

DEVELOPING MARKETS INSIGHT

9th April 2019

Market summary

March was a month of consolidation, with a modest gain of 0.8% in the MSCI Emerging Markets Index. Of the 21 trading days, 13 were positive. This leaves GEM Equities with a return of 9.9% for the first quarter.

MSCI Emerging Asia was the best region, and the only one in positive territory, gaining 1.8%. Having been recently subdued owing to election concerns, India was the best market, advancing 9.2%. There has been no escalation of the border dispute with Pakistan. There is also the possibility that the Central Bank repeats its surprise rate cut from February. China improved 2.4%, on balance still expecting a reasonable trade deal with USA. The laggard market was South Korea, slipping 3.1%.

EMEA was mixed, actually declining 1.4%. Turkey tumbled 14.9%, with a lira depreciation of 5.9%. There were mayoral elections at the end of the month, and the market is concerned by President Erdogan's continued rhetoric to try and get interest rate cuts, in spite of inflation and foreign reserves' depletion. Russia managed a small increase of 0.9%, as crude oil hit a high for the year, \$68.56 for Brent blend.

Latin America was the weakest region, slipping 2.5%. Brazil ran into profit-taking, shedding 3.8%, wholly attributable to real weakness. Newly elected President Bolsonaro is having to transform campaign rhetoric into deal-making with the legislature. Chile was actually the worst market, losing 4.5%, as the peso lost 3.9%. Most EM currencies slipped on fears of a global growth slowdown. Colombia was the region's best market, adding 4.1%. That leaves it with a table-topping quarterly return of 24.8%.

Technology was the best sector, adding 2.9%. The worst sector was Healthcare, down 2.0%.

Turkey

Turkey's local elections took place on March 31st. These were the last elections ahead of a four year 'quiet' period with no elections and were the last chance for the opposition parties to galvanise their supporters to win mayoral positions in Ankara, Istanbul and Izmir. According to preliminary results, the AKP-led ruling coalition has won a majority of the votes, but have lost the majority in some key major cities including Ankara, Istanbul and Izmir. The results clearly indicate that while the AKP (ruling party) still has the support of the core public, the recent economic crisis has taken its toll on the party's popularity and a significant share of the population switched support to the CHP's candidates.

The results in Istanbul were very close. The Istanbul Election Board ruled for a recount of invalid votes in all Istanbul districts this week, implying that invalid votes in all 39 districts would be reviewed. Halfway through the recount, the CHP's (opposition party) lead had shrunk to 19,000 votes, down from the original lead of 28,000-30,000 votes. Following this recount, the results can only be challenged at the Higher Election Council, which has three days to reach a final verdict. CHP's Istanbul mayoral candidate Imaoglu stated that he expects the process to be finalised on April 8th. These developments are being watched closely by us as change of the election results in Istanbul might anger the opposition supporters and might trigger street protests. Investors want to see elections over and the Government to focus all its attention on its economic and fiscal agenda.

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