

Positioning EMD ahead of the US election

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Positioning emerging market debt (EMD) ahead of the US election

If Kamala Harris wins November’s vote, the status quo is unlikely to change significantly, but should Donald Trump triumph the implications for foreign policy are likely to be far-reaching.

- A Trump presidency 2.0 is likely to involve a reinvigorated focus on the Chinese yuan traded in the offshore market. Tariffs, meanwhile, are expected on a range of sectors, including Chinese electric vehicles (EVs), which could materially hit aluminium and copper prices.
- It is likely possibility that Trump will look favourably on West-leaning governments that are open to capital investment. A prime benefactor in this respect would be Argentina under the leadership of President Javier Milei, who has enthusiastically supported Trump and various US conservatives.
- In eastern Europe, there are a number of governments in the region that are ideological bedfellows – such as Viktor Orbán in Hungary – who will likely seize on the opportunity to make political capital. However, they will also face demands to increase their defence spending. Moreover, if as is likely, tariffs are levied on EU exports to the US, the region will be disproportionately affected.

As the US presidential election campaign enters its final weeks, Donald Trump and Kamala Harris are in effect tied ahead of the vote on 5 November¹. If Vice President Harris prevails, the status quo is unlikely to change significantly, but should Trump triumph the implications for foreign policy are likely to be far-reaching, generating a number of opportunities – and potential pitfalls – for emerging market debt.



Figure 1: EMD hard currency performance under President Biden (% total cumulative return).



Source: Bloomberg as at September 2024. J.P. Morgan Emerging Markets Bond Index Global (“EMBI Global”) “0” represents beginning price for index. **Past performance is no guarantee of future results. For illustrative purposes only.**

Figure 2: EMD hard currency performance under first Trump presidency (% total cumulative return).



Source: Bloomberg as at September 2024. J.P. Morgan Emerging Markets Bond Index Global (“EMBI Global”) “0” represents beginning price for index. **Past performance is no guarantee of future results. For illustrative purposes only.**

China tensions

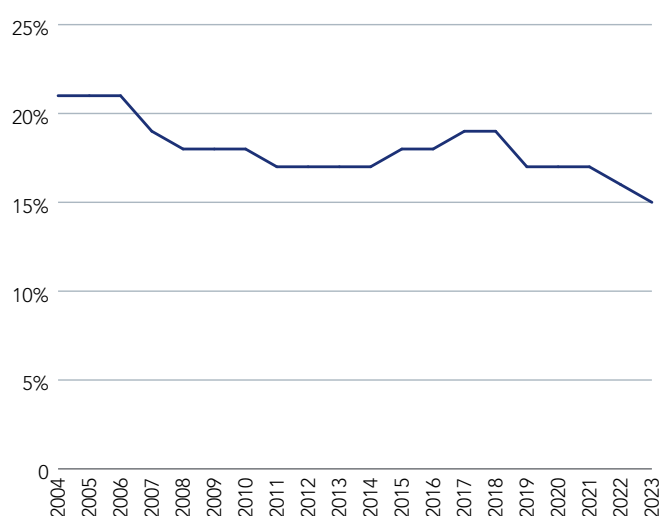
The first Trump presidency (2017-2021) irrevocably shook-up US policy towards China, and this fractious approach towards the Beijing government is likely to continue whoever wins in November. In many ways, it represents one of the few examples of bi-partisan consensus in Washington – and unilateral action on trade restrictions and tariffs looks set to stay.

¹ Harris and Trump tied in latest US election polls, as Tuesday’s debate nears | US elections 2024 | The Guardian

In recent interviews, Trump has talked about how his approach towards China might evolve if he were to win a second term, with a reinvigorated focus on the CNH – the Chinese yuan traded in the offshore market – and measures to address exchange rate manipulation. He is likely to face opposition from a number of leading global corporates in the US. Tech giant Apple, for example, is extremely wary of trade tensions as China is one of its biggest markets.

Our base case under a Trump 2.0 presidency is that some sort of US-China accommodation will eventually be reached, with the Beijing government making concessions on market access, as it did previously with US agricultural imports. But it will be a bumpy ride.

Figure 3: China exports to US (% total exports)



Source: Bloomberg as at September 2024.

Commodity prices

Under a Trump presidency 2.0, tariffs are expected on Chinese electric vehicles (EVs), which could materially hit aluminium and copper prices. Meanwhile, a returning president Trump could ratchet up sanctions on Iran, but they probably won't be as effective this time around as there is currently a slight surplus in oil production. Moreover, a natural slowdown in global trade will also hit the oil price.

A Russia-Ukraine ceasefire, meanwhile, could ease oil and gas supply concerns, while a more positive US-Saudi relationship might see OPEC+² return some oil spare capacity to the market while US oil and gas output might be stronger at the margin.

It is also important to add that Trump has set out an economic growth and stimulus agenda for the US that we believe should directly benefit commodities, providing considerable positive tailwinds for many commodity-rich countries, particularly in Latin America.

² OPEC+ countries are non-OPEC oil producer/exporters including Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan and Sudan.

Latin America pressure

Although the impact of a new Trump administration will vary on a country-by-country basis, certain common themes will broadly flow across Latin America. The baseline expectation is that President Trump will ramp up pressure on Mexico – and other central and South American nations – and address the migration crisis that has overwhelmed the United States' southern border.

From an economic perspective, the immediate impact is likely to be an overall reduction in remittances from income earned in the US and sent home. That being said, however, our belief is that there will also be the opportunity for the realisation of benefits for specific countries that are receptive and cooperative with Trump's approach.

One example might be Ecuador, a country once viewed as a tourist haven which has been blighted by gang warfare in recent years. If the Ecuadorian government can commit to reducing organised narcotics trafficking, it would likely translate into increased foreign assistance from discretionary spending under a second Trump term.

Additionally, even though Trump cannot force the International Monetary Fund (IMF) into specific lending practices or control its decision making, a US administration still holds considerable weight – and avenues of influence – on the IMF's ultimate determinations.

Another important point to highlight is the likely possibility that Trump will look favourably on West-leaning governments that are open to capital investment. A prime benefactor in this respect would be Argentina under the leadership of President Javier Milei, who has enthusiastically supported Trump and various US conservatives.

As for Brazil, Latin America's largest economy, there are obvious differences in political ideology between Trump and Brazil's President Luiz Inácio Lula da Silva. However, Brazil also has the chance to profit, as a new Trump administration is likely to view Brazil as a prime destination for US capital.

Although Latin American countries that cooperate on issues such as immigration – and have more West-leaning governments – are potentially better positioned to receive more accommodating trade terms, Trump's 'America First' agenda will most likely contain more punitive trade measures universally. Latin America as a region will not be immune, but will have some mitigatory relief on account of greater near-shoring potentialities.



Two unique carve outs to the broader narrative, however, can be seen in El Salvador and Venezuela.

Trump has in the past expressed appreciation of Salvadorian President Nayib Bukele's tough-on-crime approach, while also recently chastising his progress on the campaign trail. Regardless of Trump's current opinion of the country and its leader, it has become clear that a second Trump administration would see El Salvador as pivotal to its effort to address immigration and illegal narcotics-related activities.

On a related note, Trump has expressed support for cryptocurrencies in recent weeks and his re-election should provide an accommodative regulatory backdrop for digital currencies. El Salvador adopted bitcoin as legal tender in 2021 and built-up sizable reserves of the crypto currency.

Another nuanced situation relates to Venezuela, where President Nicolás Maduro continues to cling onto power despite widespread accusations of vote rigging in July's presidential election. A new Trump administration may adopt a more pragmatic approach going forward.

Moreover, the Venezuelan oil sector might also support a greater détente between a second Trump administration and the Maduro government in light of the fact that energy security and affordability are key pillars of Trump's platform. Such an outcome, however, is largely dependent on the influence and composition of various influential figures within a future Trump administration.

Finally, a Trump 2.0 presidency would likely lead to more proactive efforts to counter Chinese involvement in Latin America and translate into greater encouragement of US investment in the region.

Eastern European challenges

Under a second Trump presidency, Ukraine looks set to be the most obvious loser (compared with the status quo under a President Harris.)

In late August, international bondholders formally approved Ukraine's plan to restructure more than US\$20bn of debt amid its ongoing war with Russia. The deal is set to slash the face value of Ukraine's international bonds by more than a third and keeps it onside with its key support provider, the IMF, which had stipulated the write-down was necessary to make debt levels sustainable.

Creditors face a number of crunch issues in terms of what type of Ukraine emerges from the war: in terms of reconstruction costs, reparations from Russia, and whether it can support the debt load. It's a huge challenge and one that will only be made more complicated under a change of leadership in Washington.

Official creditors have agreed a debt standstill to 2027 – but that could be unpicked by an incoming US administration to put pressure on Ukraine to enter peace talks. The Group of Creditors of Ukraine includes Canada, France, Germany, Japan, the United Kingdom and the US.

In the event of a Trump victory, we anticipate that the G7 initiative on using Russian Euroclear holdings to finance Ukraine's war needs and reconstruction costs could potentially be unpicked by the new administration, eager to use the deal as leverage to initiate peace talks and find a resolution to the war.

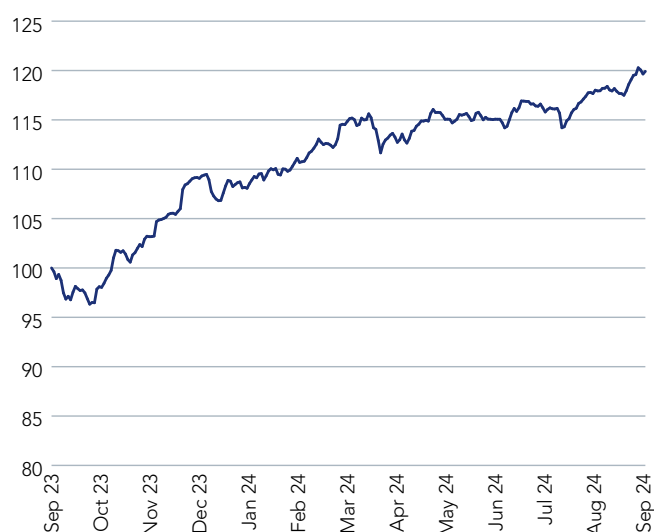
In terms of the rest of eastern Europe, there are a number of governments in the region that are ideological bedfellows – such as Viktor Orbán in Hungary – who will likely seize on the opportunity to make political capital. However, they will also face demands to increase their defence spending. Moreover, if as is likely, tariffs are levied at EU exports to the US, eastern Europe will be disproportionately affected.

A lot of manufacturing in the region covers segments such as white goods – or German cars offshored to eastern Europe – and EU tariffs are likely to be punitive at a time when regional governments are facing additional budgetary pressure from increased defence spending. As a result, taxes or borrowing may increase in the region at a time when domestic economies may be slowing down.

Frontier opportunities

Frontier African markets have largely delivered good returns this year, outperforming mainstream markets. It has largely been as a result of idiosyncratic improvements in the credit profiles of various sovereigns, including Egypt, Kenya and Nigeria and they are unlikely to be affected as much as other regions in the event of a Trump victory. In our opinion, tariffs, re-onshoring, exchange rate policy and other pressure points are less relevant here. We continue to have select overweights in certain Frontier markets because of their uncorrelated nature and the high levels of carry on offer.

Figure 4: Frontier markets on the rise (% total cumulative return).



Source: Bloomberg as at 26 September 2024 J.P. Morgan NEXGEM "100" represents beginning price of index.

Past performance is no guarantee of future results. For illustrative purposes only.

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International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards.

Diversification does not assure a profit nor protect against loss.

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Forward-looking statements or projections are subject to certain risks and uncertainties. Actual results may differ from those expressed or implied.

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High yield, lower-rated securities generally entail greater market, credit/default and liquidity risks, and may be more volatile than investment-grade securities.

J.P. Morgan Emerging Markets Bond Index Global ("EMBI Global") tracks total returns for traded external debt instruments in the emerging markets and is an expanded version of the JPMorgan EMBI+. As with the EMBI+, the EMBI Global includes U.S. dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least \$500 million. It covers more of the eligible instruments than the EMBI+ by relaxing somewhat the strict EMBI+ limits on secondary market trading liquidity.

J.P. Morgan NEXGEM tracks USD-denominated debt issued by sovereign and quasi-sovereign next generation issuers. The Next Generation Markets Index (NEXGEM) countries are selected from the universe of EMBI Global Diversified countries. A unique set of country criteria exist for the NEXGEM to select only the smaller emerging countries of lesser credit quality. The index was launched in November 2011 with daily historical index levels and statistics available from Dec. 31, 2001.

Indexes are unmanaged and investments cannot be made in an index.