

PICTET ASSET MANAGEMENT

More buying EM, less questioning

Robert Simpson

CO-HEAD EM HARD CURRENCY DEBT

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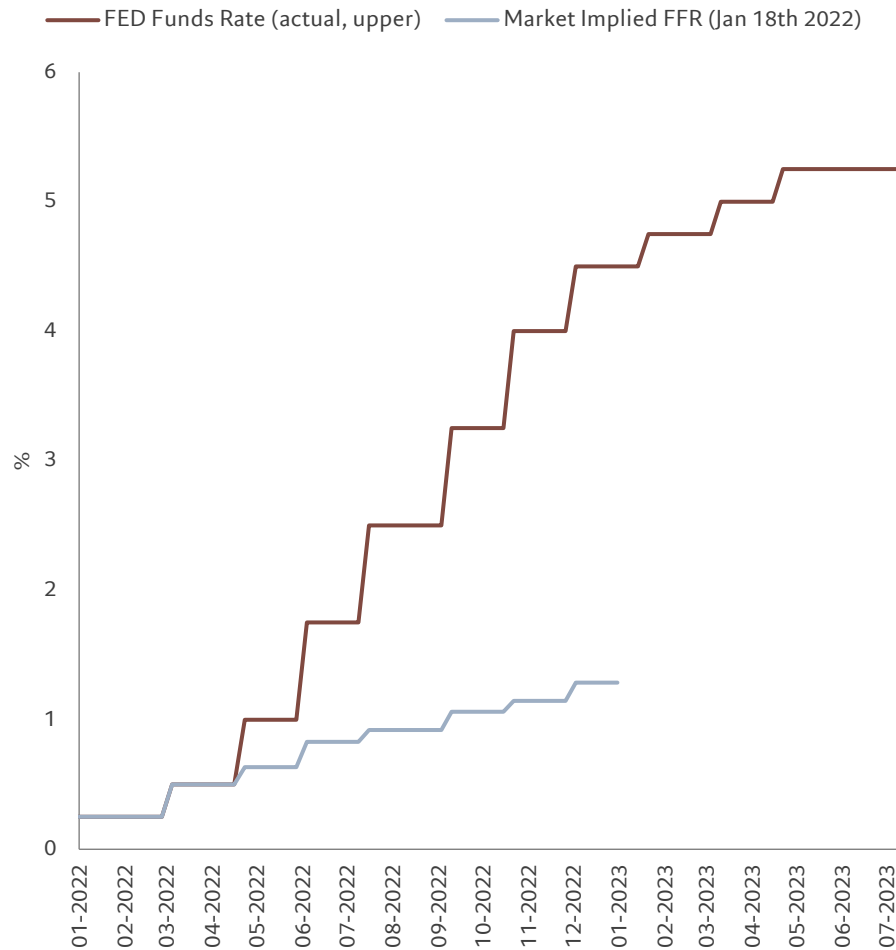
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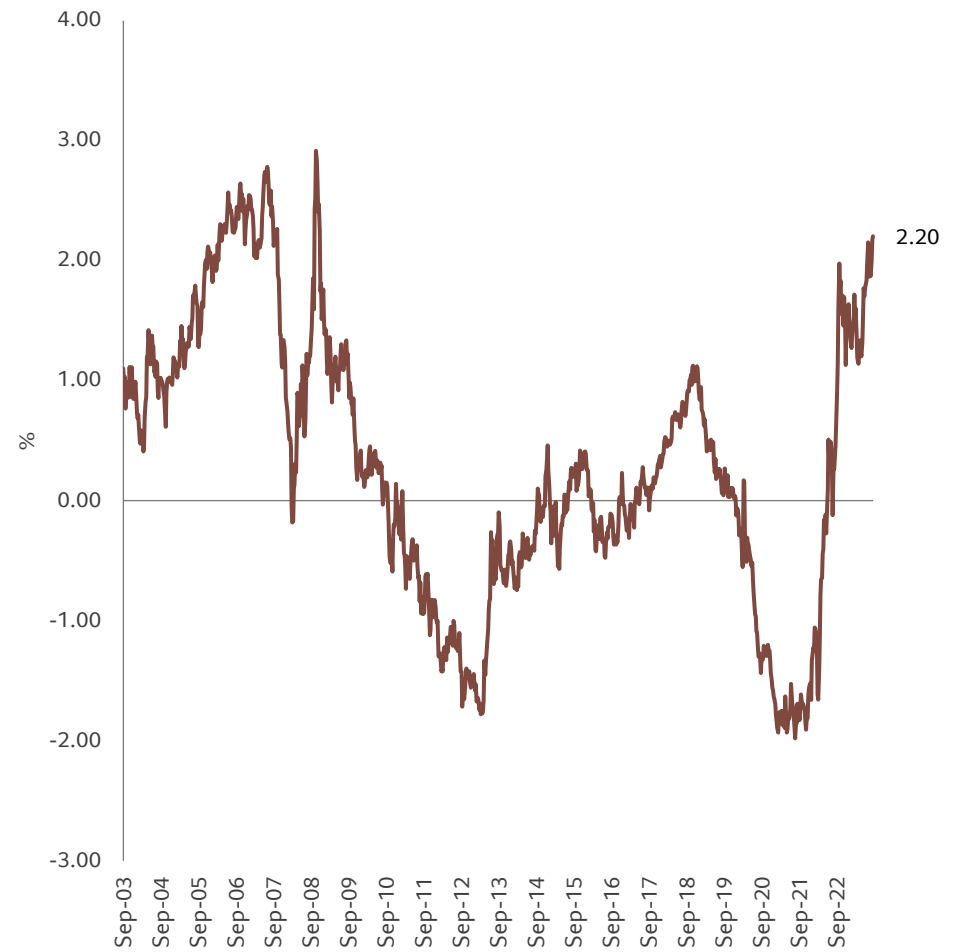
Taking stock; a dramatic monetary adjustment

US Federal Funds Rate: Jan 18th 2022 market pricing vs Actual



Source: Pictet Asset Management, Bloomberg (MIPR function, as of Jan 18th 2022)

US 5yr Real Yield (%)

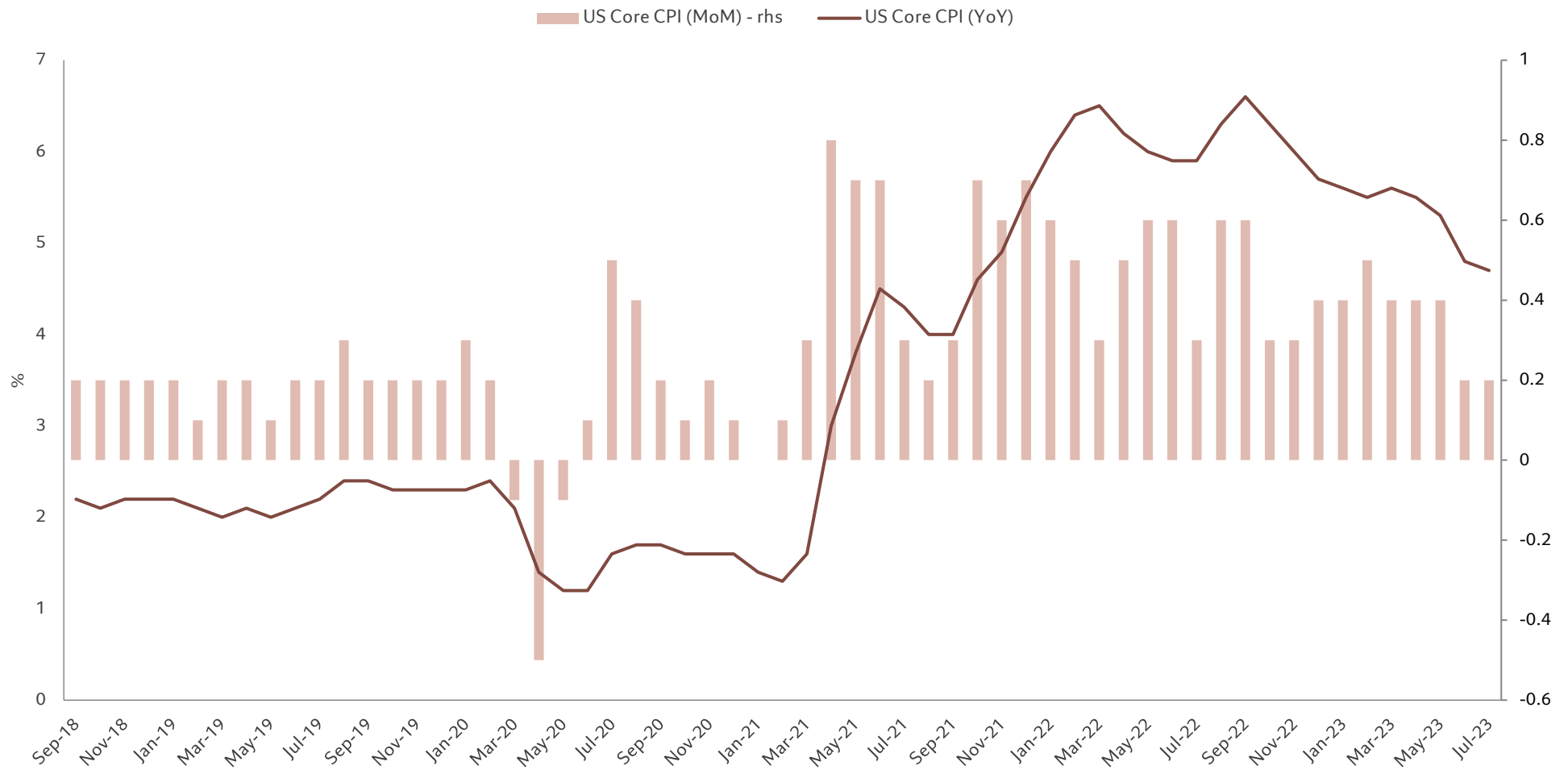


Source: Pictet Asset Management, Bloomberg (as of 13/08/2023)



Inflation pressures have shown concrete signs of easing

US Core CPI: MoM and YoY % change

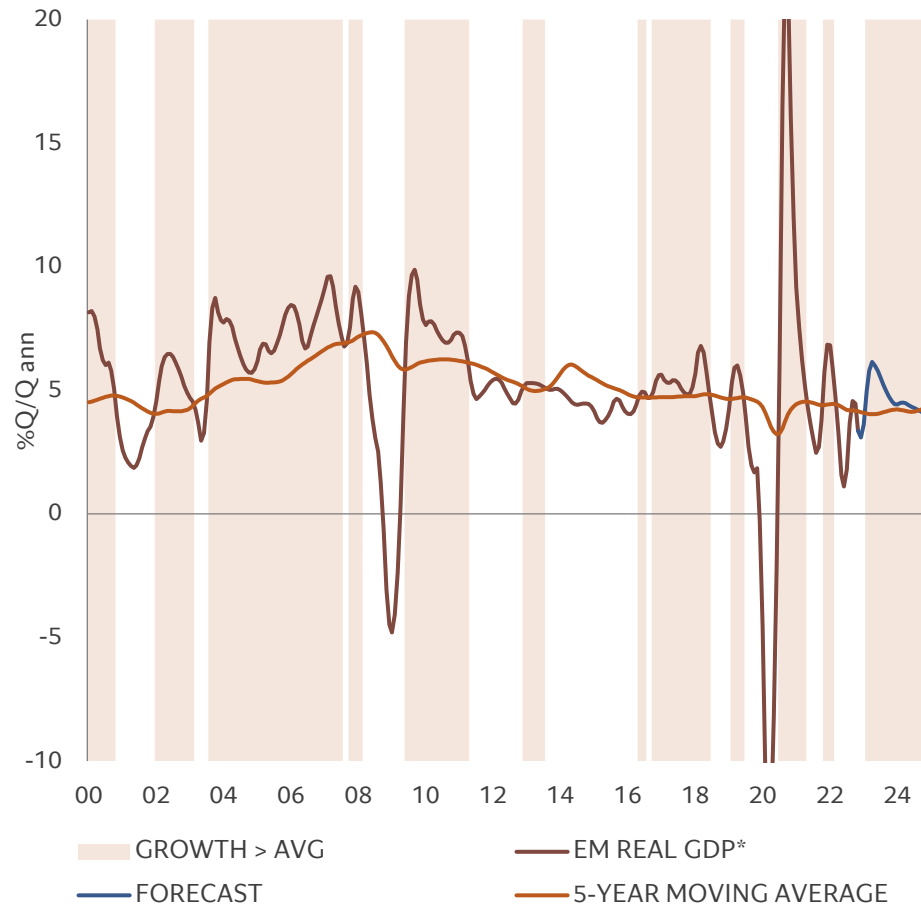


Source: Pictet Asset Management, U.S. Bureau of Labour Statistics, Bloomberg



EM growth set to exceed DM growth in 2023 and 2024

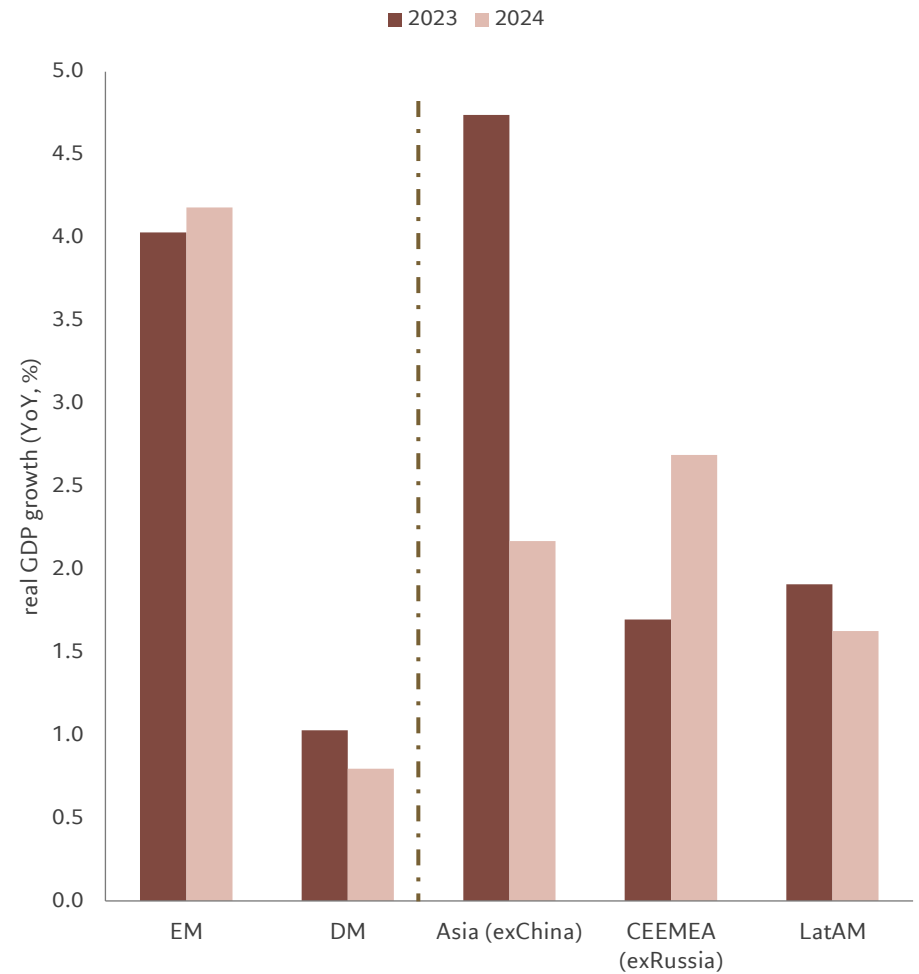
Growth differentials: above historical averages



*Ex-Russia & Ukraine since January 2022

Source: Pictet Asset Management, CEIC, Refinitiv

Real GDP growth forecasts: EM outperformance vs DM

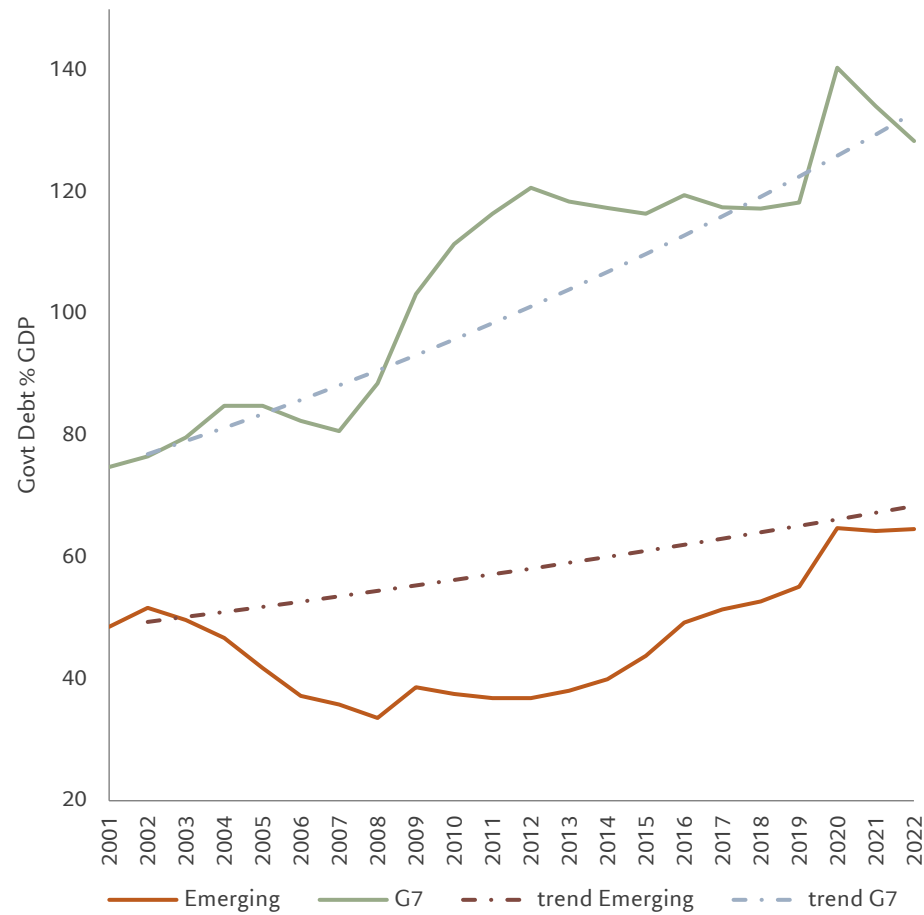


Source: Bloomberg Consensus (GDP weighted), Pictet Asset Management



On top of the growth gap, the fiscal gap is also widening – in favour of EM

EM versus G7 government debt to GDP



Source: Pictet Asset Management, IMG, Bloomberg as of August 2023.

EM versus US fiscal balance

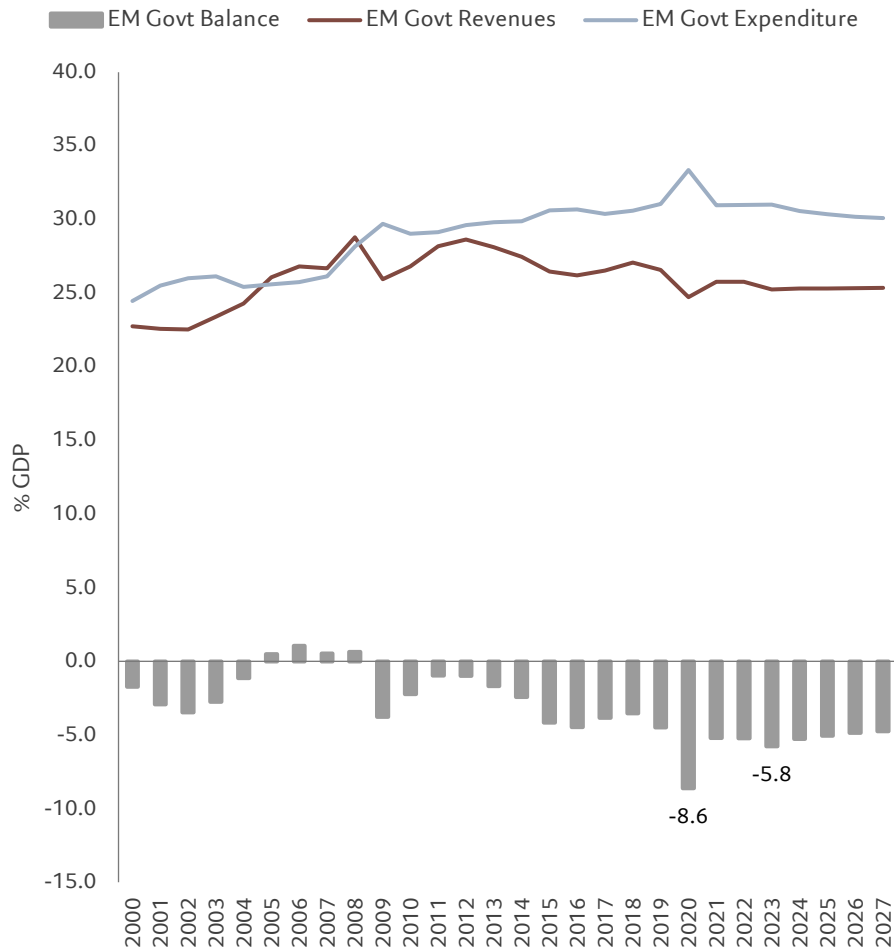


Source: Pictet Asset Management, IMG, Bloomberg as of August 2023.



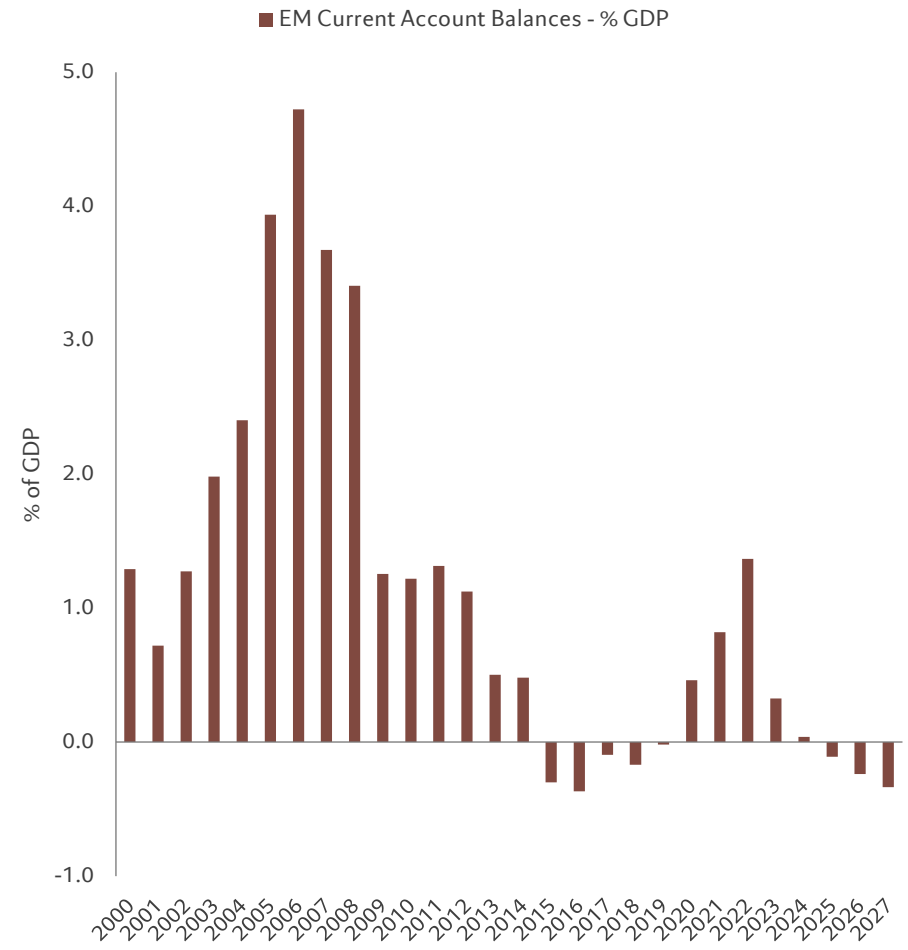
EM fiscal balances and external accounts – back towards pre-pandemic levels

EM fiscal balances: revenues, expenditures (% of GDP)



Source: Pictet Asset Management, IMF, Bloomberg

EM current accounts; less reliant on external financing

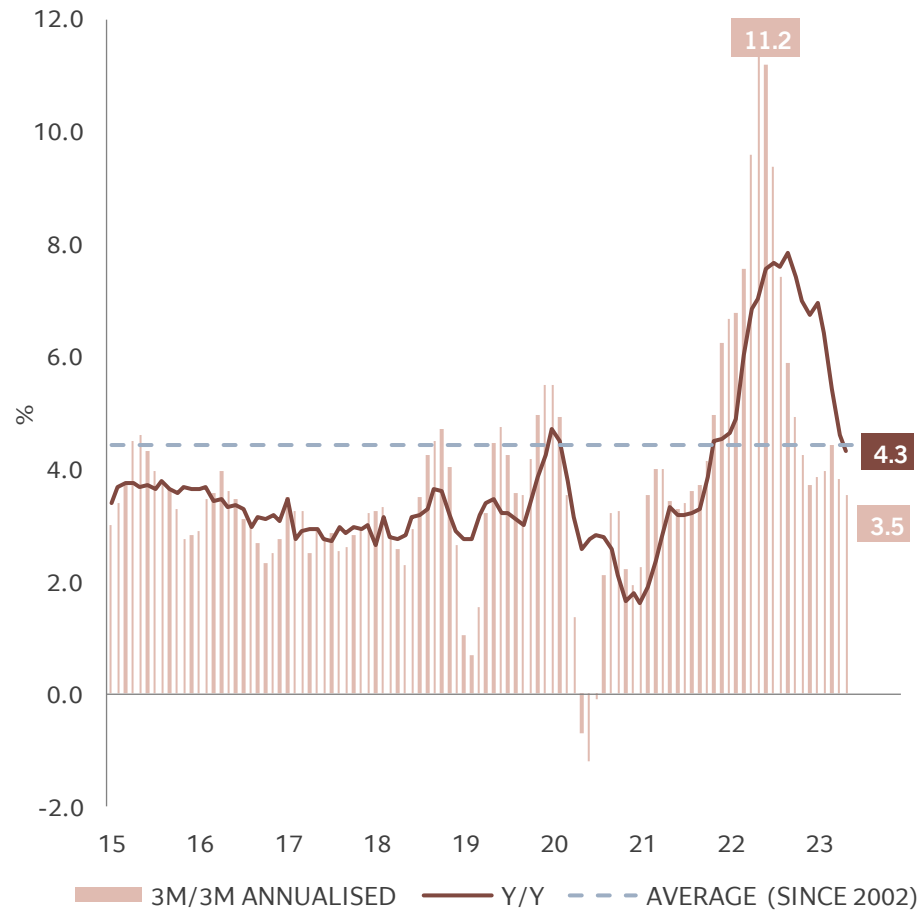


Source: Pictet Asset Management, IMF, Bloomberg



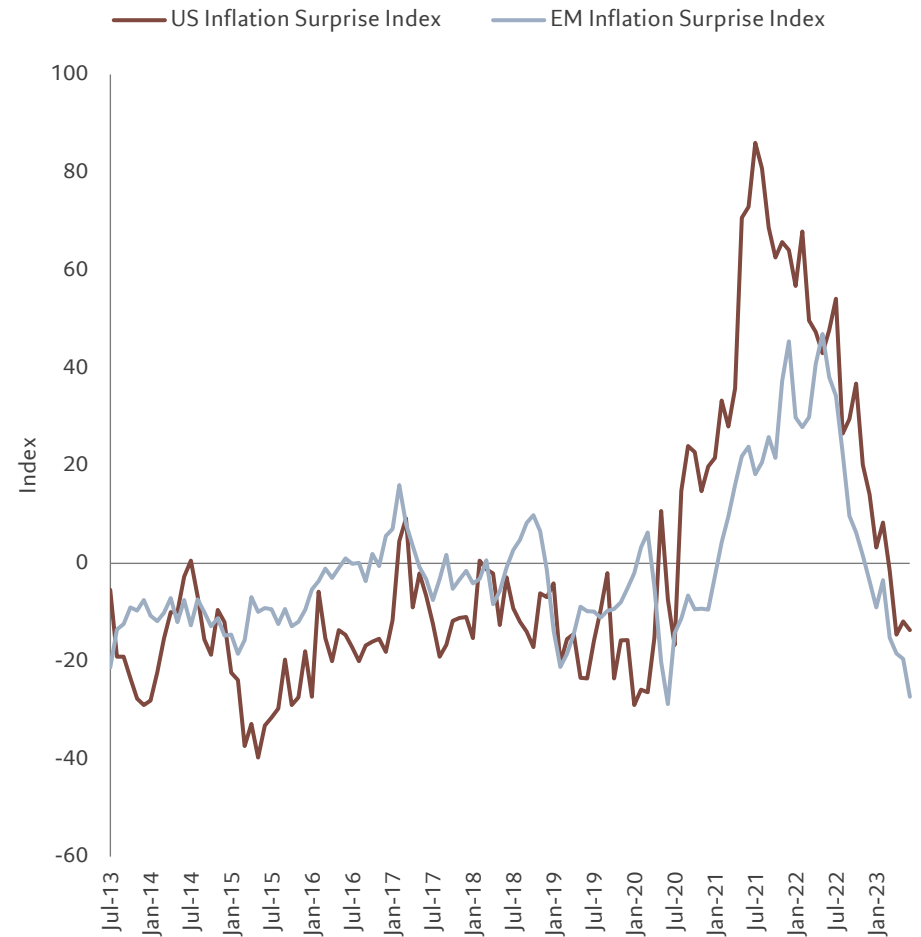
EM inflation; supporting growth and allowing EM central banks to diverge from DM peers

EM headline inflation; now below long-term average



*GDP-weighted average of 30 countries' inflation rates

Inflation surprise indices: continued downside vs expectations



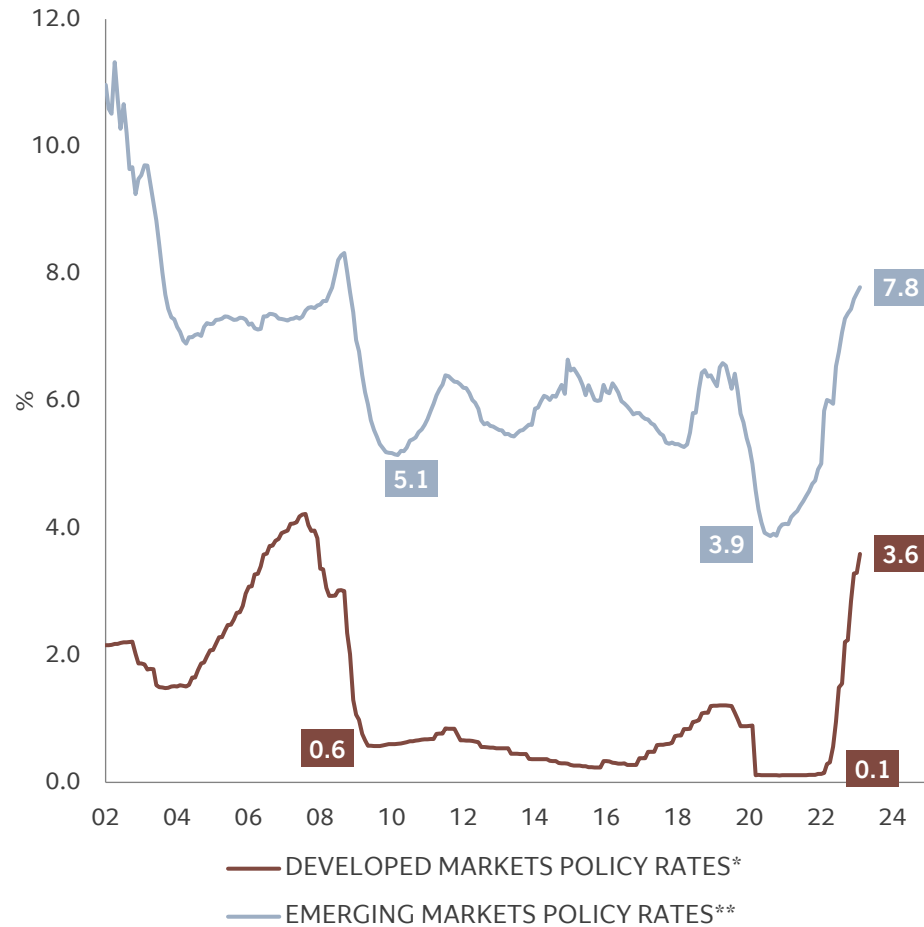
Source: Pictet Asset Management, Citi, Bloomberg

Source: Pictet Asset Management, CEIC, Refinitiv



EM local rates are cheap following strong central bank policy responses

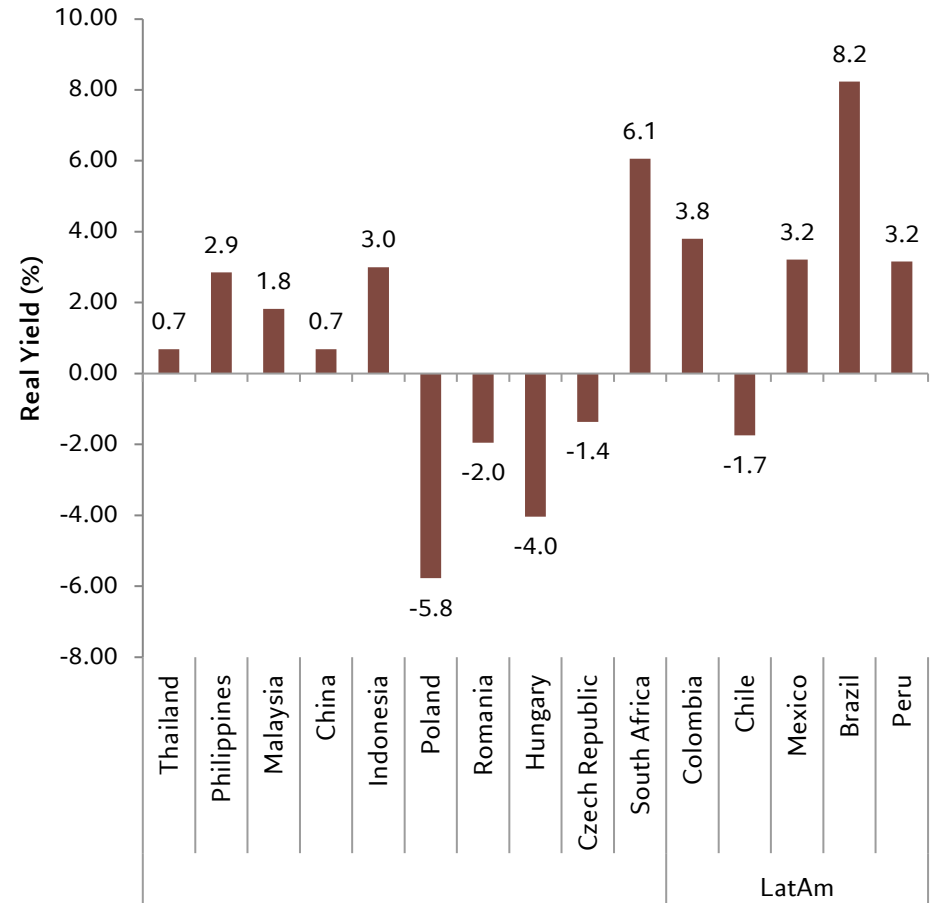
DM & EM policy rates (GDP weighted, %)



*10 central banks policy rates GDP weighted / **30 central banks policy rates GDP

Source: Pictet Asset Management, CEIC, Refinitiv as of July 2023

EM local 'real' bond yields: GBI-EM benchmark yields deflated by 6m ahead consensus inflation forecasts

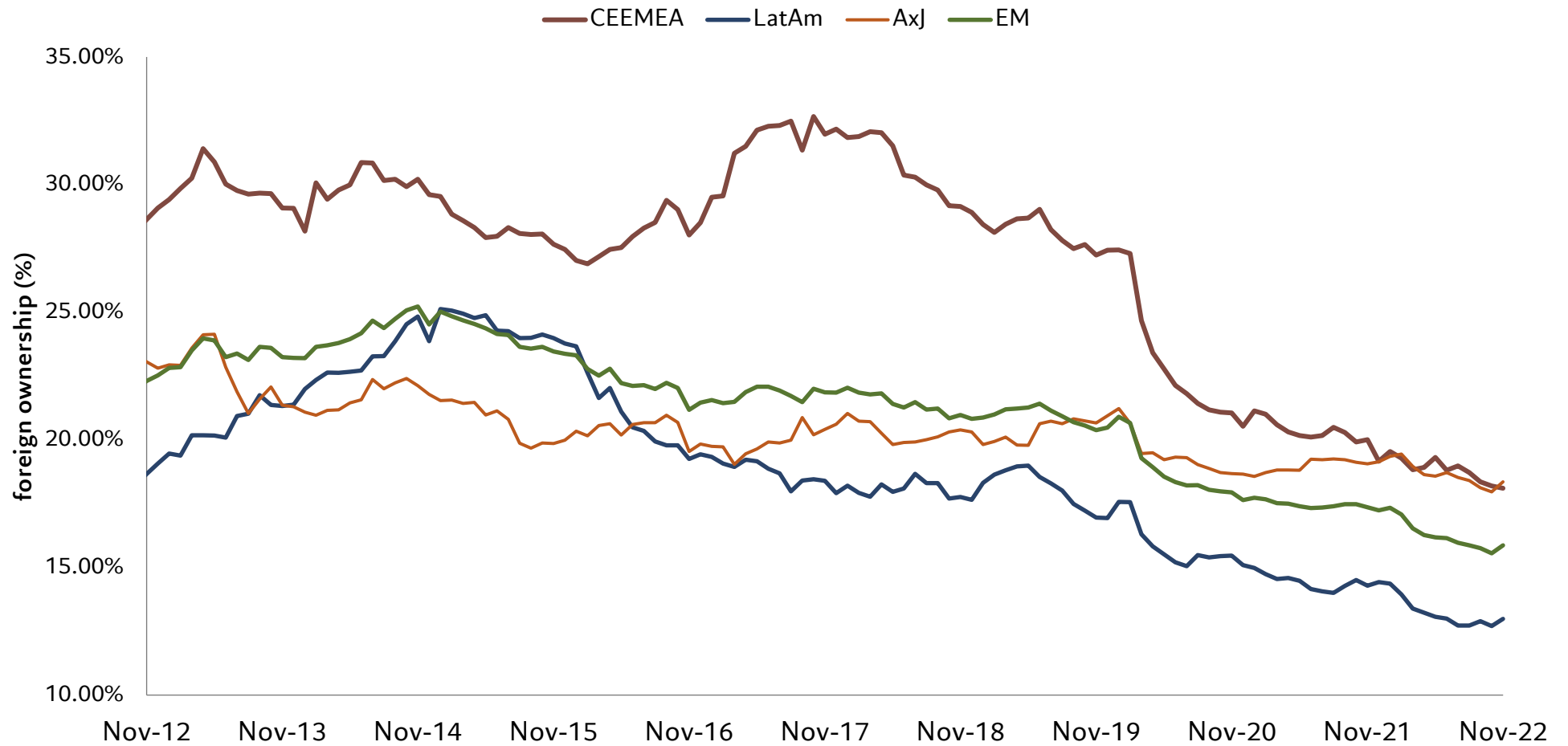


Source: Pictet Asset Management, JP Morgan Index Research, Bloomberg, as of July 2023



EM assets are under owned by foreign investors

Foreign ownership (% of outstanding local debt)

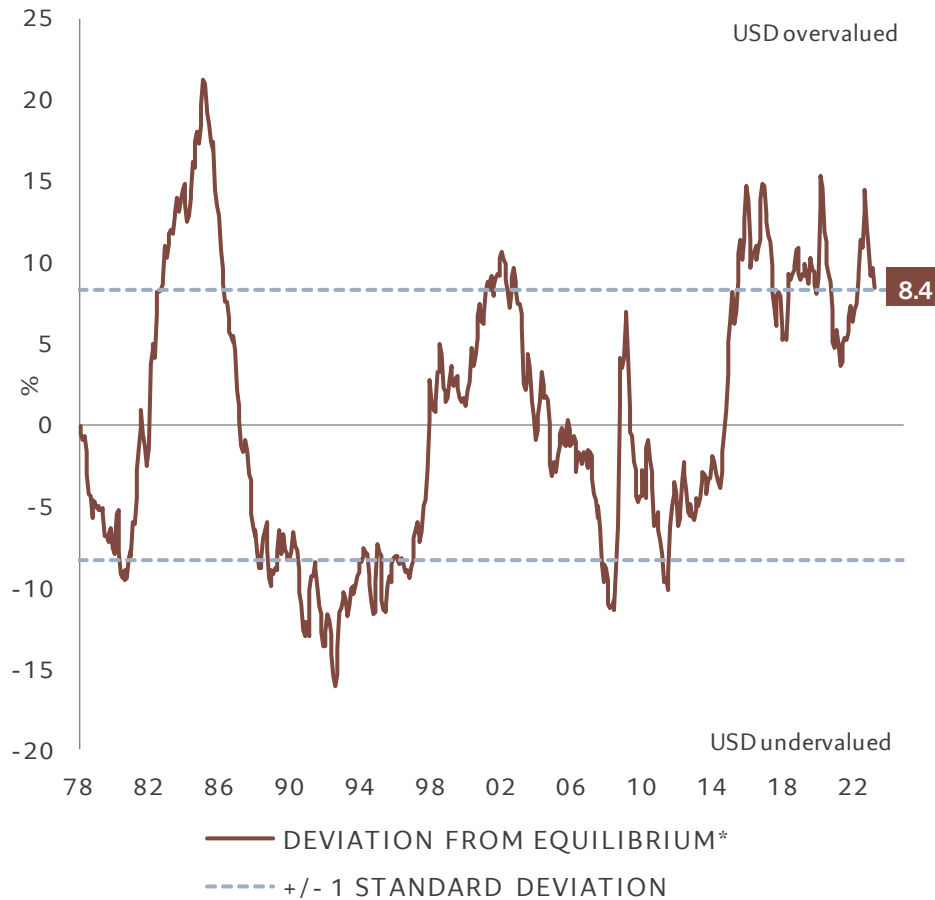


Source: Morgen Stanley Research, Haver Analytics



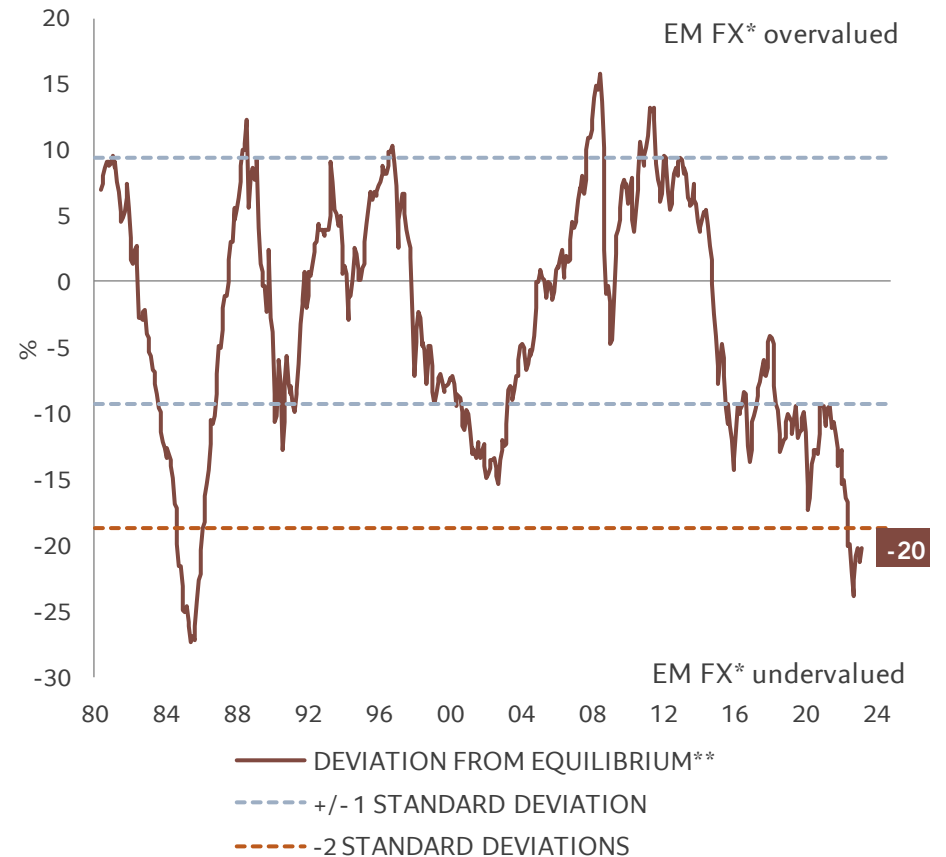
Overvalued US dollar vs undervalued EM currencies

US dollar overvaluation (+) undervaluation (-)



*based on relative prices, relative productivities & net foreign assets

EM currencies overvaluation (+) undervaluation (-)



*Unweighted 31 EM exchange rates vs USD

**based on relative prices, relative productivities & net foreign assets

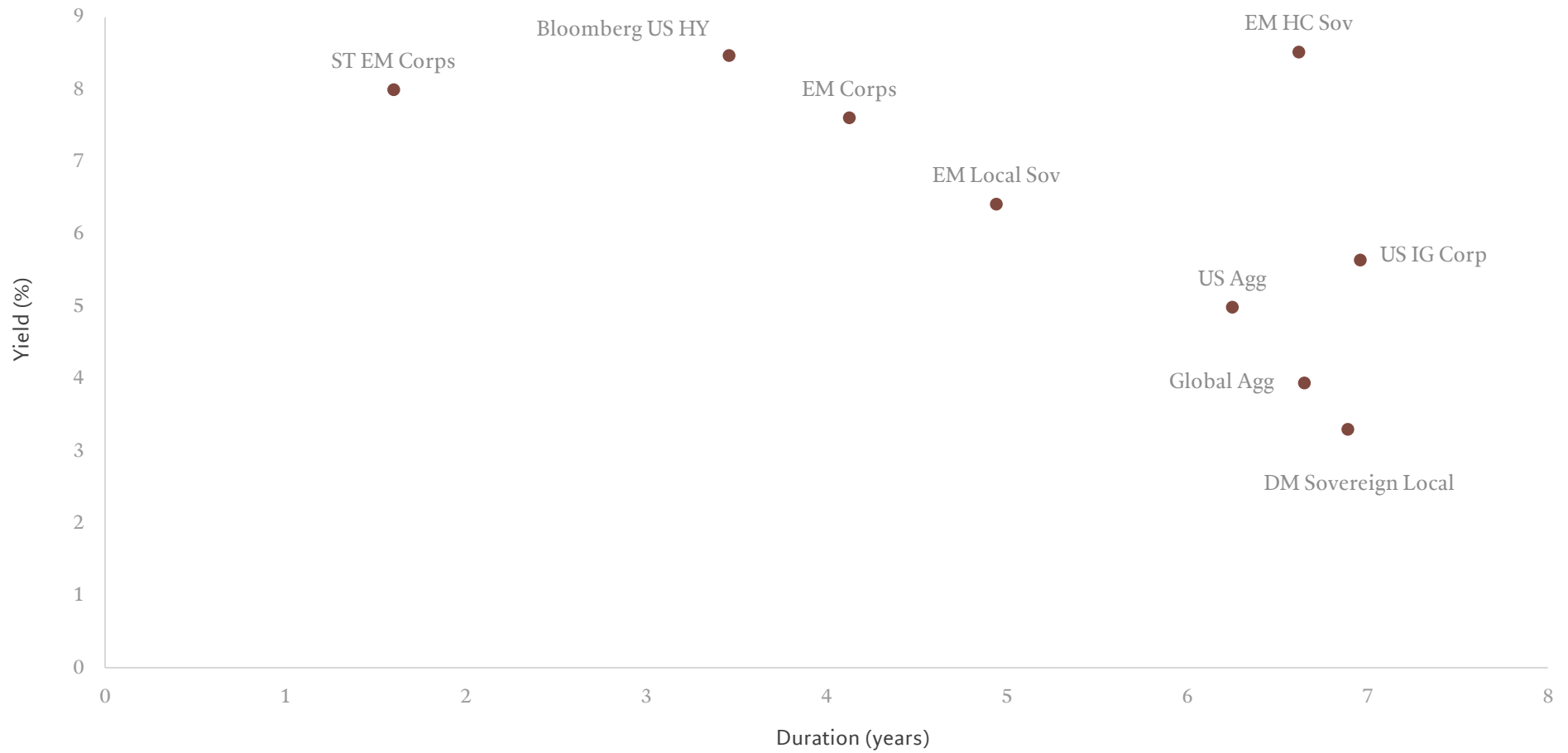
Source: Pictet Asset Management, CEIC, Refinitiv, Bloomberg

Source: Pictet Asset Management, , CEIC, Refinitiv, Bloomberg



EM FI Yields in context

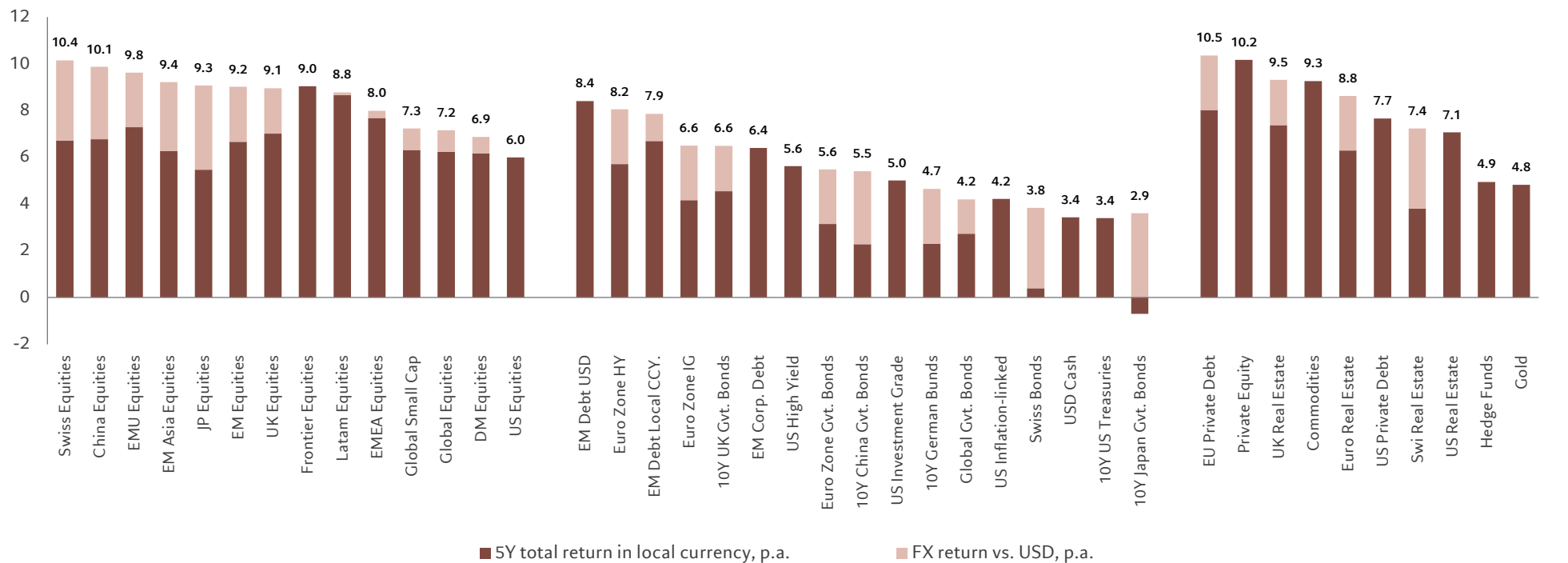
Yield to maturity and duration of global fixed income indices



Source: Pictet Asset Management, JP Morgan Index Research, Barclays, Bloomberg (as of 30/08/2023)

Long-term asset classes return forecasts (USD)

Asset classes 5Y return forecasts in USD, % p.a.

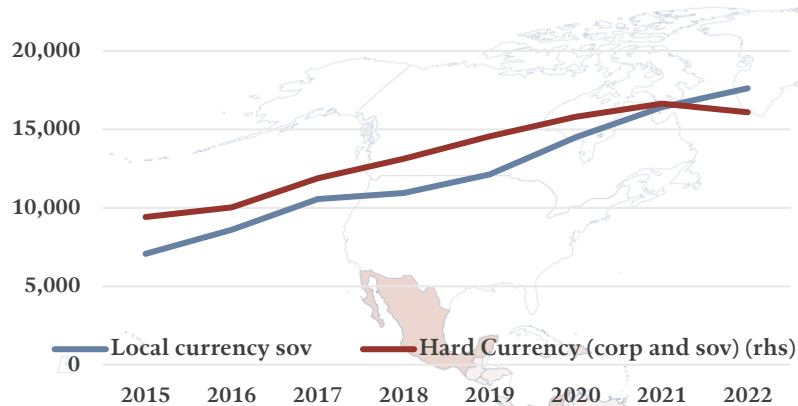


Source: Refinitiv DataStream, Bloomberg, Pictet Asset Management. As of 28th April 2023. Private debt return based on forecasts for direct lending. Benchmarks: MSCI indices for equities, Bofa indices for DM corporate bonds, JP Morgan indices for EM bonds and Euro-zone govt bonds, SBI for Swiss bonds, Bloomberg indices for commodities, Burgiss index for private equity, HFRI for hedge funds, NCREIF/SXI/Europe & UK closed ended funds for real estate markets, ICE Bullion for gold, US Cliffwater index for US Direct Lending.

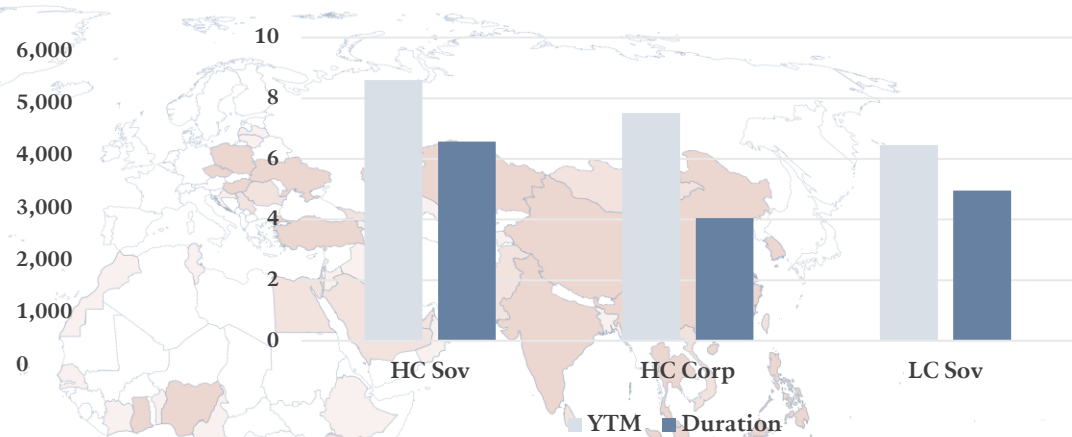


Universe Characteristics - globally diversified, rich opportunity set

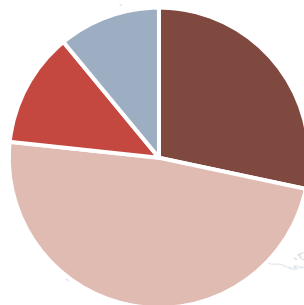
Tradeable EM Debt (\$bn)



Index Characteristics

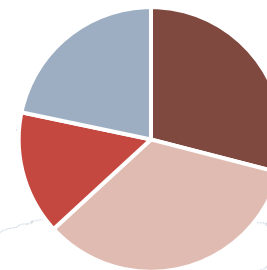


Distribution of Local Currency Debt ex China (sovereign)



■ Latam and Carribean ■ APAC ■ EM Europe ■ MEA

Distribution of HC Debt Ex-China (sovereign and corporate debt)



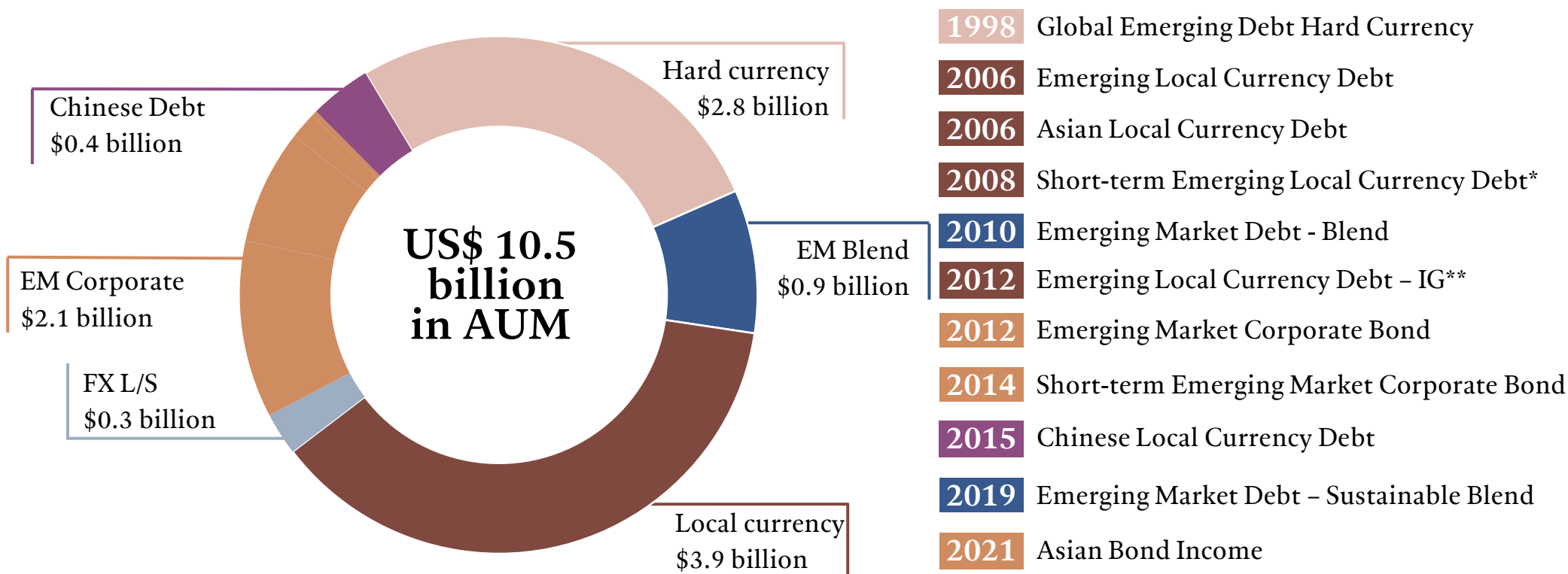
■ Latam and Carribean ■ APAC ■ EM Europe ■ MEA

Source: JPMorgan, Bank of America as of July 2023.

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Pictet Emerging Market Fixed Income strategies – a comprehensive range

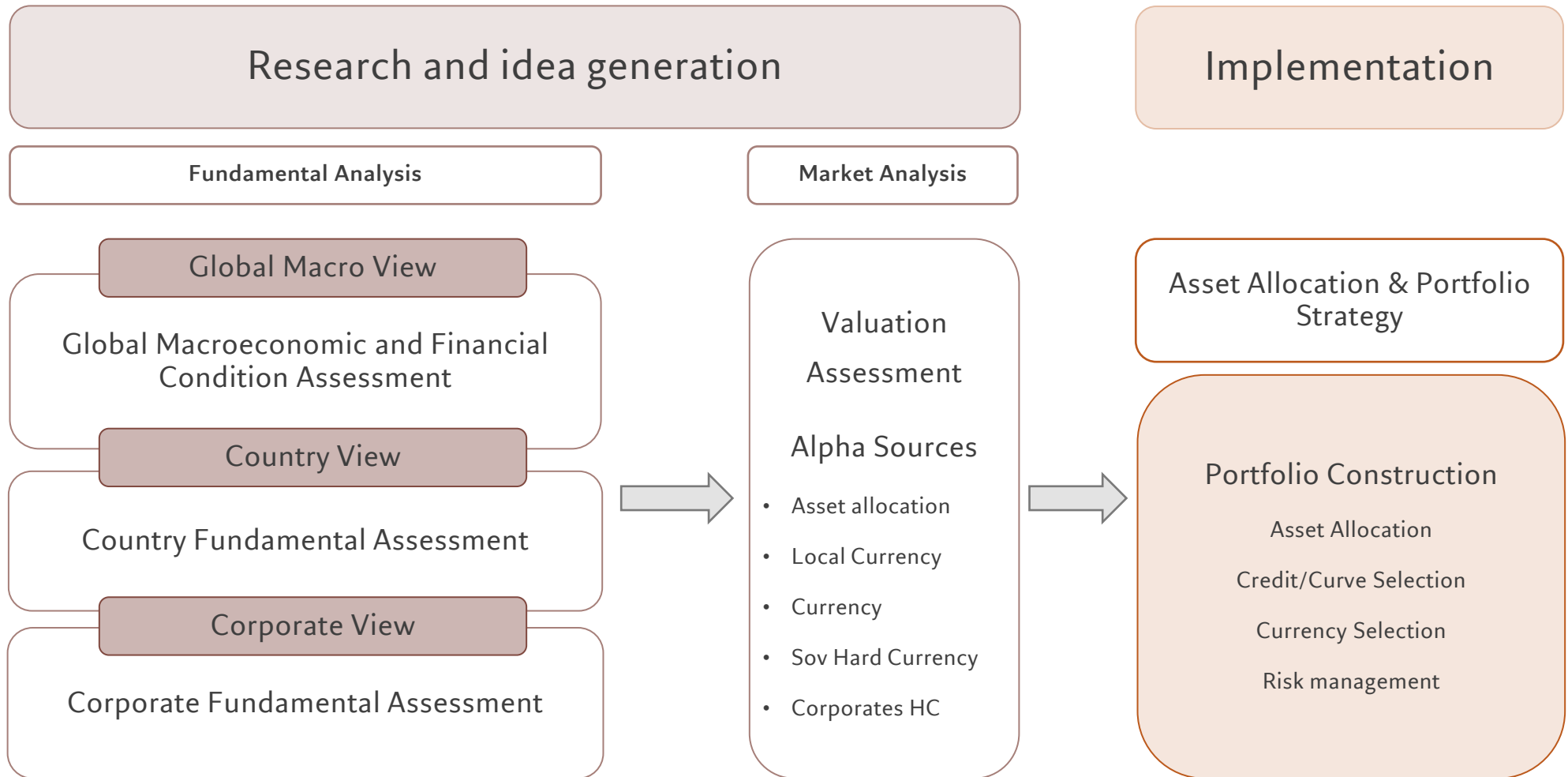


*Short-Term Emerging Local Currency Debt from 16.01.2018, Global Emerging Currencies until 15.01.2018

** Emerging Local Currency Debt IG was discontinued in 20.12.2018

Source: Pictet Asset Management, 31.07.2023. The AUM number represents the consolidated AUM of Emerging Debt strategies at Pictet Asset Management.

From Principles to Process



Source: Pictet Asset Management, 31.07.2023. For illustrative purposes only.

A holistic assessment of the EMFI opportunity set

This cross-asset table summarises fundamental and valuation assessments of countries across the EMFI opportunity set.

Cross-asset table*

Country	Fundamentals					Valuations				
	Country Macro	Sov Credit	Corp Credit	Local Debt	FX	Sov Credit	Corp Credit	Local Debt	FX	
Mexico	↑ 2	↔ 1	↔ 1	↑ 2	↑ 2	↓ -1	↓ -1	↔ 1	→ 0	
Brazil	→ 0	↓ -1	↑ 2	↑ 2	↑ 2	↓ -2	↔ 1	↔ 1	↑ 2	
South Africa	↓ -1	↓ -1	→ 0	↔ 1	→ 0	↔ 1	→ 0	↑ 2	↓ -1	
Poland	↔ 1	↑ 2	↔ 1	↓ -2	↓ -1	↑ 2	→ 0	↓ -1	↓ -1	

Key:	Fundamentals	Valuations
↑ 2	V Strong	V Cheap
↔ 1	Strong	Cheap
→ 0	Neutral	Neutral
↓ -1	Weak	Expensive
↓ -2	V Weak	V Expensive

Source: Pictet Asset Management, as of 31.07.2023.

*Inputs are derived from sub-asset class country outlooks.

The mentioned financial instruments are provided for illustrative purposes only and shall not be considered as a direct offering, investment recommendation or investment advice. Reference to a specific security is not a recommendation to buy or sell that security