CITY OF LONDON
Investment Management Company Limited

Emerging Markets Quarterly Outlook

July 2020*

Overview

The New Norm Is About Adaptability

The world is dividing into countries that have brought the spread of COVID-19 under control and those that have not. The pandemic backdrop and the scale of the policy response define the outlook for each country, but recoveries will be drawn out everywhere, barring a near term medical breakthrough.

The past quarter witnessed a peaking of COVID-19 infections in many countries, generally during the month of April. Notable exceptions include the US, Latin America, India, South Africa, Indonesia, the Philippines and Saudi Arabia. Seemingly regardless of infection dynamics, lockdown restrictions started easing between late April and June, allowing economies to embark on the path of recovery, but also raising the risk of a renewed spread of infections.

This changed set of circumstance has allowed markets to achieve a dramatic turnaround during Q2, prompting a market rally of 19.4% in developed markets (DM) and 18.1% in emerging markets (EM). Nevertheless, EM equities recorded a 9.8% loss during the first half of the year (compared to -5.8% for DM). The answer to "what comes next?" consists of two components: the second half of 2020 and, more interestingly, 2021 and beyond.

Since economies have begun to re-open, they have witnessed localised "second wave" outbreaks, which generally have been brought under control through a combination of quick reaction, tracing and localised restrictions. In countries that had not fully brought the initial wave of infections under control, the lifting of lockdowns led to an unfettered spread of the virus. Economies in both categories are likely to experience a short term bounce in H2 due to the release of pent-up demand and the rehiring of workers (boosting demand further). While this could be temporary, it is likely to be a key driver for markets in the near term.

Beyond this, the framework we had laid out in our previous quarterly to differentiate amongst countries still applies: we assess the cyclical positions of economies prior to the outbreak, the success or lack thereof in handling the pandemic and the economic policy response given each country's financial constraints. We stack these assessments up against valuation indicators, mindful of the fact that ample liquidity provision by DM central banks has already led to full valuations in several cases.

In general, we find that the scenario envisaged originally remains the most plausible: that the course of the recovery will be uneven, could take longer than expected and remains at risk of recurrent relapses. The latter is due to the expected persistent presence of the virus in society, which requires repeat local lockdowns and/or ongoing social distancing, which in turn weighs on both productive capacity and consumer demand. Indeed, the notion that the recovery will be sluggish has increasingly taken hold, not least in the IMF's forecasts, which don't foresee a return to 2019 GDP levels before 2022 for many emerging markets (see Chart 1).

EM Country Allocation

	Chg	-2	-1	0	+1	+2
Asia						
China	–		■			
South Korea	–				■	
Taiwan	–		■			
Malaysia	–					■
Indonesia	–			■		
Philippines	–				■	
Thailand	↑			■		
Vietnam	–					■
India	–		■			
Latin America						
Brazil	↓		■			
Mexico	–			■		
Europe, Middle East and Africa						
Russia	–				■	
Turkey	–			■		
Saudi Arabia	–	■				
South Africa	–			■		

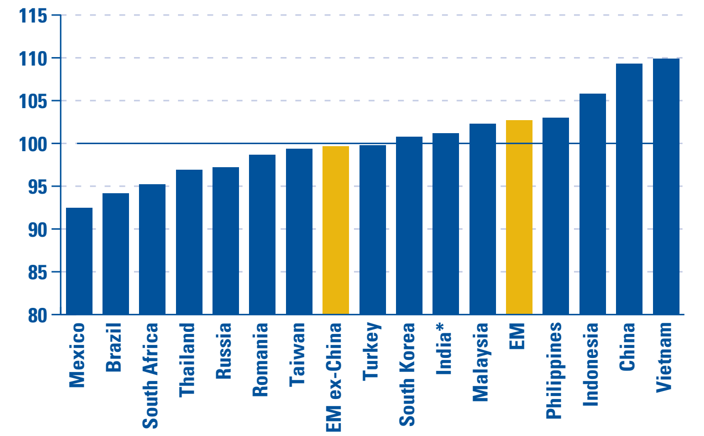
Note: Up/down arrows indicate a positive/negative change in our asset allocation compared to the previous quarterly outlook. A dash indicates no change.

Source: City of London Investment Management

With a repeat "W-shaped" recovery as the baseline view, there is nevertheless a significant risk to the upside if there were a medical breakthrough either in terms of treatment or in the form of the discovery of a vaccine that grants at least a 12-month immunity against the virus. Assuming that such a solution would be quick to roll out, affordable and widely available, this would stop all downside scenarios in their tracks.

*The publication reflects asset performance up to 30 June, 2020, and macro events and data releases up to 8 July, 2020, unless indicated otherwise.

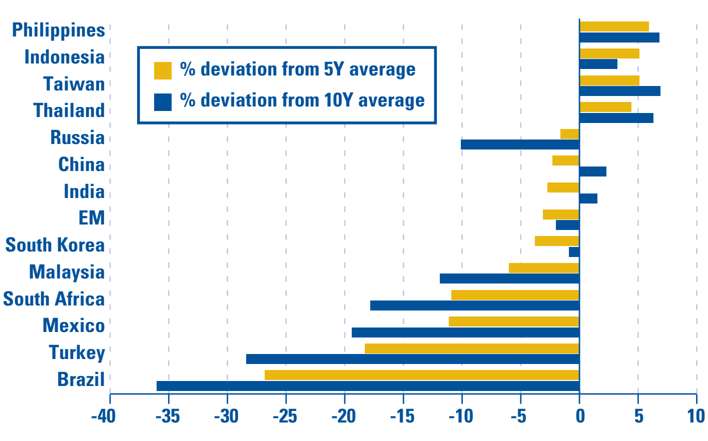
Chart 1: Proportion of 2019 Real GDP Recovered by End-2021



**Fiscal year estimates (12M to end-March)*
Note: 100 = 2019 Real GDP *Source: IMF, Bloomberg*

But equally plausible downside risks exist too. For one, many income support programs for households and credit support for companies are due to expire at end-Q3 or year-end at the latest. This will force many governments, households and corporates to face hard choices (including layoffs, defaults and more debt), none of which are readily agreeable. Some governments may come to face binding financial constraints as the willingness to fund rising fiscal deficits runs out. Central banks too could decide that balance sheets have become over-extended and market signals too distorted thanks to their purchases that they begin to extricate themselves from unconventional operations. Rising yields or, more broadly, tightening liquidity conditions could well be too difficult for markets to absorb.

Chart 2: EM Real Effective Exchange Rates



Source: J.P. Morgan, Bloomberg

Market Strategy

Given our economic scenario, we expect markets to see-saw and ultimately remain range-bound. This has advantages for country allocation though: it means that any allocation could be less at risk of being swept up indiscriminately in a wave of market optimism as has been the case in several instances in Q2.

Another upside element is the potential for currency appreciation in EM considering the extent of FX weakening in real effective terms (see Chart 2). Should the US recovery stutter or safe-haven demand for the USD abate, EM exchange rates would have plenty of scope to catch up.

The countries likely to fare best will be those that address the risks of the pandemic head-on and efficiently, thus keeping the risk of economic disruption as low as possible. They will also deploy their policy measures judiciously and dispose of a manageable exit strategy. At the same time, they will be successful in retaining the trust of their populations and minimise political frictions. Naturally, such countries are few and far between, but valuations can help identify opportunities.

From a valuation point of view Turkey, Russia, Mexico and South Korea present seemingly attractive opportunities. Yet, in the case of **Mexico**, low valuations adequately reflect the government's poor response to the crisis, policy uncertainty and the weak economic outlook. We remain *neutral*.

In **Turkey**, we find an economy that may experience a rapid recovery and that has digested the crisis relatively well. Yet, economic policy remains unorthodox, hostile to foreign investors and, importantly, the index group MSCI has warned that it could downgrade Turkey to "frontier market" status. We therefore maintain our *neutral* allocation.

Russia likely faces a difficult recovery under depressed oil prices and a complicated political landscape. Yet, we don't want to ignore the possibility of a cyclical upswing and maintain our *overweight* to Russia, which should benefit in that scenario, although we remain *underweight* to **Saudi Arabia**.

A similar reasoning applies to **South Korea** which we *overweight*: the Cyclically-adjusted P/E (CAPE) and P/B ratios are still close to their levels of March 2009, the trough during the Global Financial Crisis. However Korean equities have a cyclical and value bias, and Korean corporates are well-positioned to take advantage of the rebound in the global economy should this transpire. But we maintain **Taiwan** at *underweight* as the market is vulnerable to the US-China conflict.

The only changes we have made this quarter are in **Brazil** (intra-quarter) and **Thailand**. The Brazilian market rode a wave of positive risk sentiment (and a rebound in commodity prices) to very expensive levels in May, but health policies, the economic outlook and the political landscape all paint a dire picture. We have moved it to *underweight*. We upgrade **Thailand** to *neutral* as the COVID-19 outbreak appears to be under control amid strict measures, which began to be lifted in phases from May. Nevertheless, the market reaction has been lacklustre so far.

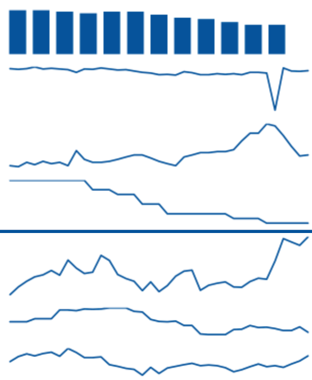
Asia

China

Underweight

> *Despite China's success in containing the virus, Chinese assets are vulnerable to the US-China conflict.*

3Y history



	Latest	
GDP, % yoy	-6.8	Q1
PMI, index	50.9	Jun
CPI, % yoy	2.5	Jun
Policy rate, %*	12.50	Jun
MSCI China**	-2.8%	Q2
EPS, % yoy	-4.9	Jun
Trailing P/E	16.1	Jun

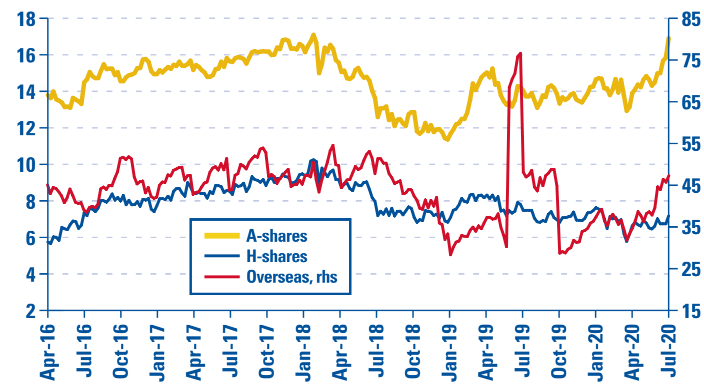
**Required Deposit Reserve Ratio for Major Banks.*
***US$ total return relative to MSCI EM.* *Source: Bloomberg*

China was the first country to experience the COVID-19 outbreak and is among the first to recover. It dealt with the first wave of infections with nationwide mobility restrictions and the second wave with localised lockdowns, mass testing and contact tracing. The economic impact was acutely felt in Q1, but pent-up demand was released in Q2, letting the manufacturing PMI climb above the 50 threshold. Domestic manufacturing and services have largely come back to normality, and the economy is expected to grow only marginally below its potential rate of 5.5-6% in H2 2020. Policy stimulus will be more conservative than that launched by developed countries. Specifically, it will be geared towards supporting cities most affected by the pandemic and lowering corporate borrowing costs (via RRR and MLF rate cuts), while avoiding directly boosting property prices. Direct income support for households is modest.

Yet, there are three risks to this scenario. First, despite the country successfully reducing the number of daily infections to a minimal level, consumers remain wary. Activities such as restaurant dining, hotel accommodation and travel remain depressed. For instance, tourism spending in the most recent festival period (Dragon Boat Festival in late June) was down 70% yoy. Second, the outlook for external demand remains fragile despite a recent bounce in export indicators amidst the reopening of developed countries. Any renewed closing in DMs would weigh on Chinese exports.

Third and perhaps most importantly, US-China tensions are likely to remain elevated as the US election approaches. This has extended from trade – where China's purchase of US goods is inevitably slow relative to what was agreed in the Phase 1 deal due to the pandemic – to technology, finance and geopolitics. The US Federal Communication Commission's designation of Huawei and ZTE Corporation as national security threats, the Holding Foreign Companies Accountable Act that could lead to delisting of Chinese ADRs and the suspension of various US preferential policies vis-à-vis Hong Kong are just a few examples. Anti-China rhetoric is running high in Washington and related policies increase the risk of Chinese retaliation and miscalculation from both sides.

Chart 3: Trailing P/E Ratios of Chinese Equities



Source: Bloomberg. CSI 300, MSCI China H and MSCI China Overseas indices are used.
Latest: July 3, 2020

Market Strategy: Chinese equities outperformed EM in H1, led by A-shares and tech-dominated ADRs. The US-China conflict will likely weigh on sentiment in the near term and on the earnings of Chinese companies in the medium term. It has accelerated de-globalisation and de-coupling, which will lead to more obstacles in accessing foreign markets and higher input costs for Chinese companies. Even tech and consumer sectors that are domestically focused are likely to be affected as manufacturing provides nearly 30% of jobs in China.

Among the different share classes of Chinese equities, the A-share market looks most vulnerable to a further escalation in US-China tensions. To start with, it has the lowest valuation buffer among the different classes. Its trailing P/E ratio has reached the previous high in 2017 (Chart 3) unlike the other submarkets. Furthermore, it has the highest retail presence and is most vulnerable to a reversal in sentiment. The underperformance of A-shares (as measured by the CSI 300 Index) against MSCI China in the first escalation of US-China tensions in 2018 attests to that.

In contrast, H-shares provide more value. While the recent political uncertainty in Hong Kong and the US suspension of preferential treatment weighed on the Hang Seng index and the Hong Kong economy, H-share companies have little earnings exposure to the city. The rising A/H premium index also indicates greater value in H-shares.

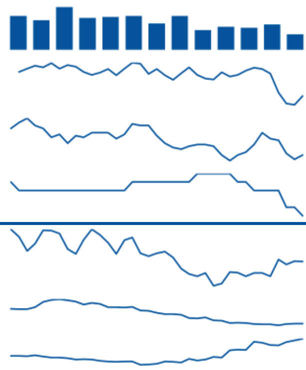
Therefore, we remain *underweight* Chinese A-shares and *neutral* H shares and ADRs

South Korea

Overweight

Korean equities remain attractive amidst containment of COVID-19 and the reopening of the global economy.

3Y history



	Latest	
GDP, % yoy	1.4	Q1
PMI, index	43.4	Jun
CPI, % yoy	0.0	Jun
Policy rate, %	0.50	Jun
MSCI South Korea*	1.5%	Q2
EPS, % yoy	-46.6	Jun
Trailing P/E	19.0	Jun

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

South Korea's economy has been remarkably resilient during the pandemic. The authorities have successfully contained the spread of the virus with stringent contact-tracing and isolation of cases while stopping short of imposing a nationwide lockdown. Policy stimulus is not as substantial as that of most other countries given the lack of lockdown in Korea. Still, the 75bps cut in the policy rate, strong growth in money supply and lower bond yields indicate ample liquidity and support for the business sector.

As a result, economic activity started to rebound in March - two months earlier than most other economies – and is currently close to its pre-pandemic level. Consensus expects GDP to decline by only 0.5% yoy this year. As life has largely gone back to normality, South Korea is well-positioned to take advantage of the reopening of the global economy in H2. Indeed, exports have continued to improve since the trough in April, which in turn supports the stock market and consumer sentiment.

Geopolitics may cause temporary volatility. North Korea attacked an inter-Korean liaison office in June, a provocative move in order to attract international attention given the devastating effect the pandemic and US sanctions have had on its frail economy. Still, it should not affect South Korea's positive outlook barring any US military response.

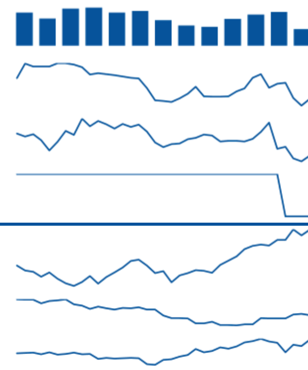
Market Strategy: The South Korean market's CAPE ratio and P/B ratio are still close to their levels seen in March 2009 despite the rally since mid-March. DRAM and NAND prices have declined since April. Still, double-digit volume growth in global memory demand is expected this year due to resilient demand for smartphones, video games and enterprise servers. Meanwhile, Korean equities have a cyclical and value bias, and Korean corporates are well-positioned to take advantage of the rebound in the global economy as the pandemic's disruption on their supply chain has faded. Therefore, we remain *overweight*.

Taiwan

Underweight

The Taiwanese market is vulnerable to de-globalisation and the Sino-American conflict.

3Y history



	Latest	
GDP, % yoy	1.6	Q1
PMI, index	47.2	Jun
CPI, % yoy	-0.8	Jun
Policy rate, %	1.13	Jun
MSCI Taiwan*	3.3%	Q2
EPS, % yoy	-0.7	Jun
Trailing P/E	18.3	Jun

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Taiwan was one of the first and few countries to have successfully contained COVID-19 without resorting to lockdowns. The authorities were alerted about COVID-19 as early as December 2019 and since then have implemented comprehensive contract-tracing, isolation and treatment measures. Only seven patients have died in Taiwan to date from COVID-19. A successful public health response and the restarting global economy lend support to the Taiwanese economy, which consensus expects to deliver positive growth (0.5% yoy) this year.

That said, Taiwan is vulnerable to the US-China conflict. Tech decoupling plays a prominent role in this year's conflict, notably the Trump administration's ban of US companies from dealing with Huawei. The ban also affects Taiwanese tech firms who purchase from and supply to both the US and Chinese markets. For instance, Taiwan's TSMC halted new orders from Huawei in May and opened a new factory in the US despite higher costs. Hence, Taiwan could easily get caught in the crosshairs of and even drawn into this conflict.

Market Strategy: MSCI Taiwan is dominated by defensive and growth stocks which have been favoured by investors amidst substantially lower government bond yields. Taiwanese stocks have outperformed Korean stocks (also I.T. heavy but more cyclical) and EM stocks year to date, with current valuations (e.g. CAPE and P/B ratios) significantly higher than during the GFC. That said, any rise in global bond yields amidst a restart in the global economy may cause Taiwanese equities to underperform.

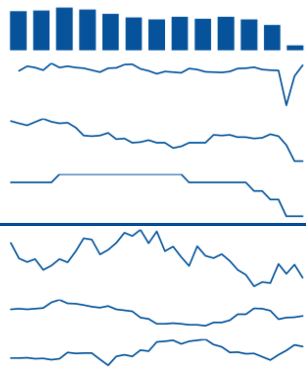
The pandemic and US-China conflicts are set to accelerate de-globalisation and supply-chain fragmentation trends. Taiwanese blue-chips are deeply integrated in the global supply chain and face earnings headwinds due to loss of revenue and/or higher operating costs. Such risks may increase further as the US election is approaching and anti-China rhetoric is running high in Washington. Therefore, we remain *underweight* Taiwan.

Malaysia

Overweight

Malaysia has controlled the COVID-19 outbreak, while stimulus measures augur well for an economic rebound.

3Y history



	Latest	
GDP, % yoy	0.7	Q1
PMI, index	51.0	Jun
CPI, % yoy	-2.9	May
Policy rate, %	2.00	Jun
MSCI Malaysia*	-4.5%	Q2
EPS, % yoy	-8.1	Jun
Trailing P/E	19.5	Jun

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Malaysia has managed the outbreak of COVID-19 well via a strict lockdown in March and April and a ramping up of testing. Cases per million more than doubled in May, but rose by just 11% in June. Restrictions were eased initially in May and further in June, when less than 10% of the economy was estimated to remain shut compared to 40-45% in March.

Confidence has already rebounded due to containment of the virus and easing of restrictions. Manufacturing PMI was above pre-coronavirus levels in June and in expansionary territory for the first time this year. This bodes well for GDP growth to rebound over the next few months, with export demand potentially benefitting from China's recovery. Indeed, Q2 is expected to mark the trough in activity. After a 7.0% qoq fall in Q1, consensus expects GDP to decline by 2.3% in Q2 followed by a 3.7% expansion in Q3 and 1.3% rise in Q4. Longer-term, IMF estimates imply that by end-2021 real GDP will be above that at end-2019, putting Malaysia among only a handful of EMs for which this is the case.

Fiscal and monetary easing is also likely to aid the bounce back. In June, the government announced additional stimulus worth 1.4% of GDP including extension of wage and hiring subsidies and further tax relief. This brought total new stimulus to 3.5% of GDP, matching the 2019 budget deficit. Meanwhile, the central bank has cut both its key rate and the Statutory Reserve Requirement by 100bps this year to post-GFC lows of 2.0% and further easing is likely.

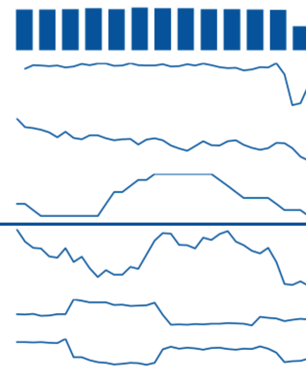
Market Strategy: MSCI Malaysia's valuations are attractive, with its CAPE 14% below the level in March 2009. Control of the virus, reopening and stimulus measures suggest the market could outperform at a time of rising cases in other EMs too. Finally, the market offers defensive qualities that may be valuable for the portfolio in a low-growth environment. We stay *overweight*.

Indonesia

Neutral

Cheap equity valuations reflect rising daily COVID-19 infections and weak consumer confidence.

3Y history



	Latest	
GDP, % yoy	3.0	Q1
PMI, index	39.1	Jun
CPI, % yoy	2.0	Jun
Policy rate, %	4.25	Jun
MSCI Indonesia*	5.9%	Q2
EPS, % yoy	-7.0	Jun
Trailing P/E	13.5	Jun

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Indonesia is struggling with COVID-19. The country has the highest case fatality rate in Southeast Asia and the lowest testing ratio. among major EMs. Those statistics suggest a frail medical system, poor antigen testing capability and a significant risk of a prolonged epidemic amid lockdown easing. Indeed, daily cases and deaths have continued to rise in Indonesia, while more and more Asian countries have got the situation under control.

Rising infections have raised fear among businesses and consumers. Consumer confidence, domestic demand and credit growth continue to slide despite monetary easing, liquidity injections and the central bank's intervention to stabilise the bond and FX markets.

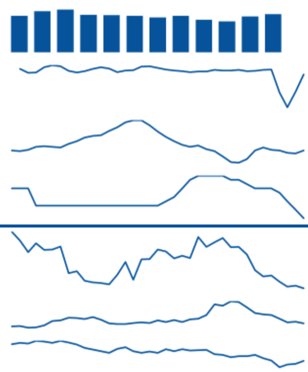
Benign external liquidity conditions mitigate the domestic downturn. The rupiah has strengthened against the USD since the March trough. Government bond yields have also declined since April and are close to the levels at the beginning of the year. That, in turn, gives Bank Indonesia room to cut interest rates further in the future and the government some leeway to increase fiscal stimulus, which has been modest so far.

Market Strategy: The Indonesian market's CAPE ratio and P/B ratio are still close to their levels of March 2009 despite the bounce over the past three months. The currency has almost recovered its year-to-date loss against the USD given abundant external liquidity. And we expect more policy stimulus to come as the country is still struggling with the pandemic. That said, a prolonged wave of infections weighs on consumer confidence and the domestically-oriented stock market (banks, real estate and consumer sectors make up 70% of MSCI Indonesia). It also implies a fragile economic recovery despite lockdown easing. Therefore, we remain *neutral* on Indonesian equities.

Philippines

Overweight

The COVID-19 outbreak may not be fully controlled, but an economic rebound is still likely in H2.



	3Y history	Latest	
GDP, % yoy		-0.2	Q1
PMI, index		49.7	Jun
CPI, % yoy		2.5	Jun
Policy rate, %		2.25	Jun
MSCI Philippines*		1.6%	Q2
EPS, % yoy		1.1	Jun
Trailing P/E		15.4	Jun

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

The Philippines started to reopen its economy in June. However, it is debatable whether the COVID-19 outbreak is under control. This was illustrated when lockdown was re-imposed on Cebu City, a business process outsourcing (BPO) hub, after a rise in cases. Indeed, confirmed cases per million of the Philippines' population doubled in both May and June. Yet, the rise in deaths per million slowed over the same period. Overall, policy has been weak in terms of communication and implementation. Testing is a case in point, with tests initially taking place outside the country due to insufficient testing kits. Moreover, tests per million have picked up, but remain one of the lowest within EM.

Economically, the impact of COVID-19 could be less severe than other economies since key jobs like those in the BPO sector can be done remotely. Indeed, consensus expects GDP to contract by 3.4% yoy in 2020 before rebounding to 7.4% in 2021. The IMF growth forecasts also imply that 2021 real GDP will be above that of 2019. Downside risks remain including both external demand lagging in the event of a second wave and the likely fall in remittances given the global downturn.

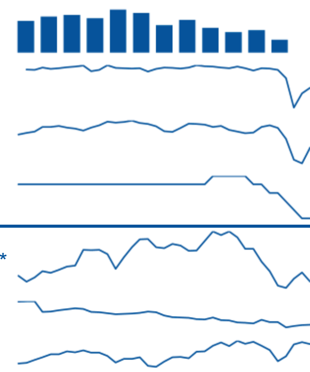
Policy support has come mainly via monetary easing, including a cumulative 175bps cut in the key rate in 2020 and QE via the purchase of government bonds in the secondary market. Fiscal stimulus in response to COVID-19 has amounted to some 2.5% of GDP, with proposals for an additional 0.7-3.1% of GDP being debated. This is set to nearly double the budget deficit from 2019 to 6.5% of GDP.

Market Strategy: MSCI Philippines is the cheapest EM on a relative P/E basis and remains attractive given the potential for an economic rebound. We stay *overweight*.

Thailand

Neutral (↑)

Strict measures have controlled the outbreak, while reopening and economic policy are growth-supportive.



	3Y history	Latest	
GDP, % yoy		-1.8	Q1
PMI, index		43.5	Jun
CPI, % yoy		-1.6	Jun
Policy rate, %		0.50	Jun
MSCI Thailand*		5.5%	Q2
EPS, % yoy		-26.8	Jun
Trailing P/E		18.3	Jun

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Thailand's outbreak of COVID-19 has been well-controlled as authorities imposed strict measures in March. Deaths per million of the population rose by just 3-4% in May and June after rising more than fivefold in April. Restrictions were eased from May, and by June an estimated 95% of activity has resumed, subject to social distancing. The wearing of masks remains commonplace, suggesting that the public health message is being heeded. This could help limit a second wave of infections.

Despite this, sentiment remains weak. The consumer confidence index stood at 49.2 in June compared to a trough of 47.0 and 50.1 in December 2019. A similar pattern appears in PMI data, with external demand and the tourism sector acting as significant headwinds to the recovery. Hence, the 5.5% yoy GDP contraction consensus expected this year outweighs the expected underwhelming recovery in 2021 (4.0%).

Nevertheless, fiscal and monetary stimulus has been significant and this is set to support activity in H2. The former means that an additional 5.3% of GDP in borrowing has been approved for the fiscal year through end-September, with a particular focus on domestic demand. Meanwhile, the central bank (BoT) has cut its key rate by 75bps to 0.5% this year and QE via government bond purchases. BoT has also set up the Corporate Bond Stabilisation Fund, worth 2.5% of GDP, to maintain financial stability.

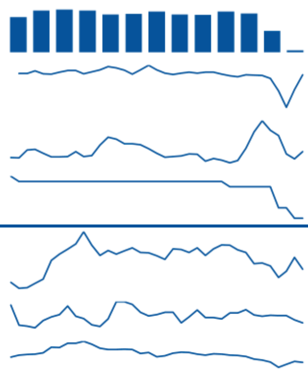
Market Strategy: MSCI Thailand's CAPE remains low and is close to the level during the depths of the GFC in March 2009. Given that the virus is now well-controlled and strong stimulus has been forthcoming, we raise our weight to *neutral*.

Vietnam

Overweight

Vietnam's handling of COVID-19 has been one of the most effective globally. This is set to aid a swift rebound in H2.

3Y history



	Latest	
GDP, % yoy	0.4	Q2
PMI, index	51.1	Jun
CPI, % yoy	3.2	Jun
Policy rate, %	4.50	Jun
MSCI Vietnam*	8.6%	Q2
EPS, % yoy	11.2	Jun
Trailing P/E	16.1	Jun

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Vietnam's containment of COVID-19 has been very effective - officially there have been no deaths in the country related to the virus. Efforts were aided by the experience with previous outbreaks, such as SARS in 2003. Its policies of containment included an early lockdown and effective communication, which convinced citizens to follow government advice. Lockdown was lifted in April and the vast majority of sectors have now reopened.

As a result, the rebound in economic activity may occur sooner and more swiftly than in other countries. Indeed, Vietnam is one of the few countries where consensus expects GDP to expand both this year and next. The rebound in manufacturing PMI reflects this, but the country's reliance on external demand means that it is still at the mercy of global economic conditions. However, the upturn in H2 should be supported by a fiscal stimulus worth some 3.6% of GDP, while the central bank has cut its key rate by 150bps this year to 4.5%.

Meanwhile, longer-term trends, such as the signing of free trade agreements (FTA), are supportive of growth in the medium-term. The FTA with the EU was ratified in June and will become effective in August. This will lift tariffs on 70% of exports to the EU, the destination of 16% of Vietnam's exports (the average tariff on Vietnamese exports to the EU is 4%). The investment and knowledge transfer that is likely to come from the FTA could be a catalyst for development and may raise Vietnam's growth potential. Its effective handling of COVID-19 should give confidence to corporates that production would face minimal disruption in the event of another outbreak. Continued Sino-US tensions also mean that production could continue to relocate to Vietnam.

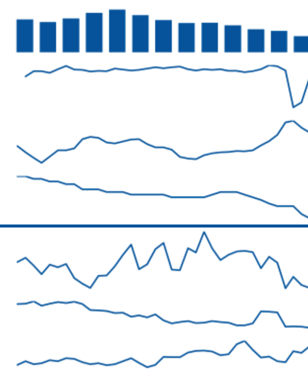
Market Strategy: MSCI Vietnam's trailing P/E is in line with that of EM, which is two standard deviations below the five-year average. Given strong fundamentals, the market remains attractive and we stay *overweight*.

India

Underweight

The unique vulnerability of India led to a rapid escalation of the crisis. Nevertheless, the government eased the lockdown, prompting a sharp rebound.

3Y history



	Latest	
GDP, % yoy	3.1	Q1
PMI, index	47.2	Jun
CPI, % yoy	5.8	Mar
Policy rate, %	4.00	Jun
MSCI India*	2.5%	Q2
EPS, % yoy	-23.8	Jun
Trailing P/E	28.0	Jun

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

India has reported over 700,000 COVID-19 cases, the third-highest number in the world, and 20,000 fatalities. In per capita terms both figures remain low though this is more likely due to large number of cases and fatalities unaccounted for. Nevertheless, the government has decided to ease the lockdown restrictions it had reluctantly and belatedly implemented. Despite the shock introduction of such policy measures and the border clashes with China in June, PM Modi's approval rating remains at a record high of 74% (according to Morning Consult).

As the economy has reopened, it has rebounded quickly. The question is how sustainable the recovery will be given that the pandemic rages on, partly undetected. For markets, this question plays out against a background of outperformance of the Indian equity market over MSCI EM during Q2, but which nevertheless left India behind the broader market in H1, with a 17% loss. Yet, valuation metrics still point to a richly priced market.

The key issue is thus whether India can sustain its recovery beyond expectations, validating high valuations. This raises the bar for an allocation change to our *underweight* recommendation. To be sure, the latest activity readings have been encouraging: the manufacturing PMI bounced back by a strong 16.4 pts in June, extending the May recovery and bringing it to 47.2, just shy of expansionary territory. What is more, some normalisation of activity was also confirmed by other indicators such as electricity consumption, vehicle sales and mobility trackers. This stands in contrast to traditional indicators such as industrial production, which plunged by 46% mom (-55% yoy) in April, at the height of the lockdown.

A scenario that could propel activity higher could be one based on a sizeable fiscal boost. On May 12, PM Modi announced a fiscal package worth some 10% of GDP. At face value, this would be substantial, even if straining the country's fiscal capacity and boosting its debt level beyond 80% of GDP. However, many of the measures have been announced previously and most of the remaining ca. 6% of GDP represents monetary support. True spending worth ca. 1% of GDP is primarily directed at low-income households and micro/small businesses. Rather than ignite growth, these measures are intended to avoid destitution. What is more, the IMF, which had projected almost 2% growth for India in 2020, now foresees a 4.5% contraction, which in turn will weigh heavily on tax revenues and thus further constrain fiscal room for manoeuvre. In June, Moody's downgraded India's sovereign credit rating from Baa2 to Baa3, the lowest investment grade rating.

Finally, India entered the crisis on a weak growth footing with historically low rates of activity: Q4 GDP had slowed to 4.1% yoy and decelerated further in Q1 2020, to 3.1% yoy (the lockdown was imposed only towards the end of March). Weak demand is also reflected in price trends as CPI decelerated to 5.8% yoy in March. Problems with data collection made the publication of the April-May figures impossible, but given the decline in food prices during the period (69% of the basket), the headline rate likely softened to some 5.5% yoy. This will likely allow the RBI to maintain its supportive stance.

Market Strategy: Despite the market's lacklustre performance, India's P/E of 28.2 remains significantly above its five-year average premium to the P/E of MSCI EM. Its CAPE also remains some 20% above historical lows, unlike other EMs, which are close to or testing those lows.

The economy may experience a short term bounce given the early easing of lockdown restrictions, but that may not be sustained. What is more, growth was slowing prior to the pandemic and the government's policy response has been feeble despite the large headline figure. With the threat of the pandemic spreading further remaining high, we maintain our *underweight* allocation.

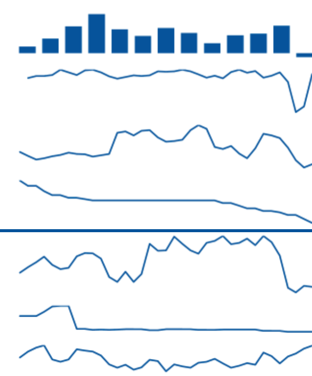
Latin America

Brazil

Underweight (↓)

Health, political and economic fundamentals in Brazil stand in stark contrast to a market rally boosted by improving risk sentiment.

	3Y history	Latest	
GDP, % yoy		-0.3	Q1
PMI, index		51.6	Jun
CPI, % yoy		2.1	Jun
Policy rate, %		2.25	Jun
MSCI Brazil*		4.8%	Q2
EPS, % yoy		-48.8	Jun
Trailing P/E		22.9	Jun



**US$ total return relative to MSCI EM.* *Source: Bloomberg*

The key feature of Brazil's investment story is the complete dissonance between fundamental developments and equity market performance. During Q2, Brazilian equities gained 22.8%, a 4.8% point outperformance over MSCI EM. At the same time, nearly all fundamental indicators painted a dire and worsening picture. The COVID-19 pandemic continues to spread unimpeded, overwhelming the health system. With close to 1.5 mn infections and over 60,000 deaths Brazil holds the number two position in the global league table behind the US. Yet, official figures likely understate the true extent of the crisis as President Bolsonaro at one stage decreed a stop to the publication of death figures. The administration also witnessed the departure of two respected Health Ministers, Luiz Henrique Mandetta and Nelson Teich, in April and May respectively, amidst harsh disagreements over the policy response to the pandemic. Most worryingly, Brazil has begun to relax restrictions while having the highest infection rate per million people amongst EMs. The growth rate of new infections is decelerating, but remains at a high level (ca. 20% week-on-week).

On the political side, the noose around the President is tightening with multiple judicial investigations now underway: 1) an inquiry into the publication of "fake news" and the putative people behind them, said to be close to Bolsonaro, 2) complaints lodged with the Electoral Court regarding crimes committed during the election process, 3) an investigation of President Bolsonaro's alleged interference with police appointments, and 4) the 35 requests for impeachment lodged with the Speaker of the Lower House. This complicates the political outlook, all the more so as the President has lost popularity given his dismissive treatment of the risks associated with the pandemic and his increased engagement in culture wars and identity politics. In turn, this bodes ill for the legislative outlook, and has prompted President Bolsonaro to seek support of centrist deputies, in order to bolster his parliamentary support. Nevertheless, it is highly unlikely that significant legislative progress can still be achieved given the high level of antagonism prevailing and the imminence of municipal elections in October.

On activity, the monthly Economic Activity Index fell nearly 10% mom in April (-15.7% yoy). Industrial production declined 19% mom in April (-27% yoy) and service sector output also fell some 12% mom (-18% yoy), while the unemployment rate stood at 12.5% in May and the participation rate declined.

To counter the economic fallout of the pandemic the government has extended aid to states and municipalities, launched a new credit line for companies, extended emergency aid for low-income workers and accelerated public spending. This will likely boost the primary federal deficit to 10-12% of GDP in 2020 and, despite the low level of interest rates, will lift gross public debt above the 90% of GDP mark.

For the central bank (BCB), the main task has not been the fight against inflation - which runs below 2% yoy as per the June IPCA - but how to conduct monetary policy in the face of a rapid economic contraction on the one hand and a vulnerable exchange rate and widening fiscal deficit on the other hand. For the moment, the rapidly expanding output gap and low inflation readings have kept the upper hand in BCB's deliberations. Indeed, in June it reduced the benchmark Selic rate by another 50bps to a new historic low of 2.25% and left the door open for further easing.

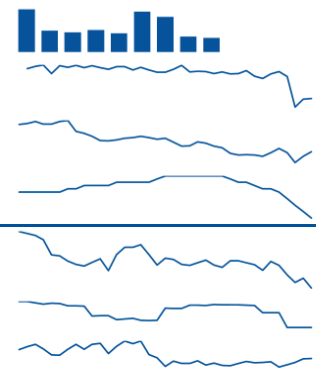
Market Strategy: Against this poor and deteriorating backdrop, what explains the recent strong market performance? The recovery in commodity prices, along with demand, has certainly helped. But despite a 100% rise, Brent crude is still only at $/bbl 42. What is more, the price of agricultural goods, Brazil's other main export category has been weak year to date, declining by 2% during Q2. To some extent, improved risk appetite played a role: yet, other high-beta countries like South Africa gained more during the quarter (27%), while others like Turkey or Russia gained less (19%).

What then to make of it? The reality is that Brazil's strong gains in Q2 were not able to eradicate the heavy Q1 losses, leaving the market still some 39% down year-to-date, whereas the MSCI EM declined only 9.8% in H1. Nevertheless, with a P/E at almost 29 and one of the highest CAPEs, Brazilian equities remain expensive. With one of the weakest outlooks in EM and unfavourable valuations, we moved Brazil to *underweight* intra-quarter on a medium-term view and maintain that allocation.

Mexico

Neutral

Mexico is not weathering the pandemic well and the growth outlook remains poor.



	Latest	
GDP, % yoy	-1.4	Q1
PMI, index	38.6	Jun
CPI, % yoy	3.3	Jun
Policy rate, %	5.00	Jun
MSCI Mexico*	-7.1%	Q2
EPS, % yoy	-32.7	Jun
Trailing P/E	17.4	Jun

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Mexico is not having a good crisis: it started the year with one of the weakest levels of activity amongst EMs and its pandemic appears to be running out of control. While official figures report 260,000 infections and 31,000 fatalities, independent studies relying on death certificates and calls to emergency services suggest that the death toll is 3.0-3.5 times higher than reported in Mexico City and at least 50% higher nationwide.

The precarious growth outlook (the IMF predicts a 10.5% contraction in 2020, followed by a mere 3.3% recovery in 2021) has been further complicated by the lack of legal certainty. The new USMCA trade treaty came into effect on July 1, after three years of political wrangling. It retains rules of origin as its centre piece: relative to NAFTA required national content increased from 62.5% to 75%, while 40% of cars produced are expected to reflect wages of at least $16 per hour. Yet, the putatively positive effect of the agreement was immediately counteracted by changes the government imposed on the electricity sector, which effectively shut foreign investors out. This fits into a strategy of favouring state-controlled companies and altering the legal framework in a way that discourages foreign investment.

Incoming data confirm the IMF's dire predictions as IP collapsed by over 35% yoy in April, as did trade and business surveys. In terms of services, retail sales dropped a sharp 24% yoy in April, but none of these indicators likely mark the bottom yet.

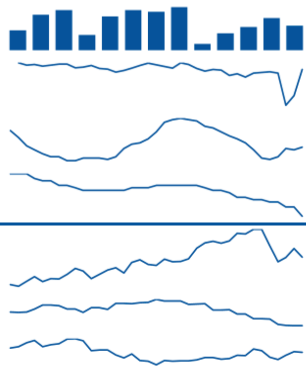
Market Strategy: This poor set of circumstances has been reflected in Mexico's performance year-to-date: a decline of 28.4% during H1. Thus many of these concerns are already in the price: Mexico's P/E of 17.5 is 33% points below its average premium to the MSCI EM's P/E and its CAPE has undershot the March 2009 low. We thus maintain our *neutral* allocation.

Europe, Middle East and Africa

Russia

Overweight

Russian equities are benefitting from a recovery in oil prices and persistently attractive valuations.



	3Y history	Latest	
GDP, % yoy		1.6	Q1
PMI, index		49.4	Jun
CPI, % yoy		3.2	Jun
Policy rate, %		4.50	Jun
MSCI Russia*		0.6%	Q2
EPS, % yoy		-27.1	Jun
Trailing P/E		6.2	Jun

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Russia forms part of the three EM countries most affected by the pandemic, with 700,000 COVID-19 cases. Yet, thanks to a relatively good medical system, its number of deaths is low at 11,000 and all the more so in per capita terms. The national lockdown ended after six weeks in mid-May, although regional governors are free to maintain local restrictions.

Russia benefitted from an incipient recovery at the time of the outbreak of the pandemic and during the past quarter witnessed its main export component, oil, double in price. While the price of Brent just matches Russia's budgetary breakeven level at $/bbl 40, its recent recovery is a definite source of comfort. Nevertheless, the earlier economic fizz has dissipated as the pandemic spread and the lockdown weighed on activity: GDP slowed from 2.1% yoy in Q4 to 1.6% yoy in Q1 2020. In May, the decline in industrial production deepened to 9.6% yoy from 6.6% yoy in April, while retail sales declined 19.2% yoy. PMI sank to a low of 31.3 in April for manufacturing output and to 12.2 for services. Both recovered slightly in May although the mining sector remains depressed. The recovery is likely to be more sluggish than elsewhere.

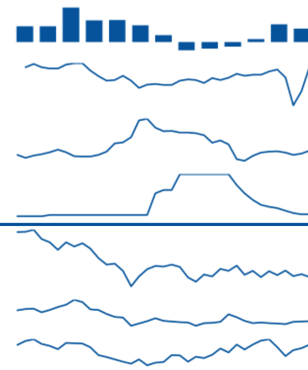
The disinflationary shock to the economy stemming from both the pandemic/lockdown and the low oil price is significant. CPI inched up to 3.2% yoy in the three months leading to June but is likely to remain contained. This will allow the CBR to keep easing rates to support activity.

Market Strategy: Russian equities marginally outperformed MSCI EM in Q2, but remain 24.5% lower than at the start of the year. As a result, valuations remain attractive with the 6.4 P/E, which is 8% points below the typical discount to MSCI EM. To hedge against a cyclical rise in oil prices, we maintain our *overweight* allocation.

Turkey

Neutral

Turkey appears to have managed the pandemic well and seems poised for an early recovery.



	3Y history	Latest	
GDP, % yoy		4.5	Q1
PMI, index		53.9	Jun
CPI, % yoy		12.6	Jun
Policy rate, %		8.25	Jun
MSCI Turkey*		0.6%	Q2
EPS, % yoy		-22.2	Jun
Trailing P/E		9.0	Jun

**US$ total return relative to MSCI EM.* *Source: Bloomberg*

Despite a weak response to the spread of the pandemic initially, Turkey's young population, its relatively developed health system and a rapid increase in testing have allowed it to stem further rapid increases in cases (currently over 200K infections and 60K fatalities). A phased reopening of the economy began in early May and was largely complete by mid-June. Some limited restrictions were re-imposed later in the wake of localised flare-ups of infections.

While Turkey entered the year on the back of a strong growth rebound, activity lost some steam in Q1, with GDP slowing from 6.0% yoy to 4.5% yoy. Subsequent readings such as April industrial production revealed a similar cratering as observed elsewhere, with a 31% yoy contraction. Nevertheless, manufacturing PMI recovered swiftly to 41 in April and to 54 in May. Barring a resurgence of infections, Turkey could thus emerge faster than other economies from the lockdown. To spur the economy, the government announced a total stimulus package equivalent to 11% of GDP in June (including measures announced earlier worth 2% of GDP), although this also included deferred loan repayments.

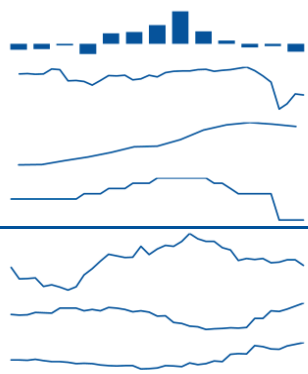
The central bank has been busy unwinding its previous tightening and has delivered a cumulative 1,575 bps easing over nine meetings, bringing the policy rate to 8.25% (it paused in June, pending further developments in activity and prices but could move one more time before stopping). However, with inflation in the 10-12% yoy range, real rates are deeply negative and any jitters amongst foreign investors could eventually prompt a reversal.

Market Strategy: Valuations remain very attractive for Turkey and despite (or thanks to) some heavy-handed policy measures, the exchange rate has remained stable. We remain *neutral*. The key risk preventing us from shifting to *overweight* is a possible downgrade to the frontier market category by the MSCI index group.

Saudi Arabia

Underweight

The dual headwinds of a lower oil price and the spread of COVID-19 pose significant challenges.



	Latest	
GDP, % yoy	-1.0	Q1
PMI, index	47.7	Jun
CPI, % yoy	1.1	May
Policy rate, %	1.00	Jun
MSCI Saudi Arabia*	-4.3%	Q2
EPS, % yoy**	22.8	Jun
Trailing P/E	19.0	Jun

*US$ total return relative to MSCI EM.
**Tadawul All Share Index. Source: Bloomberg

Saudi Arabia continues to face the dual headwinds of significantly lower oil prices and the spread of COVID-19. For the latter, the authorities appear to have taken a somewhat lax approach towards restrictions, which were eased as early as April. The rise in deaths per million in the Kingdom accelerated between May and June. The spread of the virus could be exacerbated by the Hajj pilgrimage from 28 July to 2 August (2.5 mn people attended in 2019), though the authorities have said that only a "very limited" number of people will be allowed to partake.

The oil price shock remains the major headwind, with the Brent crude price still only around half the budget breakeven for Saudi. This is set to be a continued constraint on fiscal stimulus, which has been lacklustre so far as some of the measures were reallocated from other areas and thus were not additional easing. Consensus expects a budget deficit of 2.8% of GDP, which is small given the magnitude of the crisis. The monetary authorities have been supportive and attempted to ensure financial stability by, for example, providing liquidity worth 2% of GDP to the banking sector in June.

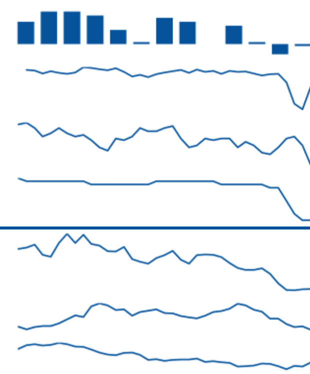
Consensus expects GDP to fall by 4.5% this year, which would be the worst performance since 1987, the year after the oil price fell by up to 60% as Saudi reneged on its OPEC quota commitments. A rebound of 3.4% is projected for 2021, but the risks are skewed to the downside given limitations of low oil prices.

Market Strategy: MSCI Saudi Arabia's trailing P/E is at a 19% premium over EM, close to the five-year average. In our view, this is unattractive given numerous headwinds and we stay *underweight*.

South Africa

Neutral

COVID-19 restrictions may have been lifted too early, raising the risk of a second wave amid a weak economic backdrop.



	Latest	
GDP, % yoy	-0.1	Q1
PMI, index	42.5	Jun
CPI, % yoy	3.0	Apr
Policy rate, %	3.75	Jun
MSCI South Africa*	9.1%	Q2
EPS, % yoy	-23.2	Jun
Trailing P/E	16.4	Jun

*US$ total return relative to MSCI EM. Source: Bloomberg

South Africa's handling of the COVID-19 crisis has recently come under scrutiny. Fatalities per million rose nearly fourfold in June. This comes after easing restrictions in May, allowing 90% of the economy to reopen by June. With the virus not contained, further easing in July, for example, related to domestic air travel, could worsen the situation. One positive has been the significant rise in testing, which may help to trace and track the spread of infections.

Manufacturing PMI rebounded marginally in June, but remained significantly below pre-coronavirus levels. Electricity consumption also fell by much less in May compared to April, likely aided by restrictions being eased. However, economic weakness prior to the COVID-19 outbreak is likely to persist in an environment of heightened uncertainty. Consensus estimates that the unemployment rate will rise from 30.1% in Q1 to 34% this year and next. This speaks to weak household consumption (60% of GDP) limiting growth and may lead to rising social unrest. GDP is expected to contract by 7.0% yoy in 2020 and rise by just 2.8% in 2021, with real GDP at this point relative to 2019 expected to be among the weakest in EM.

The central bank has responded vigorously to the crisis, by cutting the key rate by 275bps this year to 3.75% and implementing QE. However, fiscal constraints mean that government stimulus will likely remain targeted and tentative. Government debt levels are set to deteriorate significantly amid an expected fall in nominal GDP for the first time, while SOEs like South African Airways and Eskom are set to remain a fiscal drag.

Market Strategy: MSCI South Africa's valuations remain cheap. Its CAPE is close to the GFC trough. The trailing P/E relative to EM is 1.5 standard deviations below the five-year average. This is countered by a weak economic backdrop, so we stay *neutral*.

KEY ECONOMIC AND FINANCIAL INDICATORS

	Emerging Market	Macroeconomic Data: % change on year ago: Annual GDP Growth*	Industrial Production*	Consumer Price Index*	Latest 12 months: Trade Balance*	Current Account Balance*	Foreign Reserves 2020 Latest*	Foreign Reserves 2019 Year ago	Currency vs $ 2020 Latest*	Currency vs $ 2019 Year ago	Short-Term Interest Rates*	Sovereign Rating S&P*	Market Data: Performance: % S&P/EM Frontier Super Composite BMI	Stock Market Index S&P/EM Front. Super Comp. BMI US$	Change since 12/31/19 US$	Change since 12/31/19 Local Currency	Forecast (Bloomberg)†: 2020 P/E Forecast*	EBIT Margin 2020 Forecast*	6 month Stock Market Index Estimate (Front Super Comp. BMI) US$*	3 month Currency vs $ +/-*
		%	%	%	$ Bn	$ Bn	$ Bn	$ Bn			%		Jun. 30, 2020	Jun. 30, 2020	%	%		%		
Overweight	VIETNAM	0.4	7.0	3.2	1.3	15.2	80.7	60.3	23205.0	23235.0	4.8	BB	0.3	187.7	-12.5	-12.4	12.4	17.6	156	+
Overweight	MALAYSIA	0.7	-32.0	-2.9	29.7	10.3	98.6	98.5	4.3	4.1	1.9	A-	2.1	343.1	-10.0	-5.7	20.5	15.0	304	+
Overweight	RUSSIA	1.6	-9.6	3.0	0.2	52.8	427.5	394.9	70.4	63.3	4.6	BBB-	3.2	527.9	-22.7	-13.0	10.3	11.7	441	+
Overweight	PHILIPPINES	-0.2	-59.8	2.1	-34.6	1.3	78.4	72.8	49.7	51.2	0.0	BBB+	0.9	704.3	-19.4	-20.8	18.0	18.9	614	-
Overweight	SOUTH KOREA	1.4	-9.6	0.0	31.1	58.4	392.7	393.5	1199.8	1166.3	0.8	AA	12.1	481.8	-6.1	-2.3	14.7	7.5	397	-
Neutral	ARGENTINA	-5.4	-13.3	43.4	18.0	-0.9	36.9	59.1	70.5	42.4	27.4	SD	0.7	847.8	37.0	61.2	10.7	0.6	448	-
Neutral	BAHRAIN	-0.4	n.a.	-2.6	n.a.	n.a.	3.4	2.2	0.4	0.4	1.1	B+	0.1	152.4	-23.7	-23.7	n.a.	n.a.	163	uc
Neutral	CHILE	0.4	-5.7	2.8	7.2	-10.0	35.0	37.6	808.0	680.7	1.9	A+	0.6	309.5	-22.7	-15.7	17.5	13.0	270	+
Neutral	COLOMBIA	0.4	-29.6	2.9	-11.6	-12.9	53.6	49.3	3704.0	3212.6	3.6	BBB-	0.3	3839.6	-41.5	-33.4	11.0	16.0	3577	-
Neutral	CZECH REP.	-2.0	-33.7	2.9	21.8	-0.7	148.1	141.5	23.6	22.5	0.6	AA-	0.1	730.9	-21.2	-17.5	12.7	n.a.	613	-
Neutral	EGYPT	5.6	-10.1	4.7	-37.7	-8.9	34.6	39.1	16.1	16.6	9.3	B	0.1	1370.4	-20.9	-20.5	9.1	n.a.	1270	-
Neutral	GREECE	-0.9	-9.9	-1.1	-24.3	-2.3	2.5	1.6	1.1	1.1	0.0	BB-	0.2	23.3	-34.1	-34.2	15.8	8.9	20	-
Neutral	HUNGARY	2.2	-36.6	2.2	4.6	-1.2	30.2	28.0	312.1	285.8	0.7	BBB	0.2	451.6	-30.1	-25.1	14.0	n.a.	407	+
Neutral	INDONESIA	3.0	2.0	2.0	3.2	-27.7	121.0	118.4	14415.0	14147.0	5.3	BBB	1.4	1128.9	-26.8	-24.7	17.2	23.1	942	-
Neutral	KENYA	4.9	n.a.	4.6	-11.3	-45.9	9.7	10.1	106.7	102.7	7.0	B+	0.1	650.0	-24.3	-20.4	9.9	26.8	658	n.a.
Neutral	KUWAIT	1.2	n.a.	1.9	57.2	20.3	37.9	35.3	0.3	0.3	2.7	AA-	0.6	93.7	-16.2	-15.0	18.7	n.a.	82	n.a.
Neutral	MEXICO	-1.4	-29.3	2.8	1.8	-26.5	183.7	173.8	22.6	19.1	5.1	BBB	1.6	301.4	-28.9	-13.2	23.1	13.1	274	+
Neutral	MOROCCO	0.1	-0.6	-0.2	-21.9	-5.2	26.8	22.5	9.7	9.6	3.0	BBB-	0.2	520.0	-19.9	-18.6	20.8	n.a.	487	-
Neutral	PAKISTAN	0.5	-23.0	8.6	-24.1	-15.2	13.8	10.3	167.1	157.2	7.7	B-	0.1	417.5	-24.4	-18.0	5.8	n.a.	378	-
Neutral	PERU	-3.4	-16.3	1.6	5.2	-3.3	64.6	60.9	3.5	3.3	0.2	BBB+	0.2	1506.2	-29.4	-29.1	18.4	n.a.	1396	+
Neutral	POLAND	2.0	-17.0	3.3	3.6	5.8	104.2	110.4	4.0	3.8	0.3	A-	0.7	260.4	-20.4	-16.8	14.5	10.1	218	-
Neutral	QATAR	-0.6	n.a.	-3.1	41.4	4.2	37.6	35.4	3.7	3.7	1.2	AA-	0.8	255.2	-10.4	-10.4	14.7	n.a.	236	uc
Neutral	ROMANIA	2.4	-38.6	2.3	-20.2	-69.5	38.3	35.2	4.3	4.2	2.0	BBB-	0.1	129.9	-16.7	-15.8	13.3	30.0	113	-
Neutral	SOUTH AFRICA	-0.1	-5.4	3.0	3.3	-28.0	42.8	40.1	16.9	14.1	4.2	BB-	3.4	551.4	-26.5	-9.0	13.7	14.2	443	-
Neutral	SRI LANKA	2.0	-48.7	3.9	-8.2	n.a.	7.5	5.1	185.9	176.4	9.3	B-	0.0	170.0	-22.5	-20.4	9.2	8.4	151	-
Neutral	THAILAND	-1.8	-23.2	-3.4	32.3	33.0	226.3	201.3	31.1	30.6	0.6	BBB+	2.1	1118.5	-16.9	-14.2	20.8	7.7	900	-
Neutral	TURKEY	3.1	-31.4	11.4	-40.2	-3.3	52.9	73.5	6.9	5.7	9.0	B+	0.6	265.0	-12.3	1.1	9.4	9.0	224	-
Neutral	UAE	1.7	n.a.	-1.4	74.8	29.6	99.4	99.2	3.7	3.7	0.6	n.a.	0.6	99.9	-19.0	-18.9	12.7	n.a.	87	uc
Underweight	CHINA	-6.8	4.4	2.4	471.8	77.6	3091.5	3095.0	7.1	6.9	1.1	A+	35.5	958.6	3.9	3.9	15.2	11.0	860	-
Underweight	TAIWAN	1.6	1.5	-1.2	43.8	66.1	484.5	464.4	29.5	31.0	0.5	AA-	12.3	335.1	-0.3	-1.9	17.8	7.0	273	-
Underweight	INDIA	3.1	-55.5	5.8	-132.1	-24.6	443.3	391.0	74.8	68.9	5.1	BBB-	10.5	931.0	-17.0	-12.3	22.3	12.0	795	-
Underweight	BRAZIL	-0.3	-27.2	1.9	46.2	-42.4	334.2	376.5	5.3	3.8	2.8	BB-	5.0	565.4	-38.2	-16.4	25.7	15.0	461	+
Underweight	NIGERIA	1.9	n.a.	12.4	8.7	-17.0	31.6	42.7	387.4	360.5	5.9	B-	0.1	120.9	-17.1	-11.6	6.1	18.0	103	n.a.
Underweight	SAUDI ARABIA	-1.0	n.a.	1.1	157.2	2.9	490.6	479.7	3.8	3.8	1.0	A-	2.3	102.3	-11.1	-11.1	14.7	n.a.	89	uc

Note: All data shown are as at 30 June 2020 unless stated otherwise. UC is unchanged (currency versus US dollar). S&P sovereign rating shown is long-term foreign currency rating. Data for countries in the Middle East and North Africa region are the latest available, but in certain cases relate to periods more than one year ago. The 34 countries shown in the table accounted for 99.1% of the S&P/EM Frontier Super Composite BMI on 30 June 2020. An additional 22 countries accounted for the remaining 0.9% of the index on the same date. These countries, which can be accessed via City of London's Frontier Markets strategy, are: Bangladesh, Botswana, Bulgaria, Cote d'Ivoire, Croatia, Cyprus, Ecuador, Estonia, Ghana, Jamaica, Kazakhstan, Latvia, Lebanon, Lithuania, Mauritius, Namibia, Panama, Slovakia, Trinidad & Tobago, Tunisia, Ukraine and Zambia.

†Any forecasts are based on Bloomberg consensus forecasts, where available, and assumptions. Actual results may vary from any such statements or forecasts. Past performance is no guarantee of future results.

**Key Criteria*

Source: Bloomberg, City of London Investment Management

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