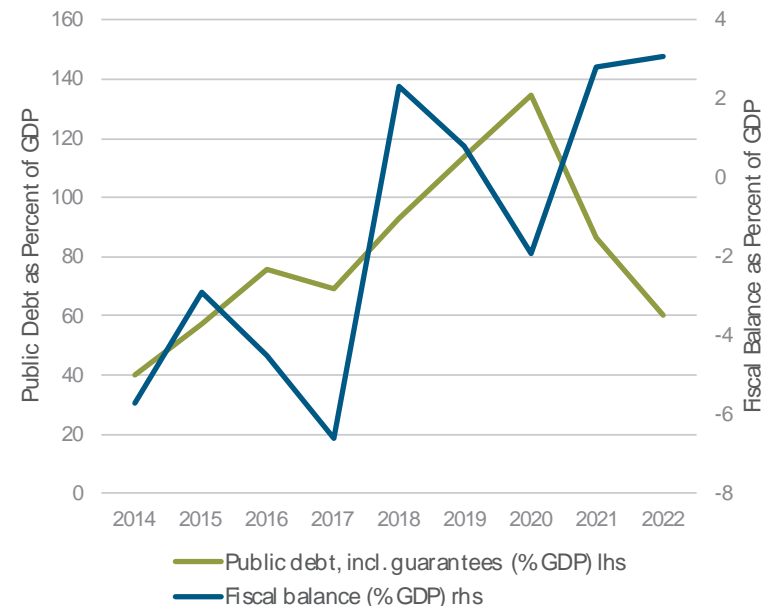
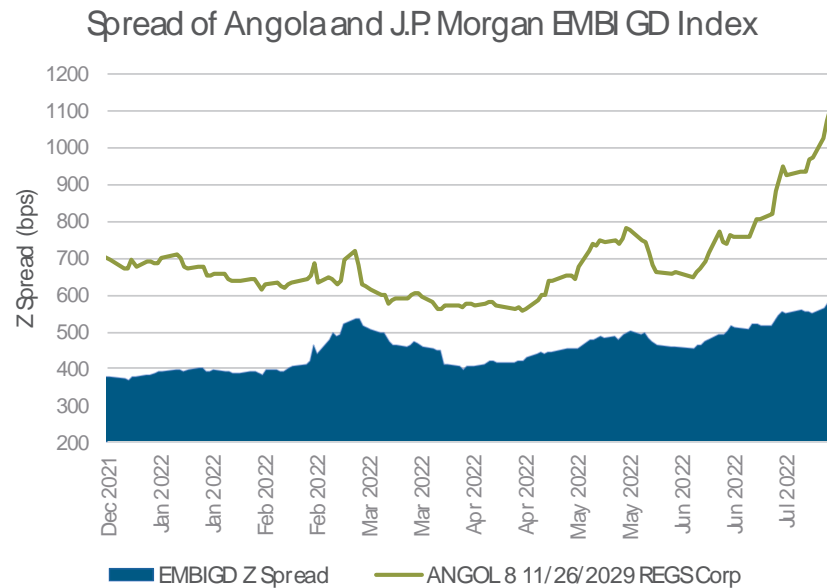
- Kazakhstan
- Angola
- Dominican Republic

- High oil prices providing support to both the budget and external accounts
- Central Bank is implementing a new inflation targeting regime
- Strengthening ties with the US



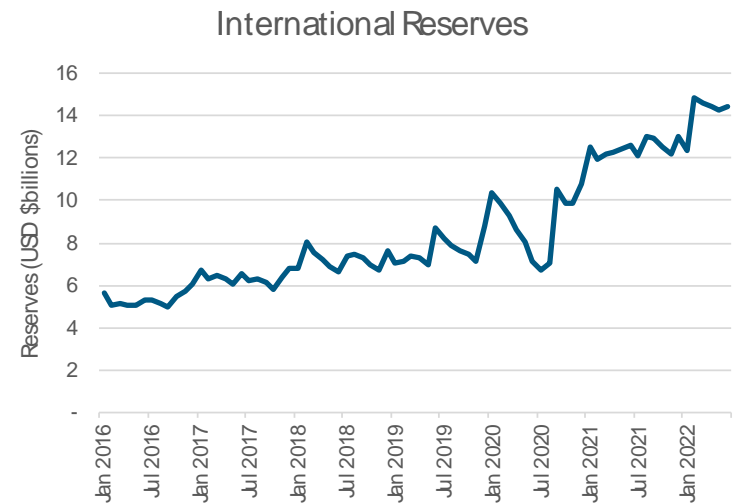
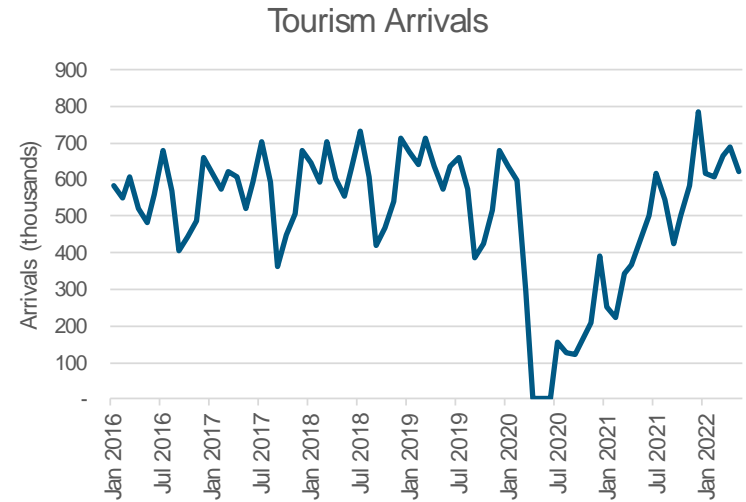
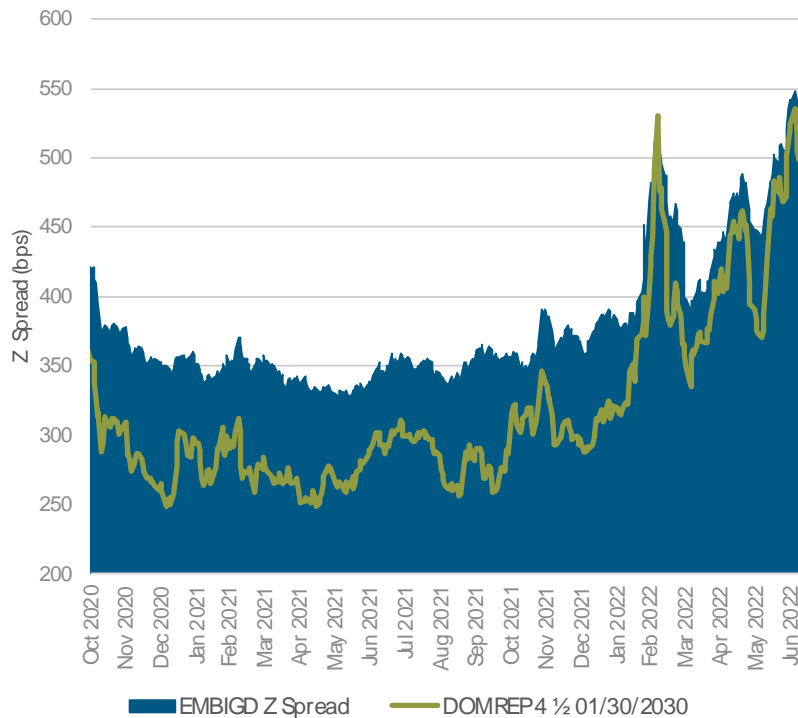
Source: National Bank of Kazakhstan/IMF WEO Database, as of 30 Jun 2022.

- 2017 election brought about a positive inflection point for governance and policy-making in Angola
- Ushered in a strong package of reforms on the fiscal, monetary, anti-corruption and doing business front
- Debt sustainability challenges being addressed with debt to GDP falling to below 70%
- Partnership with IMF and IFIs remains strong—graduated from IMF program in Dec 2021

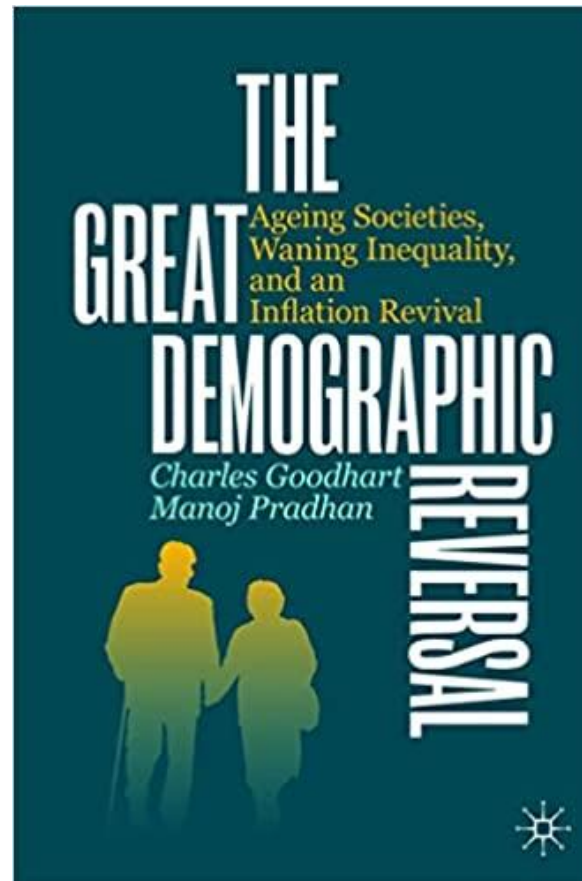


Source: Bloomberg, J.P. Morgan and Haver Analytics. As of 7 Jul 2022.

- Consistent growth
- Strong remittances
 - 40% above those in 2019
- Tourism arrivals are close to pre-pandemic levels
- International Reserves at record highs

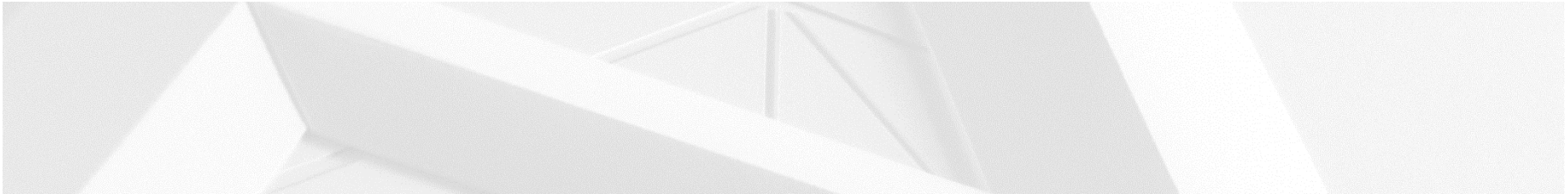


Source: Bloomberg, J.P. Morgan. As of 7 Jul 2022.



Authors: Goodhart, Charles and Pradhan, Manoj. *The Great Demographic Reversal: Ageing Societies, Waning Inequality, and an Inflation Revival*. Cham: Springer Nature Switzerland AG, 2020.

Q&A



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