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BLACKFRIARS ASSET MANAGEMENT

# DEVELOPING MARKETS INSIGHT

7th June 2019

## Market summary

May saw a reversal of the trend set in the previous four months with MSCI Emerging Markets registering a sharp decline, falling by 7.3%. Of the 23 trading days, 14 were negative. At the end of May, GEM equities were up 6.8% year to date.

Asia was the weakest region, falling 8.8%, largely due to China which declined 13.1%. The US China trade talks took a turn for the worse with the US imposing increased tariffs of 25% (from 10%) on U$200bn worth of Chinese goods. The talks continue but progress is proving elusive. In addition, the US added the giant Chinese corporation Huawei to a list of firms with which American companies cannot do business with official permission. This move is unlikely to go without retaliatory moves by the Chinese. South Korea (-9.3%) and Taiwan (-7.8%) also fell on concerns over these trade and technology disputes. Two markets in Asia managed to buck the trend, India (+0.2%) and the Philippines (+0.7%). Both saw decisive political victories for their incumbent leaders.

EMEA fell 3.7% over the month led by South Africa which declined 7.1%. Delays in the appointment of the new cabinet following the ANC's election victory led to investor concerns. Russia was the best market, rising 3.6%. Gazprom was up over 30% following news of a more generous dividend policy.

Latin America was the best performing region, falling 2.0%. Mexico fell 7.1% on worries of trade friction with the US. Argentina rose 12.9% on its promotion from the MSCI Frontier index. Consumer Discretionary was the worst sector, down 14.3%. Utilities was the best, falling just 0.5%

## Greece

Greece continues to be one of the best performing markets in 2019 driven by expectations of a potential change of the government. The Conservative New Democracy party has won the end of May local elections with a significantly larger lead than expected (taking a 9.5% lead versus the ruling Syriza party). The market was expecting the lead to be around 4-5%. Such a large lead gives New Democracy a solid chance to win snap Parliamentary elections scheduled for July 7th. The Greek 10 year government bond yield has hit a new low at 2.91%, while the 5 year bond yield went lower intraday vs the Italian one. The market is expecting New Democracy to be positive for investment, speeding up privatizations (which were very slow under Syriza), delivering lower taxation and curbing populist hand-outs, while preserving the primary fiscal surplus in 2020-2021. Greek banks were the biggest beneficiaries of the rally on the expectation that they will be able to offload bad debt to a special government guaranteed fund, and consequently will support the economy with increased lending.

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