CITY OF LONDON
Investment Management Company Limited

Emerging Markets Quarterly Outlook

January 2021*

Overview

The Way Out – Delayed…

The approval of several vaccines opens the door for a way out of the pandemic. However, the path ahead remains a long one and has to contend with a rise in infections in the short term. The investment case for EM equities nevertheless remains strong, in particular given the large index weight of Asian countries that managed the crisis well. Fuller valuations imply that we are now more cautiously optimistic.

The world remains in the grip of the COVID-19 pandemic and its recent resurgence, while simultaneously looking forward to its much-anticipated demise and placing heavy bets on an inflation-less recovery. As a result, financial markets scaled new heights during Q4 2020, shattering several records: US and EM equity indices hit record highs, base metals rose to decade highs, while crude oil and inflation expectations posted strong gains as well. How did this confluence of events come about? Several critical events have occurred since our last Quarterly:

- On the negative side, the much-anticipated and feared "winter wave" of COVID-19 infections began to unfold and was exacerbated by the appearance of at least two new, more contagious variants.
- This was then followed by renewed mobility restrictions in many countries, which will delay the recovery further.
- On the positive side was the discovery and approval of three western vaccines, plus China's Sinopharm vaccine and Russia's Sputnik V vaccine.
- This was followed by an immediate start of mass vaccination programmes.
- In addition, the Georgia Senate elections in the US delivered the Democratic sweep predicted earlier, which promises at least a doubling of planned fiscal spending in 2021 and averts the feared "fiscal cliff".

This latter development has two important consequences: 1) greater fiscal support in the US will have a positive effect on domestic demand, which bears on the rest of the world's economies and 2) it will revive the reflation trade and boost US Treasury yields (the 10-year yield is now above 1%).

To what extent do these events alter the expected path we have laid out previously? At present, emerging market (EM) infection rates appear much less worrisome than those of developed markets (DM) – a 13 mn increase in EM vs. a 23 mn increase in DM in Q4, and fatality figures (see Chart 1) are much more benign relative to population size. But this is merely the lagged effect of contagion, and is likely to reverse, just as it did from Q2 to Q3 2020 as the virus started to spread within EM countries. To be sure, this new wave of infections will delay the recovery of economies the world over as vaccinations cannot keep pace with the rate of new infections. However, there will be a point at which one overtakes the other, together with the healing of COVID-19 survivors and, at this point, economies will also recover.

Beyond that, the case for EM equities looks strong, even if the recent rally limits the upside somewhat. The US dollar remains on the back foot, having eased by 12.2% in broad terms since its peak in March 2020. This suggests that risk sentiment remains strongly bullish, despite the challenges that lie ahead. For this reason, a weak dollar has traditionally been coincident with strong EM equity performance (Chart 2). This would invert the persistent weakness of EMs during the previous decade, when the US dollar was strengthening. In addition to risk sentiment, the recent behaviour of 10-year US Treasury yields suggests that belief in the recovery is strengthening. Increased fiscal spending in the US and its ripple effects for the world economy represent a support that was previously absent.

Attractive valuations also appear to favour EMs relative to the US, although the case against other parts of the world (especially Europe) is less clear. But from a sectoral perspective, the high weight of new economy stocks in the MSCI EM (39% vs. 30% in the MSCI World), provides upside in normal times (as they have lagged the performance of their DM peers) and represents a natural hedge in the event of a COVID-19 resurgence. Flows into EM equities have not yet reached the strength witnessed in other classes, but have clearly turned. This provides additional upside as retail investor participation may yet grow to the rate witnessed prior to 2007.

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						
Russia	↓		■			
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 31 December, 2020, and macro events and data releases up to 8 January, 2021, unless indicated otherwise.*

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Chart 1: COVID-19 Infection & Fatality Rates

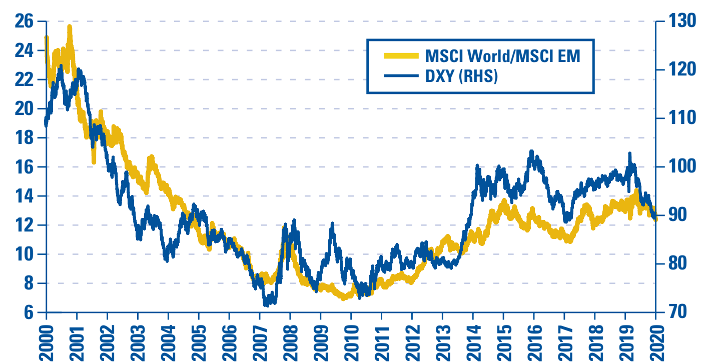
	Total new infections		Total fatalities	
	Q4	QoQ, %	Q4	QoQ %
World	**49,367,133**	**110**	**801,752**	**59**
DM	23,054,671	267	307,610	233
EM	12,523,265	9	226,714	-13
Malaysia	101,786	3838	335	2133
Turkey	1,889,989	1491	12,686	314
Thailand	3,594	803	4	300
Taiwan	285	325	-	-
Russia	1,956,548	273	35,641	215
South Korea	37,880	243	502	277
US	12,797,652	179	138,423	74
Indonesia	456,190	98	11,398	45
Mexico	682,878	32	48,161	-3
China	1,659	-12	-	-
Brazil	2,865,038	-16	50,997	-40
South Africa	382,822	-27	11,735	-17
India	3,954,090	-31	50,060	-38
Philippines	162,370	-41	3,740	-12
Saudi Arabia	28,136	-80	1,455	-53

Note: DM includes Australia, Austria, Canada, France, Germany, Hong Kong, Israel, Italy, Japan, Singapore, Spain, Sweden, Switzerland, the UK and the US. EM includes Brazil, China, India, Indonesia, Malaysia, Mexico, Philippines, Russia, Saudi Arabia, South Africa, South Korea, Taiwan, Thailand and Turkey.

Source: Johns Hopkins University

Market Strategy: During Q4, EM equities outperformed DM equities by 570 bps, for a 19.7% gain, resulting in a full-year outperformance of 240 bps. This reflects changing risk appetite and the worsening COVID-19 situation in DMs. As the second wave fully envelops EM, its performance may yet be disrupted in the short term, in particular in the face of more limited fiscal resources to counter the economic impact. But the broader investment case remains strong, as the asset class is composed primarily of those Asian countries that have managed the pandemic best. Because of fuller valuations, our stance is now cautiously optimistic, which is expressed in a smaller overall deviation from the benchmark than previously.

Chart 2: EM Equity Performance and the US Dollar



Source: Bloomberg

We make the following changes to our country allocation at the start of the year:

We upgrade **China** to *overweight* as the *overweight* in HK-listed and overseas Chinese equities more than offsets the *underweight* in A-shares. China is set to benefit from the effective control of the virus recently, the steady economic recovery and a more predictable US administration, leaving room for improved trade terms.

South Korea was the best-performing EM stock market in 2020 and the economic outlook remains solid. However, valuations are less compelling, e.g. the forward 12M EPS of MSCI Korea is still 25% below its peak in 2018, and yet the price level is 25% higher. Therefore, we move our view on South Korea from *overweight* to *neutral*, taking profit on the phenomenal rally of the past nine months.

We downgrade **Malaysia** to *neutral*, owing to the recent resurgence of COVID-19 cases and likely further restrictions which will hurt its large tourism sector. We move the **Philippines** to *underweight* as the economy faces headwinds from renewed mobility restrictions, lacklustre fiscal support and rising food prices. We downgrade **Thailand** to *neutral* due to ongoing protest risks and unattractive valuations.

While **India's** equity market remains expensive, despite having underperformed in 2020, the country has witnessed a sharp reduction in the pace of new infections, and has finally upped fiscal support for the economy. Together with the early loosening of mobility restrictions, this gives it a head start on the global recovery. We upgrade India to *neutral.*

Mexico's growth outlook will benefit from a recovery in its northern neighbour, but will remain poor in the absence of greater fiscal support (which is itself constrained). But with equities valued cheaply and a likely thawing of relations with the US, we upgrade Mexico to *neutral.*

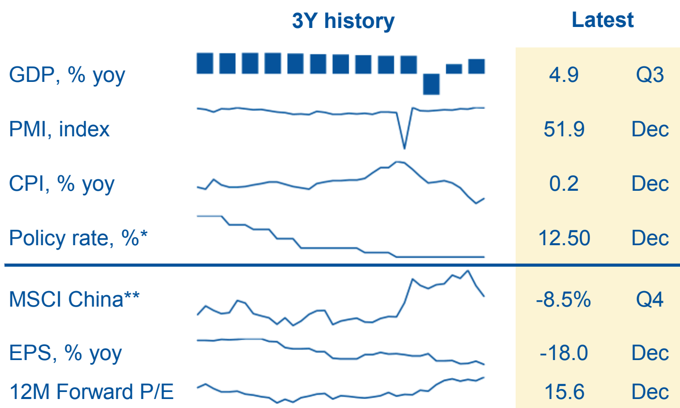
We downgrade **Russia** from *neutral* to *underweight*. The country is set to benefit from domestic vaccine production, as well as greater support for oil prices amid a global demand recovery. But it also faces increasing fiscal and monetary headwinds, as well as a US administration that will likely be less forgiving and could impose additional sanctions.

Asia

China

Overweight (↑)

Value stocks benefit from the steady recovery of the Chinese economy. Chinese tech shares appear less overbought than their counterparts in other markets.



	3Y history	Latest	
GDP, % yoy		4.9	Q3
PMI, index		51.9	Dec
CPI, % yoy		0.2	Dec
Policy rate, %*		12.50	Dec
MSCI China**		-8.5%	Q4
EPS, % yoy		-18.0	Dec
12M Forward P/E		15.6	Dec

**Required Deposit Reserve Ratio for Major Banks.*
***US$ total return relative to MSCI EM.* *Source: Bloomberg*

The US-China relationship deteriorated sharply during the final two months of the Trump administration, as the latter prepared to hand over power. For instance, outgoing President Trump issued an executive order banning US persons from investing in companies with alleged links to the Chinese military, weighing on several listed SOEs. The New York Stock Exchange also surprisingly announced the delisting of three Chinese telecom operators. Another executive order was issued in January banning the use of Chinese payment apps in the US.

President Biden may not reverse all of these punitive measures in the early days of his presidency, given the still acrimonious relationship between the two countries. 'Tech decoupling' also reflects a structural US-China rivalry and concerns over national security and IP protection will linger. However, the market as a whole has looked through these events, assuming that the Biden administration will adopt a more multilateral and less blunt approach to China. The next round of trade negotiations will still be difficult, but the background of the US team (including Treasury Secretary Yellen, with extensive central bank and labour market experience, who opposes the use of tariffs, and Trade Representative Tai, with significant litigation experience in the WTO) suggests that there will be scope for agreement. Washington could offer tariff reductions in exchange for Beijing's collaboration on issues such as SOE subsidies, IP protection, sector opening, climate change, labour rights and product standards.

At the same time, Beijing has strengthened the trade relationship with countries outside of the US. A good example is the Regional Comprehensive Economic Partnership, the largest trade agreement in the world in terms of the population it covers. Another example is the Comprehensive Agreement on Investment recently signed between China and the EU, which grants the EU greater market access to China in exchange for Beijing's commitment to protect the environment, fight climate change and safeguard labour rights.

Meanwhile, the Chinese economy continues to grow as consumer and business confidence revive. Manufacturing activity has fully normalised, while services are recovering steadily. As measured by the aggregate financing indicator, credit growth remained strong, at 13.6% yoy in November. Consensus expects GDP to expand by over 8% this year, making up for the shortfall relative to growth potential in 2020. Given the solid cyclical outlook, the government will likely focus more on structural issues. For instance, more financing restrictions may be imposed this year on highly indebted property developers. Regulators have also been alarmed by the anti-competitive behaviour of certain tech companies. More regulations are expected this year following the publication of antitrust rules against internet platforms in late 2020.

Market Strategy: Chinese share prices exhibited a notable performance divergence in 2020. China A-shares (CSI 300), Hong Kong-listed Chinese shares (HSCEI) and overseas-listed shares (MSCI China Overseas) returned 36%, 0% and 40%, respectively, in US dollar price terms over the period.

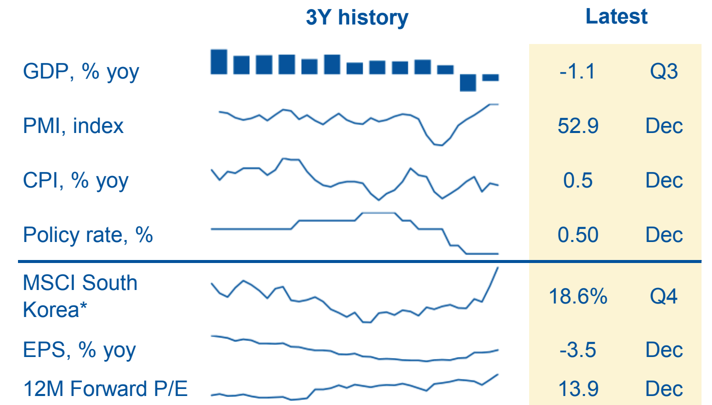
We remain *overweight* HK-listed Chinese shares relative to EM on the back of the steady economic recovery. Financials retain a heavy weight in the HSCEI index despite the rising share of tech stocks. Chinese banks benefit from strong credit growth and a relatively steep yield curve. In contrast, we keep Chinese A-shares at *underweight* due to expensive valuations. A-share prices are at a 41% premium against their H-share counterparts, significantly higher than the five-year average of 28% and the pre-COVID-19 level of 25%. Both forward and trailing P/E ratios are just 10% below the previous peak in 2015, when the last A-share bubble occurred.

China's overseas-listed shares – overwhelmingly dominated by tech stocks – appear less overbought than tech stocks in other markets. The forward P/E ratio of Chinese tech stocks has eased from the July peak, in contrast to the significant rise in the valuation of US, Korean and Taiwanese tech stocks. The regulatory movement started only recently, and has weighed on sentiment towards tech stocks. While certain companies are targeted, antitrust regulation should be positive for the industry in the long run as it fosters competition and boosts new entrants. Hence we upgrade overseas-listed shares to a small *overweight*. Overall, we upgrade China from *neutral* to *overweight*.

South Korea

Neutral (↓)

The stock market is dominated by various tech stocks that look increasingly expensive.



**US$ total return relative to MSCI EM.* *Source: Bloomberg*

South Korea's track record of containing the pandemic was tainted recently by a flare-up of infections, notably in Seoul and the surrounding area. Increased restrictions weighed on private consumption, and the approval rating of President Moon plunged to a new low. Still, the daily case number per capita is significantly lower than in most other countries, suggesting less economic and social disruption. Manufacturing PMI stayed in expansionary territory, while exports jumped 12.6% yoy in December. Consensus expects GDP to rebound by more than 3% this year, after an estimated 2.7% contraction in 2020.

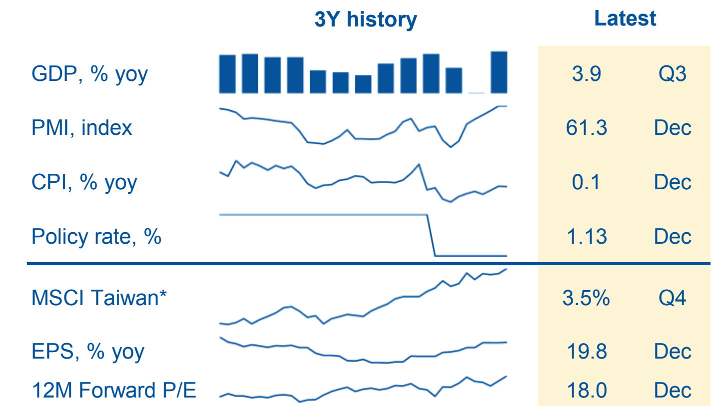
Market Strategy: South Korea was the best-performing EM in 2020, up 45% in US dollar terms for the year and 134% since March. This stellar performance was driven by the early containment of the virus, strong tech and recovering auto demand globally and the growth of new economy stocks. Amid the pandemic, the market composition broadened from being dominated by semiconductor chip manufacturers to one encompassing social media, online search engines, e-commerce, electric vehicles, battery, healthcare (e.g. COVID-19 treatment), etc. Accordingly, the South Korean market exhibits a greater growth bias now (vs. value).

The country enjoys a solid economic outlook this year, and increased tech adoption remains a powerful secular force. However, signs of over-exuberance have appeared. First, the forward 12M EPS of MSCI Korea is still 25% below its peak in 2018, and yet the price level is 25% higher. Second, South Korea's forward P/E ratio is at a 7% discount to that of EM, significantly more expensive than the five-year average of a 20% discount. Third, the market is technically overbought. Therefore, we move our view on South Korea from *overweight* to *neutral*, taking profit on the phenomenal rally of the past nine months.

Taiwan

Underweight

Taiwan benefits from robust external demand and reshoring. But stocks face headwinds from rising bond yields and moderating tech demand.



**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Consensus expects Taiwan's GDP to accelerate to 3.7% this year, after estimated growth of 2.4% in 2020, making up the shortfall relative to 3% trend growth. This solid economic performance is driven by: 1) effective control of COVID-19 without resorting to lockdowns; 2) strong external demand suggested by rising PMIs, as exporters gain market share while other countries face restrictions; and 3) reshoring and increased investment, as factories and orders are shifted from Mainland China to the island.

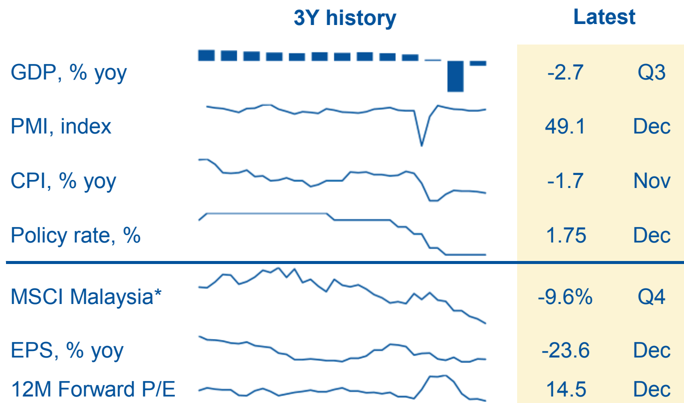
President-elect Biden's approach to the US-China relationship is likely to be more multilateral and rule-based, suggesting a low risk of another tariff war on goods. The semiconductor industry is vital to the Taiwanese economy. However, it does not necessarily face a better geopolitical environment. The US-China competition in the tech space, as well as concerns over national security and IP protection, are structural forces driving a broader 'tech decoupling'. Large Taiwanese manufacturers may face an awkward position, being forced to choose which customers to serve.

Market Strategy: The forward 12M EPS of MSCI Taiwan has been revised up by 23% since the April trough, driven by strong tech demand, but stock prices rallied much more strongly, and have increased by 60% over the same period. This has pushed valuations (e.g. CAPE, trailing and forward P/E ratios and P/B ratios) to the highest levels since the early 2000s. Meanwhile, bond yields and inflation expectations are rising in the US and may continue to do so this year on the back of a broader fiscal expansion by the US. In addition, equipment purchases for home working already took place in 2020 and demand may fade this year. This suggests some headwinds for the Taiwanese market in 2021, which is dominated by defensive semiconductor stocks. Therefore, we remain *underweight* Taiwan.

Malaysia

Neutral (↓)

The 2021 rebound relies on fiscal expansion and is vulnerable to a resurgence in COVID-19.



	3Y history	Latest	
GDP, % yoy		-2.7	Q3
PMI, index		49.1	Dec
CPI, % yoy		-1.7	Nov
Policy rate, %		1.75	Dec
MSCI Malaysia*		-9.6%	Q4
EPS, % yoy		-23.6	Dec
12M Forward P/E		14.5	Dec

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Malaysia's economy is set to rebound in 2021, driven partly by fiscal spending. Consensus expects a 6.8% yoy expansion, after an estimated fall of 5.8% in 2020. The 2021 forecast has risen by 1.1% points since August. However, Malaysia experienced the highest increase in COVID-19 cases on a per capita basis in EM during Q4. Moreover, the new, more contagious variant was detected in the country in December. This poses near-term risks to growth, with increased mobility restrictions likely in Q1 which are set to damage the important tourism sector.

Fiscal policy is set to remain supportive. Infrastructure projects, such as the Rapid Transit System and support for households and businesses, are expected to help drive growth this year. However, external demand headwinds from restrictions in the US and Europe are likely to limit the upside.

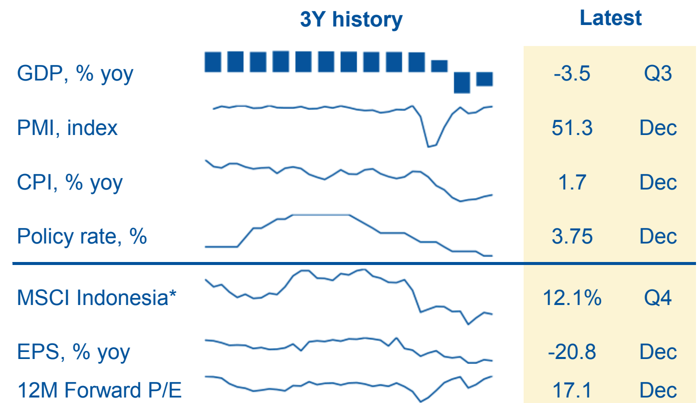
Meanwhile, consumer prices are expected to rise this year as a result of base effects after a pandemic-driven period of deflation since March 2020. However, monetary policy is expected to remain ultra-loose. At the same time, the vaccine rollout could be slower than expected in H1 and could leave the authorities cautious about forming travel bubbles. Hence, there may be a delay before the revival of the travel and tourism sector, which accounts for 10%-15% each of GDP, employment and exports.

Market Strategy: MSCI Malaysia underperformed EM in Q4, with valuations also falling. The underperformance was due largely to the healthcare sector (16% of the index), which fell by some 19% over the period, compared with a rise of 10.1% in MSCI Malaysia. Healthcare stocks fell due to positive vaccine news in Q4, which was interpreted as reducing demand for rubber gloves. Despite attractive valuations, the risk of a resurgence of COVID-19 leaves us cautious and we downgrade Malaysia to *neutral*.

Indonesia

Neutral

Rising infections and the slow rollout of vaccines hinder the earnings revival in stocks sensitive to domestic economic activity.



	3Y history	Latest	
GDP, % yoy		-3.5	Q3
PMI, index		51.3	Dec
CPI, % yoy		1.7	Dec
Policy rate, %		3.75	Dec
MSCI Indonesia*		12.1%	Q4
EPS, % yoy		-20.8	Dec
12M Forward P/E		17.1	Dec

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Daily COVID-19 infections and deaths have been increasing steadily in Indonesia since March 2020, while a persistently high positive test ratio (20%) signals inadequate testing. Fear about the virus and various restrictions have weighed on domestic activity. Footfall in retail venues and offices is still 15% and 30% below pre-COVID-19 level, respectively. In light of the serious public health situation, the government had to impose tighter social restrictions again in January in Bali and parts of Jakarta, just three months after a strict lockdown in the capital. Consumer confidence recovered moderately in November, but was still substantially weaker than the pre-pandemic level. Confidence is set to decline again in Q1 amid increased restrictions.

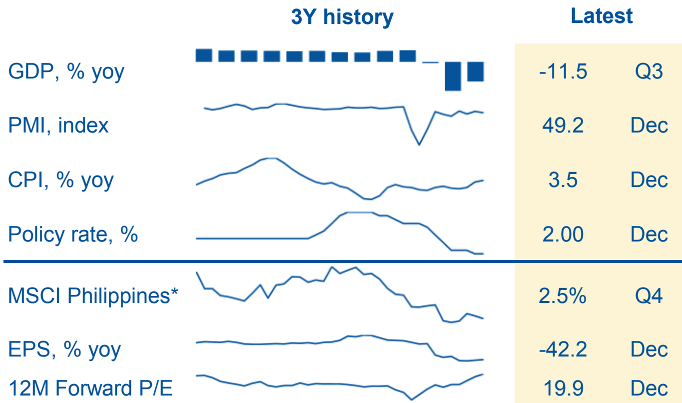
Meanwhile, the government expects that it will take 15 months to achieve herd immunity via mass vaccination, lagging behind other counties that have announced their vaccination schedules. The slow purchase and rollout of vaccines suggest that Indonesia faces a long road to economic normalisation. Consensus expects GDP to grow by approximately 5% this year, after the 2% estimated contraction in 2020. In other words, the size of the economy will be 7% smaller than without the pandemic by the end of 2021, assuming potential growth of 5% per year.

Market Strategy: The market is dominated by financials and consumer sectors, while lacking tech stocks. It makes equity earnings sensitive to domestic economic activity and the public health situation. Rising infections and the slow rollout of the vaccine suggest a bumpy and slow recovery in the economy and equity earnings. Indonesia's forward P/E is at a 7% premium over EM, which is 1.4 standard deviations below the five-year average of 21%. We remain *neutral* on Indonesian equities, despite a relatively low valuation.

Philippines

Underweight (↓)

Economic activity faces headwinds from renewed restrictions, lacklustre fiscal support and rising food prices.



**US$ total return relative to MSCI EM.* *Source: Bloomberg*

The Philippines' economic outlook is mixed, even though consensus expects growth of 7.5% yoy this year, compared with an estimated 9.0% contraction in 2020. The Philippines has successfully contained the virus, but President Duterte in January suggested that a second lockdown could yet be implemented. Indeed, the new, more contagious variant of COVID-19 may be present in the country since a passenger who tested positive in Hong Kong had arrived from the Philippines.

This backdrop points to downside risks, especially in Q1. Fiscal stimulus has been lacklustre to date, amounting to around 3% of GDP, with the authorities seemingly cautious of providing excessive support for the economy. Further restrictions are likely to be viewed as transient, bolstering the case for less generous support. A boost to activity could come later in H2, as infrastructure projects pick up, with a view to the May 2022 general elections.

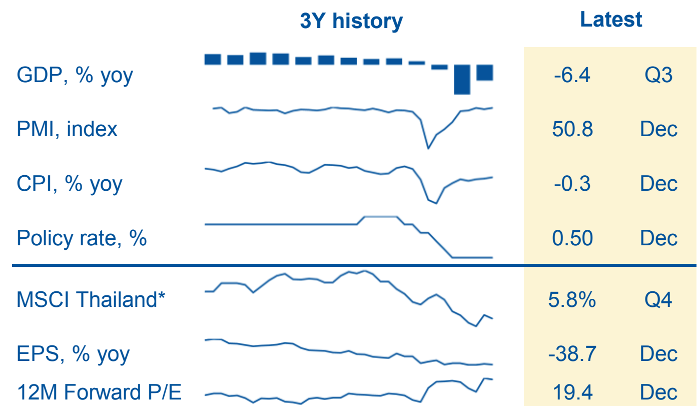
Monetary policy is likely to continue to provide the bulk of policy support in 2021. The central bank (BSP) unexpectedly cut the key rate by 25bps in November to 2.0% (half the pre-pandemic level) and also reduced reserve requirements further. Additional easing, including government bond purchases, is likely this year and may support growth. However, household demand (73% of GDP) faces significant headwinds from rising food prices, with this CPI subcomponent more than tripling from September to 4.8% yoy in December.

Market Strategy: The P/E premium of the MSCI Philippines relative to EM is close to the average. We believe this compensates insufficiently for downside risks from COVID-19, especially given the prevalence of activity-dependent sectors (industrials and real estate account for 64% of the index) and we move our allocation to *underweight*.

Thailand

Neutral (↓)

Loose fiscal and monetary policies support 2021 growth and a potential boost could come from tourism in H2, although protests pose downside risk.



**US$ total return relative to MSCI EM.* *Source: Bloomberg*

The economy is experiencing numerous tailwinds, from healthy private consumption and successful containment of COVID-19 to external demand and ongoing fiscal support. However, 2021 GDP is expected to grow by only 3.9% yoy, less than in 2017 and 2018, and after an estimated 6.6% contraction in 2020. The emergence of COVID-19 vaccines provides the potential for a reopening of the tourism sector (20% of GDP). This could boost growth as early as H2 and, indeed, for 2022, consensus expects growth to accelerate to 4.5%. The agreement that Thailand's Siam Biosciences will produce 200mn doses of the Oxford-AstraZeneca vaccine should also prove a boon to activity this year, with 26mn doses due to remain in Thailand and the rest exported.

Protests against the government and the monarchy escalated in October and have continued since. While the protests have moved away from overnight blockades of government buildings and shopping districts in Bangkok, an escalation and potential use of military force represent a downside risk.

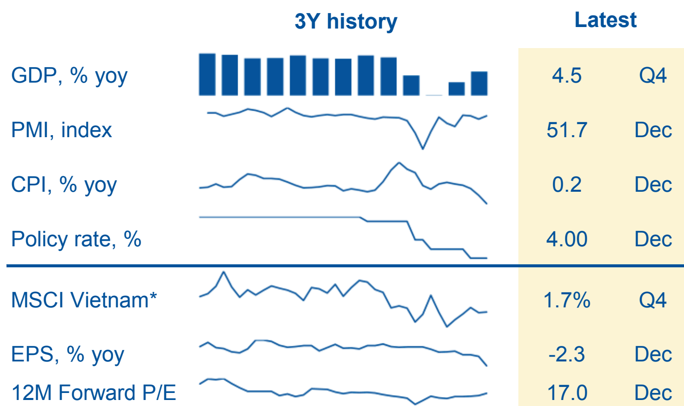
Both fiscal and monetary policy are expected to remain loose this year. For 2021, consensus expects the budget deficit to match that of 2020, at 5.2% of GDP. The central bank (BoT) is expected to keep the key policy rate at 0.5% this year, but baht strength may turn the BoT's focus towards currency management.

Market Strategy: Market valuations for MSCI Thailand are not compelling, with the forward P/E premium over EM 1.2 standard deviations above the five-year average. Ongoing protest risks are somewhat counterbalanced by COVID-19 vaccines providing hope for a resumption in tourism. Hence, we downgrade Thailand to *neutral* for now, but would upgrade to *overweight* again should COVID-19 fears dissipate in the coming months.

Vietnam

Overweight

Successful containment of the virus kept economic growth positive in 2020. At the same time, the new leadership will likely preserve policy continuity



**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Vietnam was one of a few EMs to post positive GDP growth in 2020 (2.9% yoy). Like the other two (China and Taiwan), this was due to the successful containment of COVID-19. Not only did this negate the need for extended lockdowns, but it also meant that manufacturing could continue and this attracted more off-shoring to Vietnam, as supply chains were disrupted. This is likely to continue and growth is projected by consensus to move back to trend this year (7.7%) and next (6.7%) as conditions move close to the pre-pandemic period.

Rising food prices are a key downside risk for household consumption (68% of GDP), as they accelerated to 6.1% yoy in December, well above the 1.0% rise in core prices. However, the central bank governor said in November that there was "ample room" for further monetary easing, so policy is likely to remain supportive. Fiscal policy is also set to remain loose, with a projected 2021 deficit of 4.5% of GDP, around 1% point above the pre-pandemic norm.

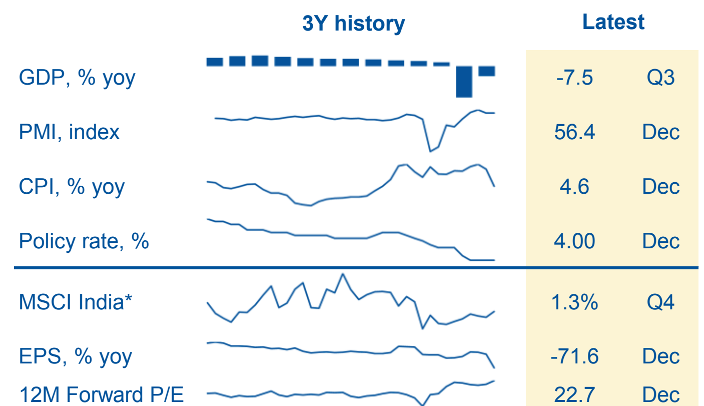
The 13th National Congress of the Vietnamese Communist Party in January will select the leaders for the next five years. Broadly, the new leadership is expected to continue with policies of economic liberalisation, modernisation and other reforms. This is supported from the lower ranks, with younger leaders who support market-led reforms set to be appointed. Provincial party chiefs make up the largest part of the Central Committee, and 43% of the new leaders are under 50 years-old.

Market Strategy: Market fundamentals remain strong, justifying Vietnam's forward P/E premium over EM, which is 0.8 standard deviations above the five-year average. We believe the market continues to offer good value and maintain our *overweight*.

India

Neutral (↑)

A declining rate of new infections and a swift recovery give the Indian economy a head start, but mass inoculation will remain a key challenge.



**US$ total return relative to MSCI EM.* *Source: Bloomberg*

India's rate of new infections receded rapidly towards the end of 2020. It peaked in late September, but with close to four million new infections in Q4 and a total of over 10 mn infections for the year as a whole, it is second only to the US as the country most affected by the pandemic. This represents an enormous challenge for both health and economic policy.

Following a record-breaking 24% yoy contraction of GDP in Q2, activity bounced back strongly – not least due to an early relaxation of mobility restrictions – contracting only 7.5% yoy in Q3. In particular, manufacturing and IP performed well: after overcoming the volatility of the early part of the year, industrial production began to shift into positive growth and recorded as much as a 3.6% yoy rise in October. This brought it within a 5% margin of the pre-pandemic level. Manufacturing PMIs have also consistently stayed in the mid-50s and even the services PMI rose above the 50 threshold in October.

After several years of steady inflation readings, CPI began to take off at the end of 2019 and continued to provide recurring upside surprises during 2020 (Chart 3). Only in December did it move within the RBI's target range of 4% +/-2%. The rise was initially driven by increasing food prices, but had rapidly fed into accelerating core prices. Conversely, the December deceleration also benefited from lower food-price inflation.

Having lowered the repo rate by 115 bps during the early part of the year, the RBI kept rates on hold at 4.0% in May and for the remainder of the year. The inflation outlook remains somewhat

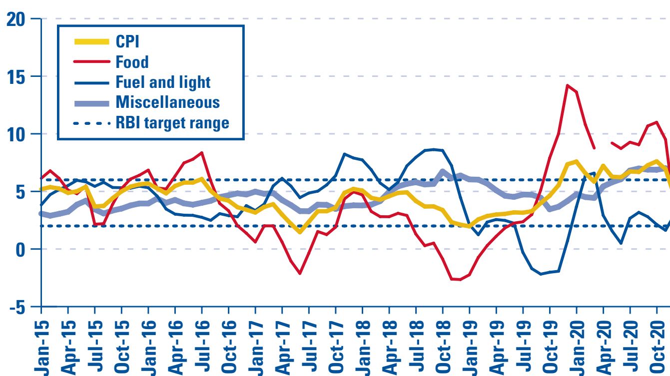
open, given the conflicting factors acting upon it, but CPI is likely to trend lower on the back of falling food prices, even if it remains in excess of the RBI's target level. As a result, the central bank can be expected to remain on hold and is likely to act on liquidity supply within the financial system before triggering a change in rates. But with the real policy rate deeply negative, the bank's stance remains highly accommodative.

Fiscal support for the economy has so far been scant and large headline spending increases have often included previously announced plans. The last months of 2020 witnessed accelerated spending, although it remains unclear whether this represented a change in fiscal strategy or merely residual, undisbursed funds. With a large consolidated fiscal deficit of some 12% of GDP in FY21 and public debt in excess of 90% of GDP, the government is likely to revert to a more restrained fiscal stance in FY22.

Market Strategy: The economy performed well in 2020 and new infections – even if underreported – have been declining swiftly following a second wave. What is more, India's production of and access to vaccines will help in its inoculation campaign – although it remains a daunting challenge. Fiscal austerity and potential monetary tightening represent possible headwinds to growth in 2021 though.

The Indian market closely hugged the index in 2020. In Q4, it outperformed the MSCI EM by 130 bps, but for the year as a whole it underperformed by 270 bps for a gain of 15.6%. Nevertheless, India remains one of the most expensive markets in EM, and its 22.7 forward P/E represents a 51% premium over the MSCI EM P/E, significantly above even the five-year average premium of 40%. With the outlook less dire than three months ago, we upgrade India to a *neutral* allocation, but we remain wary of its high valuation.

Chart 3: Indian Consumer Prices, % yoy*



**Food price data for April 2020 was not collected due to the national lockdown.*

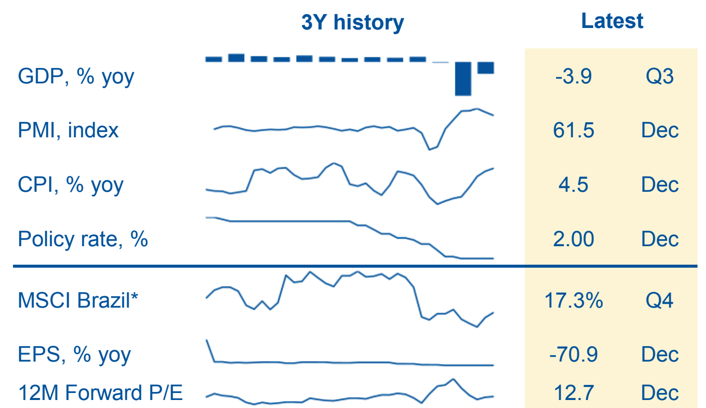
Source: Central Statistics Office India, Bloomberg

Latin America

Brazil

Underweight

> *The economy is facing a difficult three-way race between the spread of the pandemic, the speed of vaccinations and waning fiscal spending power.*



	3Y history	Latest	
GDP, % yoy		-3.9	Q3
PMI, index		61.5	Dec
CPI, % yoy		4.5	Dec
Policy rate, %		2.00	Dec
MSCI Brazil*		17.3%	Q4
EPS, % yoy		-70.9	Dec
12M Forward P/E		12.7	Dec

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

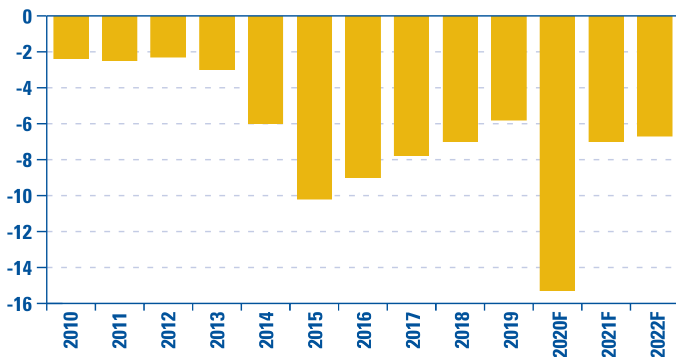
Brazil is one of the EM countries that suffered widespread COVID-19 infections (an additional 2.9 mn were infected in Q4, 16% qoq), had limited fiscal room to counteract the pandemic's economic impact, but nevertheless chose to expand fiscal spending. This reflected the need to counteract an otherwise potentially devastating impact on households and the economy, as well as President Bolsonaro's low popularity ratings after he had long dismissed the severity of the pandemic and his entourage had come under suspicion of corruption. With Brazil experiencing a strong second wave of infections, the economy now faces a trifold race between the spread of infections, the speed of vaccination and the government's remaining fiscal spending power. Unfortunately, the rise in infections has not been accompanied by a drop in mobility, boding ill for further infections. The government has procured 100 mn vaccine doses from AstraZeneca/Oxford and an additional 45 mn doses from Sinovac (to cover 44% of the population), but has no agreement with any other pharmaceutical company so far. In addition, the rollout of the vaccine already faces some delays.

The fiscal stance will be key for the economic outlook, but the government appears to have manoeuvred itself into a no-win situation. With the primary fiscal balance surging from a near balanced position in 2019 to a 10-12% of GDP deficit in 2020, fiscal headroom is nearly exhausted. If the government returns to much-needed austerity in 2021 (to rein in the spending excesses of the Rousseff era), households and the wider economy will be affected directly. If it doesn't, it risks breaking the Spending Cap and losing foreign investor confidence. As a result, the government will likely deliver both a sharp contraction in spending and a large deficit (of, say, 8-10% of GDP, compared with 15% in 2020),

while reducing the support for the economy (the budget will only be voted on in 2021). This will still leave gross public debt at an uncomfortably high 95% of GDP (from 76% of GDP in 2019).

Banco Central do Brasil (BCB) provided substantial monetary accommodation during 2020 by reducing the Selic rate by 250bps during the first half of the year, but then kept it on hold at the historically low level of 2.0% for the remainder of the year. This reflected the developments of the IPCA CPI measure, which fell to a low of 1.9% yoy in May, before rising to 4.5% yoy in December. As a result, the real policy rate has turned negative, and BCB is now more likely to begin tightening policy in 2021, rather than to ease further. Given the difficulty of estimating the output gap during the pandemic and the spill over from recent price increases to core inflation and inflation expectations (which have reversed their downward trend), BCB is likely to increasingly pay heed to fiscal developments and their impact on economic activity. With another large deficit likely in the offing, this is set to add to BCB's tightening bias. BCB somewhat optimistically expects GDP to advance by 3.8% in 2021, up from an estimated 4.4% contraction in 2020.

Chart 4: Brazilian Budget Deficit, % of GDP*



**F is Bloomberg median forecast* *Source: Bloomberg*

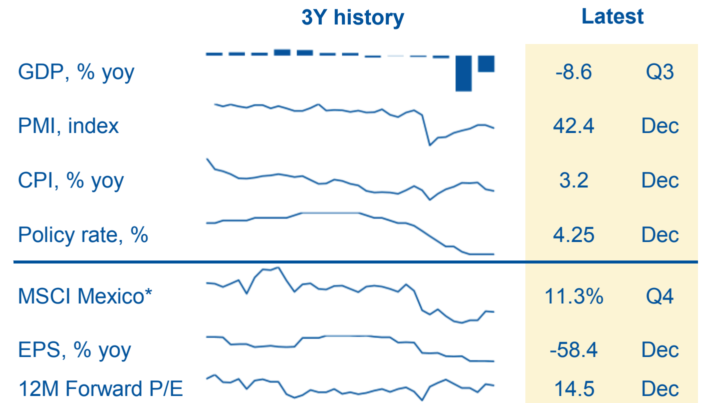
Market Strategy: Brazil's performance in Q4 was second only to that of South Korea, with an impressive quarterly gain of 37%, 17.3% points above the MSCI EM return. Nevertheless, Brazilian equities incurred the worst performance in EM over the previous 12 months, being 19% down on the end-2019 level. The challenges for 2021 are daunting, in particular given the need to support the economy amid a deepening health crisis on the one hand and tightening fiscal constraints on the other.

Valuations remain attractive: while Brazil's forward P/E of 12.7 is not far from its five-year average of 12.5, the broader market has risen strongly and, as a result, its discount to the MSCI EM forward P/E has now widened to 17%, compared with the five-year average of 1%. This provides some support to the Brazilian equity market, but will likely be insufficient to outweigh the difficult economic and fiscal environment the government faces this year. We thus retain our *underweight* allocation.

Mexico

Neutral (↑)

In the absence of fiscal support, the growth outlook remains poor, but equities have become cheap.



**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Mexican activity witnessed a robust (quarterly) uptick in Q3, following one of the most severe downturns in Q2 (-18.7% yoy), benefiting primarily from a recovery in external demand. This was particularly marked in the manufacturing sector, but was broad-based, with robust gains in mining and construction. However, the outlook is only for a modest recovery in 2021. The continued acceleration in COVID-19 infections led to renewed mobility restrictions in late 2020, and will, in particular, affect the tourism sector and weigh on growth during the first half of the year. Domestic demand has lagged and the services sector remains weak.

Inflation has hovered at around 4% for most of the past year, but dropped to 3.5% yoy in the last two months. Banco de México held rates constant, at 4.25% since September, after having lowered them from 7.0% at the beginning of 2020. The lower inflation backdrop (due to a large output gap) could allow the central bank to ease rates further (perhaps by a total of 50bps), in particular if activity remains lacklustre and little fiscal support is forthcoming. A persistently large output gap is expected to keep inflation subdued throughout 2021.

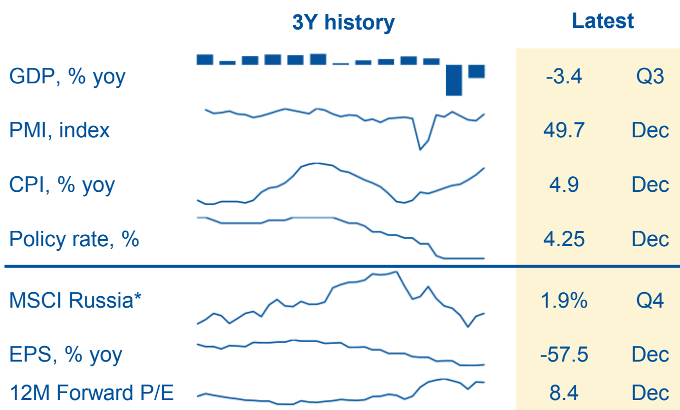
Market Strategy: Mexico outperformed the MSCI EM by 11.3% points with a 31.0% gain in Q4, but the market remains almost 2% below its end-2019 level. The economy is benefiting from the recovery of its northern neighbour, although this may prove transitory. However, domestically, Mexico is suffering from a high incidence of the pandemic and the lack of supportive fiscal policy. This reflects the need for AMLO to maintain fiscal discipline (although the headline deficit doubled in 2020 and public debt rose above 60% of GDP, from 53% at end-2019) in order to prevent international investor sentiment from deteriorating. The fiscal accounts are particularly vulnerable to additional revenue shortfalls and a potential need to inject further funds into Pemex. Mexican equities have been some of the most severely affected during the sell-off, but remain some of the cheapest despite the strong Q4. We thus upgrade our allocation to *neutral*.

Europe, Middle East and Africa

Russia

Underweight (↓)

Fiscal and monetary tightening in 2021 will likely be a head-wind for economic activity – higher oil prices and domestic vaccine production notwithstanding.



**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Russia is enduring a worse crisis than many other countries. Most countries witnessed some form of recovery in Q3, but Russia's GDP fell by 8.0% yoy in Q2, with a further 3.4% fall in Q3. Nevertheless, prospects in 2021 are for a mild improvement in activity. Several factors account for this. First, Russia's economy is less reliant on the services sector than other countries, and has thus been less affected by the distancing measures imposed. Also, industrial production figures have shown consistently strong growth in the past months, even if the PMI is hovering at just below the 50 level. Second, the oil price has recovered to a higher level than in 2020, particularly when compared with the early part of the year, and recovering global demand, paired with some supply bottlenecks, will likely sustain robust prices. Third, the development of its own vaccine (trade-named Sputnik V and available free to nationals) frees Russia from supply constraints and international negotiations.

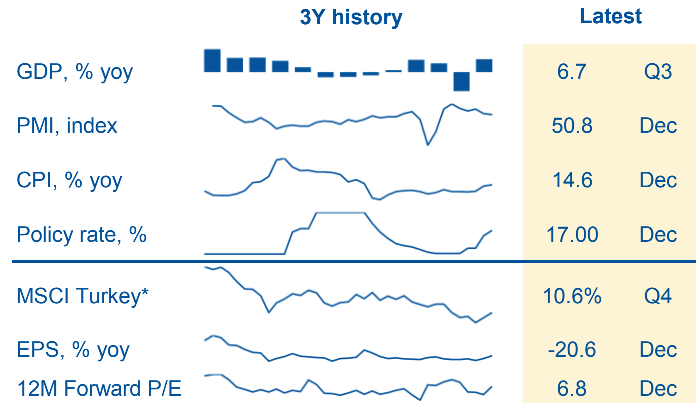
Inflation developments are not threatening yet, but CPI readings rose from a low of 2.1% yoy in February to 4.9% yoy in December. The Central Bank of Russia's (CBR) decision not to cut rates below the current level of 4.25% is thus understandable. Indeed, with real rates now negative, the CBR will likely enter into a tightening cycle this year. This will be a headwind to economic activity, in particular as it is set to coincide with fiscal tightening, following last year's COVID-19-related expansion.

Market Strategy: Domestic vaccine production and more robust oil prices will likely do battle with fiscal and monetary tightening in 2021. Despite persistently low valuations, what could tip the balance against the Russian market is a more determined stance by the Biden administration in dealing with Russia's political interference. We thus shift our allocation to *underweight*.

Turkey

Neutral

Turkey's policy U-turn represents a welcome change, but the economy requires a broader reform agenda.



**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Following the drama of the resignations of President Erdogan's son-in-law as Finance Minister and of central bank (CBRT) governor Murat Uysal, incoming CBRT governor Naci Ağbal quickly put his stamp on the Bank, hiking the key policy rate by 475bps in November and by another 200bps in December. This brought the one-week repo rate to 17.0%, which now puts real rates clearly into positive territory, given the latest CPI reading of 14.6% yoy in December. The currency stabilised as a result, appreciating by 14% against the US dollar from its weakest point in early November. This will limit the FX pass-through into prices and may allow the CBRT to ease rates in H1. It will likely feel all the more compelled to do so if the economy continues to reel from the effects of the pandemic. Fiscal and monetary stimuli underpinned a quick recovery in Q3, allowing GDP to rebound by 6.7% yoy, but the last quarter of the year likely saw weaker activity, as both FX volatility and COVID-19 infections spiked. While 2021 is likely to experience a recovery, it is set to be muted given the constraints on policy.

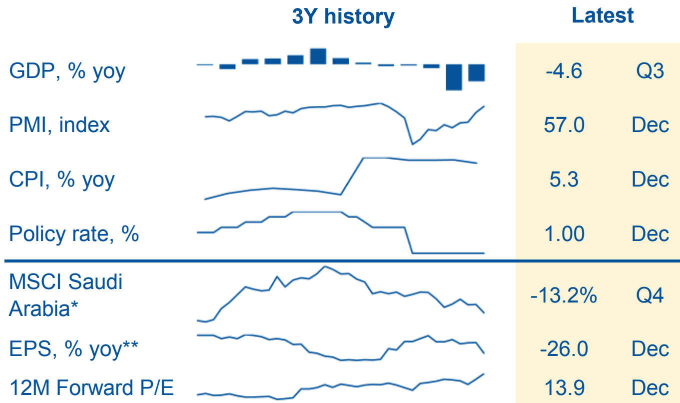
The current account balance shifted from a small surplus into a 4.6% of GDP deficit in 2020, a worrying development considering the weak exchange rate, subdued oil prices (a key import factor) and frail domestic demand. The deterioration partly reflected strong gold imports and weak tourism revenues, but, as demand recovers, a return to surplus appears unlikely in 2021. Together with large debt repayments, this exposes the economy to the vagaries of sudden shifts in sentiment.

Market Strategy: The recent policy changes bring much-needed adjustment and stability to the economy, but whether they presage a larger reform programme remains to be seen. In particular, the government will need to develop a strategy to rein in fiscal spending and rebuild international reserves. Despite an impressive 30.3% gain during Q4, the Turkish equity market remains 9% below its level at the end of 2019. Valuations suggest that the market remains cheap, but the challenges ahead are still formidable. We retain a *neutral* allocation.

Saudi Arabia

Underweight

The Kingdom has contained COVID-19 well, but faces a difficult environment, given still low oil prices and fiscal restraint.



	3Y history	Latest	
GDP, % yoy		-4.6	Q3
PMI, index		57.0	Dec
CPI, % yoy		5.3	Dec
Policy rate, %		1.00	Dec
MSCI Saudi Arabia*		-13.2%	Q4
EPS, % yoy**		-26.0	Dec
12M Forward P/E		13.9	Dec

**US$ total return relative to MSCI EM.*
***Tadawul All Share Index.* *Source: Bloomberg*

Saudi Arabia's economy faces the continued and significant challenge of living with relatively low oil prices. While a global economic recovery could push prices up, the Kingdom has already taken action this year. In January, it announced that it would unilaterally cut output by an additional 1mn barrels/day. This could be price supportive, but is countered by OPEC+ members like Russia and Kazakhstan producing more than their agreed quota. Overall, oil revenues for Saudi are still likely to be lower than before the output cut.

Nevertheless, there are at least two noteworthy positive developments: 1) successful control of the COVID-19 pandemic and a vaccine programme that should enable a move close to pre-pandemic conditions and 2) improvements under the Vision 2030 have yielded tangible results: Saudi Arabia improved in 9 out of 10 areas in the World Bank's Doing Business 2020 report and has moved up 20 places since 2016 to 62nd.

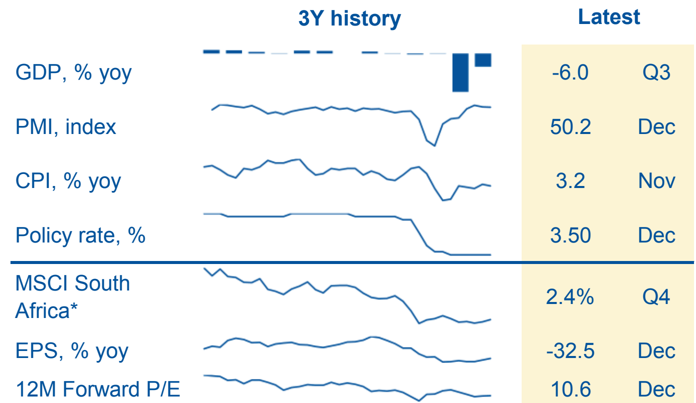
Fiscal conservatism will likely present a headwind for domestic activity in 2021 amid a return to pre-pandemic activity. Consensus projects a budget deficit of 7.6% of GDP, which would be significantly down from the estimated 12.7% for 2020. The government appears reluctant to extend support this year and is likely to implement austerity measures.

Market Strategy: Valuations for MSCI Saudi Arabia are not compelling, with the forward P/E relative to EM half a standard deviation above the five-year average. The financial sector (42% of the index) also faces several challenges, including fiscal consolidation, low oil prices and the delayed recognition of NPLs, which are all set to weigh on profitability. The numerous headwinds compel us to maintain our *underweight* allocation.

South Africa

Overweight

The appearance of a new COVID-19 variant poses a significant short-term risk to activity.



	3Y history	Latest	
GDP, % yoy		-6.0	Q3
PMI, index		50.2	Dec
CPI, % yoy		3.2	Nov
Policy rate, %		3.50	Dec
MSCI South Africa*		2.4%	Q4
EPS, % yoy		-32.5	Dec
12M Forward P/E		10.6	Dec

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

South Africa's economic activity will likely be hampered by the resurgence of COVID-19 cases in Q1. There has been an alarming rise in the proportion of positive tests, following the detection of the new local variant, from 7.5% in November to 30% in January. This points towards more mobility restrictions in the short term. On the upside, participation in the WHO's vaccine programme could provide some relief later in 2021. Consensus expects underwhelming growth of 3.8% yoy this year, following an estimated contraction of 8.0% in 2020.

Monetary policy is likely to be eased further, given the headwinds to activity in Q1 and strength in the rand could lessen inflationary pressures. The currency was just 5% off pre-pandemic levels against the US dollar in December, having been as much as 36% weaker.

Fiscal policy is set to remain very loose, with a projected budget deficit of 11% of GDP this year. Although the Treasury has suggested adopting austerity measures by limiting the public sector wage bill, this is being challenged in court by the unions. Any reduction in the deficit is likely to be minimal as significant economic support remains essential. Combined with the lacklustre growth backdrop, this puts pressure on debt sustainability, raising the possibility of further debt rating downgrades. Debt ratings are already below those in 1994, when South Africa held its first election with universal suffrage.

Market Strategy: The Q4 fall in valuations, which dragged the forward P/E discount of the MSCI South Africa to EM to 2.5 standard deviations below the five-year average, was due entirely to Naspers (33% of the index), mainly due to the company's exposure to China's Tencent. We believe South Africa offers exposure to a global cyclical upturn, via both the currency and commodity producers, at an attractive price. We stay *overweight*.

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	Macroeconomic Data: % change on year ago – Annual GDP Growth*	Industrial Production*	Consumer Price Index*	Latest 12 months – Trade Balance*	Current Account Balance*	Foreign Reserves 2020 Latest*	Foreign Reserves 2019 Year ago	Currency vs $ 2020 Latest*	Currency vs $ 2019 Year ago	Short-Term Interest Rates*	Sovereign Rating S&P*	Market Data: Performance – % S&P/EM Frontier Super Composite BMI	Stock Market Index S&P/EM Front. Super Comp. BMI US$	Change since 12/31/19 US$	Change since 12/31/19 Local Currency	Forecast (Bloomberg)† – 2020 P/E Forecast*	EBIT Margin 2020 Forecast*	6 month Stock Market Index Estimate (Front Super Comp. BMI) US$*	3 month Currency vs $ +/-*
		%	%	%	$ Bn	$ Bn	$ Bn	$ Bn			%		Dec. 31, 2020	Dec. 31, 2020	%	%		%		
OW	VIETNAM	4.5	9.5	0.2	9.7	17.4	88.4	68.8	23098.0	23177.0	4.0	BB	0.3	255.8	19.3	18.8	18.2	16.7	214	+
OW	SOUTH AFRICA	-6.0	-3.4	3.2	15.8	9.4	43.0	45.4	14.9	14.2	4.6	BB-	3.3	712.1	-5.1	-0.6	13.2	17.0	610	-
OW	CHINA	4.9	7.0	-0.5	600.3	209.2	3142.6	3092.4	6.5	7.0	1.1	A+	35.9	1200.9	30.2	28.4	18.4	11.0	1135	-
Neutral	ARGENTINA	-10.2	-13.3	35.8	14.7	6.9	33.4	37.9	84.6	59.8	32.8	CCC+	0.8	1382.4	123.4	213.7	n.a.	-7.6	944	-
Neutral	BAHRAIN	-8.9	n.a.	-3.6	n.a.	n.a.	1.9	3.6	0.4	0.4	1.4	B+	0.1	182.7	-8.5	-8.5	n.a.	n.a.	185	uc
Neutral	CHILE	-9.1	-0.7	2.7	16.9	0.0	36.9	38.6	703.6	772.9	0.5	A+	0.5	375.6	-6.3	-11.4	25.8	10.2	317	-
Neutral	COLOMBIA	-9.5	-8.0	1.5	-10.0	-9.2	54.9	50.4	3446.1	3251.0	2.0	BBB-	0.3	5629.0	-14.3	-10.6	33.5	n.a.	4047	-
Neutral	CZECH REP.	-5.0	-1.3	2.7	21.8	6.6	158.1	145.0	21.3	22.5	0.2	AA-	0.1	916.8	-1.2	-6.3	14.2	n.a.	745	-
Neutral	EGYPT	5.6	-10.1	5.7	-33.6	-11.2	32.8	39.8	15.7	16.1	8.3	B	0.1	1385.2	-20.0	-21.5	8.7	n.a.	1491	-
Neutral	GREECE	-11.7	-3.7	-2.1	-21.1	-12.6	3.7	1.9	1.2	1.1	0.1	BB-	0.2	31.7	-10.2	-17.2	17.1	17.3	25	-
Neutral	HUNGARY	-4.6	2.7	2.7	5.8	-0.2	36.8	30.4	292.9	294.5	0.5	BBB	0.2	568.6	-12.0	-11.5	14.1	n.a.	443	-
Neutral	INDIA	-7.5	3.6	6.9	-88.1	32.7	517.6	413.0	73.2	71.9	4.9	BBB-	10.2	1313.9	17.1	19.8	29.8	13.2	1113	-
Neutral	INDONESIA	-3.5	2.0	1.7	19.6	-13.7	126.1	120.3	13922.0	13928.0	4.6	BBB	1.4	1428.9	-7.3	-6.2	21.7	24.4	1096	-
Neutral	KENYA	-5.7	n.a.	5.6	-10.0	-62.2	8.7	9.5	109.4	101.1	6.4	B+	0.1	700.4	-18.4	-12.1	14.1	25.4	684	-
Neutral	KUWAIT	0.4	n.a.	2.8	57.2	20.3	45.4	36.5	0.3	0.3	1.4	AA-	0.5	101.6	-9.1	-8.8	17.3	n.a.	103	-
Neutral	MALAYSIA	-2.7	-0.5	-1.7	42.1	12.1	100.4	99.1	4.0	4.1	1.6	A-	1.8	409.2	7.3	5.5	17.5	21.6	388	-
Neutral	MEXICO	-8.6	-3.3	3.3	31.3	-26.5	187.1	173.1	20.0	18.9	4.5	BBB	1.6	418.0	-1.4	4.0	38.3	14.4	325	+
Neutral	MOROCCO	-7.2	14.7	0.2	-19.7	-3.2	29.5	22.8	8.8	9.6	2.5	BBB-	0.2	647.8	-0.2	-7.0	22.0	n.a.	576	-
Neutral	PAKISTAN	0.5	7.7	8.0	-23.3	-15.2	14.4	10.8	160.0	155.1	5.7	B-	0.1	534.2	-3.3	-0.2	6.1	n.a.	503	-
Neutral	PERU	-30.2	-10.3	2.0	5.9	-0.2	64.6	60.9	3.6	3.3	0.1	BBB+	0.2	1958.9	-8.1	-7.5	59.7	n.a.	1631	+
Neutral	POLAND	-1.5	5.4	3.0	11.9	16.8	129.6	107.8	3.7	3.8	0.1	A-	0.6	312.3	-4.5	-6.0	13.8	10.8	273	+
Neutral	QATAR	-6.1	n.a.	-2.9	33.7	-0.5	37.0	37.0	3.7	3.7	1.1	AA-	0.6	284.6	-0.1	-0.1	16.1	n.a.	285	uc
Neutral	ROMANIA	-6.0	1.2	2.1	-20.5	-65.4	38.4	35.9	4.0	4.3	1.8	BBB-	0.1	161.7	3.7	-3.2	12.2	20.4	154	-
Neutral	SOUTH KOREA	-1.1	0.5	0.5	45.6	65.3	408.2	392.5	1087.5	1167.7	0.7	AA	13.9	748.7	45.9	37.1	20.0	8.0	567	-
Neutral	SRI LANKA	1.5	-3.5	4.2	-6.4	n.a.	6.6	7.4	188.3	181.2	7.1	CCC+	0.0	210.8	-3.9	-1.8	16.1	2.4	198	-
Neutral	THAILAND	-6.4	0.4	-0.3	37.3	20.2	242.0	211.6	30.0	30.2	0.6	BBB+	1.7	1255.6	-6.7	-6.7	26.7	7.5	1029	-
Neutral	TURKEY	6.7	10.2	14.6	-50.0	-33.8	41.1	76.8	7.4	6.0	17.5	B+	0.5	304.5	0.8	25.9	10.9	10.0	231	-
Neutral	UAE	1.3	n.a.	-2.4	74.8	29.6	94.7	100.1	3.7	3.7	0.4	NR	0.5	117.3	-4.9	-5.0	13.4	n.a.	107	uc
Underweight	RUSSIA	-3.4	-2.6	4.9	0.1	36.0	436.9	425.6	74.7	61.8	4.1	BBB-	2.8	624.6	-8.5	5.7	13.2	12.2	539	+
Underweight	TAIWAN	3.9	7.8	0.1	55.5	82.9	513.4	474.1	28.0	30.1	0.5	AA-	12.2	454.8	35.3	26.8	20.5	8.0	389	-
Underweight	PHILIPPINES	-11.5	-11.3	3.5	-24.5	9.5	90.1	76.1	48.1	51.1	1.8	BBB+	0.8	856.8	-2.0	-7.1	28.7	16.6	722	+
Underweight	SAUDI ARABIA	-4.6	n.a.	5.8	117.1	2.3	434.7	478.1	3.8	3.8	0.8	A-	2.2	122.2	6.2	6.2	30.9	n.a.	119	uc
Underweight	BRAZIL	-3.9	0.3	4.3	51.0	-12.2	343.6	356.2	5.3	4.1	1.5	BB-	5.3	757.9	-17.2	6.3	33.6	16.8	569	+
Underweight	NIGERIA	-3.6	n.a.	14.9	-10.2	-18.5	33.9	38.6	392.7	364.2	4.4	B-	0.1	174.7	19.9	30.4	8.9	17.4	143	+

Note: All data shown are as at 31 December 2020 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 34 countries shown in the table accounted for 99.3% of the S&P/EM Frontier Super Composite BMI on 31 December 2020. An additional 22 countries accounted for the remaining 0.7% of the index on the same date. These countries, which can be accessed via City of London's Frontier Markets strategy, are: Bangladesh, Botswana, Bulgaria, Cote d'Ivoire, Croatia, Cyprus, Ecuador, Estonia, Ghana, Jamaica, Kazakhstan, Latvia, Lebanon, Lithuania, Mauritius, Namibia, Panama, Slovakia, Trinidad & Tobago, Tunisia, Ukraine 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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