



Market direction remains uncertain

Understanding the changes in the US key for EM managers

Donald Trump's presidency began with a blitz of executive orders, including actions relevant to emerging markets (EM), but the effect on financial markets was limited. US Treasury yields were slightly higher over the week, whilst the US dollar was, in aggregate, slightly softer.

In an EM context, Trump's order to begin work on the Mexican border wall and his cancellation of a planned meeting with the Mexican President were the focal points. Despite these aggressive actions, Mexican assets were actually stronger over the week, with the currency performing particularly well, appreciating by 4%.

Turkey also remains in the spotlight. The central bank responded to FX weakness by raising interest rates by 75bps. This was at the low end of market expectations, and certainly does not represent a monetary policy regime shift. In the short term, however, it has succeeded in stabilising the currency.

The new issuance market was quieter after the previous week's issuance; while recent issuance from countries such as Dominican Republic and Argentina have been unspectacular post issuance, we continue to believe in these stories over the medium term.

News Analysis



by
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While we continue to examine idiosyncratic stories as investment opportunities in the asset class, it is important to consider risk and positioning in response to events in the US above all. I believe we are experiencing a rewriting of the rules of globalisation and the 'Pax Americana'; it is crucial for us to understand the implications of this as EM managers.

January has actually not been a decisive month to set the direction for markets in 2017. However, Trump's first political initiatives adhere to the populist, protectionist and nationalist playbook that got him elected. Battle is yet to be fully engaged on the issues this creates for financial markets.

In February, beginning with the Federal Open Market Committee meeting on the 1st, we expect more focus on the Fed's response to potential fiscal expansion. We expect to see rate increase expectations in the US rise. US foreign policy and trade intentions towards China, Mexico and Russia will also be revealed.

Generally, we sense the market is underestimating the "America First" intentions of the new administration. We therefore prefer to remain light on risk, short core duration and long the US dollar.

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