

EMERGING MARKETS

EMERGING MARKET MONITOR: INVESTING IN LATIN AMERICA IN 2019

Emerging markets - Where to find growth in 2019?

January 2019

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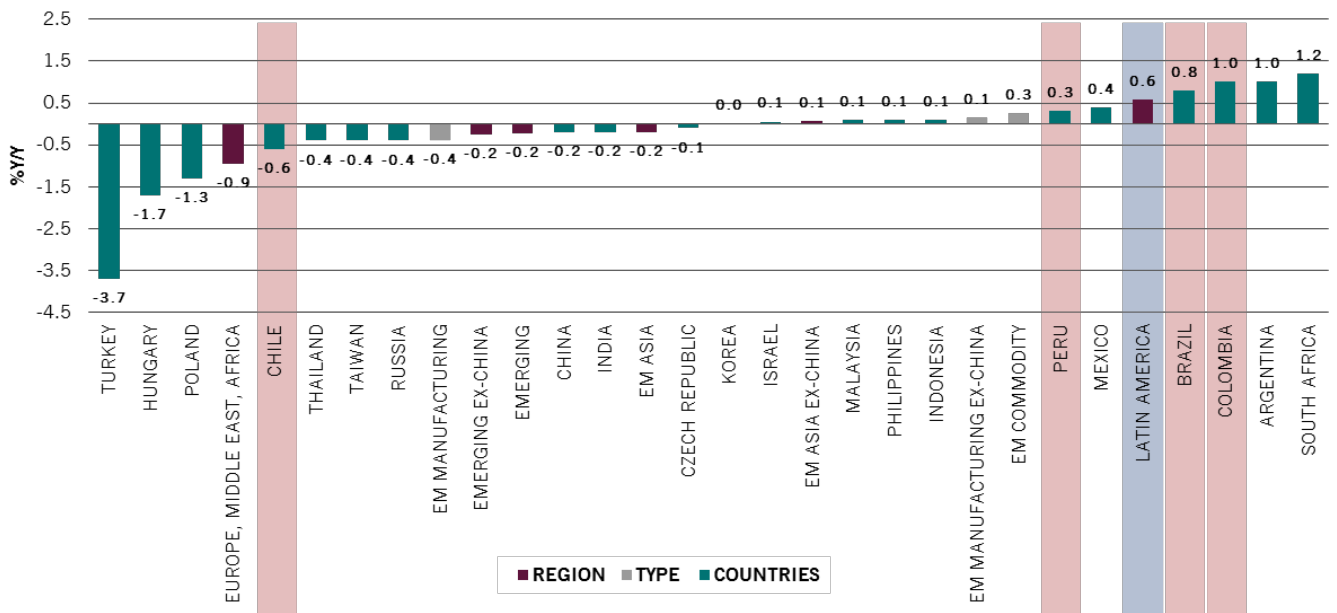
Latin America is the only EM region set to do better than last year. We look at the countries with the strongest prospects.

LOOK TO LATIN AMERICA FOR ECONOMIC GROWTH

Against a challenging backdrop for emerging markets, Latin America is the only region which should do better than in 2018. Brazil, Colombia and Peru in particular are the most promising markets in terms of growth acceleration (Fig.1).

FIG.1 - RELATIVE TO 2018, LATAM WILL LEAD THE WAY AMONG EMERGING MARKETS

Real GDP growth change: 2019 forecasts less 2018 estimates (%/Y)

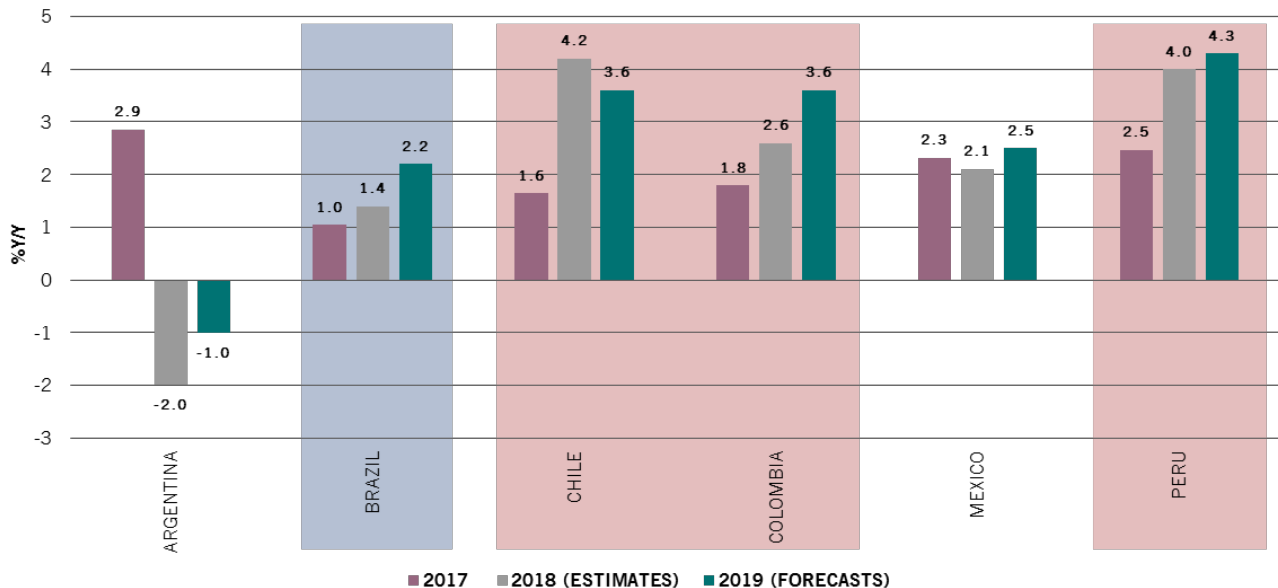


Source: Pictet Asset Management, CEIC, Datastream, January 2019

Chile won't repeat the performance of 2018 but growth is still projected to remain strong in 2019, as illustrated by the absolute numbers in Fig.2 below.

FIG.2 - LATIN AMERICAN GROWTH LED BY SMALLER, ANDEAN COUNTRIES

LatAm actual & forecasted real GDP growth



Source: Pictet Asset Management, CEIC, Datastream, January 2019

In absolute terms, Latin America's GDP growth rate in 2019 (2.6%) should outperform that of the EMEA region (2.0%), the first time since 2013.¹

Inflation in the region should remain within targets, in spite of risks such as falling commodity prices, enabling policymakers to continue accommodative monetary policies.

A new period of political stability

Elections took place in all four countries between 2016 and 2018, meaning that this year should be clear of any major political instability.

The elections have led to the establishment of more conservative governments willing to reform the public sector and to stimulate the economy through long-term policies. Colombia, for instance, has reduced corporate tax. In Chile, new laws are being introduced to speed up the process of setting up new businesses. In Brazil, one of President Jair Bolsonaro's top priorities is to cut down public spending.

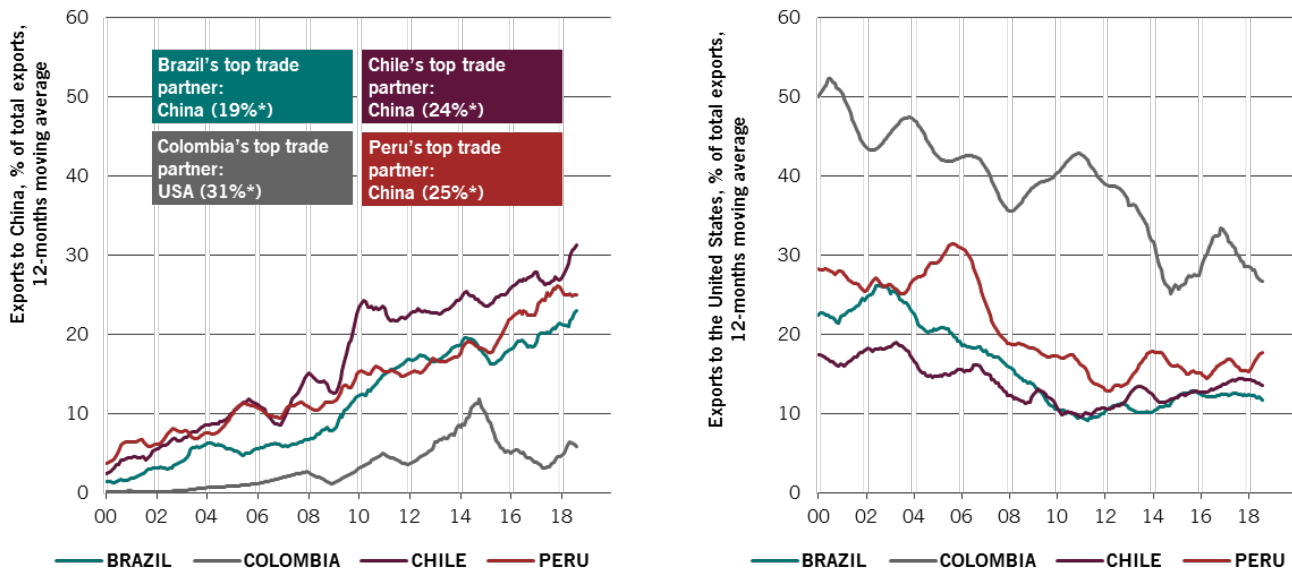
CHINA'S RISING PREDOMINANCE

But one risk is looming for these countries: their increasing dependency on China for exports, especially in the current context of global trade tensions. As illustrated in Fig. 3 below, China is the main trade partner for Brazil, Chile and Peru.

For all four countries, albeit to a lesser extent for Colombia, exports to China have been on the rise since 2000 (Fig.3.). Over the same time period, exports to the US have slowed down, especially for Colombia (Fig.4.).

FIG.3 & 4 - EXPORTS TO CHINA ARE ON THE RISE; EXPORTS TO THE US HAVE SLOWED DOWN

Fig. 3 (left) - Exports to China as share of total country's exports and top trade partners / Fig.4 (right) - Exports to the United States as share of total country's exports



Source: Pictet Asset Management, CEIC, Datastream. *Percentage of the country's total exports, based on August 2018 data available as at 31.12.2018.

China has extended its influence globally and increased imports of commodities such as metals, or cereals in the case of Brazil to satisfy domestic demand. This has allowed Latin American countries to diversify trade partners away from neighbour countries. Meanwhile the US has imported less oil as it has ramped up domestic production, impacting Colombian exports.

What to watch in 2019



Source: Pictet Asset Management, January 2019

In conclusion, Latin America's economic growth should be stronger this year than in 2018, mainly driven by smaller countries such as Chile, Colombia and Peru. Brazil, the region's largest country, will also grow, although at a more moderate pace. All of these countries have new governments in place with credible plans from an economic standpoint. Despite risks such as growing reliance on exports to China and inherent dependence on commodity prices, we believe these countries will provide opportunities for long-term investors.



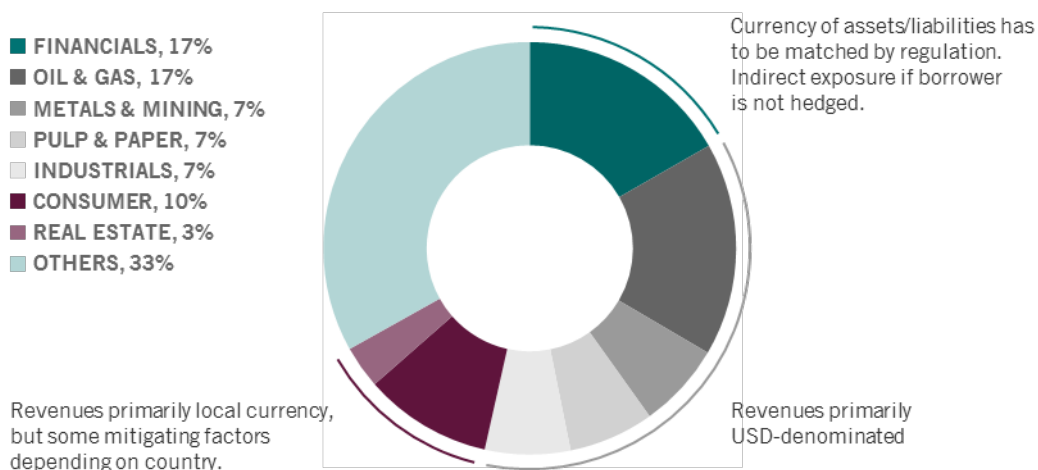
CHART FROM OUR EMERGING CORPORATE BOND TEAM

By Karen Lam, Senior Client Portfolio Manager

From a bottom-up perspective, we see attractive opportunities in commodity-related names. Given these are exporters, they tend to benefit from local currency depreciation. This is one of the reasons why we have given commodities a 7% overweight in our EM corporate bonds portfolio.²

Another sector that has appeal in Latin America is the pulp and paper sector, particularly in Chile and Brazil, based on relatively strong price fundamentals.

FIG.4 - IN LATIN AMERICA, THE PULP AND PAPER SECTOR IS A SECTOR WHERE WE SEE INVESTMENT OPPORTUNITIES
Latin America corporate hard currency bonds universe by industry and sensitivity to FX moves



Source: JP Morgan, as at 31.12.2018. Data taken from the LatAm only part of the JPM CEMBI DB index.

[1] Source: Pictet Asset Management, CEIC, Datastream; estimates for 2018 as at 03.01.2019

[2] Source: Pictet Asset Management, 31.12.2018



MARKET WATCH

MARKET WATCH DATA
31.12.2018


■ Top performer among the EM indices or currencies shown in this table, for the corresponding period.
■ Worst performer among the EM indices or currencies shown in this table, for the corresponding period.
■ Developed markets, for reference.

EQUITIES	1 mth (%)	3mths (%)	1 yr (%)	3 yrs ann. (%)	5 yrs ann. (%)	10 yrs ann. (%)
MSCI EM	-2.66	-7.47	-14.58	9.25	1.65	8.02
MSCI EM Value	-2.26	-6.75	-10.74	9.52	0.51	6.99
MSCI EM growth	-3.07	-8.22	-18.26	8.89	2.67	8.97
MSCI AC Asia ex Japan	-2.71	-8.66	-14.37	8.56	4.02	10.09
MSCI Brazil	-1.81	13.42	-0.49	27.10	0.69	5.14
MSCI China	-6.05	-10.73	-18.88	8.04	4.65	8.26
MSCI India	-0.13	2.53	-7.30	8.23	8.07	10.66
MSCI Russia	-3.49	-8.97	-0.70	17.38	-1.96	7.33
MSCI EM Europe	-2.84	-6.12	-12.06	9.99	-4.51	4.53
MSCI World	-7.60	-13.42	-8.71	6.30	4.56	9.67

BONDS	1 mth (%)	3mths (%)	1 yr (%)	3 yrs ann. (%)	5 yrs ann. (%)	10 yrs ann. (%)
JPM EMBI Global Diversified	1.35	-1.26	-4.26	5.15	4.80	8.20
JPM GBI-EM Global Diversified	1.31	2.11	-6.21	5.91	-0.96	3.45
JPM ELMI+	0.68	1.20	-3.33	3.74	-0.83	1.23
JPM CEMBI Broad Diversified Composite	0.72	-0.04	-1.65	5.20	4.36	8.25
JPM Jade Broad Asia Diversified	1.58	4.25	-1.04	4.44	2.77	-
Chinabond composite	1.94	2.92	2.68	1.48	3.06	3.77
JPM GBI-EM Global Latin America	3.02	2.10	-3.45	9.20	-0.28	5.13
JPM EMBI Global Diversified Europe	1.97	0.20	-2.03	4.58	4.96	8.90
JPM Global All Mats	2.48	2.01	-0.66	2.53	1.11	1.74

COMMODITIES	1 mth (%)	3mths (%)	1 yr (%)	3 yrs ann. (%)	5 yrs ann. (%)	10 yrs ann. (%)
S&P GSCI TR	-7.75	-22.94	-13.82	0.50	-14.52	-
S&P GSCI WTI TR	-11.01	-37.94	-20.49	-3.66	-22.44	-
S&P GSCI Brent Crude TR	-9.54	-34.62	-15.30	7.91	-18.72	-
LBMA Gold pm	5.05	7.73	-0.93	6.46	1.21	-

CURRENCIES	1 mth (%)	3mths (%)	1 yr (%)	3 yrs ann. (%)	5 yrs ann. (%)	10 yrs ann. (%)
USD/BRL	-0.02	3.04	-14.41	0.69	-9.45	-4.95
EUR/BRL	-0.98	4.69	-10.10	-1.01	-6.00	-3.08
USD/RUB	-2.19	-3.28	-16.27	2.29	-13.80	-8.03
EUR/RUB	-3.12	-1.73	-12.05	0.57	-10.52	-6.21
USD/INR	-0.17	3.83	-8.58	-1.78	-2.39	-3.53
EUR/INR	-1.12	5.50	-3.96	-3.43	1.32	-1.63
USD/CNY	1.14	0.22	-5.15	-1.84	-2.49	-0.06
EUR/CNY	0.17	1.83	-0.37	-3.50	1.23	1.91
USD/ZAR	-3.61	-1.62	-13.94	2.51	-6.15	-4.32
EUR/ZAR	-4.52	-0.04	-9.60	0.78	-2.58	-2.44

 Source: Datastream, Bloomberg, data as at 31.12.2018 and in USD. Equity indices are quoted on a net dividend reinvested basis; bond and commodity indices are quoted on a total return basis. The currency rates evolution is treated as a performance calculation based on FX rates.

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