

# Reasons for Optimism in EM

JORNADAS MONETARIAS Y BANCARIAS, BCRA

OCTOBER 15, 2024

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# Views from MIM's EMD team

## The Landscape for Global Markets and Emerging Markets Debt into 2025

- Global soft landing; US elections may be noisy
- Upside risk: China recovery

Downside risk: Geopolitical escalation

- Global FI: tight spreads but attractive yields, expect inflows
- EM fundamentals improving and positive political outlook
- EM valuations attractive, we like corporates and HY sovereigns. Inflows likely increase as global CB's cut

# MIM's US Economic View

The key UNRESOLVED question:

“Is this a new economic paradigm of higher growth, inflation and rates?”

U.S. Forecast	2024	2025
GDP	2.0	2.0
CPI	3.1	2.8
10 Year	4.25	4.00
Policy rates	4.75	4.00
Unemployment	4.4	4.3

- No recession is base case in 2025, regardless of election outcomes.
- Consumers and Corporates remain healthy.
- FED cuts reinforce soft landing narrative. Data will determine pace and terminal rate.
- US debt “problem” will eventually have an impact

Source: MIM as of September 30, 2024

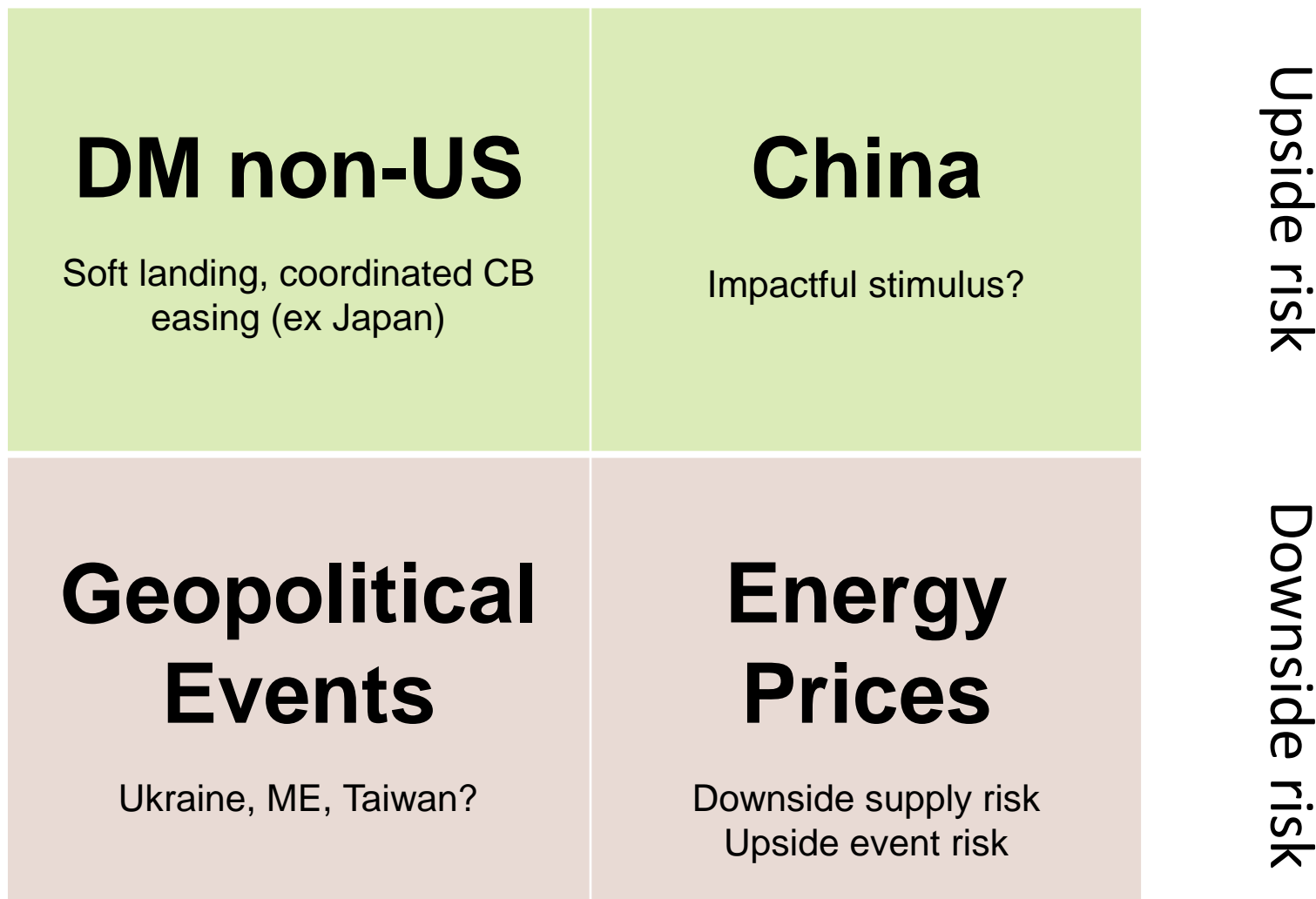
# Post Election Policy Bias: Harris vs Trump

	HARRIS	TRUMP
TCJA Extension **	Partial	Full
Corporate Taxes **	↑	↓
Regulations	↑	↓
Trade Tariffs	Status Quo	China, Europe, other?
Energy policy	Status Quo	↓ Green / ↑ Fossil Fuel
Immigration	Status Quo	More Restrictive
Growth and Rates	↓	↑
US Deficit & Debt	Neither will resolve high deficit and rising debt	

*\*\* Requires Congress*

EM countries most likely to be impacted by the U.S. Election:  
China, Ukraine, Venezuela, Mexico, El Salvador, Argentina

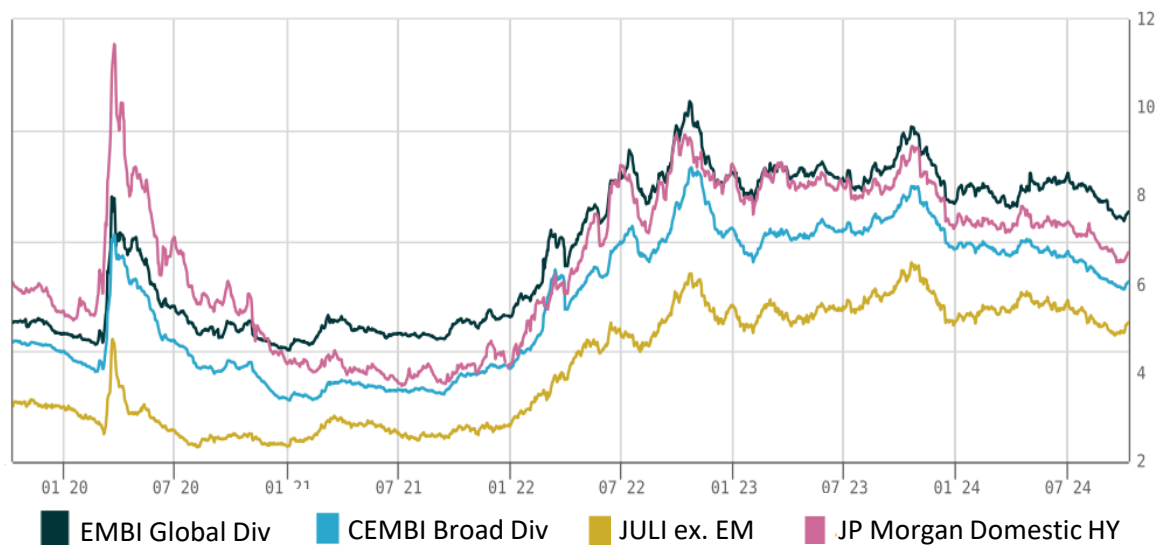
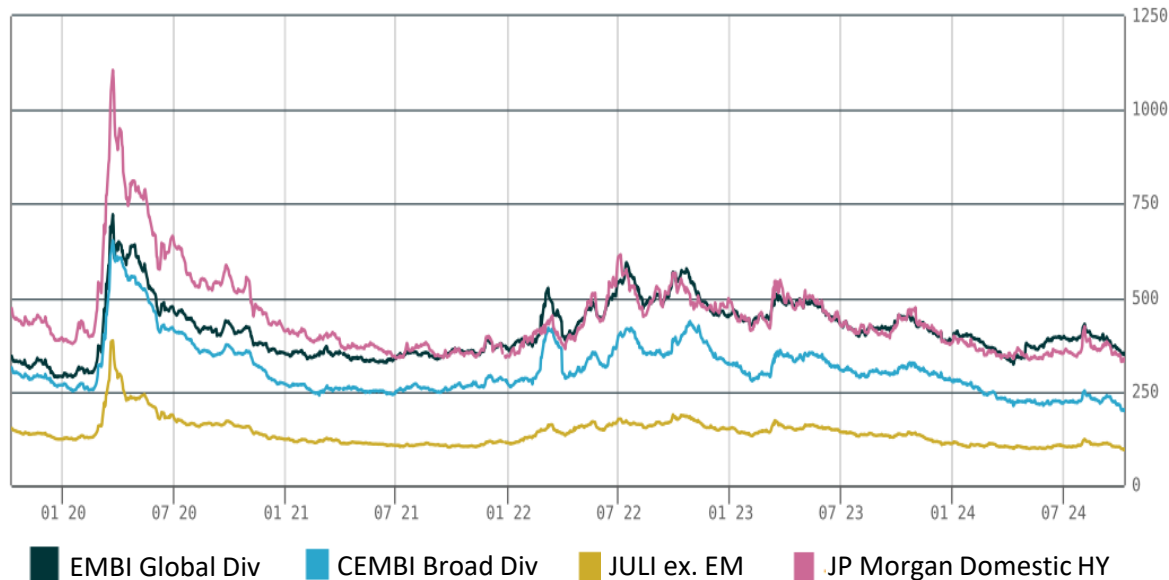
# Global Macro ex-US



Source: MIM as of September 30, 2024

# Global Public Fixed Income Markets

- Fundamentals healthy in IG, HY, EM
- Valuations are tight, carry environment
- But Yields are attractive
- Technicals: fixed income inflows expected



Source: MIM as of September 2024

# EM Fundamental Outlook

## Key themes into 2025

- Most EM sovereigns in good fundamental shape, lots of CB ammunition
- Low political risk: Positive 23/24 elections and few relevant elections in 2025
- Ongoing official creditor support
- BB rising stars, improving distressed sovereigns, EM corporates

### Sovereign Fundamental Trajectories

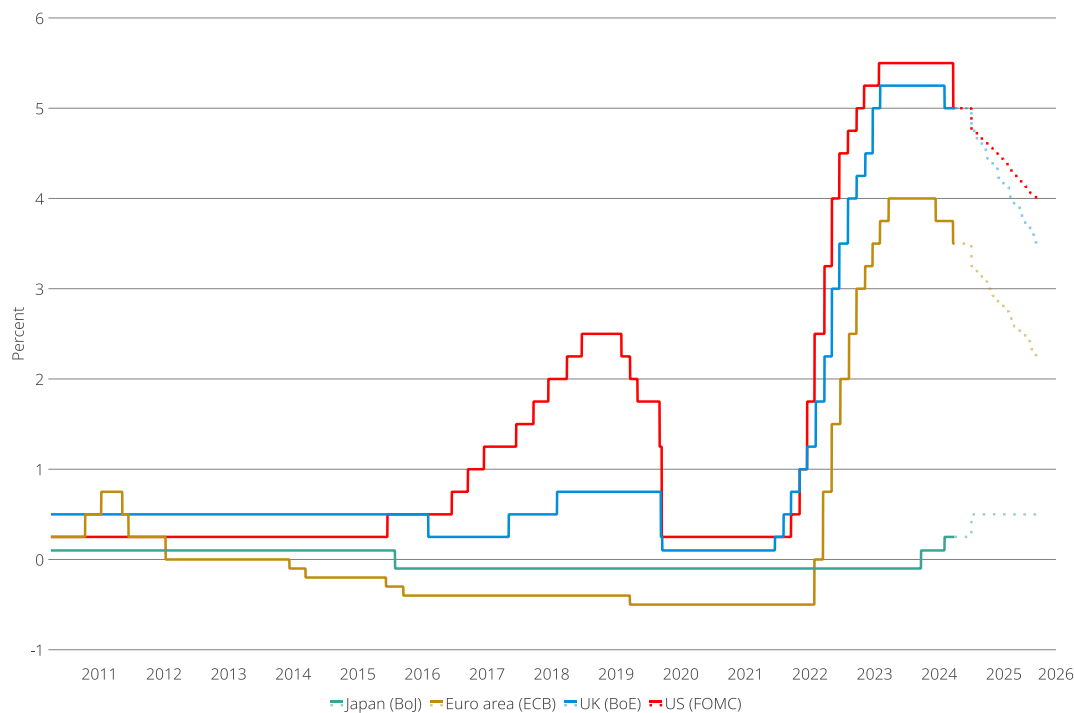
	Total		IG	HY	LATAM
	80		26	54	20
Needs Fiscal Adjustment	54	68%	62%	70%	80%
Rising debt trend 2-3 years	33	41%	50%	37%	50%
Ratings downtrend 2-3 years	19	24%	31%	20%	25%
Significant downgrade ~18mo*	8	10%	15%	7%	15%

\* "Significant" means falling from one rating bucket to the next (eg BBB to BB)

Source: MIM as of September 30, 2024

# Interest Rate Cutting Season

Central banks are now mostly synchronized



## Select Emerging Markets

Policy rate vs neutral	Countries
Below	6
Neutral	9
Above	50
Monetary policy bias	Countries
Loosening	24
On hold	27
Tightening	14

Note: Dotted line represents MetLife Investment Management forecast cuts

Source: Federal Reserve, Bank of England, European Central Bank, Bank of Japan, MetLife Investment Management. Data as of September 23, 2024 except where noted.

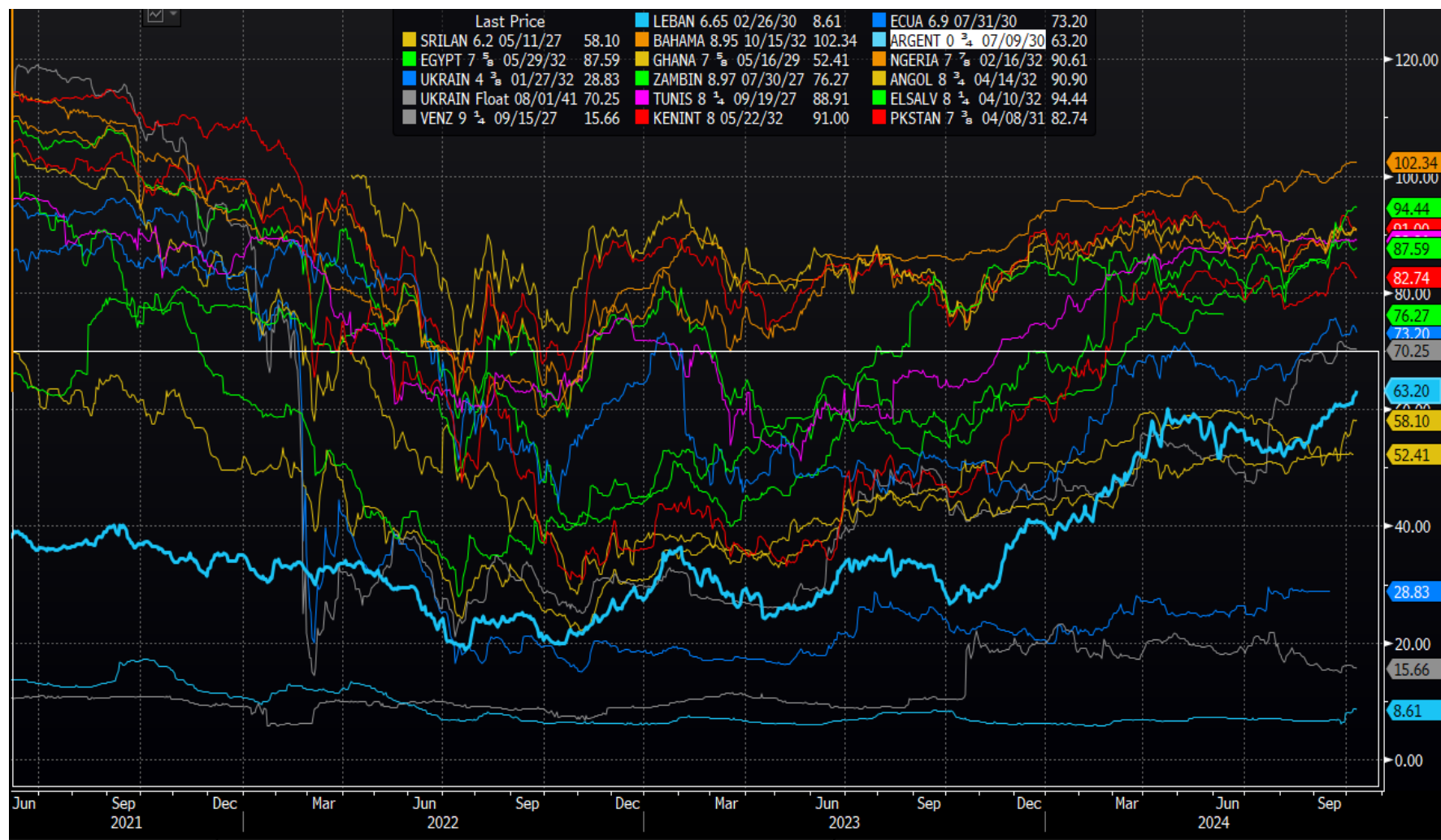


# EM Rising Stars

	<b>Ratings (+/s/-) F / M / S</b>	<b>Probability upgrade to IG within 2 years</b>	<b>Likely timing</b>
<b>Serbia</b>	BB+ (+) / Ba2 (+) / BBB- (s)	HIGH	2025
<b>Azerbaijan</b>	BBB- (s) / Ba1 (+) / BB+ (s)	HIGH	2026
<b>Oman</b>	BB+ (s) / Ba1 (+) / BBB- (s)	HIGH	2026
<b>Paraguay</b>	BB+ (s) / Baa3 (s) / BB+ (s)	MEDIUM	2026
<b>Morocco</b>	BB+u (s) / Ba1 (s) / BB+ (+)	MEDIUM	2027
<b>Guatemala</b>	BB (s) / Ba1 (s) / BB (+)	LOW	2028
<b>Dominican Republic</b>	BB- (+) / Ba3 (+) / BB (s)	LOW	2028
<b>Trinidad &amp; Tobago</b>	NR / Ba2 (s) / BBB- (s)	LOW	2029

Source: MIM as of September 30, 2024

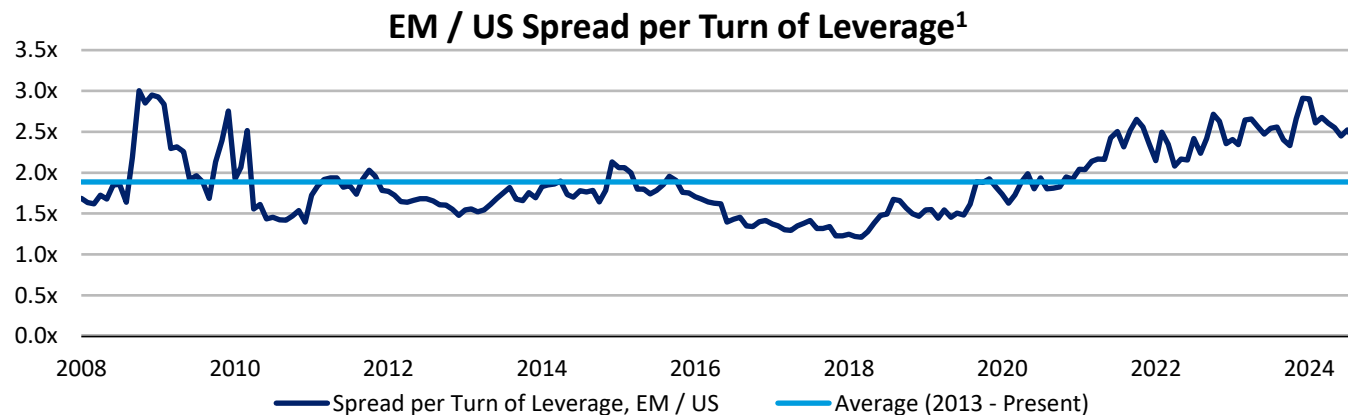
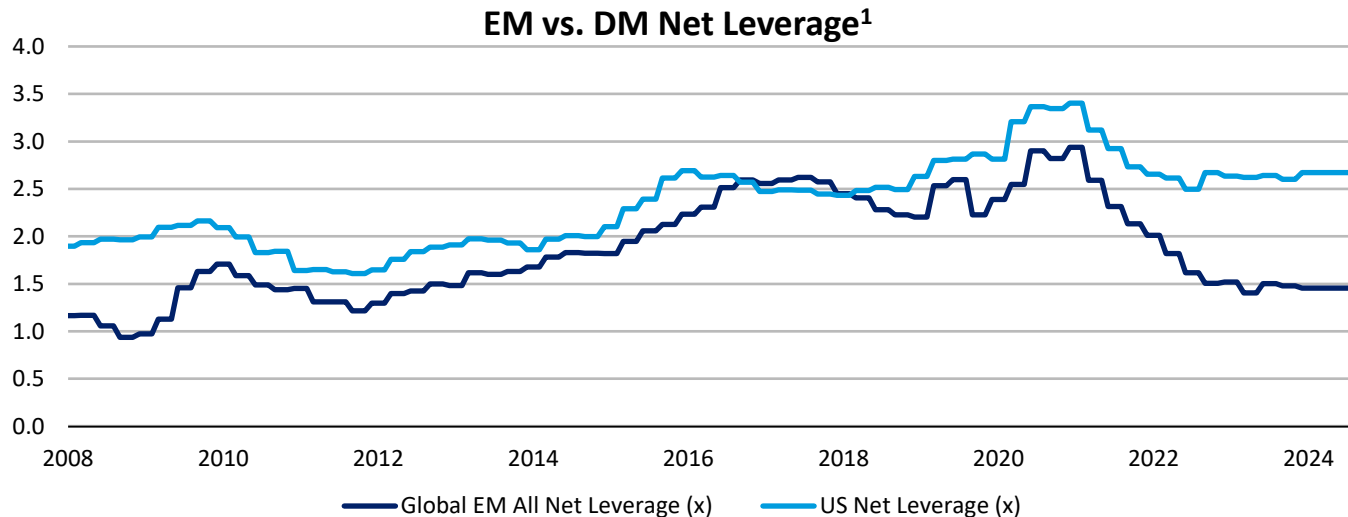
# EM Distressed Stories: Bouncing Back



Source: Bloomberg LP as of September 30, 2024

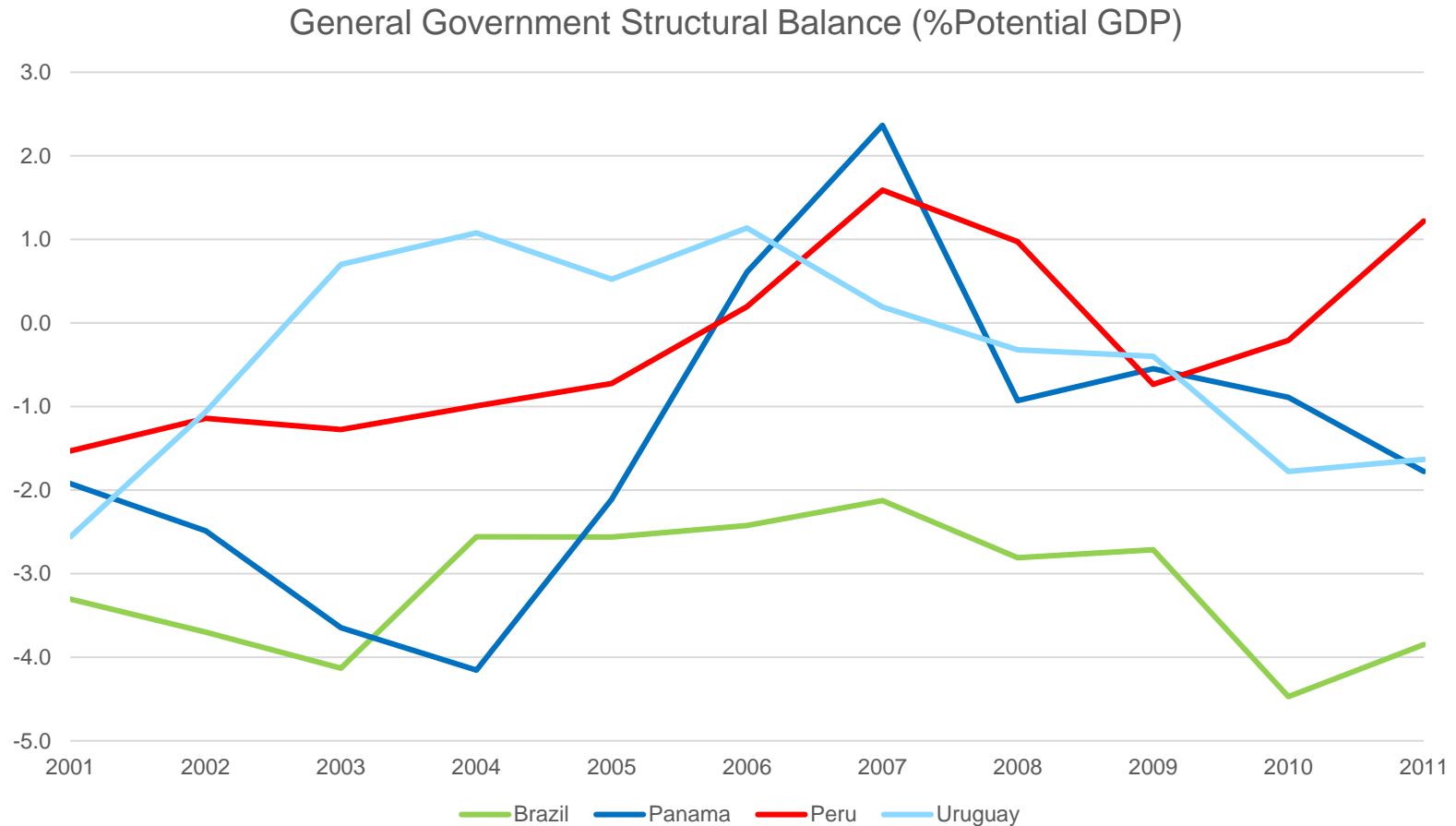
# EM Corporate Leverage

EM leverage metrics remain favorable relative to US credit



1. Source: BofA Global Research. Fundamental Data as of December 31, 2023, Spreads as of August 31, 2024

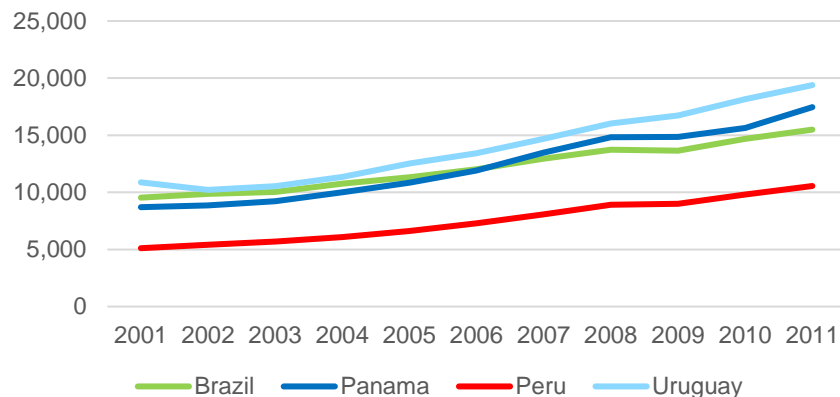
# Fiscal Dominance in reverse in Latin America (2002-2011)



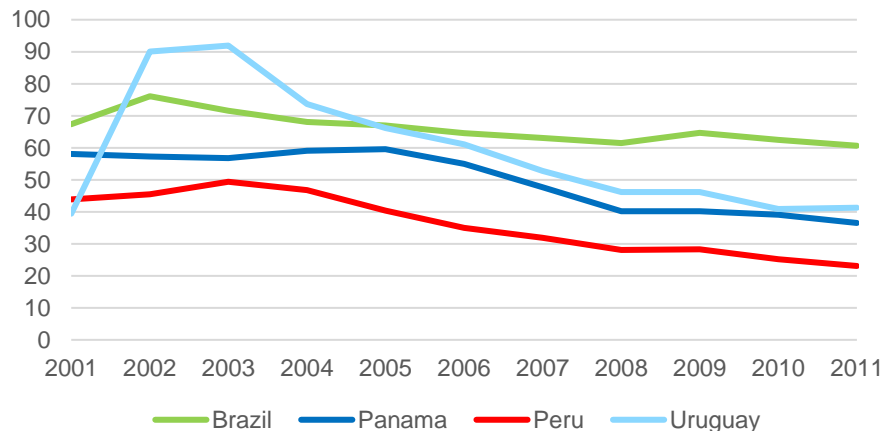
Sources: International Monetary Fund, World Economic Outlook Database as of April 2024

# Fiscal Dominance in reverse in Latin America (2002-2011)

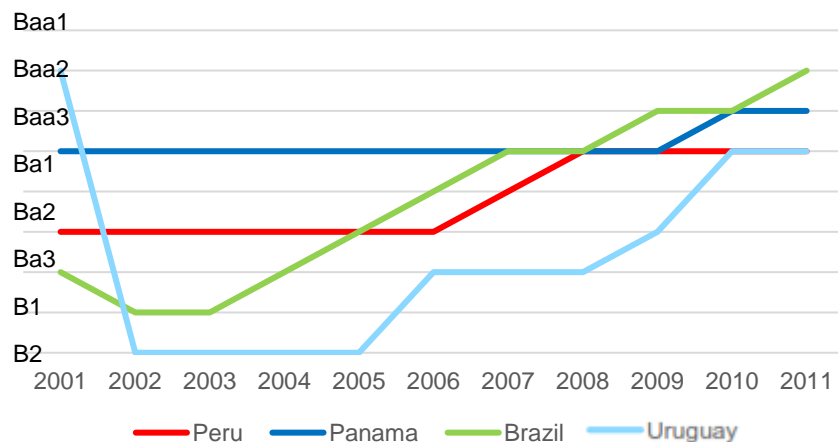
Gross GDP Per Capita, Purchasing Power Parity (\$ International) <sup>1</sup>



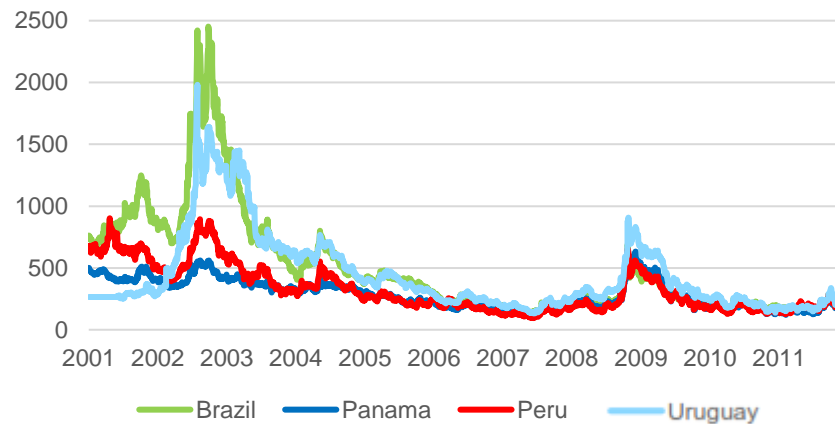
General Government Gross Debt (%GDP) <sup>1</sup>



Sovereign Credit Rating (Moody's) <sup>2</sup>



EMBI Spreads (bps) <sup>3</sup>



1. Sources: International Monetary Fund, World Economic Outlook Database as of April 2024

2. Source: Moody's as of September 30, 2024

3. Source: J.P. Morgan as of September 30, 2024

# Biography



## Thomas A. Smith

Portfolio Manager, Emerging Markets Debt, Fixed Income

Thomas Smith is a Portfolio Manager for MetLife Investment Management's (MIM) Fixed Income group. He is responsible for covering the Emerging Markets Debt (EMD) Government Bond and Investment Grade strategies for the EMD team. Prior to his current role, Thomas served as a Regional Strategist for Latin American Sovereign Credit, a Global Market Strategist for MetLife Afore, and Head of Research for LatAm Financial Institutions based in Latin America for MetLife originally joining in 2001. Thomas earned an M.S. in Finance from the Center for Macroeconomic Studies (CEMA) in Buenos Aires, Argentina and a B.A. in International Studies and Spanish from Southwestern University.

# Bull/Bear Macro Scenarios – Impact on EM

Positive Macro Drivers	Macro Driver	Negative Macro Drivers
Inflation Converges To Central Bank Targets	<b>Global Inflation</b>	Inflation Remains Sticky
Coordinated soft landing	<b>Global Growth</b>	Recession / Hard Landing
Conflicts in Ukraine and Middle East Move Towards Negotiated Settlement	<b>Geopolitical Conflict</b>	Wars escalate further with tangible impact on commodity markets
Government Delivers More Stimulus Than Currently Priced Into Market	<b>China Growth</b>	China Growth Remains Weak
Status quo with marginal improvements in fiscal policy	<b>US Elections</b>	Disruptive Trade Policy

Source: MIM as of September 30, 2024

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