CITY OF LONDON
Investment Management Company Limited

Emerging Markets Quarterly Outlook

July 2024*

Overview

Continuing to favour AI Exposure

Emerging market equities outperformed in Q2 due to the upturn in the semiconductor cycle and improving sentiment towards Chinese stocks. Valuations have yet to reflect EM's strong earnings expectations, suggesting scope for re-rating. At the same time, the widely anticipated Fed easing cycle should provide a more conducive environment for EM. We maintain our allocations this quarter focusing our exposure on stocks linked to artificial intelligence via semiconductors, US-China decoupling, and decarbonisation.

Emerging Markets (EM) continued their solid performance in Q2, outperforming the MSCI All Country World Index (ACWI) by 2.1% points, as optimism over artificial intelligence (AI), strong semiconductor demand and improving sentiment on China helped stocks. Earnings for Q1 have generally been positive and above expectations. Forward earnings projections for this year point to a continuation in H2, with EM earnings (+22% yoy) expected to grow more than twice the pace of developed markets (10% yoy). Despite robust earnings expectations, the EM index still trades at a moderate 12x forward multiple.

We expect 2H24 to be a more supportive backdrop for EM as US rates fall and global growth moderates but stays firm. The global manufacturing PMI dipped to 50.9 in June, with the weakness in Europe offset by improvements in Asia. The US economy is showing signs of easing, and the Citi US economic surprise index is firmly in negative territory. Activity indicators in China have been mixed. The industrial sector is recovering faster than the consumer sector. No significant policy changes or support measures are expected to be announced at this month's Third Plenum in China. Turning to inflation, the pace of US disinflation has been slower than anticipated, pushing back market hopes of easing. However, the policy bias still points towards rate cuts rather than rate hikes, which historically favours EM equity outperformance relative to the US.

Meanwhile, the conclusion of multiple EM elections in Q2 should remove some political and policy uncertainty. None of the election results materially changed our country views. In India, Modi won a third consecutive term, but his BJP fell short of an absolute majority, meaning controversial structural reforms are less likely to be passed. Indian equities plunged in response to the result and then recovered sharply. While the result does not change the long-term potential for India, we remain cautious about the sharp rise in speculative option contract volumes and the index's elevated valuation multiple. In Mexico, the ruling Morena party won the Presidency and gained a supermajority in Congress. President-elect Sheinbaum is ideologically aligned with her predecessor AMLO, and the proposed constitutional reforms are a risk to institutions. Finally, in South Africa, the ANC was forced to form a coalition government with the more business-friendly DA party and smaller parties. At face value, the new government could be perceived as a positive for South Africa, but the fragility of the union keeps us cautious. As such, we have only trimmed our underweight position in South Africa. Outside of EM, uncertainty surrounding the upcoming US election could be a headwind for EM assets, with policies on trade and migration at risk.

Our strategic views are unchanged from last quarter. Our allocations reflect our key themes of 1) the semiconductor upcycle and the growth of generative AI (South Korea, Taiwan); 2) supply chain adjustments away from China (Vietnam, Malaysia); and 3) the energy transition (Chile, Indonesia). Mexico should also benefit from the second theme, given its proximity to the US. Still, we keep our neutral allocation at this juncture considering the local election result and the risks surrounding the upcoming US election.

Market Strategy: Relative to the previous quarter, we made the following changes to our country allocations:

- We increase our *overweight* to **South Korea**, funded from a reduction to our other country overweight positions. The market provides exposure to the growing demand for semi conductors and high-bandwidth memory (HBM) to power AI. Unlike Taiwan and US tech stocks, South Korea still offers a relatively compelling valuation. The Corporate Value-up initiative is also a step in the right direction that may gain further traction.
- We downgrade **Qatar** to *neutral*. While the index continues to screen cheaply, we do not see an immediate catalyst with the natural gas price outlook more stable than in 2022.

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						
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. The table shows the major Emerging Markets.
Source: CLIM

**The publication reflects asset performance up to 28 June 2024, and macro events and data releases up to 3 July 2024, unless indicated otherwise.*

Asia

China

Neutral

Attractive value and policy support have improved sentiment, but geopolitics remain an ongoing concern.

	3Y history	Latest	
GDP, % yoy		5.3	Q1
PMI, index		49.5	Jun
CPI, % yoy		0.3	May
Policy rate, %*		10.00	Jun
MSCI China**		2.1%	Q2
EPS, % yoy		-0.4	Jun
12M Forward P/E		9.4	Jun

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

Chinese shares continued to perform strongly into the second quarter, rising 7.1% from April to June. However, strength in April and early May masks weakness in the second half of the quarter, with the index down almost 10% in recent weeks. This weakness means that the market now has a forward P/E ratio of 9x, markedly cheaper than its five-year average relative to MSCI EM. Earnings are expected to grow 13% in 2024.

Domestic consumption remains weak in China, though there have been signs of improving exports. Some measures of activity have also been improving, though there are mixed signals among the data. Inflation remains low. Various policy measures have been introduced to support the economy and boost market conditions – these have been one of the drivers of the index's strong returns in recent months. April saw the release of the Nine-Point Guideline, which includes measures to increase dividend payouts and improve corporate governance. The Third Plenum in July is another potential event for further announcements, but expectations are low.

Geopolitics remain an ongoing concern for investments in China. The EU has implemented tariffs on Chinese EVs, and the US has discussed further restrictions on Chinese semiconductors. A further deterioration in Sino-US relations remains a risk, particularly with the upcoming US election, where both parties have taken a hawkish stance towards China. However, China's valuation already reflects a steep discount following foreign outflows in recent years, while China A-shares are mostly domestically owned.

Market Strategy: We remain *neutral* on China. Sentiment is improving on the back of further policy support and attractive valuations. Improved corporate governance is also supportive of the domestically listed A-shares market. However, for the broader index, the weak property sector and geopolitics should keep some discount in the market.

South Korea

Overwieght (↑)

Korea offers improving corporate governance and advanced tech exposure at attractive valuations.

	3Y history	Latest	
GDP, % yoy		3.3	Q1
PMI, index		52.0	Jun
CPI, % yoy		2.4	Jun
Policy rate, %		3.50	Jun
MSCI South Korea*		-6.2%	Q2
EPS, % yoy		-29.5	Jun
12M Forward P/E		9.8	Jun

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

South Korea is home to some of the world's most advanced tech companies, including semiconductor and memory chip manufacturers. These stocks are likely to benefit from the ongoing interest in AI and strengthening global demand for these products. While Taiwan and the US also have exposure to these industries, Korea's equities are trading at a much less elevated valuation and offer an attractive entry point. Currently, the MSCI Korea Index trades at a 12m forward P/E of 10x, slightly below its five-year average of 11x.

South Korea's profit growth is expected to outpace most EM countries in 2024 and 2025. This growth is mainly driven by the semiconductor recovery, while the outlook for advanced tech hardware is also contributing to buoyant earnings expectations. We think these projections are achievable and not fully reflected in the price.

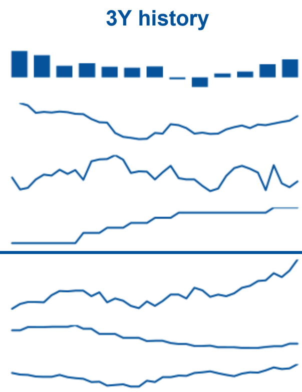
South Korea recently announced their Corporate Value-Up Programme, as they seek to improve corporate governance and reduce the "Korea discount". This is not likely to produce immediate results following the opposition's landslide victory in April's National Assembly election. However, the government can still pursue some measures towards reducing the number of companies trading at a price-to-book value below one.

Market Strategy: We have upgraded our allocation to South Korea, as we seek greater exposure to advanced tech companies in EM, but at a lower valuation than Taiwan. Korea's Corporate Value-Up initiative also improves the longer-term appeal of the market. Given these factors, Korea becomes our largest *overweight*.

Taiwan

Overweight

The market appears overbought short-term, but recent strength reflects a robust earnings outlook linked to AI.



	Latest	
GDP, % yoy	6.6	Q1
PMI, index	53.2	Jun
CPI, % yoy	2.2	May
Policy rate, %	2.00	Jun
MSCI Taiwan*	10.1%	Q2
EPS, % yoy	-11.3	Jun
12M Forward P/E	19.2	Jun

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

Taiwan continues to benefit from the growing demand for advanced hardware linked to AI. The tech sector makes up around three quarters of the index, much of which is semiconductor manufacturing. Taiwan is among the more richly valued EMs – it has a 12m forward P/E ratio of 19x – but this valuation is still more attractive than some of the large US tech firms. Taiwanese companies are at the forefront of the advanced tech sector and have been beneficiaries of the cyclical rebound in semiconductor sales. Taiwanese equities are vulnerable to a reversal in sentiment, particularly in Nvidia, which has become the poster child of the AI boom. Still, our current outlook favours growing demand for advanced chips. The MSCI Taiwan Index's earnings expectations are 25% in 2024, which goes some way towards justifying its recent outperformance.

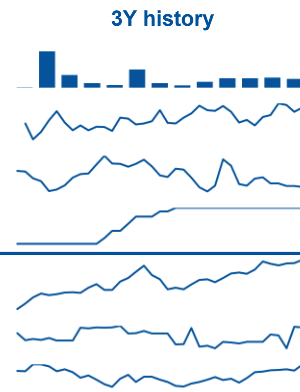
Geopolitics continues to be a headwind for Taiwan. Although an imminent conflict with China is not our base case, it does remain a significant downside tail risk. The DPP's victory without a legislative majority in Taiwan's recent presidential elections reduces this risk in the short-to-medium term. The US and China's ambitions to become less dependent on imported semiconductors will reduce Taiwan's economic moat in the future. Still, this supply chain adjustment will take time, given the challenges in manufacturing the most advanced semiconductors.

Market Strategy: We remain *overweight* Taiwan, though we have trimmed our position. The market is expensive compared to other EMs but offers direct exposure to the AI theme. Given the recent strength and rich valuation, we are taking some profit in Taiwan and diversifying our EM tech exposure via South Korea, which trades at a more compelling valuation.

India

Underweight

India's stretched valuation remains a vulnerability and monetary policy should weigh on earnings.



	Latest	
GDP, % yoy	7.8	Q1
PMI, index	58.3	Jun
CPI, % yoy	4.8	May
Policy rate, %	6.50	Jun
MSCI India*	5.2%	Q2
EPS, % yoy	29.3	Jun
12M Forward P/E	23.9	Jun

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

The recent Indian election saw Prime Minister Modi return to power for a third term, but his party (BJP) did not secure an outright majority. The days following the election saw significant market volatility but has since returned to its previous uptrend. The election results maintain the status quo, and some may argue that this outcome is positive. However, Modi lacks a majority to push through more challenging structural reforms, and more populist policies and fiscal spending may become increasingly evident to gain rural and lower-income voters ahead of the next election.

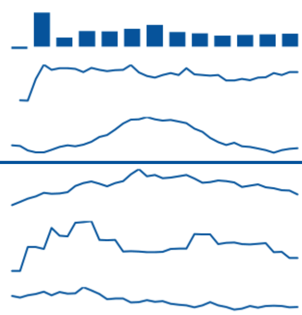
India remains among the most expensive EM markets on several measures, as it has for some time. At the end of June, it was trading at a 12m forward P/E ratio of 24x – a far greater premium to the EM index than normal. Despite this, it has continued to perform strongly, rising 10.2% in Q2. Earnings growth is one supportive factor, but revenue growth has started to decelerate and earnings revisions have turned negative on the back of restrictive monetary policy.

In recent years, Chinese and Indian equities have tended to move in opposing directions, indicating that better sentiment towards Chinese equities is a risk for Indian stocks. In addition, recent strength in the Indian stock market has coincided with exponential growth in option contract volumes. The local regulator has become more concerned about speculative retail activity, and the recent election volatility is a warning signal that a positive long-term narrative does not rule out a 10% intraday decline.

Market Strategy: We remain *underweight* MSCI India. Despite an upbeat long-term outlook for India's economy, valuations are unattractive and leave the index exposed to a de-rating. The growing degree of speculation is also a concern. We currently favour exposure to other parts of the EM universe.

ASEAN

Supply chain shifts away from China to benefit ASEAN economies given their relatively stable governance.



	3Y history	Latest	
GDP, % yoy*		4.6	Q1
PMI, index		51.7	Jun
CPI, % yoy		2.3	Apr
MSCI ASEAN**		-5.9%	Q2
EPS, % yoy		-7.1	Jun
12M Forward P/E		12.9	Jun

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

ASEAN equities underperformed EM in Q2 as a narrowing interest rate differential to the US and the re-allocation to China on the back of improving sentiment resulted in capital outflows. Investors could stay cautious on ASEAN as they wait for the first Fed rate cut and the US election, with ASEAN equities historically weakening ahead of US elections. Central banks in the region are also choosing to keep policy rates high to support their currencies. Nonetheless, ASEAN central banks should be afforded policy space once the Fed starts easing before year end. Moreover, global growth, while moderating, is still firm and will be a tailwind for export-oriented ASEAN, particularly those exposed to the tech upcycle. Meanwhile, a few markets in the region are well suited to benefit from supply chains shifting away from China owing to their relatively strong governance.

Malaysia

(Overweight)

Malaysia's relatively stable economic and political backdrop, along with its growing semiconductor sector, make the market an attractive destination for investment. On the latter, Malaysia's proximity to Singapore, non-alignment with either the US and China and established downstream semiconductor sector means it is well placed to capitalise on the AI boom. The government's New Industrial Plan 2030 aims to move upstream into design and fabrication to reap more benefits.

On the economy, activity is picking up as the Manufacturing PMI was stable in June (49.9), while strong import growth suggests robust domestic demand. Inflation remains low but has started to tick up and is likely to continue rising as diesel subsidies are removed. As such, the Bank Negara Malaysia (BNM) will keep rates on hold, with risks tilted to one more rate hike.

Market Strategy: MSCI Malaysia was the only ASEAN market to deliver positive returns in Q2. Valuations still screen neutral, and the market has exposure to the growing semiconductor sector. Meanwhile, the Malaysian stock market's low foreign ownership (19.6%) suggests there is scope for gains if investors broaden out the AI trade from South Korea and Taiwan. We keep our overweight.

Indonesia

(Overweight)

Indonesia's stock market has struggled recently due to a weak rupiah and uncertainty over President-elect Prabowo's fiscal plans. Fears over the latter appear overdone as the new administration has assured that the budget deficit limit of 3% of GDP will be adhered to. The Bank Indonesia's (BI) surprise rate hike in April has done little to stem the slide in the rupiah. The BI will wait for the Fed before cutting rates, which means the real policy rate will stay high despite the encouraging fall in inflation.

Prabowo is set to keep his predecessor's industrial policy of expanding Indonesia's downstream industries. Indonesia is home to vast nickel reserves and is well placed to become a regional leader in electric vehicles.

Market Strategy: Indonesian stocks recorded the largest foreign outflows in Q2, resulting in very cheap market valuations. Beyond recent market weakness, we think Indonesia will benefit from its downstreaming policy and relatively stable politics. We stay *overweight*.

Philippines

(Underweight)

We are cautious on Philippine equities given the risk of peso depreciation and the absence of a clear medium-term structural growth driver. Inflation has returned to the 2-4% target range, and the cut to rice tariffs should help disinflation. Heatwave impacts on output and a proposed nationwide wage hike are upside inflation risks.

Nonetheless, the Bangko Sentral ng Pilipinas (BSP) signalled it could cut as early as Q3 at its June meeting. Easing ahead of the Fed would put downward pressure on the peso. While the current account deficit has been narrowing on the back of steady remittances and Business Process Outsourcing (BPO) services, it still leaves the peso vulnerable to foreign capital outflows.

Market Strategy: The pullback in markets has meant valuations screen cheap, with the MSCI Philippines Index 12m forward P/E at a discount to EM two standard deviations below the five-year average. Despite attractive pricing, the Philippines lacks a positive catalyst and will likely lag other ASEAN markets. Therefore, we maintain our *underweight* allocation.

Thailand

(Underweight)

Political risks have once again come to the fore in Thailand, and we expect this to continue to weigh on stocks. A court case targeting current PM Srettha Thavisin could lead to his ousting, while another case could cause the opposition Move Forward Party to be dissolved. These court cases highlight the strength of the military-backed royalist establishment and public unrest in reaction cannot be ruled out. In addition, the Srettha government's signature policy, the digital wallet scheme, has been delayed due to disagreements over funding.

Inflationary pressures, while gradually picking up, remain contained. The Bank of Thailand (BoT), concerned about high household debt and the inflationary impact of the digital wallet scheme, will likely stay on hold. The return of Chinese tourists mean that tourism continues to be the economy's bright spot.

Market Strategy: Once a relatively expensive market, the MSCI Thailand has cheapened considerably since the start of the year. With no end to political upheaval in sight, we think current valuations are justified and keep our *underweight* allocation.

Vietnam

(Overweight)

Vietnam stands to gain the most from supply chain realignment away from China. The manufacturing sector is healthy as exports continue to recover, while the revised land law could help the struggling property sector. Food prices have pushed up inflation close to target, but the State Bank of Vietnam (SBV) will be cognizant of the rise in the non-performing loan ratio before hiking rates. In the latest political upheaval, To Lam was elected as President in late May. Further political volatility is likely ahead of the 14th National Congress in early 2026, when General Secretary Nguyen Phu Trong's term expires. While this might impact sentiment, it is unlikely to change the county's industrial policy.

Beyond the short term, Vietnam's proximity to China and established manufacturing sector leave it well placed to benefit from firms moving away from China amid trade tensions between the US/EU and China. The strength in FDI growth reflects this shift. Meanwhile, Vietnam's burgeoning middle class presents opportunities for the consumer sector.

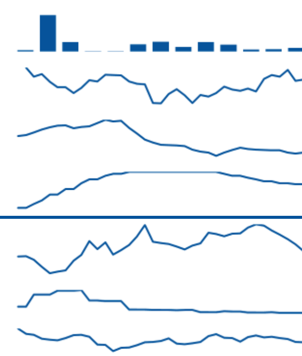
Market Strategy: The MSCI Vietnam Index remains cheap, with the 12m forward P/E premium to EM below its five-year average. Political noise aside, Vietnam's government is focussed on expanding the country's manufacturing base and attracting capital under the China Plus One strategy. We keep our *overweight* allocation as we seek to gain exposure to global supply chain readjustments.

Latin America

Brazil

Neutral

Hopes for fiscal discipline are fading, but markets appear oversold.



	3Y history	Latest	
GDP, % yoy		2.5	Q1
PMI, index		52.5	Jun
CPI, % yoy		3.9	May
Policy rate, %		10.50	Jun
MSCI Brazil*		-17.2%	Q2
EPS, % yoy		-25.2	Jun
12M Forward P/E		7.0	Jun

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

Hopes of a new, more fiscally responsible era in Brazil are beginning to fade as the government seeks more flexibility on their budgetary goals, which were only set one year ago. The proposed moves would delay the stabilisation of debt levels (though there may be further slips and a stabilisation may not happen at all). Brazil could stand to benefit from an acceleration in commodity prices, being one of the world's largest producers of soybeans and iron ore. However, China's economy is unlikely to drive a commodity boom similar to the 2002-11 period.

Concerns are also being raised over the independence of the central bank, with President Lula having been openly critical of the current bank chief. The Selic rate remains at 10.5%, with the president believing that it should be lower. Inflation is 3.9%, but inflation expectations remain above 3% and rising, with expectations for rate cuts being pushed back.

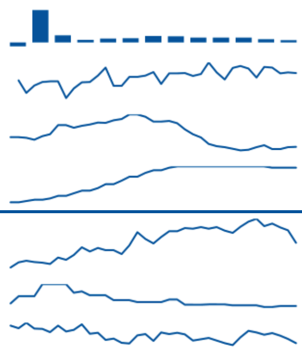
The turn of the year was close to a high-water mark for the MSCI Brazil Index, which is down 18.7% in the first six months of the year and 12.2% in the second quarter. The poor performance in recent months has cheapened the market, it now trades at a 12m forward P/E ratio of 7x.

Market Strategy: We remain *neutral* on Brazilian equities. Concerns over fiscal ill-discipline are becoming more substantiated, and the situation may worsen further. Currently though, the sharp fall in share prices means that some indicators signal the market is oversold. We will reassess our *neutral* allocation when these signals fade.

Mexico

Neutral

Nearshoring prospects are bright but US elections and Morena's strengthened mandate are downside risks.



	3Y history	Latest	
GDP, % yoy		1.6	Q1
PMI, index		51.1	Jun
CPI, % yoy		4.7	May
Policy rate, %		11.00	Jun
MSCI Mexico*		-21.1%	Q2
EPS, % yoy		-11.6	Jun
12M Forward P/E		11.3	Jun

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

Mexican assets fell sharply in response to the June election results, which saw the incumbent Morena party achieve a strong six-year mandate. The MSCI Mexico Index was the worst-performing EM in Q2, while the peso weakened to its lowest level since Q1 2023. While president-elect Sheinbaum strikes a more pragmatic tone than her predecessor AMLO, as evidenced by the appointment of a business-friendly economy minister, the proposed constitutional amendments are a risk to the rule of law and fiscal stability.

The constitutional reform agenda is made up of 20 proposals, with the policy on electing members to the judicial branch seen as the most controversial as it risks eroding checks and balances. Mexico currently ranks poorly (126th among all countries) on Transparency International's Corruption Perceptions Index. Moreover, while Sheinbaum has pledged to reduce the budget deficit after a widening deficit following pre-election spending, Morena's legislative power could lead to populist fiscal policies over the six-year term.

Mexico's nearshoring trend is positive, although FDI data have yet to meaningfully reflect this trend. However, the growing presence of Chinese firms in Mexico circumventing US restrictions could lead to US-Mexico tensions, particularly if Trump is re-elected US president. The USMCA review in 2026 could be a flash point.

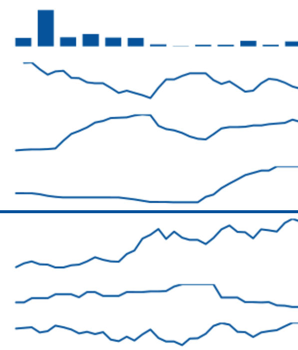
Market Strategy: Following underperformance, Mexican stocks appear very cheap. However, despite depreciating by about 6% since the election, the peso still looks overvalued and is therefore at risk of further depreciation. If Sheinbaum keeps to fiscal discipline and a Mexico-friendly president is elected to the White House in November, we will review our allocation. For now, we stay *neutral*.

Europe, Middle East and Africa

Turkey

Underweight

Reining in inflation is still a challenge despite the correct steps by policymakers.



	3Y history	Latest	
GDP, % yoy		5.7	Q1
PMI, index		47.9	Jun
CPI, % yoy		71.6	Jun
Policy rate, %		50.00	Jun
MSCI Turkey*		16.4%	Q2
EPS, % yoy		-43.7	Jun
12M Forward P/E		5.8	Jun

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

Turkey was the best-performing EM in Q2. There are signs of improving investor sentiment, and the lira has been supported by the return of the carry trade. Progress on normalising fiscal and monetary policy continues; however, the decline in economic activity needed to address years of built-up imbalances could weigh on equities. The risk of the Central Bank of Turkey (CBT) reversing course on its orthodox policymaking under political pressure keeps us cautious.

Inflation remains high at 72% and service price increases have proven sticky. As such, the CBT has signalled that it will keep the policy rate at 50%. Economic activity is slowing down, as demonstrated by the third consecutive month of a sub-50 manufacturing PMI, which should help with the disinflation process. Meanwhile, the lira has recently been resilient on the back of foreign inflows and household de-dollarisation, leading to an improvement in net FX reserves.

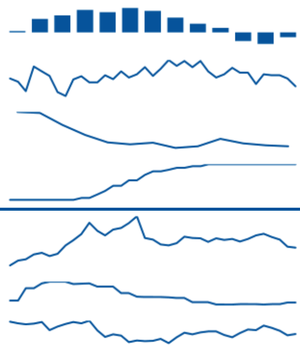
For the CBT to maintain sustained disinflation, it will need to re-anchor inflation expectations and continue to phase out inherited regulatory measures. In addition to the CBT's efforts, fiscal policy must be tightened to curtail inflation. The budget deficit has widened over earthquake-related spending and the public savings package announced does not go far enough.

Market Strategy: The rally in the Turkish stock market means that the MSCI Turkey Index no longer looks very cheap, with the 12m forward P/E discount to EM above the five-year average. Policymaker actions are encouraging but could be more ambitious. As a result, we stay *underweight*.

Saudi Arabia

Overweight

Diversification efforts are a positive medium-term driver while oil output cuts will weigh on short-term growth.



	3Y history	Latest	
GDP, % yoy		-1.8	Q1
PMI, index		55.0	Jun
CPI, % yoy		1.6	May
Policy rate, %		6.00	Jun
MSCI Saudi Arabia*		-12.4%	Q2
EPS, % yoy		-10.0	Jun
12M Forward P/E		16.1	Jun

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

The MSCI Saudi Arabia Index underperformed EM in contrast to the previous quarter, with its typical drivers - oil prices (-1.2%) and the DXY Index (+1.3%) - moving in opposite directions in Q2. The extension of oil production curbs softens the short-term economic outlook; however, we are optimistic about the Kingdom's structural reform programme as it diversifies away from hydrocarbons.

OPEC+ members agreed in June to extend their additional voluntary output cuts until the end of 2025, with Saudi Arabia again shouldering the burden. Against the backdrop of lower oil revenues, spending under the Vision 2030 umbrella has been strong. As such, the fiscal deficit has widened, and the breakeven oil price estimate has risen. The IMF increased its estimate for this year from \$79.7/bbl to \$96.2/bbl. In addition, the capital-intensive nature of the giga projects and weaker oil imports means that the current account surplus is set to narrow. While the Saudi Central Bank (SAMA) has ample foreign reserves and low public debt, a deterioration in the current account increases the Kingdom's reliance on financial flows. On that front, gains in FDI as of 2023 have been limited and are far away from reaching the 2030 government target of 5.7% of GDP.

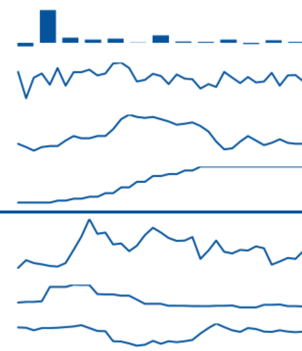
Large public spending will continue to boost the non-oil economy, which remains strong, as evidenced by the robust PMI prints. The Kingdom's push to attract tourists is slowly starting to bear fruit, with a notable rise in travel receipts last year. Meanwhile, in part due to the USD peg, inflation has largely been kept at bay.

Market Strategy: Valuations have improved, and the market appears oversold. There is still an upside risk of benchmark investors moving closer to market weight given flow data indicates most investors are underweight. The government's ambitious Vision 2030 is a risk to the budget and external balance, but we think the domestic economy will strengthen as a result. We remain *overweight*.

South Africa

Underweight

The GNU is encouraging but appears fragile, which could further delay much-needed structural reforms.



	3Y history	Latest	
GDP, % yoy		0.5	Q1
PMI, index		49.2	Jun
CPI, % yoy		5.2	May
Policy rate, %		8.25	Jun
MSCI South Africa*		7.3%	Q2
EPS, % yoy		-16.3	Jun
12M Forward P/E		9.3	Jun

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

South Africa's equity market has had a volatile quarter in the run up to and following the general election on May 29th. As widely expected, the ruling-ANC received less than 50% of the voter share, forcing them into a government of national unity (GNU) with the opposition DA and smaller parties. The fact that the ANC avoided a coalition with business unfriendly parties EFF/MK was a relief for markets. However, the recently formed GNU cabinet was preceded by delays and contentious discussions, underlining the fragility of the government. Therefore, while the inclusion of the DA could lead to a more reform-minded government, we are cautious about in-fighting and the possibility of the government dissolving. Local elections due in 2026 could put pressure on the GNU.

The new government has a lot of work to do. South Africa needs reforms that will address long standing issues such as infrastructure development and job creation. GDP growth should rise this year but remain around 1% as logistical constraints continue. On a positive note, loadshedding has become less severe and less frequent as Eskom supply has improved. The 2024 Medium-Term Budget in October will be an opportunity to get a sense of the direction of the GNU. With inflation above the South African Reserve Bank's (SARB) 4.5% target and inflation expectations elevated, the SARB will likely wait for the Fed before easing.

Market Strategy: The MSCI South Africa Index outperformed EM in Q2 while the rand appreciated by c.3% as the market welcomed news of the GNU. Valuations screen neutral and we think positive news has been mostly priced in. We expect the GNU to face challenges whilst governing which could weigh on market sentiment. Therefore, we maintain our *underweight*.

KEY ECONOMIC AND FINANCIAL INDICATORS

	Macroeconomic Data												Market Data							
		% change on year ago			Latest 12 months								Performance				Forecast (Bloomberg)†			
	Emerging Market	Annual GDP Growth*	Industrial Production*	Consumer Price Index*	Trade Balance*	Current Account Balance*	Foreign Reserves 2024 Latest*	Foreign Reserves 2023 Year ago	Currency vs $ 2024 Latest*	Currency vs $ 2023 Year ago	Short-Term Interest Rates*	Sovereign Rating S&P*	% S&P/EM Frontier Super Composite BMI	Stock Market Index S&P/EM Front. Super Comp. BMI US$	Change since 12/29/23 US$	Change since 12/29/23 Local Currency	Trailing P/E	EBIT Margin 2024 Forecast*	6 month Stock Market Index Estimate (Front. Super Comp. BMI) US$*	3 month Currency vs $ +/-*
		%	%	%	$ Bn	$ Bn	$ Bn	$ Bn			%		Jun. 29, 2024	Jun. 28, 2024	%	%		%		
Overweight	SOUTH KOREA	3.3	3.5	2.4	39.0	59.4	389.5	402.2	1381.0	1296.1	3.6	AA	11.6	617.3	0.7	7.5	19.4	11.1	625.9	+
Overweight	VIETNAM	6.9	10.9	4.3	26.0	29.1	88.1	83.5	25453.0	23698.0	3.5	BB+	0.3	222.1	-1.6	3.3	22.6	14.2	230.3	+
Overweight	INDONESIA	5.1	-1.3	2.5	33.5	-6.8	122.0	130.6	16325.0	15007.0	4.2	BBB	1.7	1332.4	-7.0	-1.1	13.6	25.3	1383.2	+
Overweight	CHILE	2.3	2.3	4.1	17.3	-12.5	41.6	35.3	939.8	797.4	5.9	A	0.4	395.7	-5.5	2.2	15.0	13.4	394.6	+
Overweight	TAIWAN	6.6	16.1	2.2	91.6	114.0	572.8	562.9	32.5	31.1	1.6	AA+	18.7	697.8	24.8	31.9	24.9	11.0	719.2	+
Overweight	SAUDI ARABIA	-1.8	n.a.	1.6	35.8	7.6	406.9	427.6	3.8	3.8	6.1	A	3.4	173.8	-1.6	-1.6	19.3	29.0	176.9	uc
Overweight	MALAYSIA	4.2	6.1	2.0	37.1	7.2	103.8	102.9	4.7	4.7	2.5	A-	1.7	407.1	11.8	14.8	15.9	21.1	421.8	+
Neutral	BAHRAIN	3.5	n.a.	2.5	n.a.	n.a.	4.1	4.4	0.4	0.4	6.1	B+	0.1	361.4	11.4	11.5	n.a.	n.a.	369.9	uc
Neutral	BRAZIL	2.5	-1.0	3.9	100.6	-40.1	323.4	312.2	5.6	4.8	6.9	BB	4.2	719.6	-16.2	-5.2	7.1	21.7	745.7	+
Neutral	CHINA	5.3	5.6	0.3	818.1	215.5	3200.8	3204.8	7.3	7.2	1.1	A+	22.9	687.1	1.8	2.5	11.9	13.4	704.0	+
Neutral	COLOMBIA	0.9	3.4	7.2	-9.3	-8.1	55.6	52.8	4102.8	4128.5	10.2	BB+	0.1	5658.1	9.4	16.9	5.4	34.3	5832.8	+
Neutral	CZECH REP.	0.3	9.0	2.6	8.3	3.7	140.8	130.8	23.3	21.8	4.6	AA-	0.1	1523.0	-1.6	2.9	10.9	n.a.	1508.9	+
Neutral	EGYPT	3.8	-10.1	28.1	-35.1	-12.6	28.8	24.1	48.0	30.9	27.3	B-	0.1	1367.1	-27.9	12.0	5.5	n.a.	1605.7	+
Neutral	GREECE	2.1	10.8	2.4	-37.1	-16.1	4.1	4.4	1.1	1.1	0.0	BBB-	0.5	59.7	8.5	11.6	6.6	25.2	61.2	+
Neutral	HUNGARY	1.1	-2.4	4.0	14.3	2.8	42.0	33.3	364.5	344.5	6.8	BBB-	0.2	766.2	11.0	18.3	5.2	n.a.	785.7	-
Neutral	KUWAIT	-2.2	n.a.	3.2	n.a.	51.4	43.8	45.9	0.3	0.3	n.a.	A+	0.7	141.1	5.8	5.6	16.7	n.a.	140.4	n.a.
Neutral	MEXICO	1.6	5.1	4.7	-3.4	-40.9	194.5	180.7	18.1	17.0	11.2	BBB	1.9	609.8	-13.9	-7.3	12.7	17.9	648.7	+
Neutral	MOROCCO	2.5	8.0	0.4	-16.8	-0.5	31.7	32.1	9.9	9.8	3.0	BB+	0.2	708.7	8.3	9.4	15.6	18.9	729.5	n.a.
Neutral	PERU	1.4	5.3	2.3	16.7	3.7	66.2	67.4	3.8	3.6	0.4	BBB-	0.2	2803.8	17.9	17.9	16.6	n.a.	2881.7	+
Neutral	POLAND	2.0	-1.7	2.6	6.1	12.8	172.6	152.5	4.0	4.1	6.0	A-	0.9	454.8	11.0	13.5	9.7	14.6	465.0	-
Neutral	QATAR	1.2	n.a.	0.7	68.1	36.3	43.0	41.4	3.6	3.6	n.a.	AA	0.7	300.3	-2.4	-2.4	8.5	n.a.	307.0	uc
Neutral	ROMANIA	0.1	3.6	5.1	-31.8	-26.0	66.9	53.0	4.6	4.5	5.9	BBB-	0.2	307.9	23.0	26.8	8.3	33.1	318.6	-
Neutral	UAE	3.4	n.a.	2.3	79.0	48.0	193.9	141.6	3.7	3.7	2.9	NR	1.3	171.3	-3.5	-3.4	7.6	n.a.	175.3	uc
Underweight	ARGENTINA	-5.1	-13.3	276.4	4.5	-15.1	24.0	27.5	913.7	259.0	33.8	CCC	0.9	1542.8	7.1	20.8	9.7	24.0	1483.2	-
Underweight	TURKEY	5.7	-0.7	71.6	-87.1	-31.5	58.7	55.7	32.6	26.0	45.8	B+	1.1	548.5	30.3	44.6	7.3	13.1	549.7	-
Underweight	PHILIPPINES	5.7	6.7	3.9	-49.6	-8.5	87.9	86.9	58.6	55.3	6.5	BBB+	0.6	685.8	-5.1	0.5	12.0	24.6	713.2	+
Underweight	THAILAND	1.5	-1.5	1.5	16.4	9.9	200.2	198.7	36.6	34.9	2.9	BBB+	1.4	1012.2	-13.4	-7.0	17.7	9.3	1045.6	+
Underweight	SOUTH AFRICA	0.5	5.3	5.2	5.5	-25.1	46.0	46.6	18.4	18.7	8.4	BB-	2.5	784.8	5.0	4.9	25.2	17.4	780.2	-
Underweight	INDIA	7.8	5.0	4.8	-250.9	-23.2	561.8	520.9	83.5	82.0	6.0	BBB-	20.5	2369.5	17.8	18.0	27.7	15.3	2490.5	+

Note: All data shown are as at 4 July 2024 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 29 countries shown in the table accounted for 98.9% of the S&P/EM Frontier Super Composite BMI on 28 June 2024. An additional 26 countries accounted for the remaining 1.1% 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, Estonia, Ghana, Iceland, Jamaica, Jordan, Kazakhstan, Kenya, Latvia, Lithuania, Mauritius, Namibia, Oman, Pakistan, Panama, Slovakia, Slovenia, Sri Lanka, Trinidad & Tobago, Tunisia 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, CLIM

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