



## Risk-on for emerging markets

*Fundamentals lead as top-down headwinds remain benign.*

The market remains in risk-seeking mode. Economic data continues to demonstrate a broad-based growth pick up and investors perceive no immediate threat from higher inflation or policy tightening.

We are cognisant that none of the top-down challenges to the market have been resolved. We still believe the threats of greater US economic nationalism and a more active Federal Reserve will reappear in the coming months.

Countries running large current account surpluses may find it prudent to allow some FX appreciation in order to reduce the chances of being Trump's next Twitter target.

Last week was not so decisive in the larger emerging market (EM) countries. Zuma's State of the Nation speech in South Africa was disrupted by the opposition in predictably chaotic scenes, but there was little market effect. In Turkey, Erdogan continued to talk noisily about the damaging effects of higher interest rates, but the market largely ignored him. The Chinese reserve confirmed continued outflows, but at a rate that seems manageable for the authorities, at least for now.

One country where risks may be heightening is Venezuela. It will be interesting to

### News Analysis



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see how easily the country makes its upcoming coupon payments. We do not expect a near-term payments event, but the recent rally leaves no value in the debt at current levels.

In summary, in the short-term, EM markets seem set for further gains but we reserve the right to revert to a more defensive stance as soon as we feel the top-down headwinds are reasserting themselves.

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