



## Back to market

### *A pick up in EM sovereign issuance highlights ongoing investor demand for higher yields*

Donald Trump's incendiary speech at his inauguration was the focal point for investors last week. He left no doubt that his aim is to protect the American worker through barriers to trade and immigration. He was also clear that his foreign policy goals will be framed around eliminating ISIS, at the expense of traditional alliances. This vision was reinforced by his first executive actions as President, including a formal withdrawal from the Trans-Pacific Partnership and his stated intention to renegotiate the North American Free Trade Agreement.

Although the market response to these developments has been relatively mild, we still believe that the eventual implications for financial markets are profound. Janet Yellen gave us a reminder in the past week that the Federal Reserve will not remain passive in the face of more active fiscal policy. We still believe core fixed income yields are set to rise and the dollar is set to strengthen as the implications of Trump's policies become apparent. We also believe that investors are complacent about the effects of protectionism on open economies in EM.

Amongst major EM countries, Turkey has shown some signs of stabilisation. Official central bank rate action has proved underwhelming, and so therefore did not put the conditions in place for a definitive turnaround story. Tension between the orthodox bias of the technocrats and President Erdogan clearly still exists. Nonetheless, we believe moves to squeeze liquidity will provide some currency support.

New issuance was indeed the other main focus for the week. After a slow start to the year, last week saw sovereign issuance from Philippines, Colombia, Dominican Republic and Argentina as well as the above-mentioned Turkey. Neither Dominican Republic nor Argentina has got off to a flying start; we believe both will eventually

#### News Analysis



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benefit from being their country's only planned dollar issuance this year. Argentina's ability to issue US\$6.75bn 5 and 10-year paper shows the market remains definitively open for high yield issuers.

Elsewhere, African credits came under some pressure. Ivory Coast experienced weakness over the army and gendarmes striking for higher wages. There was also some position rotation out of the region as investors made room for the new issuance described above.

We expect market volatility to rise as Trump takes a firm grip on power. We also expect the forthcoming monthly global data round to be firm, reinforcing upward pressure on bond yields. The first three weeks of this year have not been definitive in setting the tone for bonds and the dollar. We expect this to change imminently.

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