



Confidence
must be earned


Amundi
ASSET MANAGEMENT

H1 2019

Emerging Markets Charts & Views

Seek opportunities, but be aware of short-term volatility

Investment Insights | Market Stories



Document for the exclusive attention of professional clients, investment services providers and any other professional of the financial industry.

Emerging Markets: seek opportunities, but be aware of short-term volatility



Yerlan Syzdykov

Head of Emerging Markets

Dear client,

Emerging markets (EM) started 2019 on a strong footing and, as a result, some excessive valuation gaps have been partially closed. Yet, we continue to see opportunities in all EM segments (equity, bonds in hard currency and in local currency) with a medium to long-term view.

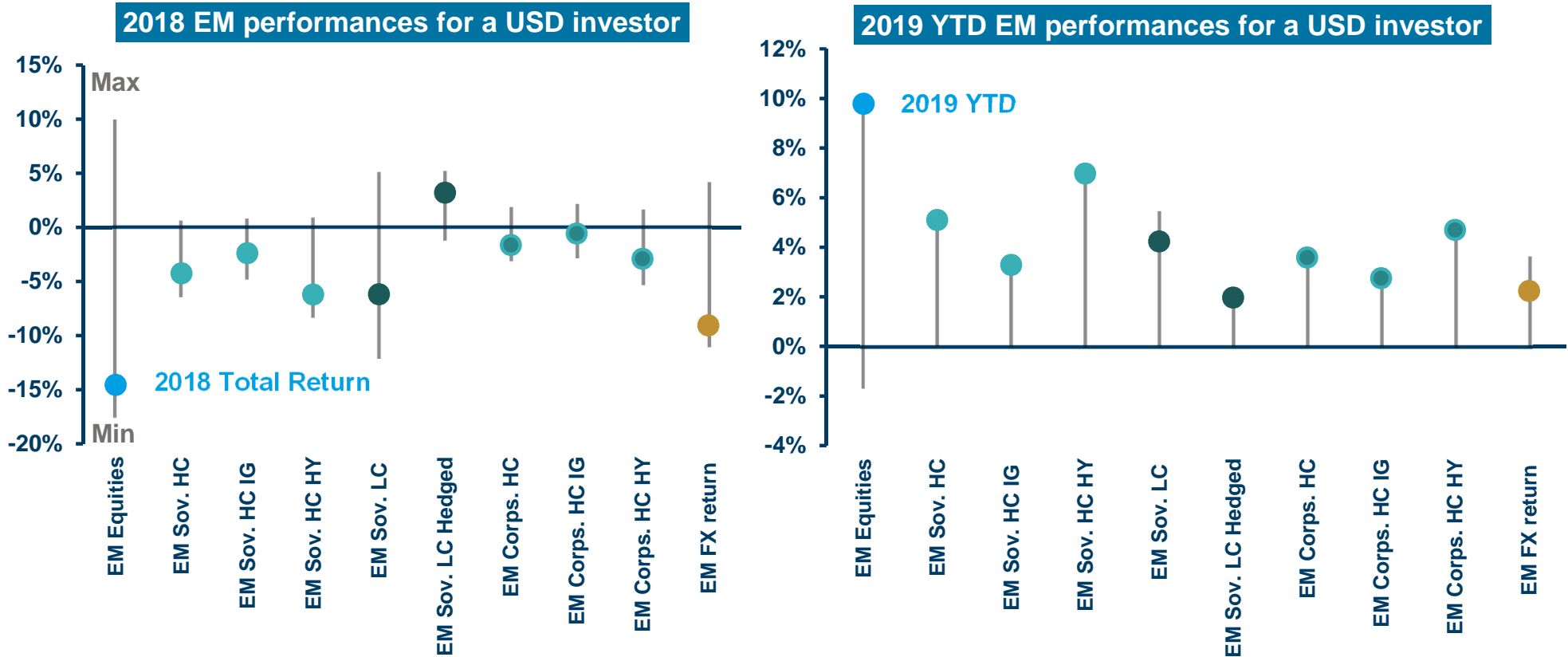
In the short term, we anticipate phases of volatility as geopolitical uncertainty remains high (especially on trade negotiations) and China is engineering a soft landing of its economy. Against this backdrop, we believe investors could seek entry points in periods of volatility to further add into EM assets.

Understanding how emerging economies are evolving and how to play them in the current environment is a key objective for our clients. Therefore, we have committed to build this publication, with the goal to outline our current vision of the emerging world and the key convictions, through key charts that can help explain the investment narrative.

The piece combines views from our investment experts, macro and strategy research teams, all located across our Amundi global footprint and the Investment Insights team which contributed to the story telling in what we hope you will find both an insightful and helpful format.

Yerlan Syzdykov

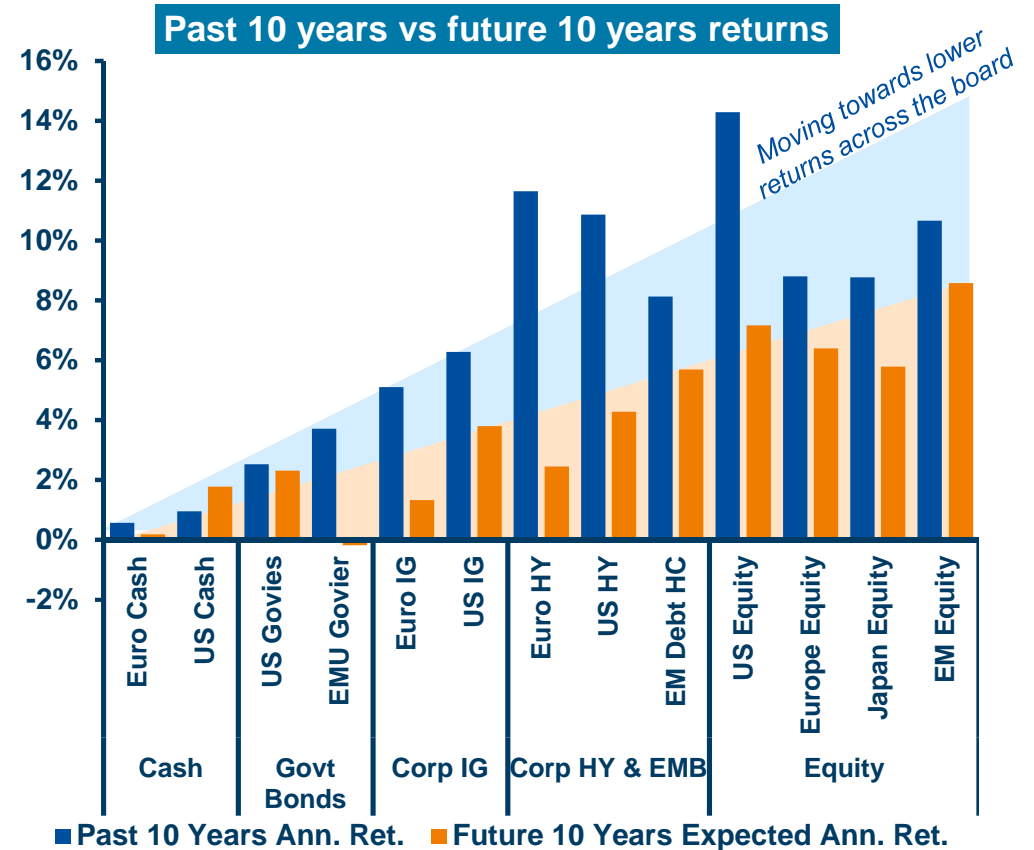
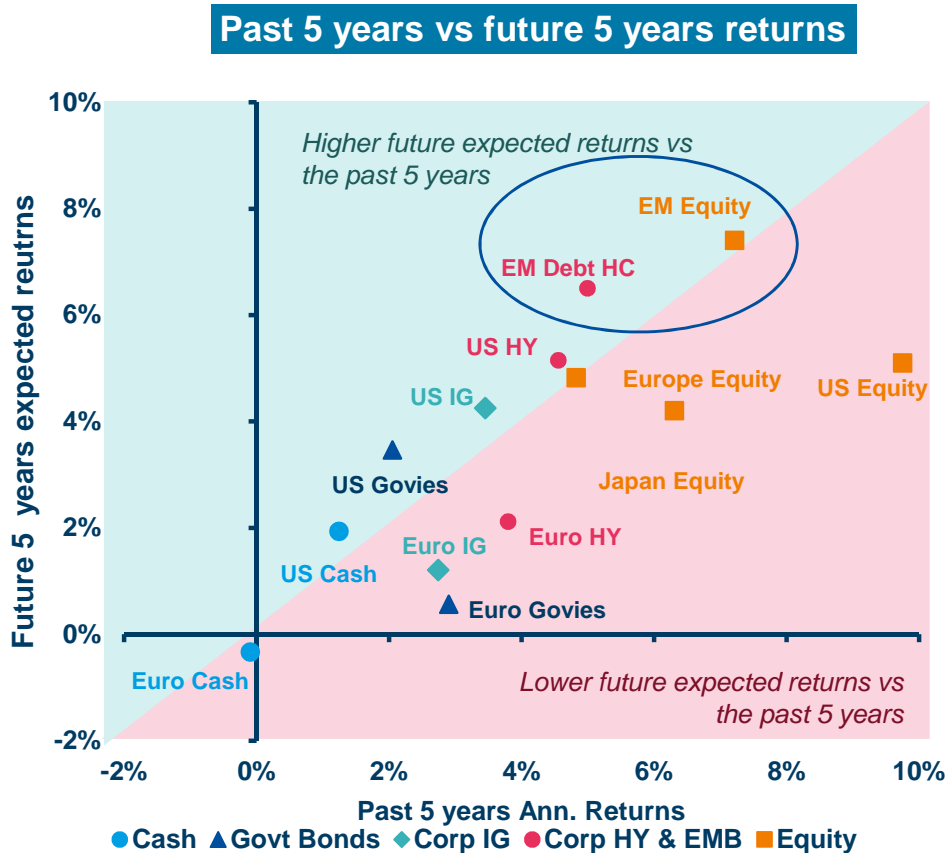
Emerging Markets: strong rebound, after a tough 2018



» Risk-off sentiment and idiosyncratic stories (Turkey) weigh on EM performance in 2018 on the back of the challenges linked to the strength in the USD and higher Treasury yields. In Jan and Feb 2019 EM assets recovered across the board.

Source: Amundi, Bloomberg. Data as of the 22 February 2019. Macro figures as of last release. Forecasts for annualised returns are based upon estimates and reflect subjective judgments and assumptions. These results were achieved by means of a mathematical formula and do not reflect the effect of unforeseen economic and market factors on decision making.

Emerging Markets: source of return for the mid, long term



» With a medium to long-term view (5 to 10 years) Emerging Markets represent a key source of return potential, in a world where expected returns are lower compared to the last 10 years.

Source: Amundi, Bloomberg. Data as of the 12 February 2019. Macro figures as of last release. Forecasts for annualised returns are based upon estimates and reflect subjective judgments and assumptions. These results were achieved by means of a mathematical formula and do not reflect the effect of unforeseen economic and market factors on decision making.

Emerging Markets High Conviction Ideas – H1 2019

Macro themes

We see 4 key themes underpinning the case for a more constructive view on EM, the most important being (1) the return of a more dovish stance from the Fed and (2) a supportive economic outlook as we expect the growth differential between EM and DM to widen. Key factors to watch in selecting investment ideas will also be (3) new actions in China on the fiscal and monetary front that should lead to a gentle economic slowdown and (4) the geopolitical landscape evolution (still highly uncertain).

Equities

We remain constructive on EM equities although in the short term there could be a pause after the rebound. Positives for the asset class include the expected widening of growth differential, attractive valuations vs DM, no major macroeconomic imbalances, and decent earnings growth (with country/sector differences). We like countries with resilient macroeconomic fundamentals and domestic growth drivers, strong reform agendas and attractive valuations. We also like countries with favourable monetary and fiscal room and low external vulnerabilities.

Fixed Income

The start of the year saw an improvement in sentiment regarding EM debt. We expect that a more dovish tone by the Fed (and by other central banks), a benign inflation outlook in most EM countries, and a stabilisation of economic conditions will continue to favour the asset class in 2019. On EM hard currency debt, we expect returns in line with the carry, while EM bonds in local currency may offer higher return potential.

Currencies

EM currency should continue to benefit from more dovish Central Banks globally and synchronized actions in DM and USD stabilisation. Most of the EM FX are undervalued based on traditional models. If political risk and risk sentiment don't deteriorate we could see some appetite back for EM FX, which could benefit local currencies investments.

Source: Amundi. Data as of 25 February 2019. EM = Emerging Markets, DM = Developed Markets.

2019 key themes: from headwinds to tailwinds?

Macro Themes

Equities

Fixed Income

Currencies

KEY THEMES



**CENTRAL BANKS
LIQUIDITY IN FOCUS**

The end of Fed tightening cycle favours a stabilisation in Treasury yields and US dollar dynamics (key for EM assets)



**WIDENING GROWTH
PREMIUM VS DM,
SELECTIVITY
NEEDED**

Deceleration of global growth but no recession, with widening growth differential against DM starting from H2 2019, with strong heterogeneity among countries (different drivers, room for manoeuvre, stage in the cycle)



**CHINA
SOFT LANDING**

Stimulus to the economy will be key to manage the deceleration phase in China and avoid hard landing



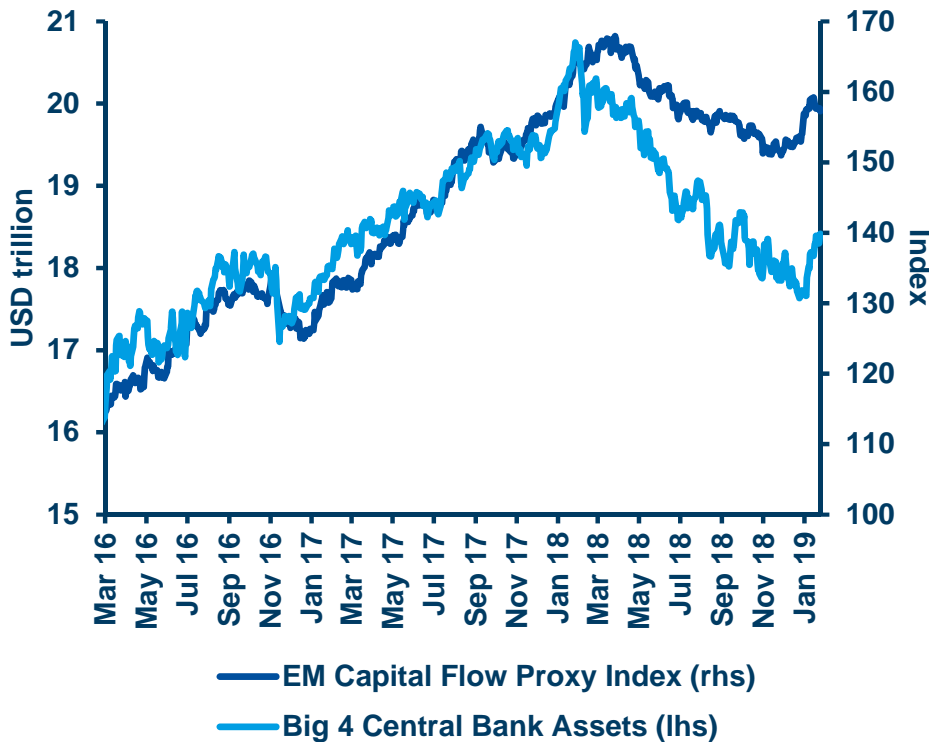
**GEOPOLITICAL
EVENTS AND TRADE
DISPUTES**

Trade negotiations and geopolitical issues (i.e. Venezuela and elections) will be key to identify potential areas of vulnerability or opportunities

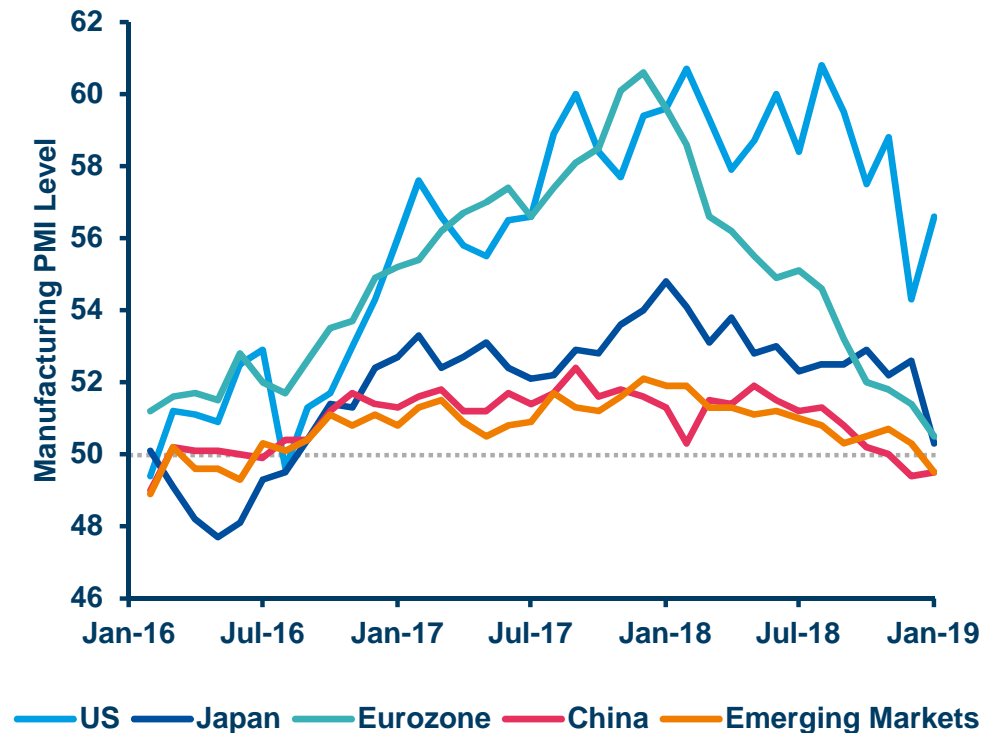
Source: Amundi, as of 25 February 2019.

Central Banks in focus (again) due to weaker momentum

CB Balance Sheets vs EM Capital Flows



Global manufacturing PMI in the radar of CBs



» Despite an overall positive outlook (we don't expect a recession in the next 12-18 months), the weak economic momentum, as results of weaker global trade growth and trade disputes effects, is turning Central Banks dovish, a positive factor for EM.

Source: Bloomberg, Amundi. Data as of 31 January 2019. CB assets for ECB, FED, BOJ, BPoC (proxy data).

Source: Bloomberg, Amundi. Data as of 31 January 2019.

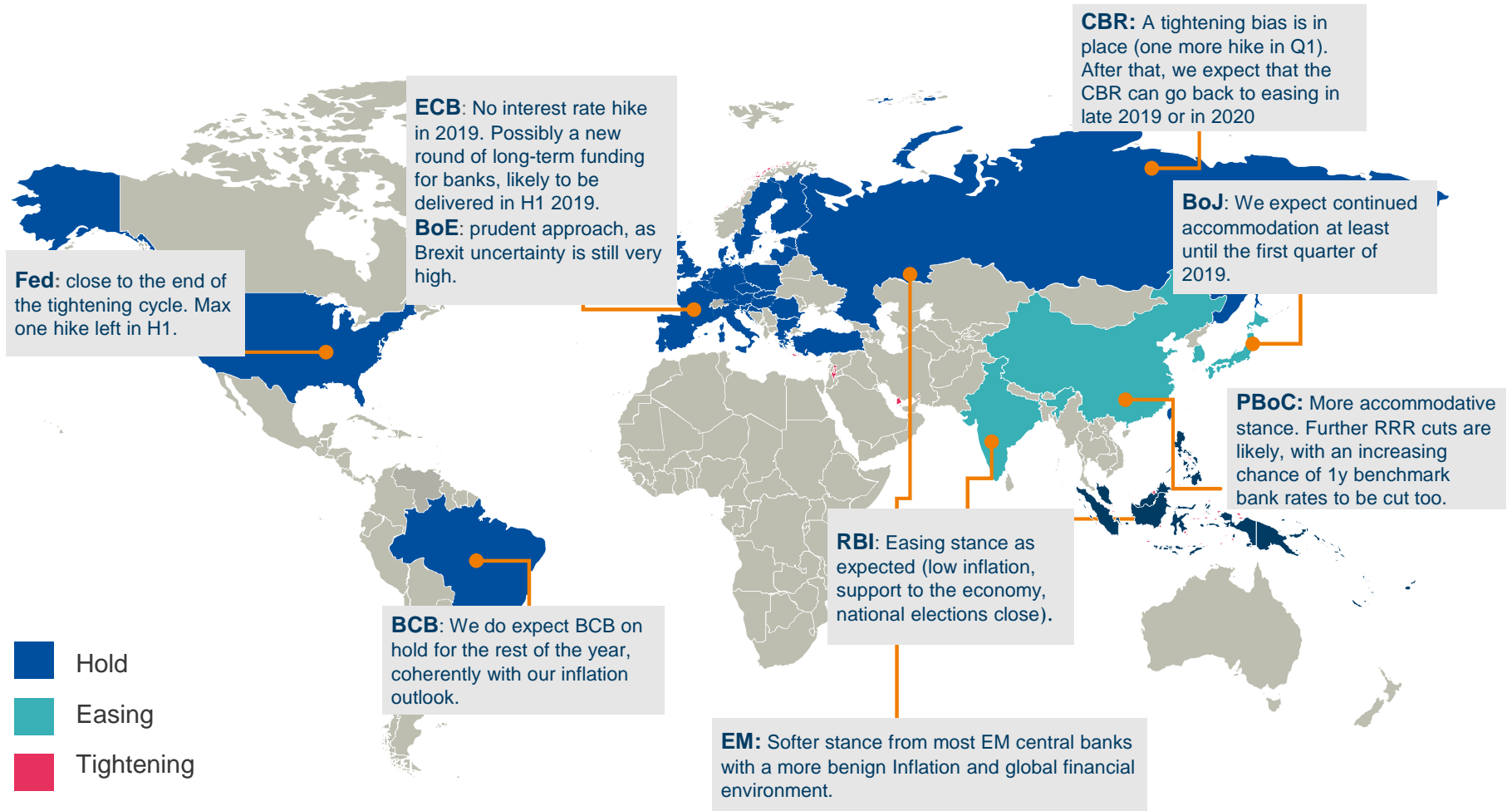
Central banks in 2019: turning more neutral/dovish

Macro Themes

Equities

Fixed Income

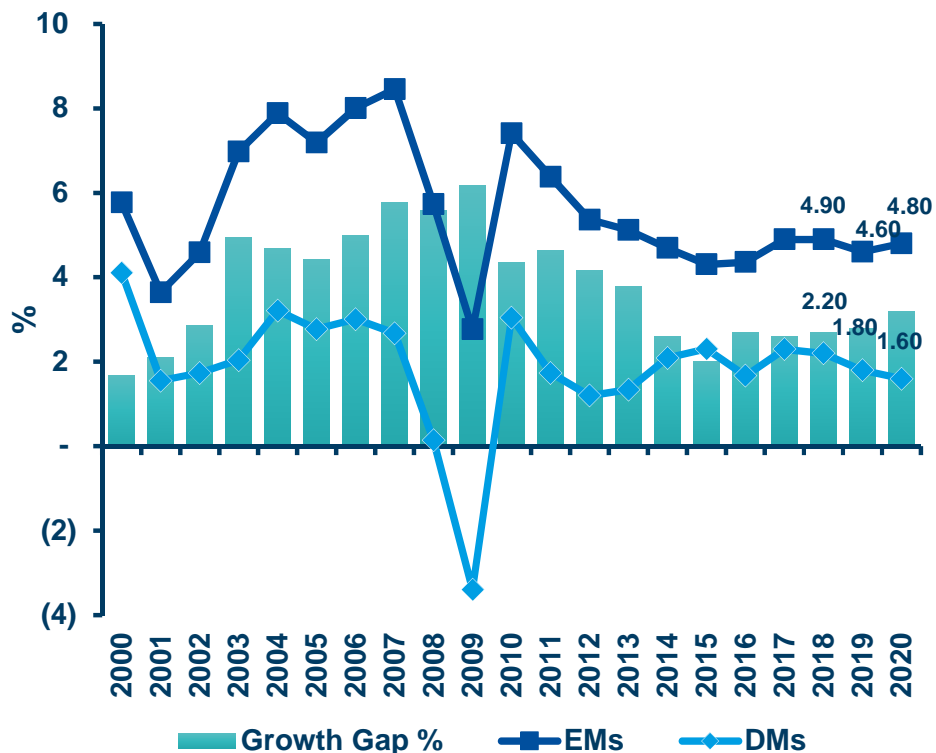
Currencies



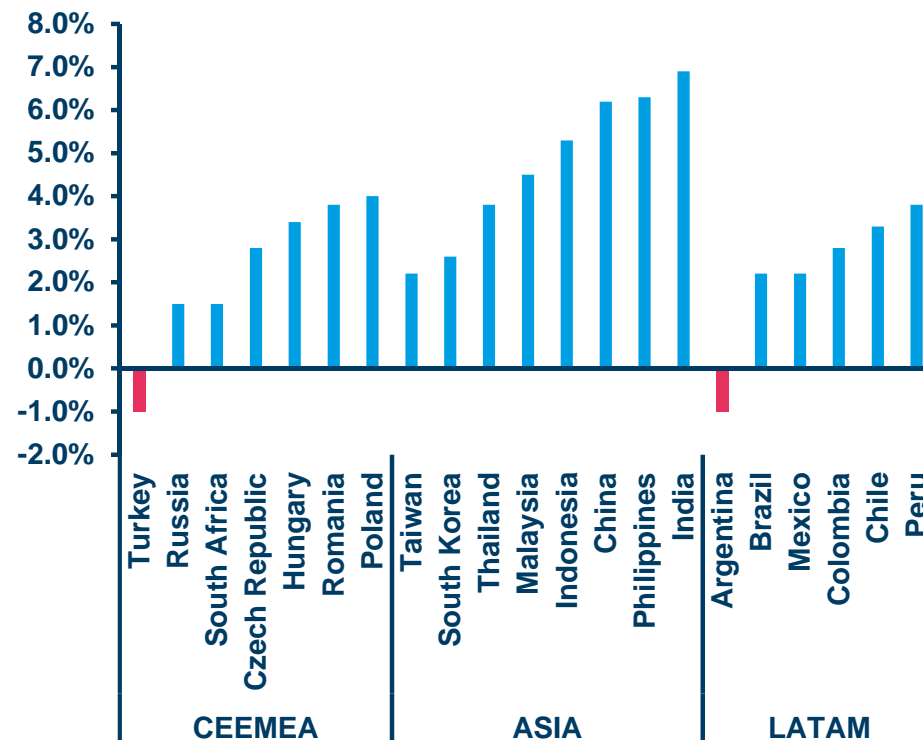
Source: Amundi, as of 25 February 2019. Indicative map for monetary policies. A reduction or end of quantitative easing interpreted as Tightening. Fed: Federal Reserve; BoE: Bank of England; PBoC: People Bank of China; BoJ: Bank of Japan; BCB: Central bank of Brazil; CBR: Central Bank of Russia; ECB: European Central Bank; RBI: Reserve Bank of India. RRR: reserve requirement ratio.

Constructive outlook, but divergences among countries

EM vs DM GDP growth



2019 GDP growth by country

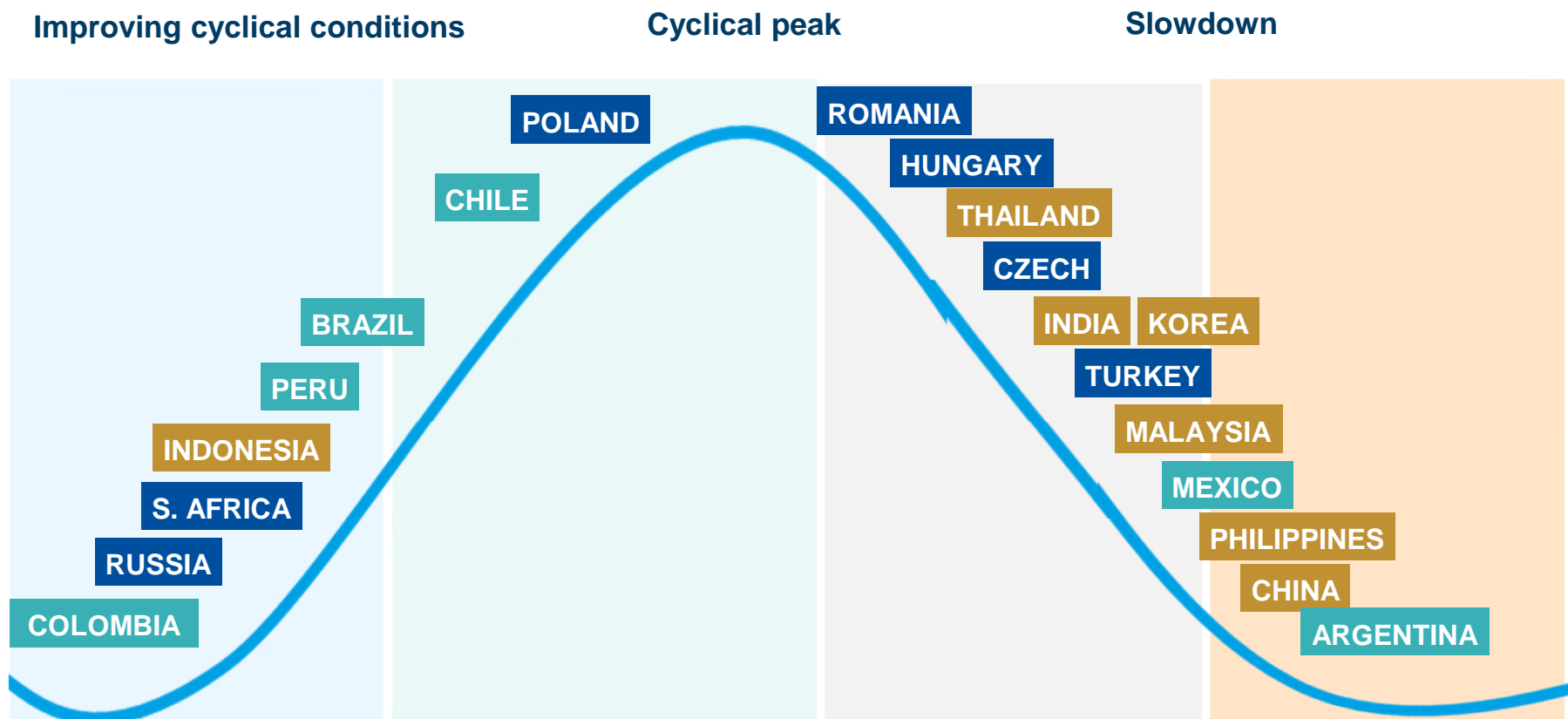


» Fundamental conditions remain relatively benign in aggregate: we expect GDP growth differential vs DM to widen again starting from H2 2019, due to the deceleration of DM and some rebound in EM. Growth divergences at regional and country levels.

Source: IMF, Amundi forecasts for 2018, 2019 and 2020. As of 31 January 2019.

Source: Bloomberg, Amundi. Data as of 31 January 2019.

EM: Different stages in the economic cycle



» In an ideal cyclical phase, countries are heterogeneously positioned. Also in the same region, different countries can be in opposite phase of the cycle (i.e. Colombia and Argentina). This means that a country-specific focus is important to evaluate different economic conditions and perspectives.

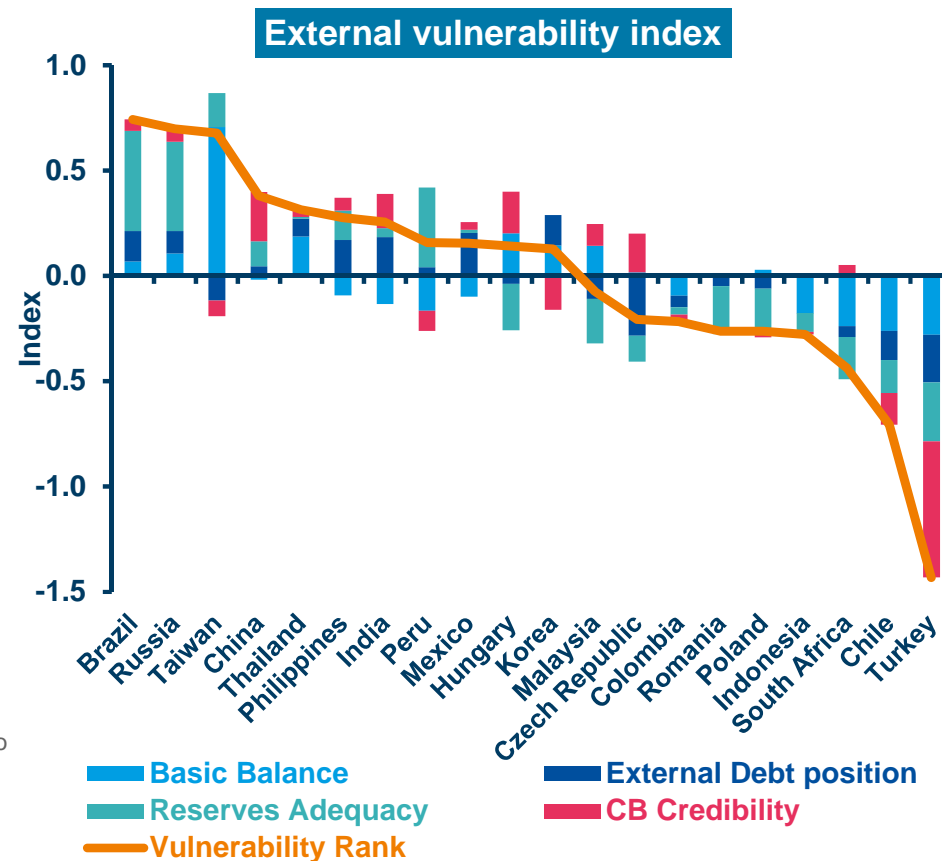
Source: Bloomberg, Amundi. Data as of 25 February 2019.

Focus on the countries with lower vulnerabilities and fiscal / monetary policy room

| | | Fiscal capacity | | |
|--------------------------|--------|--------------------------------------|--|--|
| | | Low | Medium | High |
| Monetary policy capacity | Low | Turkey | Mexico; Philippines; S. Africa; Colombia | Chile |
| | Medium | Brazil; Hungary; India; Poland | | Malaysia; Russia; Peru; Czech Rep.; Indonesia |
| | High | China | South Korea | Thailand |

Fiscal Capacity: relative assessment on fiscal fragility based on 14 variables related to fiscal accounts in the short and long term horizon.

MP capacity: relative assessment based on External Vulnerability and inflation anchored. These are not predictions on next fiscal and monetary policies.



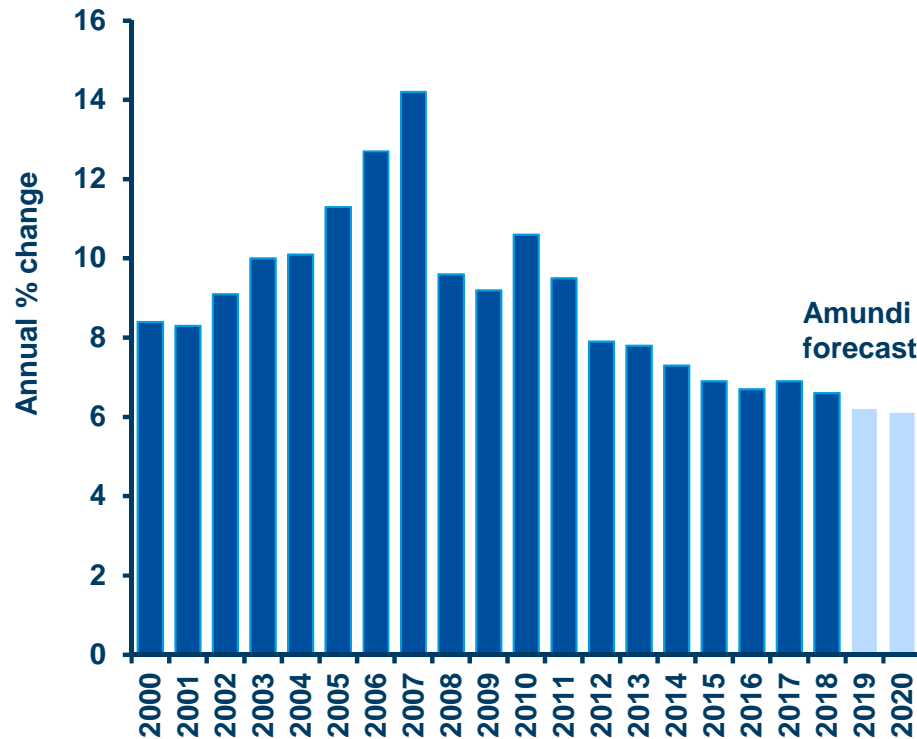
As the EM universe is scattered, it is important to focus on countries with lower external vulnerability and fiscal / monetary room for manoeuvre to deal with further possible economic deterioration.

Source: Analysis by Amundi Research, CEIC. As of 25 February 2019.

Source: Analysis by Amundi Research, CEIC. As of 25 February 2019.

China: near-term challenges, but more structural resilience

Real GDP growth



China PMI



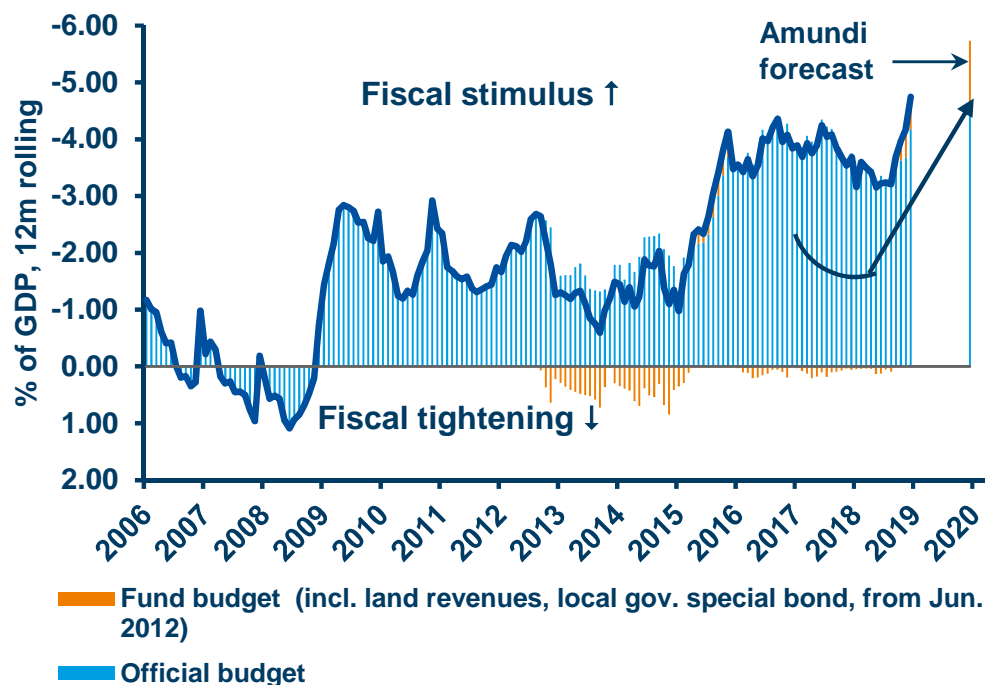
China is already bearing the burden of trade disputes and this is a risk to monitor in EM. The external sector is the most vulnerable to weaker economic momentum, while domestic-driven sectors show more resilience. The transition towards a more balance growth model- with China climbing the value chain - is ongoing and should make the economic model more sustainable.

Source: IMF, Amundi Research forecasts for 2019 and 2020. Data as of 12 February 2019.

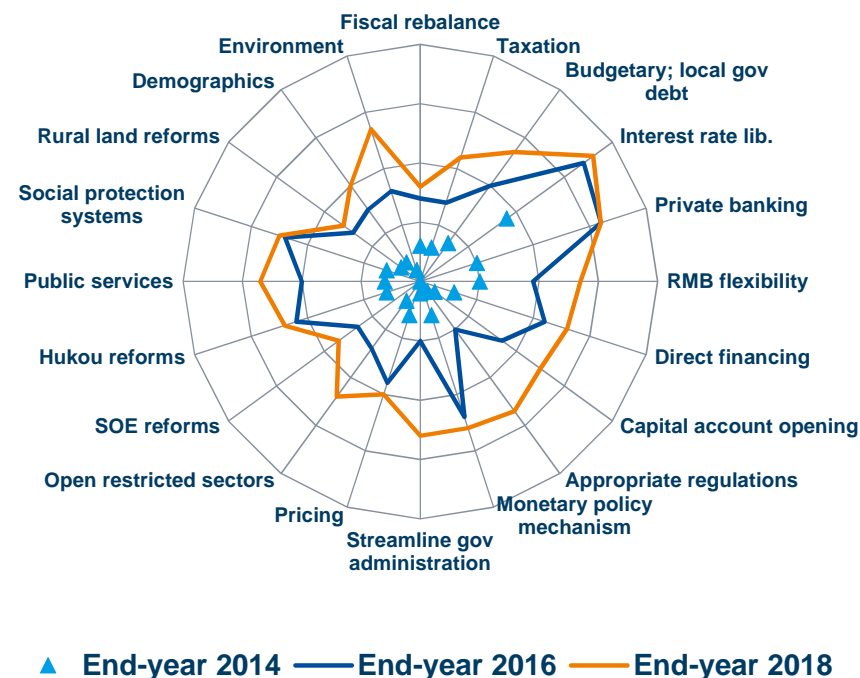
Source: CEIC, Amundi Research. Data available as of 31 January 2019.

China: strong commitment to avoid hard-landing

China Fiscal Balance - Official & Fund Budget



Reform Tracker



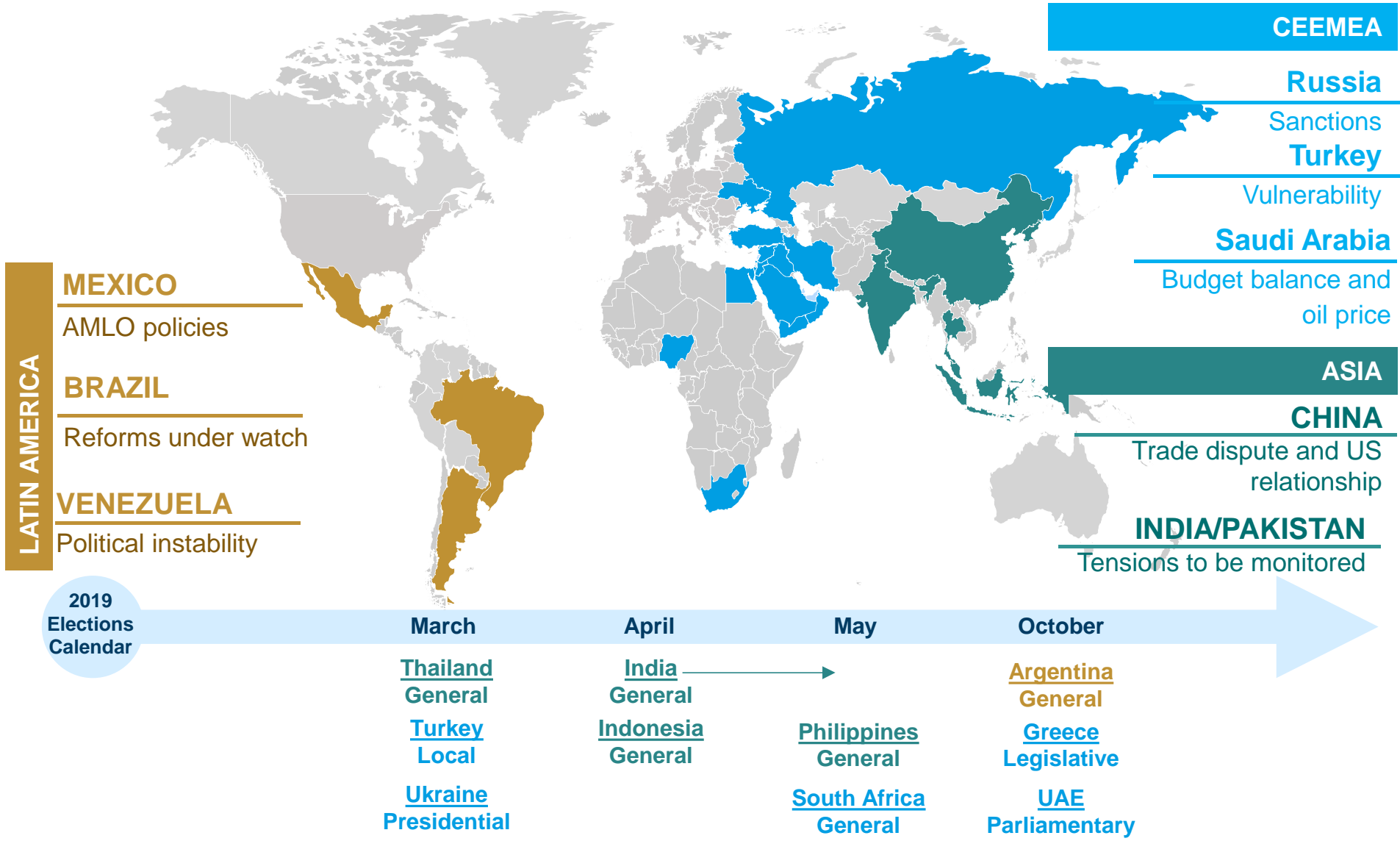
Chinese authorities are committed to implement a number of fiscal and monetary actions to avoid the hard-landing, at the time in which they are deleveraging the economic system, fueled by excessive credit growth. A number of reforms have been put in place and our reform tracker shows that important progress has been made in the last couple of years regarding environment policies, the opening of the economy and on efficiency gains. In our view, Chinese growth is expected to stabilize around 6% in the next two years.

Sources: Bloomberg, Amundi. Data available as of 30 January 2019.

Source: CEIC, Amundi Research. As of 31 January 2019.

Main (geo) political themes for EM in 2019

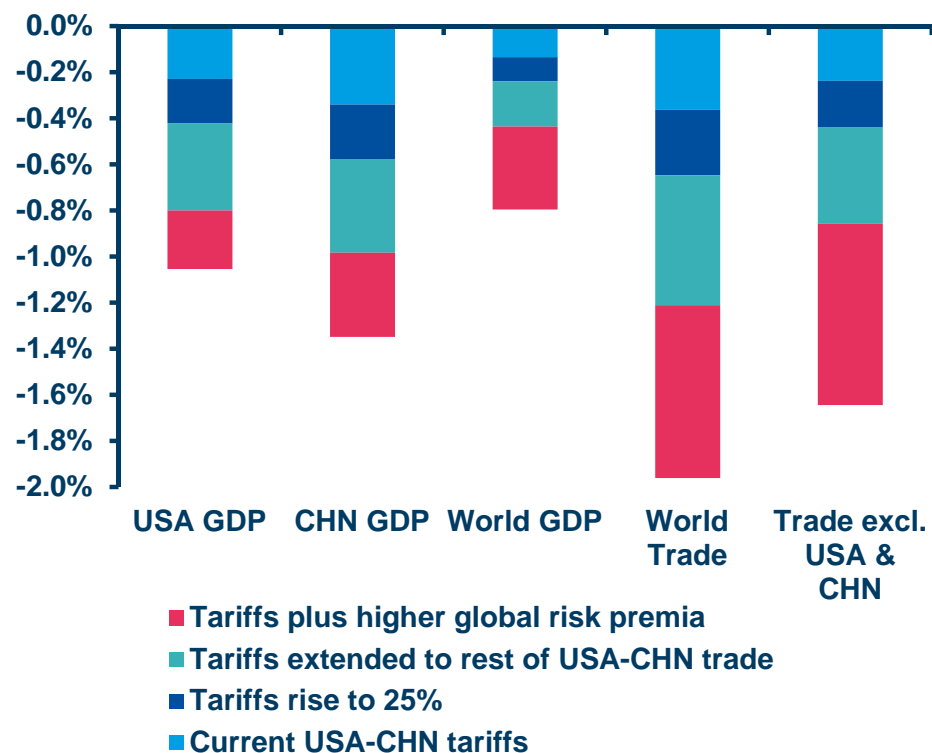
Macro Themes
Equities
Fixed Income
Currencies



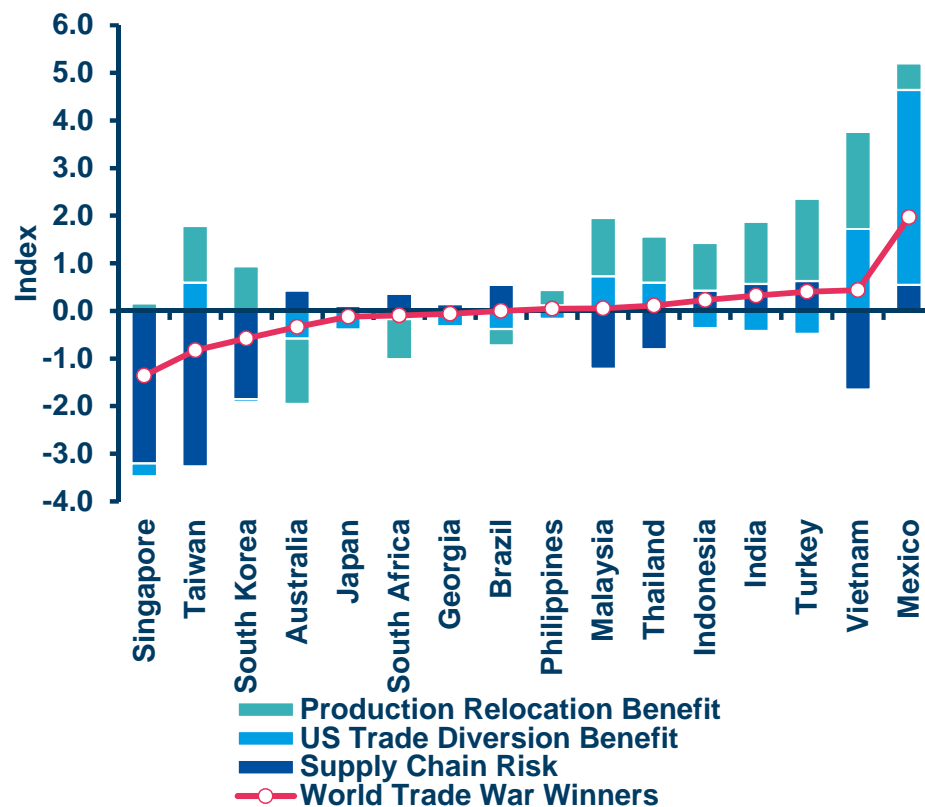
Source: Amundi. As of 25 February 2019.

Protectionism is a losing game, with some potential winners

The adverse effect of higher tariffs by 2021



China-U.S. trade war “winners”



➤ The damage of further rise in protectionism could be not negligible, as estimated by the OECD. We expect trade disputes to ease somewhat, as also US is bearing the burden of protectionist measures. Some countries could benefit from production relocation, with different impacts of trade issues at the country levels.

Sources: OECD Economic Outlook, Amundi. Data available as of 19 November 2018.

Sources: CEIC, Citi Research, UN Comtrade, U.S. Census, Amundi Research. Based on data available as of 30 October 2018.

In a nutshell: a more positive outlook, but a strong focus on selectivity is needed among the heterogeneous EM universe

- More accommodative monetary policies across the board and a stabilization of the USD are positive news for EM assets
- EM universe is not homogenous and it's important to look at country-specific features (external vulnerability, sensitivity to trade disputes, different stage of the economic cycle, room of fiscal and monetary manoeuvre, reform impulse, political environment, etc)
- Areas of attention continue to be the evolution of trade talks, and geopolitical instability that could generate market volatility

*“ In the EM world, investors should exploit pockets of opportunities that could emerge from **country-specific features and drivers**; in the current context, short-term volatility could trigger entry points to add to some valuable assets, with the appropriate investment horizon.”*

Three key themes EM Equities

Fundamentals



Growth differential, attractive valuations, decent earnings growth with country differences

Dividend



Interesting dividend profile, a key theme to play in a late cycle

Governance



Improved corporate governance

Macro Themes

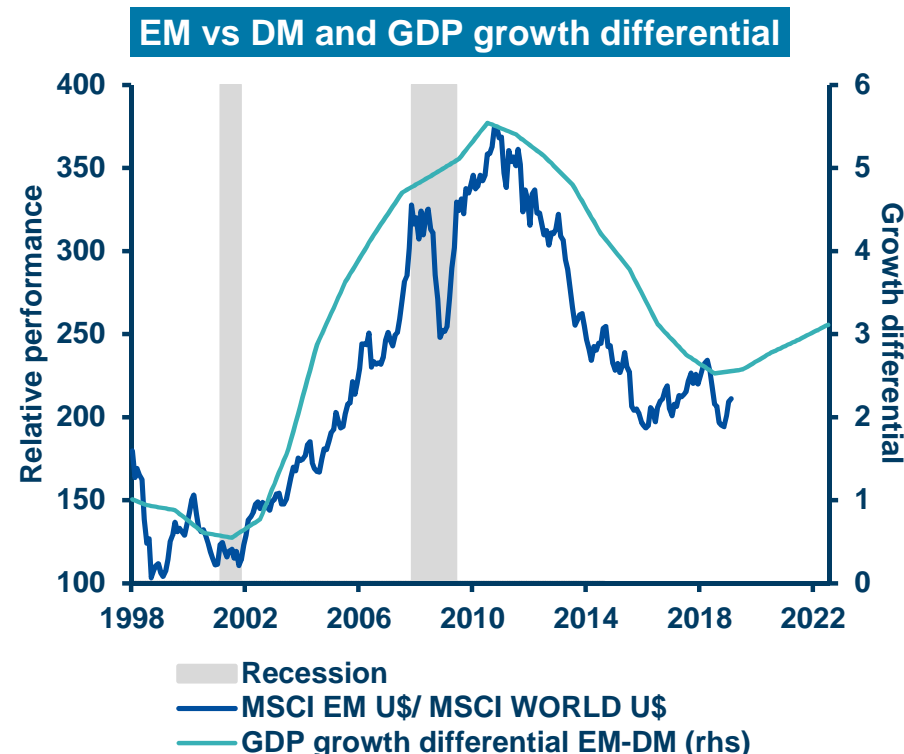
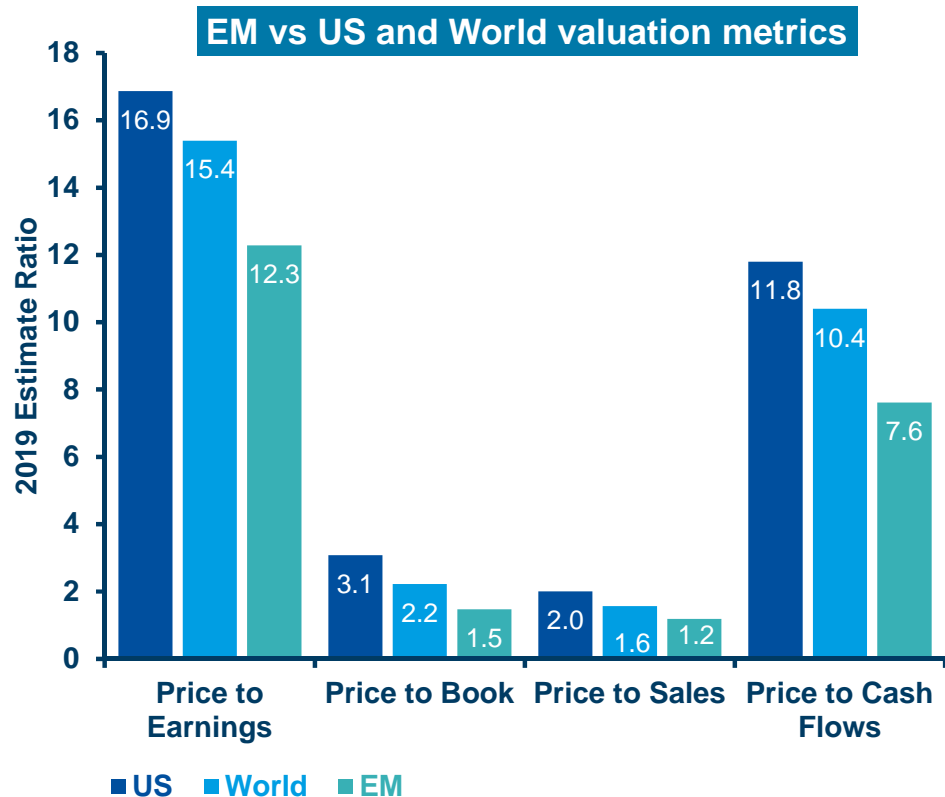
Equities

Fixed Income

Currencies

Source: Amundi, as of 25 February 2019.

Valuations are attractive and widening growth differential is positive for EM



➤ Widening growth differential is positive for EM equities. From a valuation perspective, EM still look attractive especially vs DM. There is still room to go to recover the underperformance of EM vs DM. A focus on earnings growth and sustainability is key.

Source: Amundi Research. As of 25 February 2019.

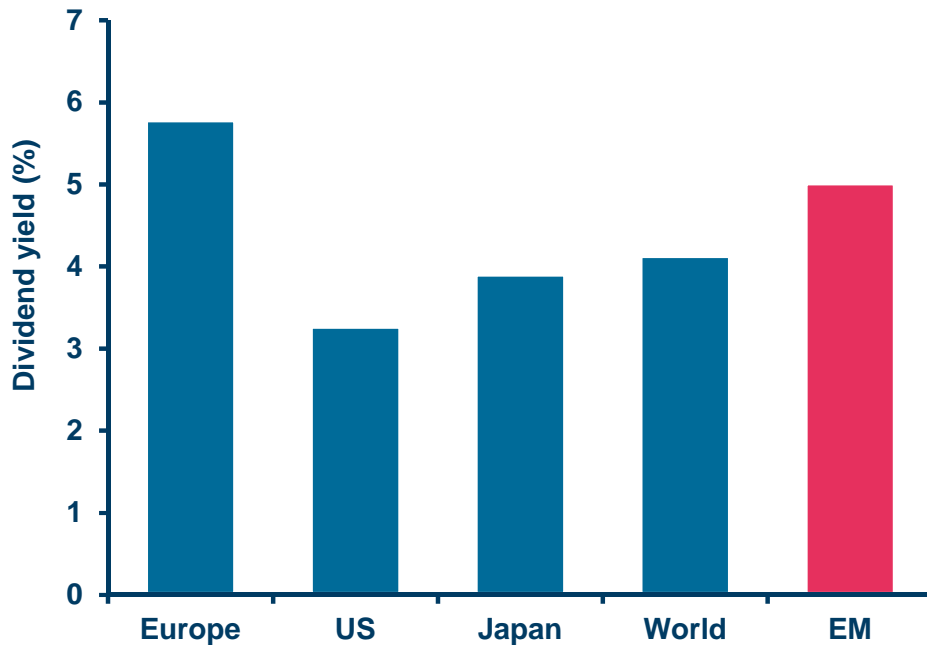
IMF forecasts for GDP growth from 2019 to 2022.

Source: Bloomberg, IMF, Amundi. As of 5 February 2019.

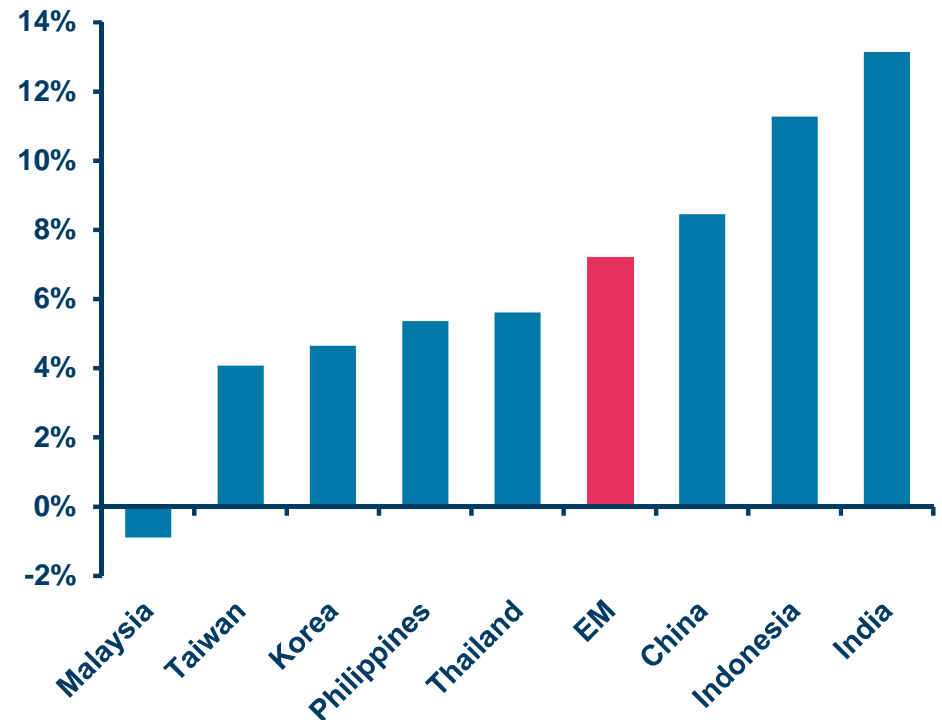
Notes. Left Chart = Index MSCI USA for US and MSCI EM for emerging markets. Price/earnings is the ratio of a market's current share price compared to its estimated per share earnings for the current year. Price/book value is the ratio of market price of a company's shares (share price) over its book value of equity. Price/sales is the ratio of a market's price to its revenue per share for the trailing 12 months. Price/cash flow compares a market's price to its level of annual cash flow.

EM equities can offer attractive dividend yields

High dividend stocks



Dividend per share growth 12M expectations



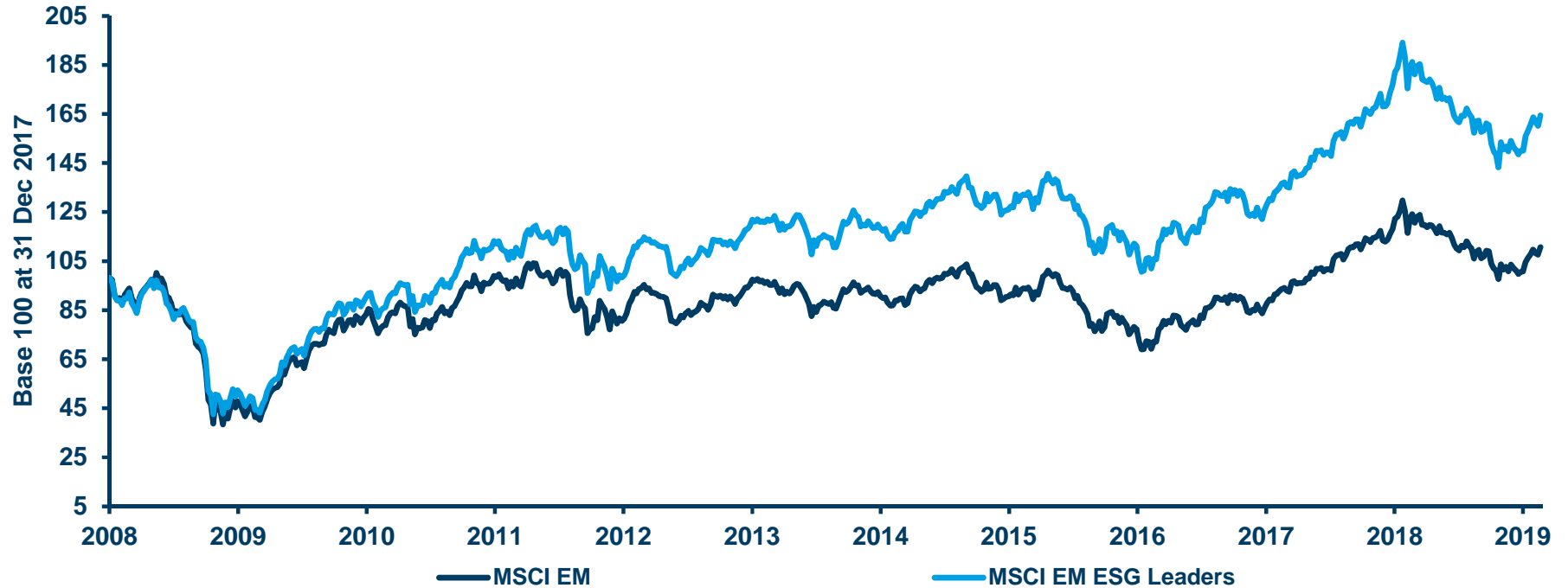
» The improvement in corporate governance translates into an attractive dividend payout of EM companies compared to some major developed economies. Dividends are expected to increase in many countries.

Source: Bloomberg, Amundi. Data refers to MSCI High Dividend indexes for the different areas. Data as at 5 February 2019.

Source: Factset, Capital IQ, Bloomberg, Datastream. Analysis by Amundi. As at 31 January 2019.

ESG: a source of outperformance in EM

ESG sector outperformance



» The improvement in corporate governance translates into stronger outperformance of ESG leaders vs the overall market.

Source: Bloomberg, Amundi. Data as of 25 February 2019.

Major investment convictions in EM Equities

Favourite countries

- **China:** attractive valuations, slowdown mostly priced in, easing of trade tensions, focus on technology and energy sector
- **India and Indonesia:** strong growth, domestic engine, attractive valuations
- **Russia:** appealing valuations, sanctions partially discounted
- **Brazil:** but focus on political factor

How to play EM equities themes

EM diversified approach with focus on domestic growth drivers

China and India, with focus on domestic sectors

Latam, with resilient growth stories and reforms

Source: Amundi, as of 25 February 2019.

Three key themes EM Bonds

Supportive conditions



Improved market sentiment on EM bonds amid a more dovish Fed

Yield premium



Interesting yield premium, but focus on fundamentals and sustainability of debt

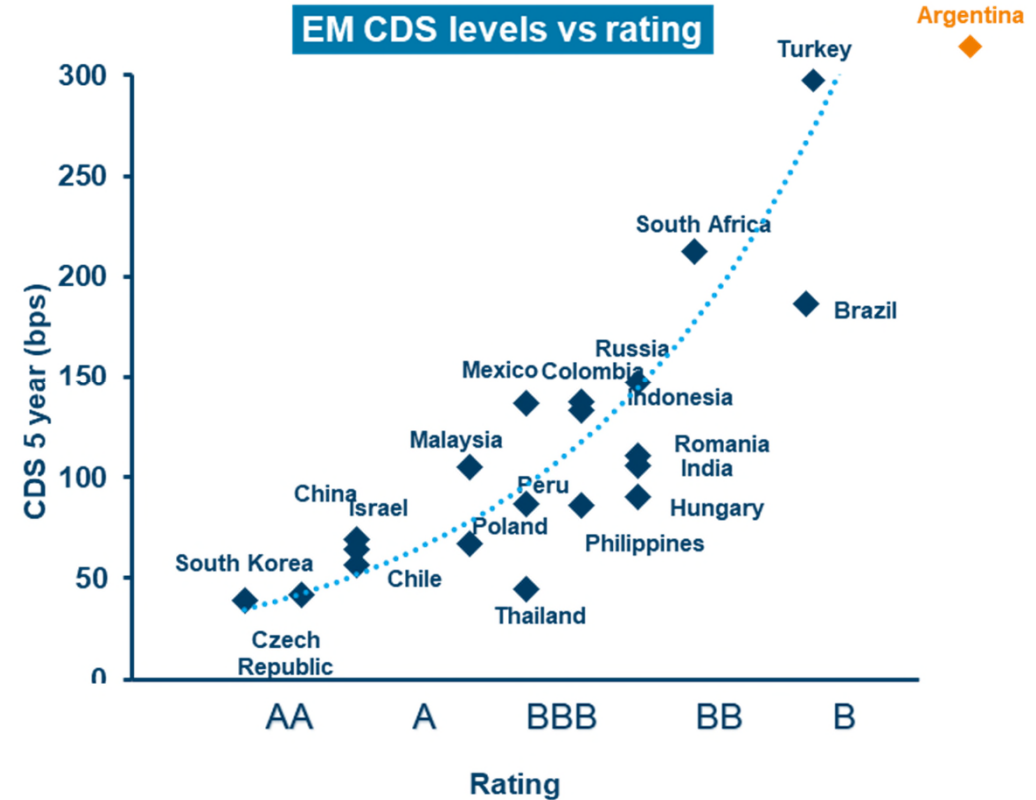
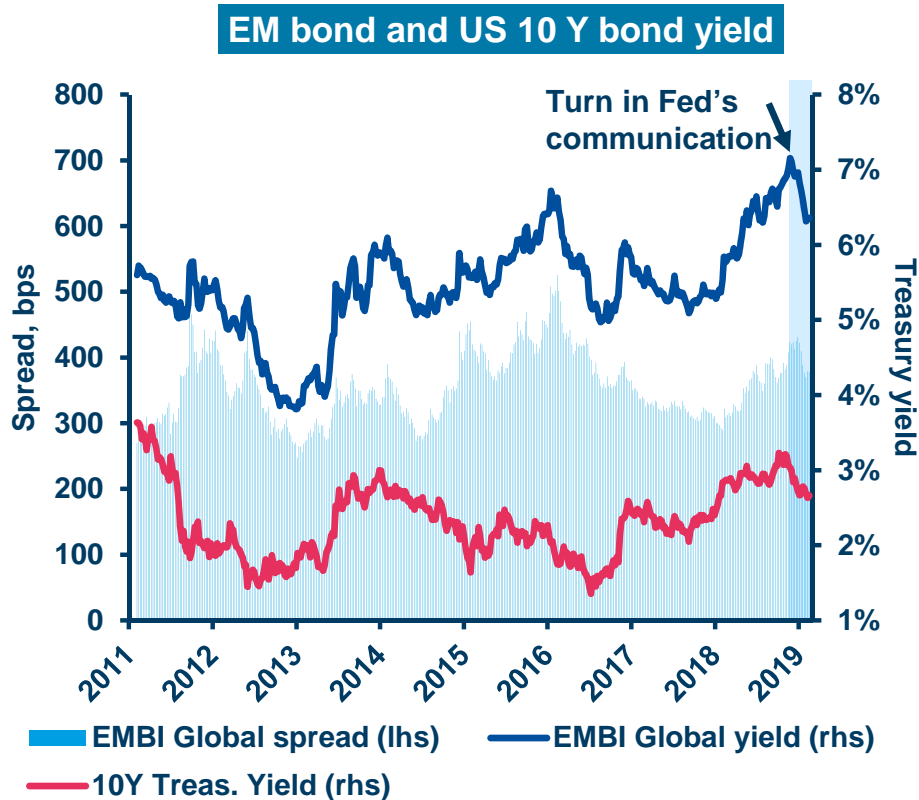
Currency dynamics



More positive EM currency dynamics should support also EM bonds in Local Currency

Source: Amundi, as of 25 February 2019.

More dovish Fed could support EM bonds, but selectivity is key

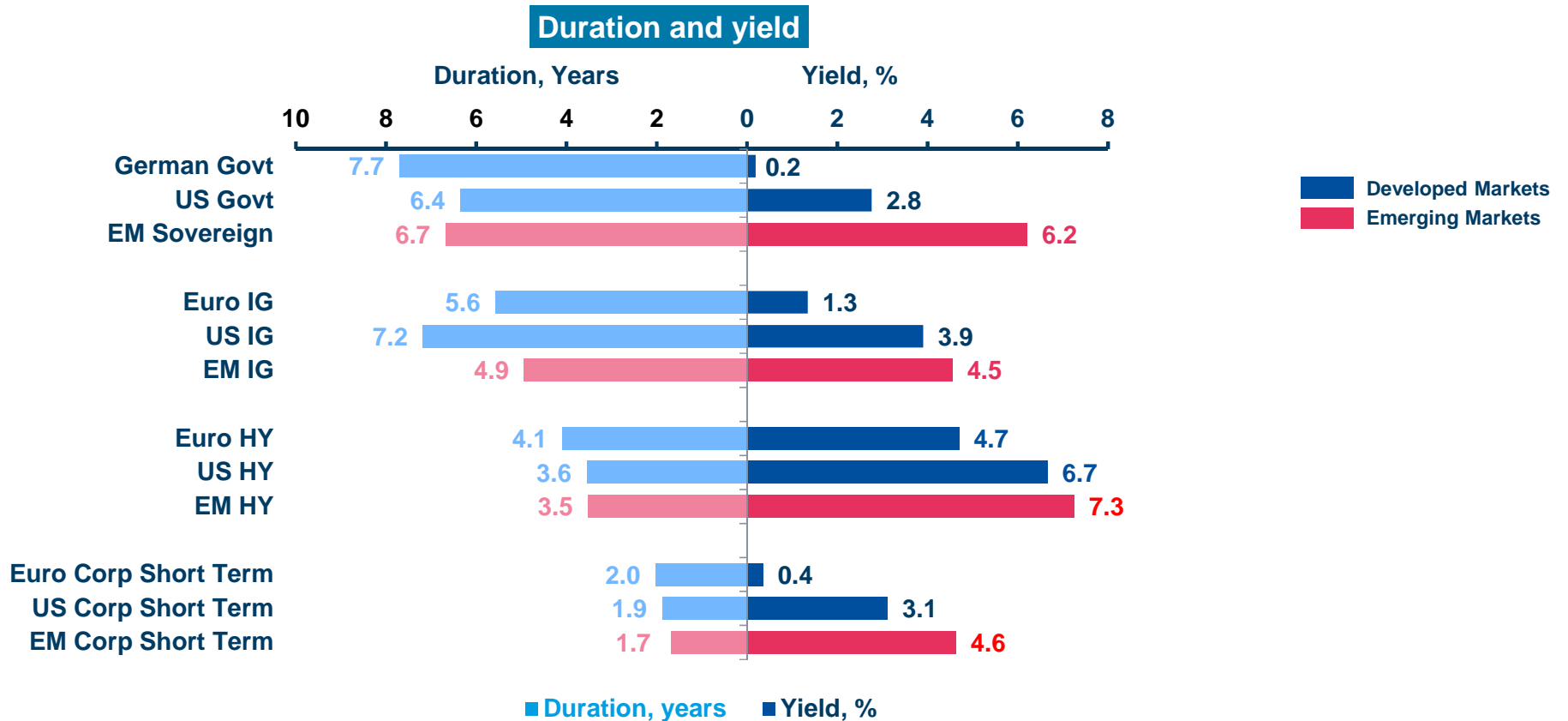


Notes: Turkey and Argentina are out of y-axis scale. CDS 5Y bps are 369 and 735, respectively.

➤ For most of 2018, EM have been hardly hit by rising Treasury yields and a strong US dollar. However, the recent Fed dovishness amid some sign of softening of US economy has helped the recovery in EM FX and bond. Focus on selectivity at the country level and exploit price dislocations.

Source: Bloomberg, Amundi. Data as of 30 January 2019.

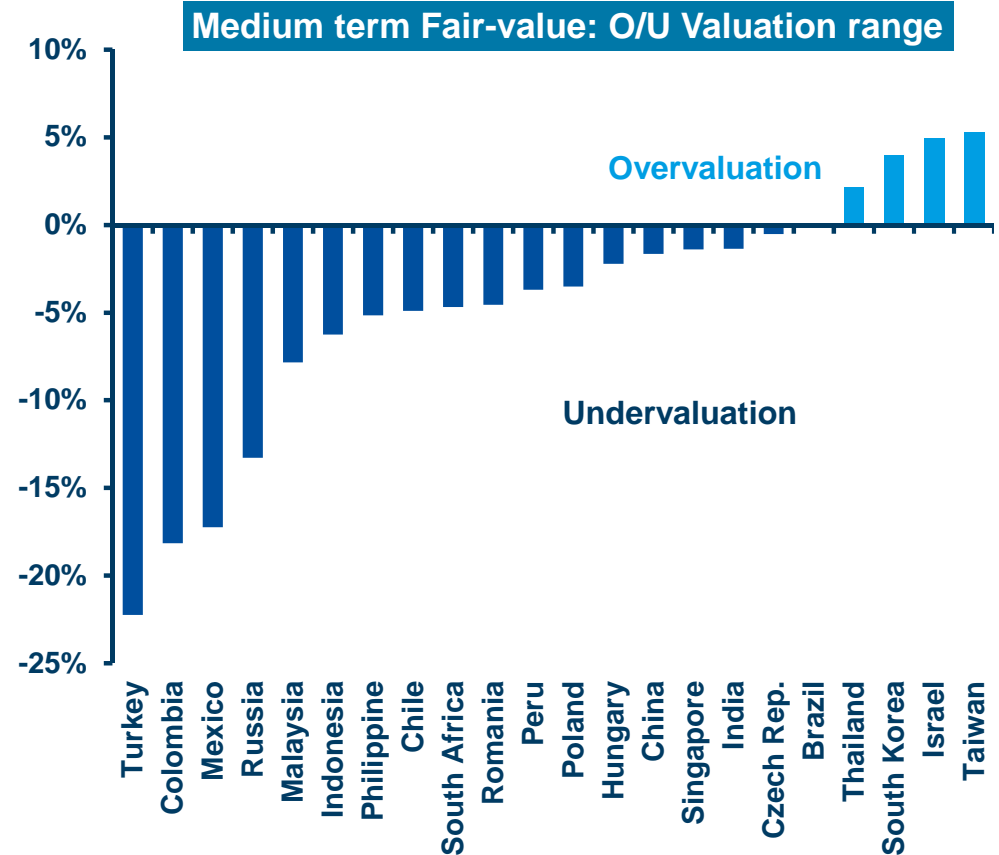
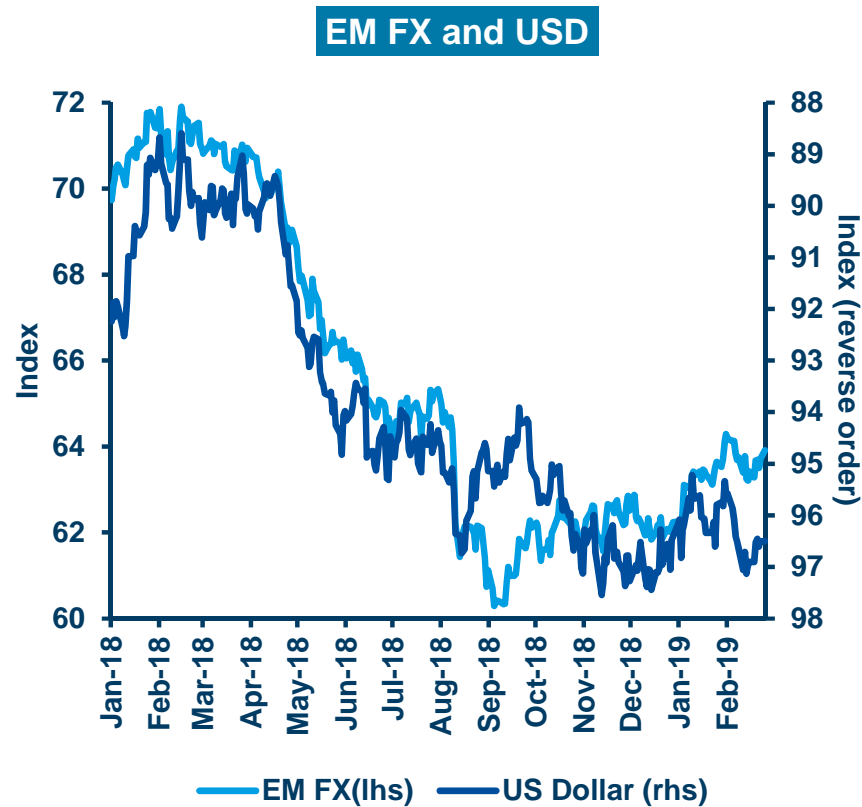
EM bond offers “premium”, but selectivity is needed



➤ Valuations of EM sovereign debt appear interesting, especially if compared to developed market bonds, where yields even on 10Y securities remain very compressed.

See notes at the end of this presentation for indices details. Source: Amundi analysis on Bloomberg. Data as of 22 February 2019. **Past performance is no guarantee of future results.**

Potential upside for local currencies, amid falling FX volatility



EM currency should continue to benefit from more dovish Central Banks globally and synchronized actions in DM and USD stabilisation. Most of the EM FX are undervalued based on traditional models. If political risk and risk sentiment don't deteriorate we could see some appetite back for EM FX, which could benefit local currencies investments.

Source: Bloomberg, Amundi. Data as at 25 February 2019.

Source: Bloomberg Amundi Research. Data as of 7 February 2019. Fair value calculated as an average of different measures (productivity, Purchasing Power Parity, Real Effective Exchange Rate).

Major investment convictions in EM bonds

Fixed Income & Currencies

- **Local currency debt:** higher return potential with higher volatility (EM FX appreciation expected to be around 2% on top of carry).
- **Countries:** Indonesia, Brazil, South Africa, Peru, Serbia.
- **Recently increased GCC** (Gulf Cooperation Council) on cheap valuations and index inclusion (Saudi Arabia, Qatar, Bahrain).

How to play

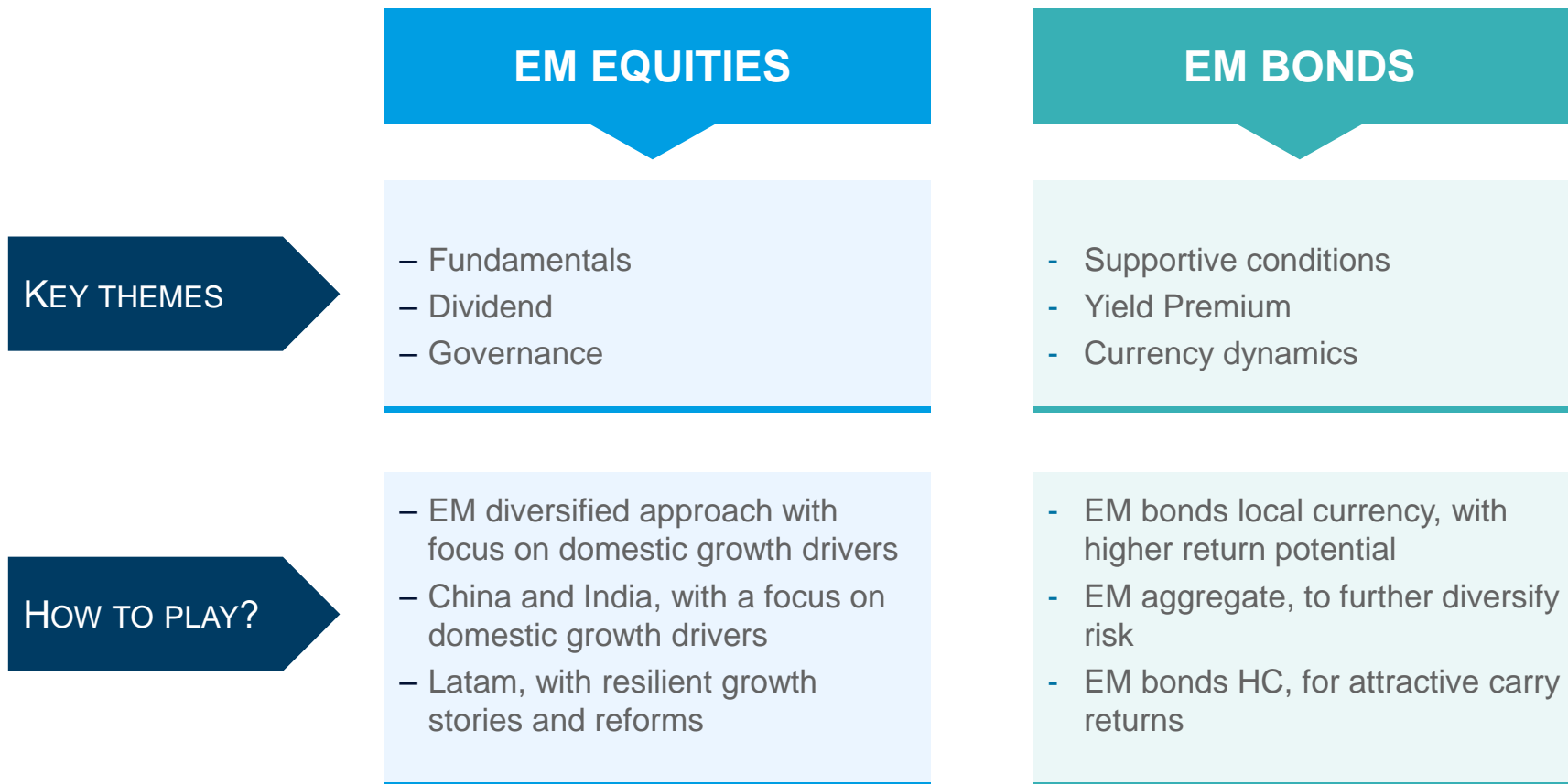
EM bonds local currency, with higher return potential

EM aggregate, to further diversify risk

EM bonds HC, for attractive carry returns

Source: Amundi, as of 25 February 2019.

Key take aways



Source: Amundi, as of 25 February 2019.

Contributors

EMERGING MARKETS PLATFORM

Yerlan SYZDYKOV
Head of Emerging Markets

Sergei STRIGO
Head of Emerging Markets
Fixed Income

Patrice LEMONNIER
Head of Emerging Markets
Core Equity

Colm D'ROSARIO
Deputy Head of Emerging
Markets Fixed Income

ECONOMIC AND STRATEGY RESEARCH

Didier BOROWSKI
Head of Macroeconomic
Research

Qinwei WANG
Senior Economist

Alessia BERARDI
Deputy Head of
Macroeconomic Research

Debora DELBO'
Senior Equity Strategist

INVESTMENT INSIGHTS UNIT

Claudia BERTINO
Head of Amundi
Investment Insights Unit

Giovanni LICCARDO
Amundi Investment Insights
Unit

Laura FIOROT
Deputy Head of Amundi
Investment Insights Unit

Recent EM Publications

| Date | Title |
|-----------|---|
| 7 Feb 19 | China more appealing based on progress in trade negotiations |
| 1 Feb 19 | Is Turkey really out of the woods? |
| 29 Jan 19 | Time to increase risk exposure: start with emerging markets and credit |
| 17 Dec 18 | Emerging markets Outlook: getting out from twin shocks? |
| 3 Dec 18 | From G20: short-term relief, but it is not the final word on trade disputes |
| 28 Nov 18 | Global Trade War: Where Do we Stand Now? What Impacts? |
| 27 Nov 18 | Global Macro - Outlook to 2020 |
| 15 Nov 18 | EMERGING MARKETS - Seek entry points and search for carry |
| 6 Nov 18 | Central European countries - Outlook to 2020 |

Chief Editors

Pascal BLANQUÉ
Chief Investment Officer

Vincent MORTIER
Deputy Chief Investment Officer

Indexes reference & definition

Bond Indexes (JPMorgan)

Sov. HC HY = JPM EMBI Global Diversified High Yield; Sov. HC = JPM EMBI Global Diversified Composite; Sov. HC IG = JPM EMBI Global Diversified Inv. Grade; Local FX = JPM GBI-EM Global Diversified FX Return; Local HC = JPM GBI-EM Global Diversified Composite Unhedged USD; Local Euro = JPM GBI-EM Global Diversified FX Return in EUR; Local Rates = JPM GBI-EM Global Diversified Composite LOC; Corp. HC HY = JPM Corporate Broad EMBI Diversified High Yield; Corp. HC = JPM Corporate EMBI Broad Diversified Composite; Corp. HC IG = JPM Corporate Broad EMBI Diversified High Grade.

Equity Indexes (MSCI)

Argentina = MSCI Argentina Net Total Return; Brazil = MSCI Brazil Net Total Return; China = MSCI China Net Total Return; Czech Republic = MSCI Czech Republic Net Total Return; Colombia = MSCI Colombia Net Total Return; Egypt = MSCI Egypt Net Total Return; India = MSCI India Net Total Return; Indonesia = MSCI Indonesia Net Total Return; Mexico = MSCI Mexico Net Total Return; Peru = MSCI Peru Net Total Return; Philippines = MSCI Philippines Net Total Return; Poland = MSCI Poland Net Total Return; Russia = MSCI Russia Net Total Return; South Africa = MSCI South Africa Net Total Return; South Korea = MSCI Korea Net Total Return; Taiwan = MSCI Taiwan Net Total Return; Thailand = MSCI Thailand Net Total Return; Turkey = MSCI Turkey Net Total Return; Emerging Markets = MSCI Emerging Net Total Return.

Yield & Duration Indexes

German Govt Bonds = JP Morgan GBI Germany Index; U.S. Govt Bonds = JPMorgan GBI U.S. Index; Euro IG Bonds = Bloomberg Barclays Pan European Aggregate Corporate; U.S. IG Bonds = Bloomberg Barclays U.S. Aggregate Credit; Euro HY bonds = Bloomberg Barclays Pan-European High Yield ISMA; U.S. HY Bonds = Bloomberg Barclays U.S. Corporate High Yield; EMBI Div = JPMorgan EMBI Global Diversified Blended; CEMBI BD = JPMorgan CEMBI Div Broad Composite Blended; CEMBI BD HY = JPMorgan CEMBI Broad Div High Yield; Euro Corp Short Term = Bloomberg Barclays Euro Corporate 1-3Yr; U.S. Corp Short Term = Bloomberg Barclays U.S. Corporate 1-3Yr; EMBI Short Term = JPMorgan EMBIG Diversified 1-3Yr.

Definitions

- Basis points: one basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
- Correlation: The degree of association between two variables; in finance, it is the degree to which assets or asset class prices have moved in relation to each other. Correlation is expressed by a correlation coefficient that ranges from -1 (perfectly negative correlated) through 0 (absolutely independent) to 1 (perfectly positive correlated).
- Credit spread: differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- Duration: a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- FX: FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- Volatility is a statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.

Important Information

Unless otherwise stated, all information contained in this document is from Amundi Asset Management and is as of 25 February 2019.

The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msclub.com).

Diversification does not guarantee a profit or protect against a loss.

In the European Union, this document is only for the attention of “Professional” investors as defined in Directive 2004/39/EC dated 21 April 2004 on markets in financial instruments (“MIFID”), to investment services providers and any other professional of the financial industry, and as the case may be in each local regulations and, as far as the offering in Switzerland is concerned, a “Qualified Investor” within the meaning of the provisions of the Swiss Collective Investment Schemes Act of 23 June 2006 (CISA), the Swiss Collective Investment Schemes Ordinance of 22 November 2006 (CISO) and the FINMA’s Circular 08/8 on Public Advertising under the Collective Investment Schemes legislation of 20 November 2008. In no event may this material be distributed in the European Union to non “Professional” investors as defined in the MIFID or in each local regulation, or in Switzerland to investors who do not comply with the definition of “qualified investors” as defined in the applicable legislation and regulation. This document is not intended for citizens or residents of the United States of America or to any «U.S. Person», as this term is defined in SEC Regulation under the U.S. Securities Act of 1933. This document neither constitutes an offer to buy nor a solicitation to sell a product, and shall not be considered as an unlawful solicitation or an investment advice. Amundi accepts no liability whatsoever, whether direct or indirect, that may arise from the use of information contained in this material. Amundi can in no way be held responsible for any decision or investment made on the basis of information contained in this material. The information contained in this document is disclosed to you on a confidential basis and shall not be copied, reproduced, modified, translated or distributed without the prior written approval of Amundi, to any third person or entity in any country or jurisdiction which would subject Amundi or any of “the Funds”, to any registration requirements within these jurisdictions or where it might be considered as unlawful. Accordingly, this material is for distribution solely in jurisdictions where permitted and to persons who may receive it without breaching applicable legal or regulatory requirements. The information contained in this document is deemed accurate as at the date of publication set out on the first page of this document. Data, opinions and estimates may be changed without notice.

You have the right to receive information about the personal information we hold on you. You can obtain a copy of the information we hold on you by sending an email to info@amundi.com. If you are concerned that any of the information we hold on you is incorrect, please contact us at info@amundi.com. Document issued by Amundi Asset Management, “société par actions simplifiée”- SAS with a capital of €1,086,262,605 – Portfolio manager regulated by the AMF under number GP04000036 – Head office: 90 boulevard Pasteur – 75015 Paris – France – 437 574 452 RCS Paris – www.amundi.com.

Date of First Use: 27 February 2019.