RBC Global Asset Management
BlueBay Asset Management

# EM: 5 promising signs

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## Emerging market (EM) investors are used to the rollercoaster ride that the universe is known to deliver, but 2020 has proven to be a particularly hair-raising year. However, signs of stabilisation are on the horizon.

Here are our five top reasons to take a fresh look at EM following the corona crisis.

1. **The macro picture has stabilised** significantly over the last month, helped by unprecedented amounts of liquidity being added to markets by major central banks. Additionally, rates have remained anchored at low levels, allowing for cheaper debt refinancing for EM sovereigns and corporates.

2. **The risk of widespread default in EM is overestimated**, in our view. Although there have been, and likely always will be, some selective high-probability default candidates, it helps to remember that nearly 57% of the USD-denominate EM sovereign universe is investment-grade rated (JPMorgan EMBI Global Diversified Index). We don't foresee materially higher default risks compared to 2019.

   See our latest whitepaper on this subject >

3. **Capital markets remain open** for issuers looking to refinance their debt. This is an area where we have been positively surprised. Remember, the vast majority of investors are holding large cash allocations, which are earning either near-zero or even negative rates in many countries.

4. **The technical picture is stable** and improving, from both an inflow and a supply perspective.

5. **Valuations are still very attractive** on a standalone basis – and even more so on a relative basis. While spreads have tightened in EM, they are still relatively wide compared to developed market asset classes. Following the Federal Reserve's announcement of its intention to purchase US corporate bonds from secondary markets, US investment-grade spreads are expected to tighten even further.

## That said, no market is ever free from risks. Here's our EM top-four:

1. **US-China rhetoric** could easily get out of control and make markets nervous. In a US election year, the chance of this happening is even higher.

2. For the moment, investors are focussing on post-Covid-19 stabilisation, but **infection rates are starting to rise again**, albeit sporadically. Infections inched up recently in some key US states, while reaching new highs in Brazil, India and Turkey.

3. There is also a degree of complacency among investors regarding a sharp **V-shaped recovery, which is unlikely to materialise.**

4. Oil price stabilisation has helped markets bounce back, but oil is likely to remain volatile and could come under pressure again.

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