



Overview

Facing a Synchronized Slowdown

The backdrop for emerging markets has become more challenging amidst a slide into recession in developed markets, softening Chinese growth, tighter financing conditions and a strong US dollar. Outside of China, many economies have remained resilient, but the headwinds are multiplying.

Emerging market (EM) equities dramatically underperformed their developed market (DM) equivalent during Q3, even though both markets incurred losses. But EM losses of 11.6% during the quarter amounted to almost double the 6.2% loss recorded by DMs. This took place against a backdrop of rapidly rising US rate expectations as the notion that inflation had peaked in May/June began to wane and the Fed's hawkish rhetoric found increasing market acceptance. The market expectation for the terminal Federal Funds rate rose from 3.5% to 4.5% over the period, while the expected date of the rate peak receded from May to March 2023.

Indeed several (interlinked) drivers that usually propel growth and returns in different parts of the EM asset class do not augur well at this stage. First, Chinese growth is slowing and, together with rising tensions surrounding its claim on Taiwan has led to a 31.2% loss year to date, underperformance against the EM MSCI Index by 4.1% points. This matters both for the index performance per se, as China constitutes a still hefty 31.4%, and it matters for other EM economies given China's role as a source of final demand (for Asia), as part of a regional supply chain and as a voracious consumer of raw materials (for Latin America). Secondly, DM economies are undergoing a highly unusual synchronized and sharp tightening cycle, which, together with the energy crisis, will likely lead them into an equally synchronized recession. This closes off a key source of demand for EM exports, in many cases a pivotal growth factor. In addition, the associated strength of the US dollar brings its own challenges for export-oriented/foreign currency indebted EMs. Finally, as the global economy exits pandemic-related restrictions, demand for work-from-home equipment is easing, just as the tech sector in Asia is bringing new supply online and accumulating inventory. A third potential driver of EM growth is domestic demand on the back of rising private consumption. However, prospects there have also darkened as many EMs experienced populist challenges to the policies proposed by the erstwhile "Washington Consensus" which conflict with the objective of sustainable, long-term growth.

Yet, leaving China and the US aside, the resilience of some emerging markets this year has been remarkable. EM stocks typically behave as a leveraged version of DM stocks and as a result sell off relative to their DM peers in times of crisis (e.g. during the 2008 GFC, the 2013 'taper tantrum', the 2015 China FX devaluation and the 2020 Covid pandemic). But the current crisis affects DM

specifically, through monetary tightening in the US and the energy shock in Europe in particular. By contrast, emerging markets countered the inflation shock earlier, partly due to their historical experience with the effects of even transitory supply shocks and partly because of the lower credibility of their central banks. Brazil for example, started its tightening cycle a full year before the Fed. Thus, EMs have already partly absorbed part of the effect of tighter domestic financial conditions. In addition, they have benefited from the elevated level of commodity prices. In turn, a basket of EM currencies has outperformed a G10 ex. US basket since January 2021.

Market Strategy: Relative to the previous quarter, inflation has again proven to be more persistent than anticipated, actual and expected rates have moved up sharply and the odds of a recession have therefore risen. While some EMs have remained resilient, the challenges are now multiplying and, in addition, fears of an 'accidental' financial crisis are spreading. As such, they may yet follow their well-trodden path of previous global crises. We thus keep our existing country allocation and only make the following two adjustments:

- We downgraded **China** to *underweight* intra-quarter given the escalating tensions over Taiwan and the associated and continuing deterioration in relations with the US, amidst slowing domestic growth;
- We downgrade **South Africa** to *neutral* as the outlook for commodity exports has weakened.

EM Country Allocation

	Chg	-2	-1	0	+1	+2
Asia						
China	↓					
South Korea	-					
Taiwan	-					
Malaysia	-					
Indonesia	-					
Philippines	-					
Thailand	-					
Vietnam	-					
India	-					
Latin America						
Brazil	-					
Mexico	-					
Europe, Middle East and Africa						
Turkey	-					
Saudi Arabia	-					
South Africa	↓					

Note: Up/down arrows indicate a positive/negative change in our asset allocation compared to the previous quarterly outlook. A dash indicates no change. Source: CLIM

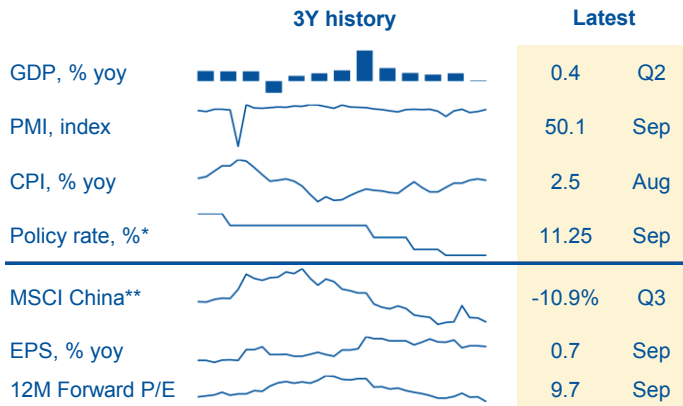
*The publication reflects asset performance up to 30 September, 2022, and macro events and data releases up to 11 October, 2022, unless indicated otherwise.

Asia

China

Underweight (1)

The growth outlook remains constrained by structural adjustments and policy choices.



*Required Deposit Reserve Ratio for Major Banks.

**US\$ total return relative to MSCI EM.

Source: Bloomberg

Having failed to clearly dissociate itself from Russia's invasion of Ukraine and instead proclaiming an "ever-lasting friendship" between the countries, China continues to dissociate itself politically and economically from the Western-led system. But while its monetary cycle runs counter to that of the majority of the world's economies, the economy is decelerating as a consequence of recurrent local lockdowns thanks to its zero-Covid policy.

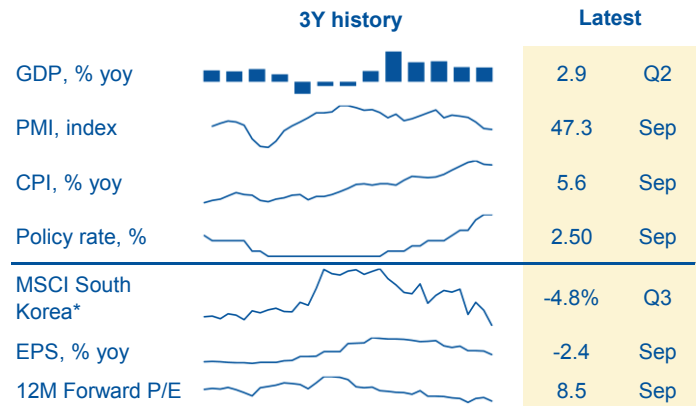
In Q3, the economy benefited from a slight respite and recovered on a number of fronts. Manufacturing PMIs remained around the 50 mark, even though the export component exhibited a declining trend and stands in the mid-40s. At the same time, industrial production gained 4.2% yoy (1.3% mom) in August. Fixed investment remained solid at 6.4% yoy in August and ticked up in particular in the infrastructure sector, whereas it slowed in manufacturing and continued to contract in the real estate sector. In the same vein, the housing price decline deepened and broadened, despite the easing of some home-buying restrictions. With the property sector a key drag on growth, demand also suffers from softening consumption: retail sales declined for the second consecutive month in August, illustrative of the hit to the service sector from Covid-related lockdowns.

Market Strategy: As the housing sector continues to deleverage and adjust, the economy suffers the effects of recurrent lockdowns under the zero-Covid policy and as export growth is likely to soften further, the growth outlook for China has deteriorated. Consensus now expects GDP growth of 3.3% in 2022, far short of the official 5% target. What is more, the geopolitical risk arising from escalating tensions between China and Taiwan outweigh the slightly attractive valuations. We downgraded China to *underweight* intra-quarter and maintain this stance.

South Korea

Underweight

The semiconductor downcycle and aggressive monetary tightening weigh on earnings and equities.



*US\$ total return relative to MSCI EM.

Source: Bloomberg

South Korea's economy maintained reasonable momentum in Q2, as GDP growth eased from 3% yoy in Q1 to 2.9% yoy. Much of the strength could be attributed to consumption, which has been recovering following the lifting of social distancing measures in April. The recovery is likely to lose steam in H2 though, as inflation and higher interest payments weigh on consumption. Meanwhile, softening external demand and the semiconductor downcycle suggest a hit to South Korea's all-important semiconductor sector. Indeed, semiconductor production fell by 1.7% yoy in August, the first decline in over four years, as producers brace for the downturn. Consensus is projecting GDP growth to ease from 2021's 4.1% yoy to 2.6% this year. The fall in semiconductor prices, along with the surge in energy prices, led to Korea's largest trade deficit in August. As such, the current account surplus is expected to narrow this year from 4.9% of GDP in 2021 to 2.8%.

Inflationary pressures are showing tentative signs of peaking, as headline inflation eased to 5.6% yoy in September. With inflation still significantly above the Bank of Korea's (BoK) 2% target and core inflation rising, the market expects the BoK to tighten by a further 125bps over the next year, although the risk of a recession and the high share of household indebtedness could force the BoK to go slower. The plunge in the won has made the BoK's fight against inflation more challenging, causing it to intervene in the foreign exchange market to purchase won.

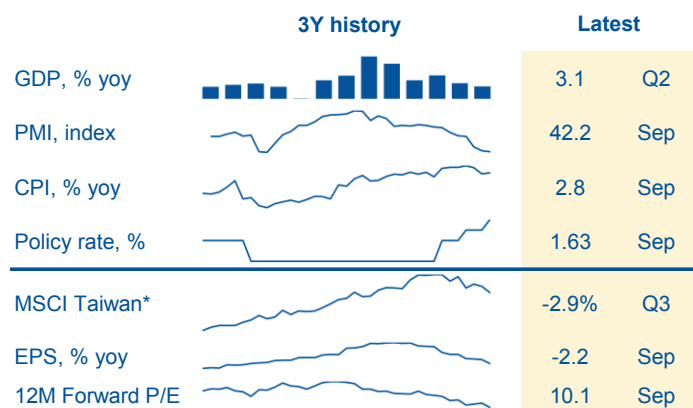
On the fiscal front, the Yoon administration has proposed to reduce government spending for the first time in over a decade, with plans to introduce fiscal rules to cap the deficit. However, there is a risk that the government returns to fiscal easing in the event of a recession.

Market Strategy: South Korean equities continued to lag the EM benchmark in Q3. Forward earnings have declined by 26% since April, while the forward P/E discount to EM is in line with its five-year average, leaving valuation measures neutral. We stay *underweight*.

Taiwan

Neutral

While the tech sector is on the mend following the end of the pandemic, new challenges lurk around the corner.



*US\$ total return relative to MSCI EM.

Source: Bloomberg

Its tight integration with the global economy, in particular in the tech sector, means that Taiwan's economy is heavily exposed to the vagaries of the business and trade cycle. As such, it is now subject to the ongoing cyclical disruptions in China, the realignment of supply chains in Asia and the waning post-epidemic demand for WFH equipment. It is thus not surprising that Taiwanese exports dropped off sharply during the previous three months, before partly recovering. Interestingly, export orders from the G3 and parts of Asia have held up well, even rising above 2021 levels, whereas those from China and Hong Kong fell sharply below the 2021 level.

However, the export data contrast with the picture that emerges from industrial production, which indicates solid growth in manufacturing, particularly in tech-related sectors. This could be indicative of the supply build-up ahead of new product launches. However, such equipment will face weakening demand at a time when tech inventory is high, with the inventory-to-shipments ratio at its highest level since the GFC. This bodes ill for the outlook for the sector. Non-tech manufacturing remains sluggish.

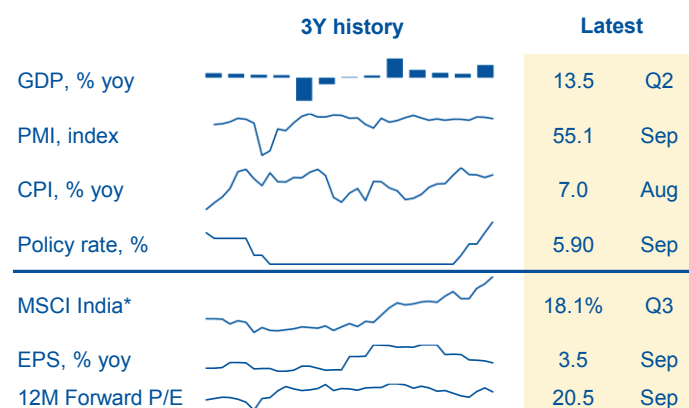
Inflation moderated from its 14-year peak of 3.6% in June to 2.8% by September. The central bank nevertheless took the tightening cycle one step further, raising the key policy rate by 12.5bps in September (taking the discount rate to 1.625%). Given that the real policy rate thus remains negative, the central bank will likely continue to hike further depending on the outlook for commodity prices, geopolitical risks and the actions of other central banks.

Market Strategy: Taiwan underperformed the MSCI EM Index by 290bps in Q3 and is now one of the cheapest EM stock markets based on its forward P/E relative to the benchmark and its own history. However, both rising tensions with China and a downshift in the global semiconductor sector represent significant negative factors. We thus maintain our *neutral* allocation.

India

Underweight

A deteriorating balance of payments and rising inflation hamper India's economic outlook.



*US\$ total return relative to MSCI EM.

Source: Bloomberg

Despite the ongoing global enthusiasm for Indian equities, its economy displays signs of softening momentum, widening external imbalances and persistently high inflation, which calls for further monetary tightening and in turn weighs on the growth outlook.

Activity indicators have started to point to a slowdown as the post-pandemic recovery effect in services is beginning to fade. At the same time, manufacturing also eased, dragging the composite PMI down by 3.2 points, even though it remains elevated at 55.1. Industrial production stalled over the summer months, even contracting on a monthly basis in July.

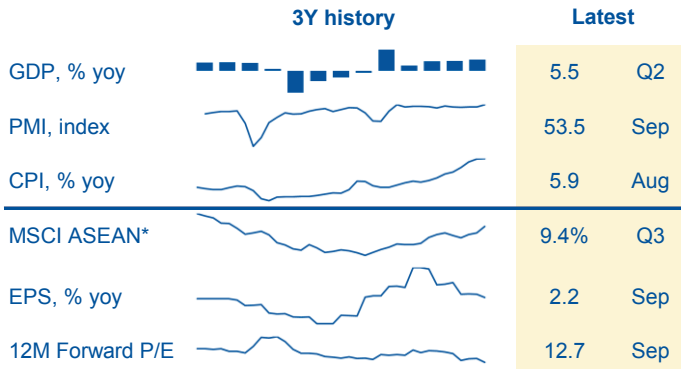
The external balance has deteriorated sharply recently, with the trade deficit driving the current account deeper into the red. However, the widening trade deficit is driven less by rising imports than by a fall in exports, which have contracted in four of the past five months. In September alone, exports contracted by 4.7% mom. As a result, the current account deficit widened to over 5% of GDP in Q3, although a slowdown in domestic demand and softening commodity prices may result in a narrowing of the shortfall by year-end.

Inflation has shown little signs of letting up and just as energy prices eased somewhat, food prices strengthened again. As a result, CPI readings continue to hover around the 7% yoy mark, prompting the RBI to hike rates three consecutive times by 50bps, taking the benchmark repo rate to 5.90%. It will likely need to lift interest rates further.

Market Strategy: The Indian market has been one of the star performers during Q3, outshining the MSCI EM by over 18% points. The market benefits from investor disenchantment with China and a bond market inaccessible to foreigners. These features have led to a vast overvaluation of the market, prompting us to maintain our *underweight* allocation.

ASEAN

The hawkish shift in the response of central banks to rising inflation and plunging currencies will keep a lid on the economic recovery.



*US\$ total return relative to MSCI EM.

Source: Bloomberg

Central banks in ASEAN countries have belatedly started their tightening cycle as inflationary pressures show no signs of abating. Moreover, the Fed's aggressive tightening cycle has put further pressure on central banks in the region to pick up the pace of tightening, which has left many currencies in the region at record lows. Tighter monetary policy and the global slowdown, which the open ASEAN economies are vulnerable to, are a headwind to the region's post-pandemic recovery.

Malaysia

(Overweight)

GDP expanded by a robust 8.9% yoy in Q2 on the back of the country's reopening in April, with household consumption growing by 18.3% yoy. While the global economic slowdown will weigh on Malaysia's exports, particularly electronics, the tight labour market should continue to provide support to households. Moreover, despite the recent pullback in commodity prices, elevated energy prices will continue to boost revenues. Consensus projects GDP growth to accelerate from 3.1% yoy last year to 7% yoy in 2022.

Inflation continues to trend higher, with core inflation accelerating on the back of the strong domestic demand recovery. Inflation is forecast to average 3.1% yoy this year, above the Bank Negara Malaysia's (BNM) forecast range of 2-3%. As such, following three consecutive 25bps rate hikes since May, the market is pricing in a further 100bps of tightening within the next year. This would leave the policy rate at its highest level since 2008. The recently announced 2023 Budget seeks to narrow the budget deficit by reducing spending, although the inclusion of generous social assistance and income tax cuts suggests that the government is preparing for an early election.

Market Strategy: While the forward earnings of Malaysia have fallen by 4% over the past six months, the market has held up

better than the wider EM index, which dropped by 12% over the same period. Valuations for Malaysian equities still appear attractive, with the forward P/E premium to EM slightly below its five-year average. Moreover, MSCI Malaysia's dividend yield is still above that of EM. Combined with the robust macroeconomic backdrop, we keep our *overweight* to Malaysia.

Indonesia

(Overweight)

Indonesia's economic recovery gathered pace in Q2, driven by robust export demand. Growth is expected to gradually ease in H2 as the global slowdown is set to hit Indonesia's commodity-heavy exports. Meanwhile, the near-30% hike in subsidised fuel prices in September means households are likely to cut discretionary spending, as the experience from the previous fuel price hike in 2013 suggests. GDP growth this year is expected to pick up from 3.7% yoy last year to 5.2%. Over the medium-term, the country's giant nickel reserves mean it is well placed to profit from the transition to electric vehicles.

Inflation surged to 6.0% in September, above the Bank Indonesia (BI) target range of 2-4%, as the fuel price hike fed through. Therefore, the BI is expected to press on with its tightening cycle, with consensus pencilling in around 100bps worth of rate hikes.

Market Strategy: Forward earnings momentum is robust, with forecasts up by 12% since April. Indonesian equities outperformed EM by 19.4% points in Q3, leaving the stock market appearing less attractive. Nonetheless, with valuations not yet stretched and the economy on solid footing, we remain *overweight*.

Philippines

(Underweight)

The easing in GDP growth from 8.2% yoy in Q1 to 7.4% yoy in Q2 suggests that the re-opening tailwinds are losing momentum. Consensus expects GDP growth to continue slowing over H2 on the back of weaker export demand from the US and China and softer household consumption, bringing the annual average to 6.8% yoy.

Inflation reached 6.9% yoy in September and is yet to peak given the nationwide transport fare hike in October. As such, the Bangko Sentral ng Pilipinas (BSP) will remain under pressure to continue with its hiking cycle. Indeed, the BSP has raised rates by 225bps since May, one of the most aggressive monetary tightening cycles in the region. In addition to mounting inflationary pressures, the BSP also has to contend with the plunge in the peso to a record low, forcing intervention in the foreign exchange market. The widening of the current account deficit from 0.5% of GDP in 2021 to 4.1% this year, along with a hawkish Fed, will continue to put downward pressure on the peso. The market expects a further 75bps of rate hikes over the next six months.

Market Strategy: The Philippine stock market does not appear particularly cheap in the context of the soft economic outlook. The forward P/E ratio is at a 24% premium to EM, a touch below

its five-year average. Moreover, the dividend yield of 2.3% is below that of EM. As a result, we keep our *underweight*.

Thailand

(*Underweight*)

The fast rebound in tourist arrivals bodes well for the Thai economy, which grew by 2.5% yoy in Q2. Indeed, the unexpected pace of tourist arrivals has led the authorities to raise their forecast for this year from 6 million tourists to 10 million. However, slowing goods exports and lower agricultural output due to floods will drag on GDP growth. Consensus projects the pace of GDP growth to accelerate from 1.5% yoy in 2021 to 3.3% yoy this year.

There are tentative signs that headline inflation has peaked, with inflation easing from 7.9% yoy in August to 6.4% yoy in September. Nonetheless, inflation is still significantly above the Bank of Thailand's (BoT) target range of 1-3%, which should prompt further rate hikes. Following 50bps of hikes since August, the market is pricing in a further 150bps over the next year. With GDP still below pre-pandemic levels and household indebtedness high, the BoT is likely to continue hiking at a more gradual pace than its ASEAN peers, which will put pressure on the baht.

Market Strategy: The MSCI Thailand Index continues to appear richly priced, with the 12M forward P/E premium to EM significantly above its five-year average. Meanwhile, forward earnings are down by 1% on a six-month basis and the dividend yield of 2.6% is below EM's 3.4%. As such, we stay *underweight*.

Vietnam

(*Overweight*)

Vietnam's economic recovery shows no sign of letting up, as GDP growth picked up from 7.7% yoy to 13.7% yoy in Q3, although the strength was partly due to favourable base effects. Soft external demand represents a headwind for Vietnam's crucial export sector, which has been the main driver of growth. Nonetheless, over the medium term, Vietnam still stands to benefit from the reconfiguration of global supply chains. Consensus projects GDP growth to average 7.2% yoy this year.

Strong economic activity has been accompanied by higher inflation, as headline inflation accelerated to 3.9% yoy in September, close to the National Assembly's 4% target. The State Bank of Vietnam (SBV) unexpectedly hiked rates by 100bps in September, and further rate rises are likely, not least to support the dong.

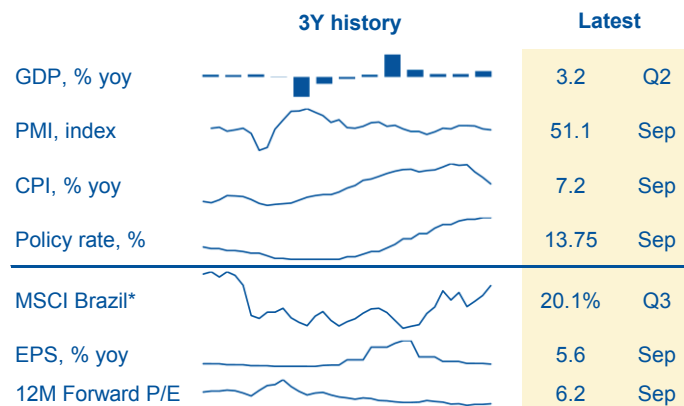
Market Strategy: The sell-off in Vietnamese equities in April following the government's corruption crackdown has left valuations looking very attractive. The 12M forward P/E premium to EM is significantly lower than its five-year average. Coupled with Vietnam's robust economic fundamentals, we remain *overweight*.

Latin America

Brazil

Neutral

Lula remains the favorite in the presidential election after the first round. But the risk of civil unrest cannot be ignored.



*US\$ total return relative to MSCI EM.

Source: Bloomberg

The outlook for Brazil's economy stands under the banner of its presidential election, the first round of which took place on October 2. Former President Lula came out ahead of the contest with 48% of the vote, in contrast to Bolsonaro's 43%. This was insufficient to avoid a run-off vote scheduled for October 30 and the results surprised with a stronger than expected performance by Bolsonaro. While momentum is now with the Bolsonaro camp, Lula remains the favorite for the second round. Allies of Bolsonaro performed well in the congressional and gubernatorial races held at the same time. In the Senate, (Bolsonaro's) Liberal Party gained eight more seats, giving it 13 out of a total 81. In the lower house, the Liberal Party won 99 seats out of 513, making it the single largest party, compared to just 80 seats for Lula's coalition, Brazil of Hope.

If Lula were to win the presidency, his room for manoeuvre would thus be constrained, although Congress is infamous for working with the prevailing government. Still, Lula may have to appoint centrist ministers and his plan to remove the fiscal spending cap would be cast in doubt (a market positive). A second Bolsonaro presidency might encounter greater support in the legislative, but would still need to find additional centrist allies for a majority.

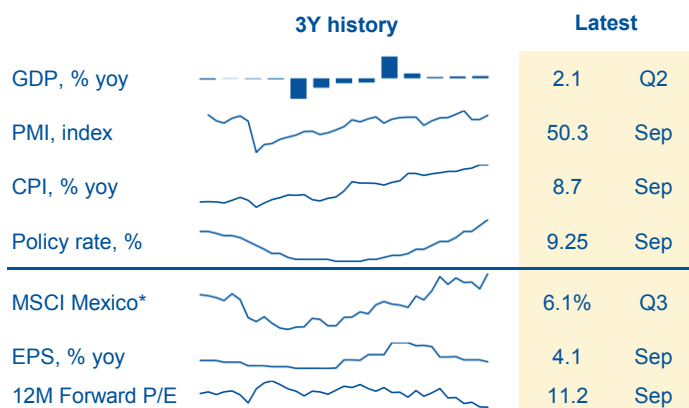
Meanwhile, the economy has been on the mend. Inflation declined to 7.2% yoy in September from a peak of 12.1% yoy in April, thanks to the Banco do Brazil's early and aggressive tightening by 1175bps in total.

Market Strategy: Despite the political uncertainty and only poor presidential choices on offer, Brazilian equities outperformed the MSCI EM by over 20% points during Q3. Elevated commodity prices have been supportive and Brazil's forward P/E discount remains larger than usual. Nevertheless, the election risk, especially the risk of civil unrest if Bolsonaro loses, leads us to maintain a *neutral* allocation.

Mexico

Underweight

Despite Banxico's determined tightening cycle, inflation remains elevated, requiring further action.



*US\$ total return relative to MSCI EM.

Source: Bloomberg

Mexico continues to experience a persistent rise in inflation which shows no sign of abating. Indeed, headline CPI rose to 8.7% yoy as of August, from 7.4% yoy in December 2021. There is rising concern at Banxico at the bleed-through into core inflation and public inflation expectations. The central bank started its tightening cycle in Q1 2021 and in 2022 alone raised rates by 425bps (75bps in September), to 9.25%. Although this puts the real policy rate into positive territory, inflation has yet to stop climbing. Interest rates will thus likely have to rise into double-digit territory.

The fight against inflation and the associated rise in interest rates will likely further bear down on economic activity. The demand side has so far surprised on the upside as consumption, driven by strong wage increases has held up well, boosting retail sales by 5.7% yoy in July. On the other hand, the manufacturing sector is already experiencing a slowdown, although the PMI nudged back above 50 in September. Low public investment and slowing exports (partly due to the US slowdown) are further headwinds for the Mexican economy. What is more, strong consumer demand is becoming increasingly skewed towards imported goods, weighing on the trade balance and thus feeding negatively into GDP.

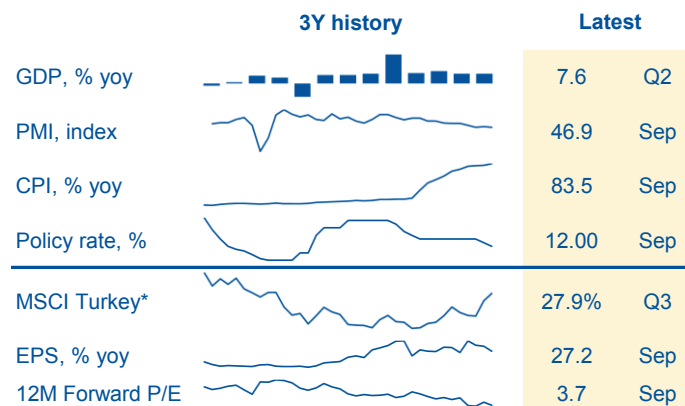
Market Strategy: Mexico outperformed the MSCI EM by 6.1% points during Q3, but its growth outlook remains constrained by actual and likely further monetary policy tightening as well as by the slowdown in the US, its main export market. While valuations are broadly neutral for Mexico, we maintain an *underweight* allocation.

Europe, Middle East and Africa

Turkey

Underweight

An unsustainable policy mix increases the likelihood of a balance of payments crisis.



*US\$ total return relative to MSCI EM.

Source: Bloomberg

Turkey's economy continues to defy gravity, as GDP expanded by 7.6% yoy in Q2, although some of the strength can be attributed to households bringing forward purchases amid double-digit inflation. The economy is set to lose momentum in H2 as inflation weighs on household purchasing power and global growth weakens. Indeed, the manufacturing PMI remained below 50 for the seventh consecutive month in September, pointing to a downturn in the sector. Consensus expects GDP growth of 5.0% yoy this year.

Inflationary pressures show no sign of abating, as headline inflation reached an eye-watering 83.5% yoy in September. Unanchored inflation expectations and the 151.5% yoy rise in PPI in September suggest that inflation has yet to peak. Despite soaring inflation, the Central Bank of Turkey (CBRT) cut rates by 200bps since August, making clear their preference for preserving growth over stabilising prices. The market is pricing in further cuts and a reversal in the CBRT's stance within six months as the current course is unsustainable. The widening current account deficit on the back of high energy prices, along with deeply negative real rates, will continue to put downward pressure on the lira. The biggest risk facing the economy is a repeat of 2018's sudden stop in capital flows.

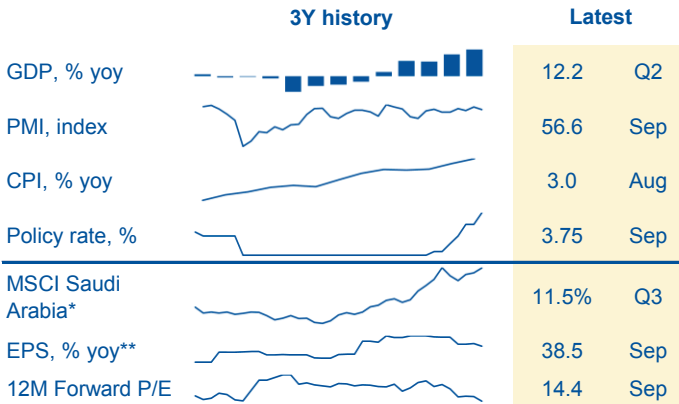
Ahead of next year's elections, President Erdogan is likely to pursue populist economic policies amid sagging support. While opinion polls show the gap between the opposition and the ruling AKP narrowing, an AKP victory or a contested result cannot be ruled out. As such, uncertainty around Turkey's political future are likely to keep Turkish assets under pressure.

Market Strategy: The MSCI Turkey Index was one of the strongest EM markets in Q3, as domestic investors continued to turn to equities as an inflation hedge. Turkish equities still appear cheap, but fundamentals do not warrant an upgrade. We stay *underweight*.

Saudi Arabia

Neutral

The relative expensiveness of Saudi equities imply that the positive economic news has been priced in.



*US\$ total return relative to MSCI EM.

**Tadawul All Share Index.

Source: Bloomberg

Saudi Arabia's economy remains one of the few bright spots in the EM universe. Consensus expects GDP growth of 8.1% yoy this year on the back of both elevated oil prices and the recovery in the non-oil sector. Indeed, hovering above 55, the PMI's continue to signal an improvement in the health of Saudi Arabia's non-oil private sector. In the oil sector, with output close to its quota, the recent OPEC+ decision to cut oil production by 2m b/d is likely to be shouldered by Saudi Arabia. The expected 5% decline in Saudi Arabia's production will be more than offset by the 16% rise in the Brent oil price since rumours of an OPEC+ cut emerged. Moreover, at \$94/bl, the current oil price is comfortably above Saudi Arabia's breakeven oil price of \$79/bl. As such, the budget is expected to record a surplus of 7.4% of GDP this year. The Kingdom has become more fiscally conservative, but there is a risk that the purse strings are loosened if activity unexpectedly slows down. A low debt share and high reserves mean that Saudi Arabia's balance sheet can weather a global downturn and a fall in oil prices.

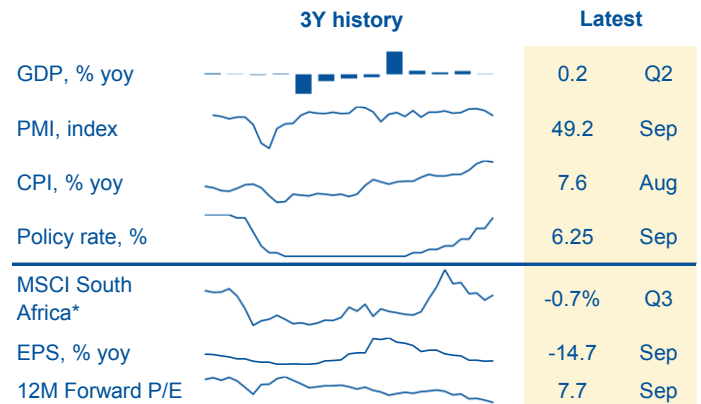
The riyal's peg to the US dollar and low pass-through from international food prices have kept inflationary pressures contained, with prices rising only 3% yoy in August. The Saudi Arabian Monetary Authority (SAMA) will continue to tighten policy in tandem with the US Fed per its currency peg, although arguably to a higher rate than required by the state of the domestic economy.

Market Strategy: Saudi Arabian equities have retreated from their August peak, in line with softer oil prices. The country boasts one of the strongest economic projections in the universe and downside risks to the outlook are limited. Yet the stock market still appears expensive, with the forward P/E ratio at a higher premium than its five-year average. We do not think Saudi Arabian equities offer an attractive entry point and therefore keep our *neutral* allocation.

South Africa

Neutral (1)

Limited boost from commodity prices and weaker macro back-drop offset attractive valuations.



*US\$ total return relative to MSCI EM.

Source: Bloomberg

South Africa's economic recovery lost steam in Q2, with GDP contracting by 0.7% qoq due to disruptions to manufacturing from power outages and floods. While GDP is expected to bounce back in Q3, ongoing domestic energy shortages mean that momentum will be lost. This is set to weigh on business and consumer confidence, the latter of which is already under pressure from high inflation. The government's plan to tackle the energy crisis includes temporarily cutting red tape and accelerating private investment, but these measures will take time to materialise. Consensus expects GDP growth to slow from 5.5% last year to 1.8% yoy in 2022.

Meanwhile, although softer than six months ago, elevated commodity prices should continue to prop up South Africa's corporate tax revenues, helping narrow the budget deficit for this year. The details are yet to be released, but the government takeover of utility Eskom's debt means that the debt ratio is likely to trend higher over the medium term. Turning to the current account, South Africa posted a surprise deficit in Q2 due to higher dividend payments to foreign investors. The narrowing trade surplus from lower commodity prices and higher import demand from investment growth will tip the current account into a deficit next year.

Both headline and core inflation edged down in August, suggesting a possible peak. With inflation above the 6% target ceiling and the South African Reserve Bank (SARB) mindful of inflation expectations, following 275bps of rate hikes so far, the market is pricing in a further 175bps of hikes over the next year.

Market Strategy: Earnings momentum for South African equities is soft, with forward earnings down by 15% on a six-month basis. Valuations remain attractive, but further sharp rises in commodity prices are unlikely, thus limiting the boost to the economy. The deteriorating economic outlook implies that we move South Africa to *neutral*.

The information contained herein is obtained from sources believed by CLIM to be accurate and reliable. No responsibility can be accepted under any circumstances for errors of fact or omission. Any forward looking statements or forecasts are based on assumptions and actual results may vary from any such statements.

KEY ECONOMIC AND FINANCIAL INDICATORS

Emerging Market	% change on year ago			Latest 12 months			Performance					Forecast (Bloomberg) [†]																									
	Annual GDP Growth*	Industrial Production*	Consumer Price Index*	Trade Balance*	Current Account Balance*	Foreign Reserves Latest*	Foreign Reserves 2021 Year ago	Currency vs \$ Latest*	Currency vs \$ 2021 Year ago	Short-Term Interest Rates*	Sovereign Rating S&P*	% S&P/EM Frontier Super Composite BMI	Stock Market Index S&P/EM Front. Super Comp. BMI US\$	Change since 12/31/21 US\$	Change since 12/31/21 Local Currency	2022 P/E Forecast*	EBIT Margin Forecast*	6 month Stock Index Estimate	3 month Currency Estimate																		
																				\$ Bn	\$ Bn	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
INDONESIA	5.4	0.2	6.0	49.6	10.3	119.3	130.0	15282.0	14195.0	3.4	BBB	2.5	1484.2	3.9	11.0	14.3	25.0	1549	+																		
MALAYSIA	8.9	12.5	4.7	60.6	8.2	98.9	106.5	4.7	4.2	2.2	A-	1.8	318.2	-18.2	-9.0	13.8	22.5	347	+																		
VIETNAM	13.7	13.0	3.9	5.5	-6.3	101.4	99.8	23882.0	22761.0	3.5	BB+	0.5	227.7	-35.7	-32.7	12.6	19.7	241.0	+																		
CHILE	5.4	-5.0	13.7	1.2	-26.8	41.9	43.7	940.0	814.1	9.9	A	0.5	353.9	11.2	25.0	5.4	19.5	354	-																		
PERU	3.3	1.4	8.5	3.4	-6.2	68.7	71.9	4.0	4.1	0.3	BBB	0.2	1514.3	-7.7	-0.3	8.8	n.a.	1567	-																		
COLOMBIA	10.5	4.3	11.4	-15.5	-20.8	52.2	53.7	4612.1	3771.8	11.0	BB+	0.2	3839.8	-20.8	-11.1	3.9	40.5	4066	+																		
BAHRAIN	7.0	n.a.	4.0	n.a.	n.a.	3.3	3.5	0.4	0.4	4.7	B+	0.1	264.5	9.7	9.8	n.a.	n.a.	282	uc																		
BRAZIL	3.2	2.8	8.7	52.8	-36.6	310.1	339.1	5.2	5.5	8.4	BB-	5.5	629.9	4.9	2.0	5.8	26.1	674.0	-																		
CZECH REP.	3.7	10.3	17.2	21.8	-9.9	137.7	166.2	25.1	22.0	6.6	AA-	0.1	1102.3	-19.5	-7.6	7.8	n.a.	1129	-																		
EGYPT	5.6	-10.1	14.6	-29.3	-18.7	34.1	34.1	19.7	15.7	11.3	B	0.1	1061.3	-33.7	-19.3	5.4	n.a.	1157	-																		
GREECE	7.7	8.1	11.4	-37.0	-17.2	3.0	3.6	1.0	1.2	0.0	BB+	0.3	29.0	-18.8	-7.6	10.7	25.8	29	+																		
HUNGARY	6.5	9.3	15.6	-5.6	-12.0	28.4	31.3	434.9	310.1	13.8	BBB	0.1	331.9	-47.6	-30.2	4.7	n.a.	344	+																		
KENYA	6.8	n.a.	9.2	-13.8	-70.5	7.6	9.6	120.9	110.8	6.7	B	0.1	636.1	-120.9	-15.5	7.9	23.7	650	+																		
KUWAIT	1.3	n.a.	4.2	57.2	37.3	41.7	41.1	0.3	0.3	3.0	A+	0.9	134.8	1.4	4.0	19.3	n.a.	160	+																		
MOROCCO	2.0	-7.8	8.0	-16.8	-4.4	28.6	31.4	11.0	9.1	2.4	BB+	0.2	555.8	-25.5	-11.8	18.3	27.2	559	-																		
NIGERIA	3.5	n.a.	20.5	6.7	5.4	36.2	33.9	435.5	412.7	5.9	B-	0.1	166.2	-11.9	-7.2	6.0	30.5	179	-																		
PAKISTAN	-1.3	11.5	23.2	-46.0	-15.2	8.3	18.5	220.2	170.9	12.0	B-	0.1	352.8	-170.8	-7.1	31.1	n.a.	385	-																		
POLAND	5.5	10.9	17.2	-24.4	-24.1	135.4	148.5	5.0	4.0	9.8	A-	0.5	186.7	-47.8	-36.1	5.1	16.4	190	-																		
QATAR	6.3	n.a.	4.8	69.0	33.1	36.7	37.1	3.7	3.7	n.a.	AA-	1.1	353.7	7.7	7.7	12.0	n.a.	399	uc																		
ROMANIA	5.3	-0.9	15.3	-32.6	-133.6	39.2	45.3	5.1	4.3	7.8	BBB-	0.1	144.4	-25.4	-13.4	4.0	27.6	145	+																		
SAUDI ARABIA	12.2	n.a.	3.0	35.8	45.4	441.9	433.3	3.8	3.8	4.0	A-	4.0	166.6	1.3	1.4	14.6	35.3	187.2	uc																		
SOUTH AFRICA	0.2	3.7	7.6	17.9	27.9	44.9	44.3	18.1	15.0	6.7	BB-	3.1	635.3	-17.6	-7.3	8.3	20.4	641	+																		
TAIWAN	3.1	3.7	2.8	58.0	115.8	541.1	544.9	31.7	28.0	1.1	AA+	12.8	388.0	-33.9	-24.1	9.6	13.5	401	+																		
UAE	3.4	n.a.	2.3	79.0	48.0	116.1	109.0	3.7	3.7	3.6	NR	1.4	171.6	-3.0	-2.9	13.5	n.a.	191	uc																		
CHINA	13.5	2.4	7.0	-272.3	-69.1	578.4	578.4	82.6	74.8	5.3	BBB-	17.5	1558.1	-9.7	-1.2	22.5	14.9	1622	+																		
INDIA	0.4	4.2	2.5	873.9	367.3	3054.9	3232.1	7.1	6.4	1.1	A+	28.2	669.3	-30.8	-28.6	10.8	11.8	716	+																		
SOUTH KOREA	2.9	1.0	5.6	-24.5	53.9	412.8	439.3	1422.1	1190.8	3.3	AA	10.8	421.4	-40.5	-28.5	8.3	10.9	422	+																		
THAILAND	2.5	14.5	6.4	27.7	-20.5	195.1	230.7	37.6	33.8	1.4	BBB+	2.1	1152.0	-12.3	-1.1	17.5	10.3	1162	+																		
PHILIPPINES	7.4	3.5	6.9	-56.5	-17.5	86.6	96.0	59.0	50.5	4.3	BBB+	0.7	596.3	-28.8	-18.1	14.7	18.9	610	+																		
MEXICO	2.1	2.7	8.7	-29.0	-26.5	179.7	184.5	20.0	20.7	9.8	BBB	1.9	440.1	-12.2	-13.7	11.7	16.8	445	-																		
ARGENTINA	6.9	-13.3	78.5	6.3	1.3	29.1	37.3	149.2	98.9	69.6	CCC+	0.6	749.1	-34.0	-5.3	4.7	18.8	807	-																		
URUGUAY	7.6	2.5	83.5	-89.8	-36.6	59.5	67.6	18.6	8.9	27.6	B	0.6	274.8	-24.7	74.0	3.6	14.5	255	-																		

Note: All data shown are as at 30 September 2022 unless stated otherwise. UC is unchanged (currency versus US dollar). S&P sovereign rating shown is long-term foreign currency rating. Data for countries in the Middle East and North Africa region are the latest available, but in certain cases relate to periods more than one year ago. The 32 countries shown in the table accounted for 98.9% of the S&P/E/M Frontier Super Composite BMI on 30 September 2022. An additional 24 countries accounted for 1.1% of the index on the same date. These countries, which can be accessed via City of London's Frontier Markets strategy, are: Bangladesh, Botswana, Ghana, Iceland, Jamaica, Jordan, Kazakhstan, Sri Lanka, Latvia, Lithuania, Mauritius, Namibia, Oman, Panama, Slovenia, Slovakia, Trinidad & Tobago, Tunisia and Zambia.

[†]Any forecasts are based on Bloomberg consensus forecasts, where available, and assumptions. Actual results may vary from any such statements or forecasts. Past performance is no guarantee of future results.

**Key Criteria*

Source: Bloomberg, CLIM



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