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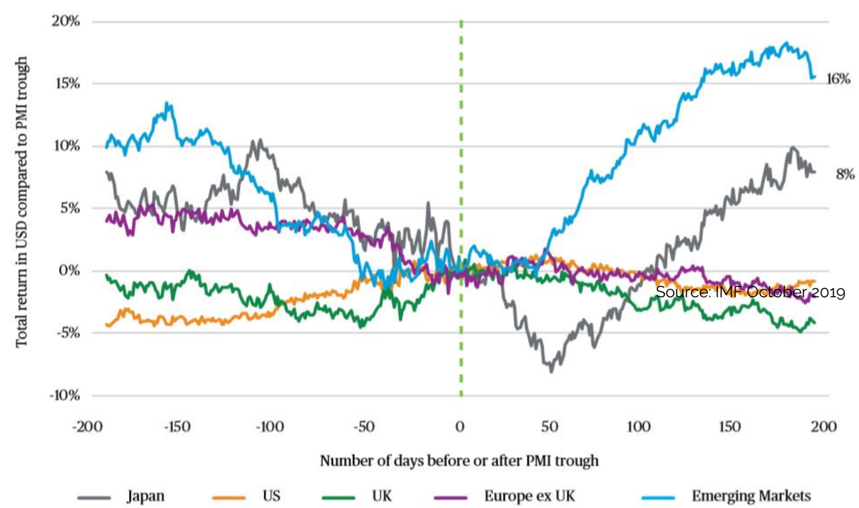
Macro Update: Emerging Markets growth will outpace Developed Markets

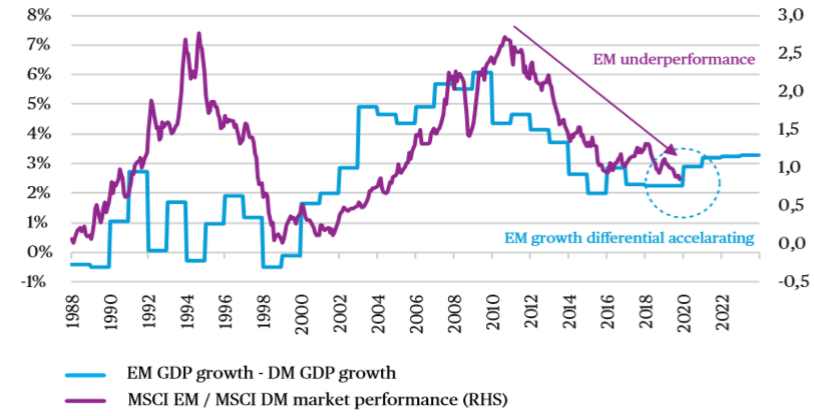
- PMI's continue to improve. We expect a modest growth acceleration supported by accommodative central bank policy. In such environment, emerging markets are expected to outpace the developed world in various aspects.
- The growth differential between the developed world and emerging markets will get wider. The USD is expected to weaken against most emerging markets' currencies.
- After a through in global PMIs emerging market equites are expected to outperform. Therefore corporates of such countries are expected to perform well. We expect no significant changes in corporate spreads. Therefore, we expect only little additional return form spread movements.
- The latest industrial production figures from China have shown that the export activity has unexpectedly improved in Q4 2019. The implemented fiscal stimulus combined with the loose monetary policy seem to work well.
- In Germany, the latest indicators point to an acceleration of activity in Q4. The German export-oriented industry will profit from the faster growth in emerging markets.

Outperforming Emerging Markets after a through in Global PMI



Source: East Capital

Global Emerging Markets: Relative growth and performance



Source: IMF World Economic Outlook October 2019, Bloomberg 05.12.19

- The phase one trade deal was singed, and Mr. Trump could sell this mini deal as a great success. Supported by positive macro data, US financial assets have rallied. We would argue that after zero corporate earnings growth in 2019 and an expected 7-10% growth in 2020 the US corporate bond markets and US equity markets have rallied too far in a too short period of time, i.e. they are disconnected from the underlying growth trend and both markets are therefore very expensive.
- In Q4 in the UK the economy came to a stand still. Due to BREXIT new investments are postponed. So far there is no majority for a next rate cut at BOE, but we expect that this will change over the upcoming months.
- Italy, Spain and France are all having growth problems.
- However, the latest economic surprise indicators show improvements for the US, emerging markets and, surprisingly, the Eurozone.
- The ECB is facing a challenge - Germany won't need monetary stimulus, while France, Italy and Spain would need not only monetary, but also fiscal stimuli. In Spain however, the new government is raising taxes, while Italy and France simply do not have enough growth for fiscal spending without breaching the Maastricht criteria (compulsory requirement for Eurozone).

Market Overview: Currencies, Commodities, Equity & Bond Indices

Bonds	Jan 20	YTD 2020
Bloomberg Barclays Global-Aggregate TR	0.67%	0.67%
Bloomberg Barclays Euro Aggregate Corporate TR	0.36%	0.36%
Bloomberg Barclays Pan-European High Yield TR	0.57%	0.57%
Bloomberg Barclays US Corporate High Yield TR	0.71%	0.71%
Bloomberg Barclays Asia USD High Yield TR	1.29%	1.29%
Bloomberg Barclays Global High Yield TR	0.57%	0.57%
JPM Emerging Market Global Bond	0.89%	0.89%

Equities	Jan 20	YTD 2020
NASDAQ 100 Stock Index	5.08%	5.08%
S&P 500 Index	3.14%	3.14%
MSCI World Index	2.47%	2.47%
MSCI Emerging Markets Index	2.81%	2.81%
EURO STOXX 50 Price EUR	0.80%	0.80%
SMI	1.84%	1.84%
DAX	1.85%	1.85%
FTSE 100	0.35%	0.35%
Hong Kong Hang Seng Index	-0.73%	-0.73%
Shanghai Shenzhen CSI 300 A-Shares	0.43%	0.43%
Nikkei 225	0.88%	0.88%

Commodities	Jan 20	YTD 2020
Gold	2.48%	2.48%
Copper	1.73%	1.73%
WTI	-4.13%	-4.13%
BRENT	-1.21%	-1.21%
Bloomberg Comodity Index	-1.91%	-1.91%

Currencies	Jan 20	YTD 2020
EURCHF	-0.98%	-0.98%
CHFUSD	0.01%	0.01%
CHFGBP	1.54%	1.54%
EURUSD	-0.95%	-0.95%
EURGBP	0.54%	0.54%
GBPUSD	-1.52%	-1.52%
EURRUB	-1.32%	-1.32%
USDRUB	-0.53%	-0.53%

US High Yield Bonds: Yield to worst at historic low levels

- Risky assets have rallied over the last weeks. US high yield bonds have reached extremely low yield levels. Yield to worst of 5% does not seem very attractive.
- Corporates from emerging markets have on average a better rating than US high yield bonds and their yield level is around 1-2% higher, while their risk is similar.
- Equities have strongly risen in the US. We have seen the three major indices closing several times in a row at new record levels. The indices trade at 10% above its 200-day average, this will sooner or later be corrected.
- Meanwhile, gold is rising and looks very interesting from a technical standpoint. The fundamental drivers are the tensions in the middle east. If, as we expect, the loose monetary policy stance continues, the natural demand will stay in place.

Investment Outlook: Risk-on after Brexit and a Phase I Trade Deal

Liquidity

- Currency manipulators: China is of the list while Switzerland is under surveillance. The Swiss frank has appreciated since this announcement. The EUR/CHF has reached levels which put pressure on Swiss exporters. The SNB might intervene, but that would then be the last ingredient for the US to brandmark Switzerland as a currency manipulator.
- Based on Goldman's outlook, the Euro is still an interesting funding currency for dollar investors. We keep having some demand for loans in Euros and using the proceeds to invest in USD dominated corporate bonds..
- The US dollar is overvalued. Most strategist expect it to weaken, which is a supporting factor for our emerging market call.

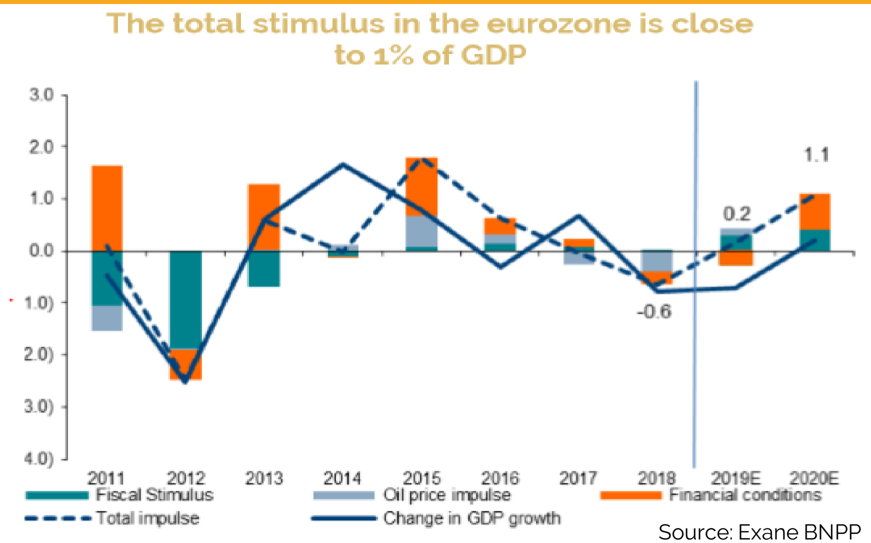
Equities

- Since our last pre-Christmas report, the "risk-on" mode is ongoing. The S&P 500 and the Nasdaq 100 have risen sharply and are now trading more than 10% above its 200-day average. The market has run ahead of its fundamentals. It is therefore a question of time until we should see a mild correction.
- We prefer Emerging markets over US and would allocate less to the Eurozone. However, the latest estimates for fiscal and monetary stimulus in the Eurozone are indicating that around 1% of GDP will be added. In such conditions normally equites continue to rise.

Fixed Income

- The above-mentioned stimulus might push yields further down and bonds cloud rally (partially through the ECB's acquisition of bonds). The 10-year bund has a yield of -0,2% and the 10-year Greek government bond trades at a yield level of +1.4%. Both are by far too low, but this is deliberately driven by the monetary policy.
- What holds true for emerging market equities is our base case for corporate non-investment grade bonds. We prefer Emma bonds over US high yields. European high yields, compared to US and Emma corporates, offer unattractive yields. Nevertheless, opportunities do show up from time to time.. For a 11.5 month maturing note we can achieve a 6% coupon in USD. The company has only one bond outstanding with a yield to maturity of 1.75% for 4 years in Euro. Therefore, such dislocations should be used to pick up yield.

Risk-on to continue due to global fiscal and monetary stimulus



Source: Exane BNPP

Alternative Investments

- Gold: The gold price has broken out of its sideways trading channel. The crisis in the middle east was the catalyst. Surprising fact is that both Gold and equities continue to rise although the geopolitical risks have increased.
- REITs: German residential real estate offers an interesting opportunity, as over the last 5 years there were not enough flats built. The market has started to price this in, German and other European REITs have risen over the last weeks.
- Cooper: Dr. copper keeps creeping up. Recent PMI and other economic data confirm that there is a modest acceleration in industrial production. At the annual Goldman Sachs strategy conference, we were informed that the investment bank has changed its outlook for cooper to positive, which is in line with our expectations.

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