

The Bond



Vigilantes

BLOG TEAM

EMERGING OR EMERGED?

EMERGING
MARKETS (EM) HAVE
COME A LONG WAY
FROM THE DAYS
WHEN THEY WERE
KNOWN MAINLY AS
*DEVELOPING
COUNTRIES.*



THE ORIGINAL
EM DEBT INDEX
HAD *8 COUNTRIES*,
WE NOW HAVE
OVER *80*, WITH A
CORRESPONDING
GROWTH IN EM'S
REPUTATION.

LET'S
TRAVEL BACK
TO THE '70S AND
'80S TO SEE
WHERE IT ALL
STARTED, AND
LOOK
WHERE IT
MIGHT LEAD...



HOW IT BEGAN

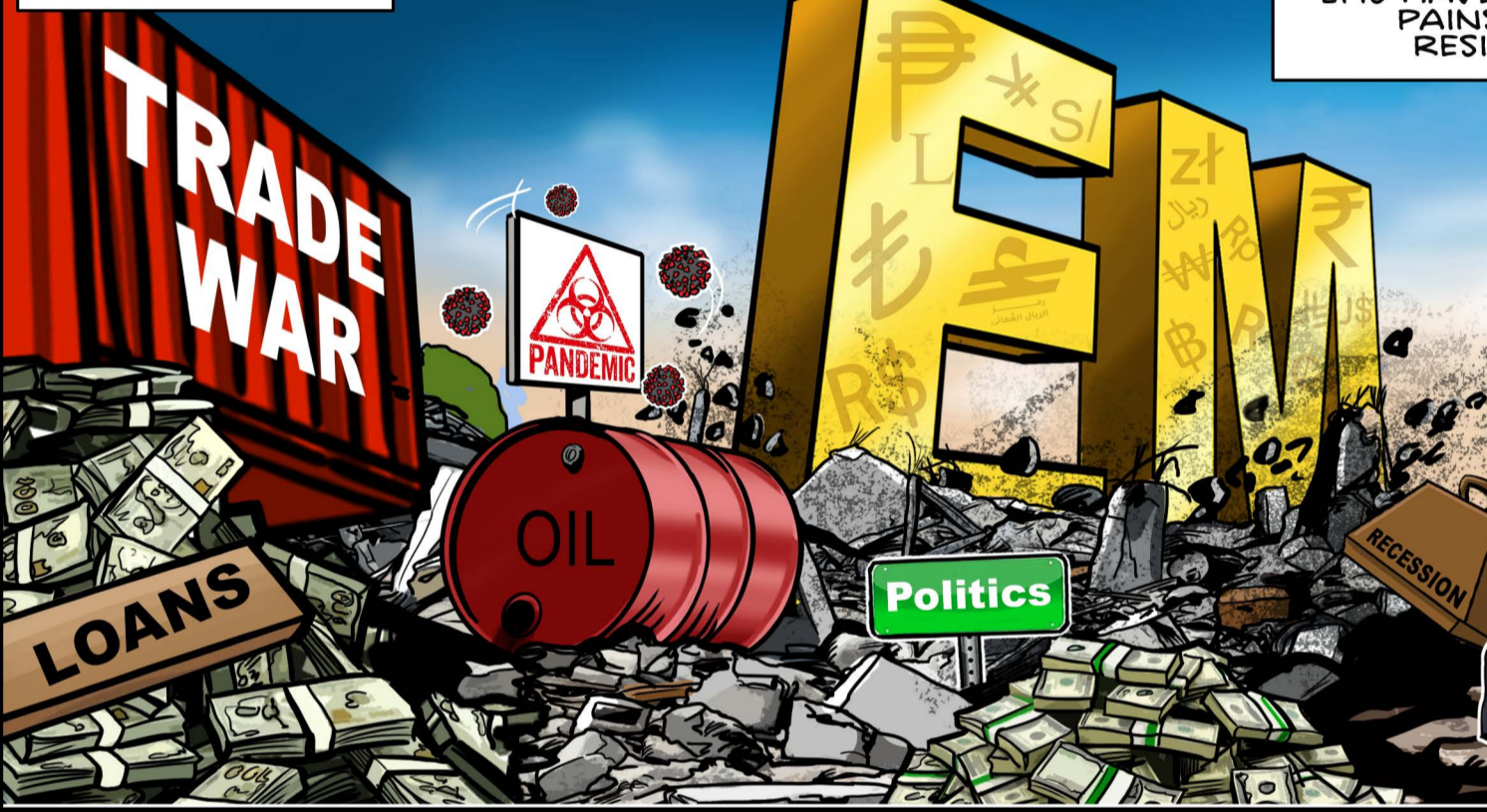
DEFINING EMERGING MARKETS
 THE EM MONIKER WAS COINED IN THE '80S AS PART OF A **FORWARD-LOOKING** REBRAND AFTER A WAVE OF RESTRUCTURINGS. IT WAS CLOSELY LINKED TO THE **US' BRADY BOND** RESCUE PLAN.

CARLOS CARRANZA



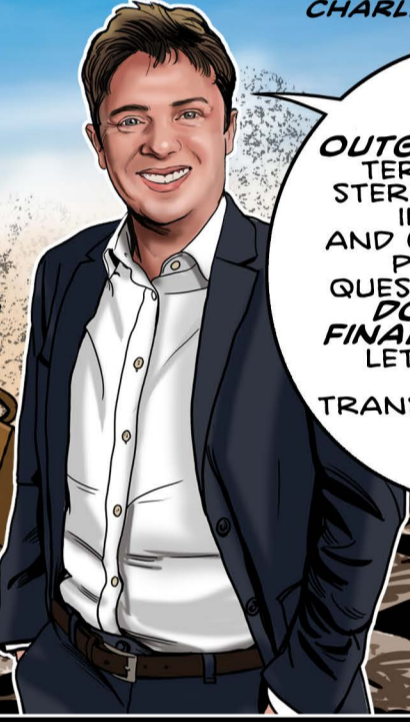
EM STATUS IS NOT SIMPLY A CATCH-ALL. COUNTRIES MUST QUALIFY, CAN 'GRADUATE' TO DEVELOPED MARKET (DM) STATUS OR BE DOWNGRADED TO FRONTIER MARKETS.

STILL EMERGING?



EMS HAVE **SKILFULLY NAVIGATED** GROWING PAINS AND EXTERNAL SHOCKS, SHOWING RESILIENCE AND **DELIVERING GROWTH**.

CHARLES DE QUINSONAS



MANY EMS ARE **OUTGROWING** THE TERM AND THE STEREOTYPE. WITH INFLUENCE AND CREDIBILITY IN PLACE, THE QUESTION IS, **HOW DOES AN EM FINALLY EMERGE?** LET'S LOOK AT RECENT TRANSFORMATIONS.

GROWING PAINS

LATAM SHOCK

THE OIL SHOCKS OF THE '70S CREATED A **HUGE SPIKE** IN DEFICITS IN MANY LATIN AMERICAN COUNTRIES. BY 1982, MEXICO COULD NO LONGER SERVICE ITS \$80 BILLION DEBT, TRIGGERING A **REGIONAL CRISIS**.

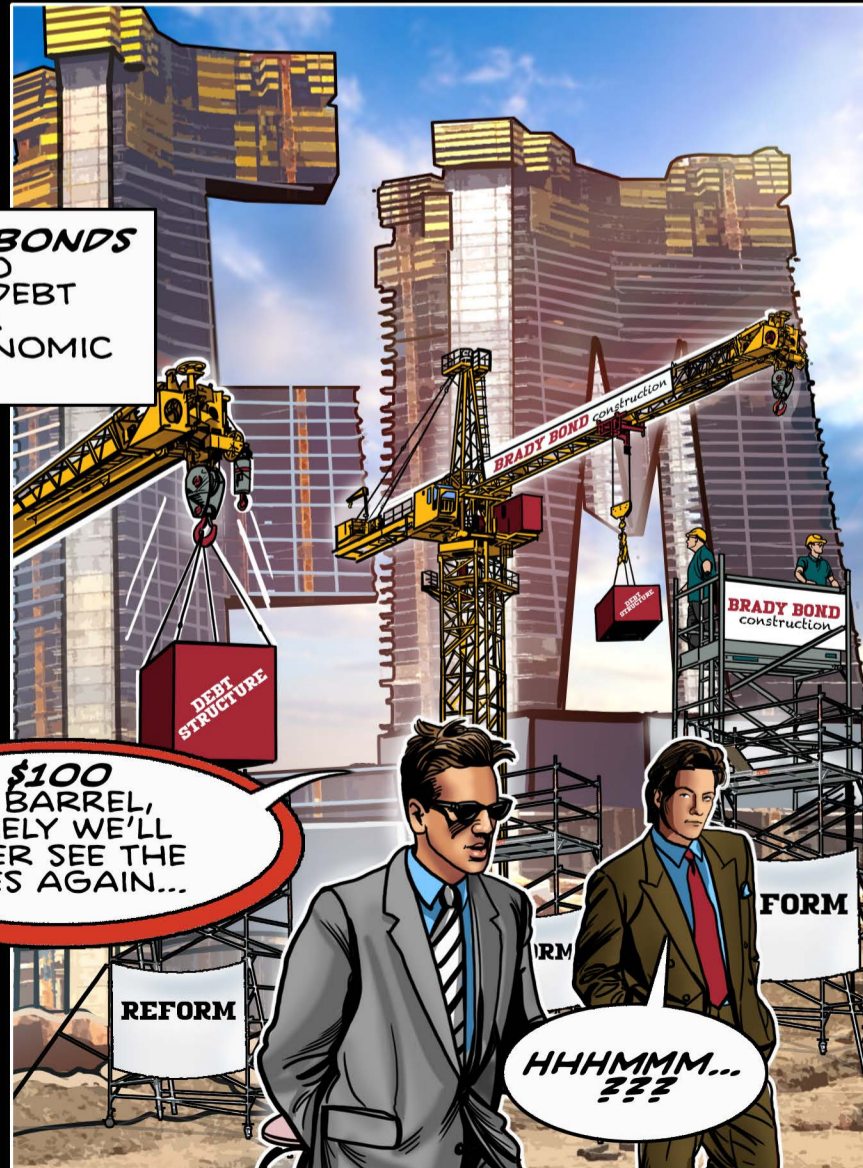


THE US AND OTHER INSTITUTIONS STEPPED IN AS **LENDERS OF LAST RESORT** IMPOSING STRICT TERMS WHICH RESULTED IN UNEMPLOYMENT AND ZERO GROWTH - KNOWN AS A '**LOST DECADE**' FOR LATAM.

1989: **BRADY BONDS** INTRODUCED TO RESTRUCTURE DEBT IN RETURN FOR DOMESTIC ECONOMIC REFORMS.



\$100 A BARREL, SURELY WE'LL NEVER SEE THE LIKES AGAIN...



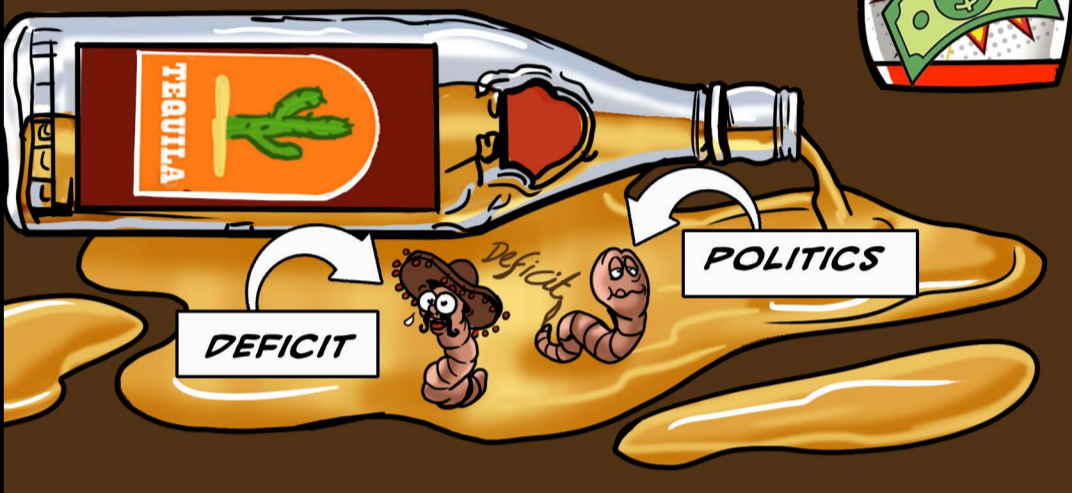
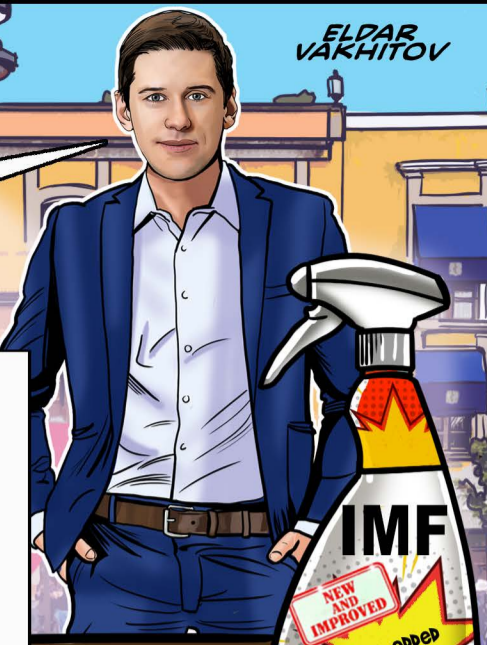
HHHMMM... ???

1994 MEXICO 'TEQUILA' CRISIS

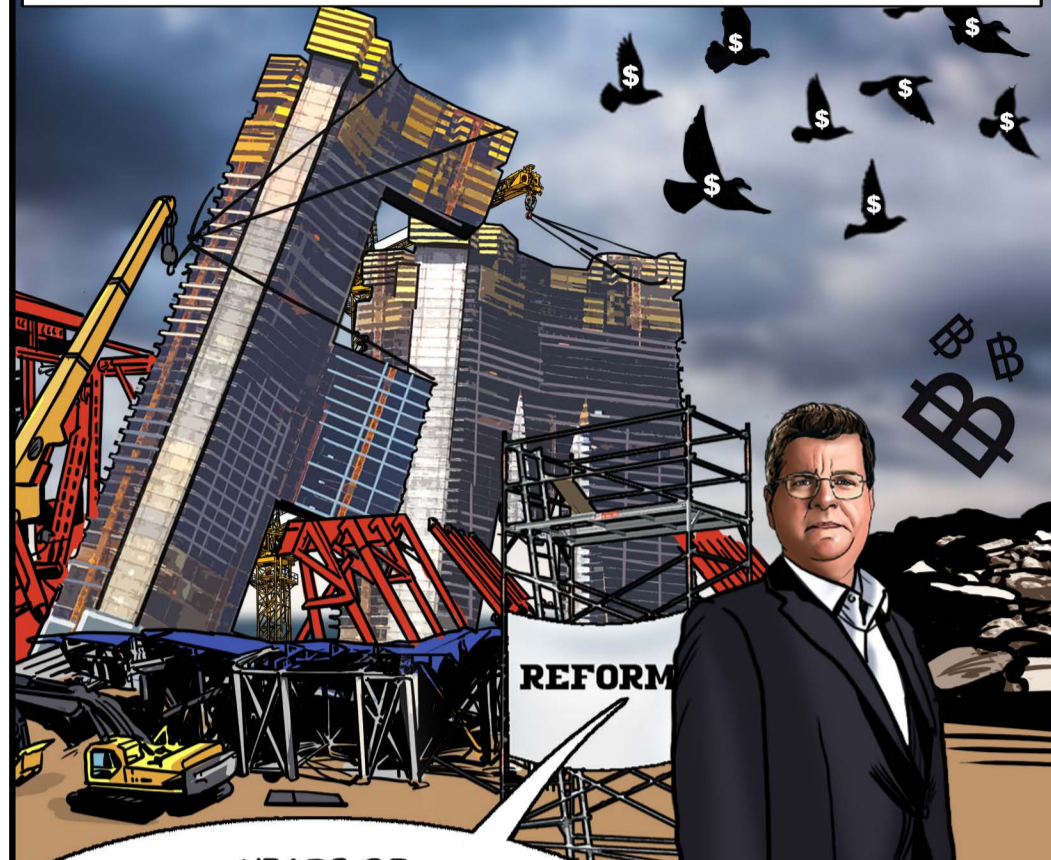
ELDAR VAKHITOV

MEXICO SHARPLY DEVALUED THE PESO TRIGGERING A SEVERE FINANCIAL CRISIS.

POLITICAL INSTABILITY AND US RATE HIKES INTENSIFIED THE SHOCK. INFLATION SURGED, MEXICO NEARED DEFAULT, PANIC SPREAD TO OTHER LATAM ECONOMIES. THE US AND IMF PROVIDED BILLIONS IN FINANCIAL ASSISTANCE, IN RETURN FOR FISCAL CONTROLS.



1997 ASIAN CRISIS
LATAM WAS NOT ALONE. THAILAND WAS FORCED TO ABANDON ITS CURRENCY PEG, TRIGGERING CURRENCY COLLAPSES, CAPITAL FLIGHT AND RECESSIONS ACROSS ASIA.



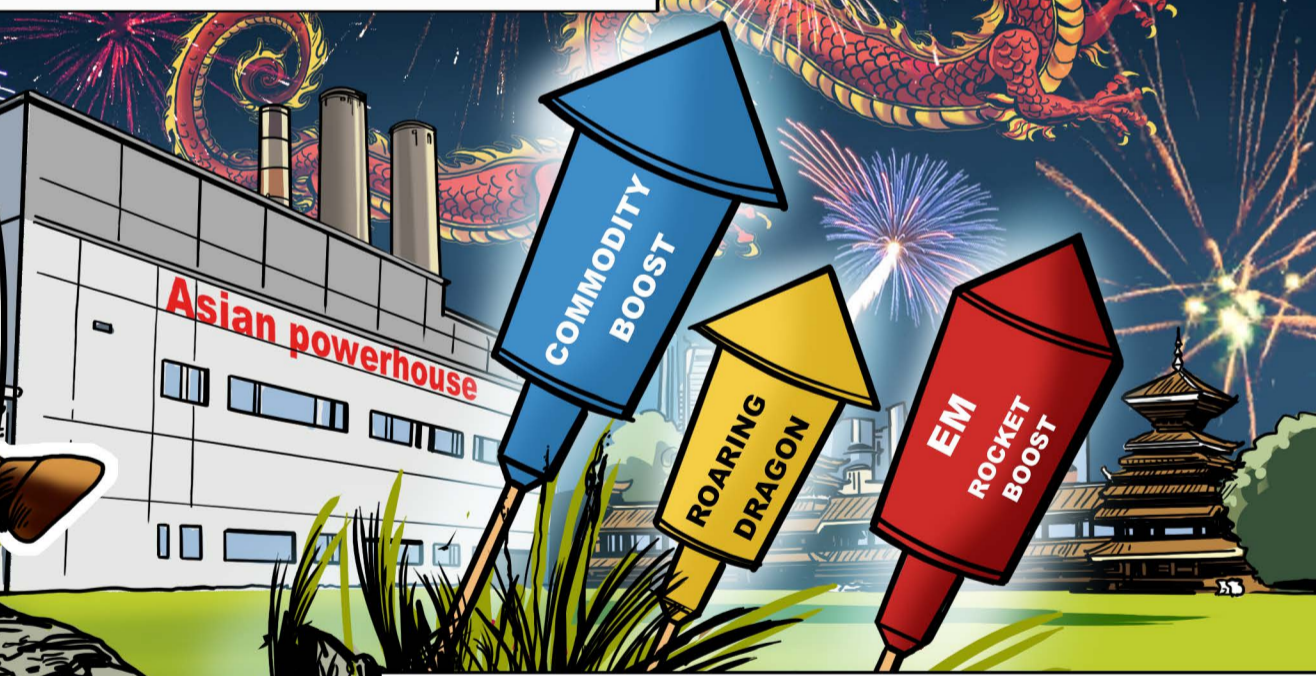
YEARS OF GROWTH HAD MASKED A SIGNIFICANT BUILD-UP OF DOLLAR-BASED DEBT. AGAIN, THE IMF STEPPED IN, REQUIRING SUBSTANTIAL POLICY REFORMS.

NICK SMALLWOOD

HARD MEDICINE
EM COUNTRIES WERE HIT HARD, BUT RESPONDED WITH STRONGER POLICY FRAMEWORKS AND LOCAL MARKETS, REDUCING RELIANCE ON USD DEBT. THE 2001-2010 BULL MARKET ARRIVED!

2001: THE YEAR OF THE ROARING DRAGON

THE EM BULL WAS SUPER-BOOSTED BY CHINA'S ECONOMIC PROWESS. ITS ADMISSION INTO THE WORLD TRADE ORGANISATION HELPED UNLEASH A COMMODITIES SUPERCYCLE.



THIS PERIOD ALSO SAW A WEAKENING \$ AND LOWER US INTEREST RATES, DRIVING INVESTORS TO EM IN THE HUNT FOR YIELD!

2008 GLOBAL FINANCIAL CRISIS
NO ONE ESCAPED THE 2008 GFC. CAPITAL FLOWS HALTED, CURRENCIES DEPRECIATED AND A COLLAPSE IN EXPORTS AND COMMODITY PRICES CAUSED A SHARP FALL IN EM GROWTH.



BUT THIS TIME, WITH PRE-CRISIS CASH RESERVES AND STRONGER ECONOMIES, EM WAS MORE RESILIENT.



BETWEEN 2010 AND 2012, QUANTITATIVE EASING AND NEAR ZERO POLICY RATES IN DMS DROVE CAPITAL TO EM.

2013 TAPER TANTRUM
SIMPLE SPECULATION OF FED TIGHTENING LED TO A VERY **REAL REACTION** AS INVESTORS FLED EM FOR **SAFER ASSETS**.

LONGER-TERM INTEREST RATES IN EMS, WHICH HAD HIT RECORD LOWS, SNAPPED BACK. EM MARKETS DID **REBOUND** BUT THERE WERE MORE PROBLEMS ON THE WAY...

A **SLOWDOWN** IN CHINESE GROWTH AND A COLLAPSE IN COMMODITY **PRICES** WERE THEN JOINED BY DONALD TRUMP'S FIRST ROUND OF **TARIFFS**.

COVID HITS

INFLATION **UNCERTAINTY** **FEAR**

CONFIDENCE

LIKE THE GFC, COVID WAS INESCAPABLE. BUT EM CENTRAL BANKS **RESTORED** MARKET ORDER, SUPPORTING FINANCIAL STABILITY AND ECONOMIC RECOVERY.

INFLATION WAS TAMED ACROSS MOST EM COUNTRIES, AND MANY SUBSEQUENTLY BENEFITED FROM POSITIVE REAL RATES, ATTRACTING INVESTORS.

TARIFFS II, BUT LESS TURMOIL

LIBERATION DAY? SWEEPING **US** TARIFFS CERTAINLY GOT EVERYONE'S ATTENTION AND PROVED A **GUT-PUNCH** TO GLOBAL SUPPLY CHAINS. BUT INVESTORS QUICKLY FOCUSED ON REALITIES NOT HEADLINES.

I'VE ALWAYS THOUGHT **DIVERSIFICATION** WAS THE WAY FORWARD.

EVA SUN-WAI

THE **EM UNIVERSE'S** STRONG NETWORK PROVIDED CUSHIONING THROUGH NEAR-SHORE, REGIONAL TRADE AND **DOMESTIC DEMAND**. IF ANYTHING, THE **TARIFF TURMOIL** UNDERSCORED THE IMPORTANCE OF EM'S **DIVERSIFICATION** ADVANTAGE, WITH ITS MANY IDIOSYNCRATIC **ECONOMIC DRIVERS**.

EM HAS **GROWN** IN GLOBAL SIZE AND ECONOMIC STATURE - ON THE BACK OF GREATER INTEGRATION AND **HARD-WON REFORM**.

BETTER **DEBT-TO-GDP** RATIOS, STRONGER FISCAL AND MONETARY FRAMEWORKS **STRENGTHEN** EM'S ROLE IN THE GLOBAL ECONOMY.

GUAN YI LOW

THEY ARE A PERMANENT FIXTURE ON THE ECONOMIC STAGE, COULD THEY ALSO BE IN THE DRIVER'S SEAT WHEN IT COMES TO GLOBAL GROWTH?

FOR MANY NATIONS AND REGIONS, HAVE EMERGING MARKETS FINALLY EMERGED?

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