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BLACKFRIARS ASSET MANAGEMENT

# DEVELOPING MARKETS INSIGHT

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## Market review

December capped an excellent year for global emerging equities, with a monthly return of 3.6%. Regarding trading days, 14 were positive and seven were negative. This leaves 2017 with a jump of 37.3%. The benchmark was initiated in 1988 and now has a 30-year history. 2017's gains make it the eighth best year on record.

EMEA was the winning region, improving 7.0%, propelled by respective jumps of 16.4% and 13.2% in Greece and Turkey. The former was led higher by the banks and relief over sales of foreclosed assets. The latter enjoyed a resumption of normal visa relations with the USA. Poland was close to the GEM benchmark for the month. However, it is the annual winner, with a swell of 54.7% in 2017. Russia and Egypt were placid, returning 2.8% and 1.0%, in keeping with a year where they both could only manage 5% annual returns.

Latin America improved 4.4%, with Chile's 15.7% surge leading the way. This was a relief rally following the election of Sebastián Piñera as President, with 54% of the vote in the second round. He is a billionaire businessman who held the role from 2010 to 2014. Brazil gained 4.6%, boosted by news of a tie-up between Boeing and Embraer in the Aviation sector. Mexico was weak, -0.1%, hit by peso weakness of 5.2%. The currency actually appreciated 5.0% in 2017, the first such gain in five years.

Asia was calm, with an accretion of 2.8%; and all eight constituent countries making progress. The best market was Indonesia, which boosted 8.6%. This was a result of rotation into what was the weakest market over the year in Asia, still with a solid 24.2% accumulation. China returned a steadfast 1.9%, marking a full calendar year of monthly gains. It is the second best market in GEM this year, with a lift of 54.1%. This accounts for 38% of the asset class's return, out-punching its 28% weighting. Taiwan was the laggard, only edging up 1.2%, held back by weakness in the Technology sector.

In December, Health Care was the best sector, up 7.6%. Information Technology only managed +0.6%, held back by weakness in lens makers.

## A Greek Revival

Greece made another attempt to 'come back from the dead' in December with a 16% stock market rally. The yield on the newly issued Greek government 10-year bonds fell below 4% for the first time since 2006 on the back of the €25.5 billion debt swap between the Greek government and its creditors. While Greece still partially relies on a bailout program, this has a planned end for August 2018. Moreover, Greece's economy expanded for a third straight quarter for the first time in more than a decade.

There is definite talk of further government bond issuances in 2018 in an attempt to build a full debt curve and to bring the cost of borrowing lower for the Government. This, in its turn should open the path for Greek corporates to access debt markets and reprice Greek equities.

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## Latin American Presidential Elections

2018 sees three of Latin America's largest countries choosing new leaders. Colombia is the first, in March for Congress, and in May, for President. Incumbent President Santos cannot stand. The popularity of the position is extremely low with the electorate. A centrist coalition candidate is most likely. It will be of interest to note how FARC fare. The former Marxist guerrilla faction has signed a peace treaty, and will now pursue non-violent politics.

Mexico has its turn in July. Again, the office of president is dimly perceived by most of the population. The ruling PRI looks to be backing Jose Meade, a former Finance Minister, and seemingly a safe pair of hands. However, the polls show a clear lead for Andrés Manuel López Obrador, colloquially known as AMLO. He is very much a populist, and had come close in previous bids. Mexico only has one round of voting, so there is more risk of a maverick. One of his policies is to increase the minimum wage by inflation (currently 6.7%) plus 15% every year. Amid NAFTA renegotiations, this would be market negative. Were he to be elected, he would be severely circumscribed by a lack of congressional support.

Finally, Brazil chooses a new leader in October. As above, the incumbent, Miguel Temer is deeply unpopular but will not stand. There are fortunately two rounds, which should work against extremism. However current polls suggest that former President Lula, and right-wing congressman Jair Bolsonaro might make the second round. Even under that scenario, it is foreseeable that a career politician, probably Geraldo Alckmin or João Doria, will prevail for the PSDB centre ground. Alckmin is the son of a former vice-President and currently governor of Sao Paulo state. Doria is Mayor of Sao Paulo city. He comes from a wealthy family, and has also presented the Brazilian version of 'The Apprentice', just as a certain President of the United States did in America.

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