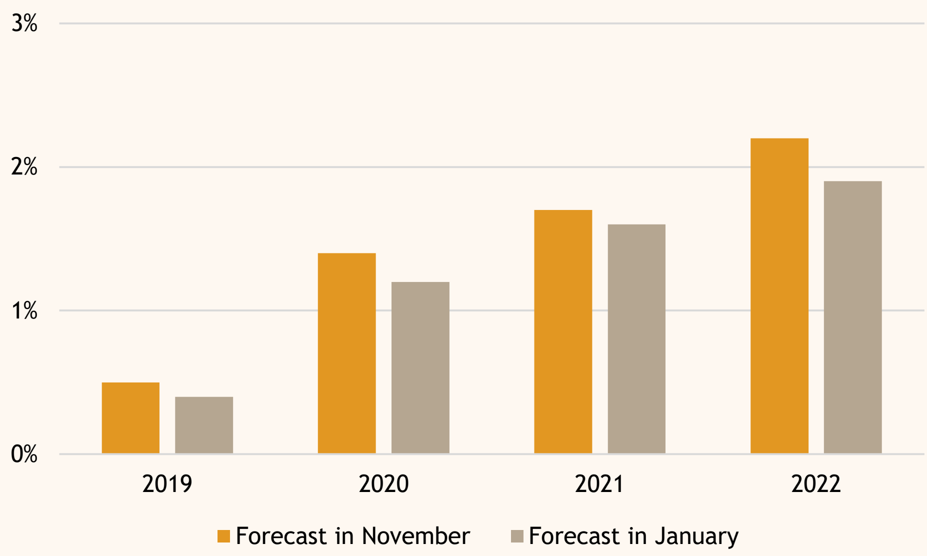
Key Economic Figures / Events of the Week

- The long-awaited US-China phase-one trade deal was finally signed on Wednesday, 15 January, which provided a relief to the markets and contributed to the continuing search for yield, which pushed emerging market bond prices up. We expect the deal to drive a pick-up in trade volume and subsequently in industrial production and support global economic growth in the months to come. Looking forward, the phase-two deal will be most likely more difficult to achieve and rising political uncertainties, mainly coming from the US elections, will put pressure on the Fed for further easing in the second half of the year.
- On the data front, December retail sales assured that consumer confidence continues to provide strong support to the economy, with a 0.3% MoM increase in December and an upward revision of the November data from 0.2% to 0.3%. Tuesday saw the release of the CPI figures, witch showed that core inflation increased 0.1% MoM in December, less than 0.2% forecasted. YoY core CPI stayed unchanged from November, at 2.3%. The latest reading of the core PCE, Fed's preferred inflation gauge, is still below the 2% target, at 1.6%. Thus, inflation pressure remains muted, which also supports our view of at least one rate cut this year.
- The wave of positive news continued with the newly released data on Chinese economy on Friday, 17 January. GDP picked up in the last quarter, which led to an overall 6.1% GDP growth in 2019, in line with expectations. Both industrial output and retail sales in December came out slightly better-than-expected and assured markets that the Chinese economy is on the right track in the short term.

South African Central Bank cuts rate amid lower growth forecasts



Source: South African Reserve Bank, Bloomberg

Weekly Investment Insights

- South Africa's central bank provided a benchmark rate cut of 25 bps, down to 6.25%, to the surprise of the markets. The decision was motivated by lower projections for inflation and growth for 2020. Although lower GDP growth may trigger a downgrade by Moody's, the only credit rating still assigning an investment grade rating, a downgrade already priced in, according to our opinion, while the South African assets provide one of the best returns among its peers.

- Turkey's central bank announced a further rate cut, bringing the interest rate down from 12% to 11.25%. With the inflation rate rising to 11.8% in December, the cut moved the real rates to negative territory. Turkish assets rose this week on the back of geopolitical tensions easing in the Middle East.
- The swift and smooth transition of power in Oman, following the death of its sultan on Friday, 10 January, calmed the markets and provoked a rally in Oman bonds, including those we hold in our portfolios, as the political stability issue had been a concern to the investors for some time.

Strategy

In terms of tactical allocations, we continue to favor a bottom-up approach to selecting securities. The primary market continues to show increased activity. This week, we acquired a new issue of Prosus (BBB-/Baa3), a subsidiary of the South African media company Naspers, which operates globally. We also invested in new issue of the Indian Power Finance Corporation Limited (BBB-/Baa3), as well as the primary offering of the Brazilian Globo (BB/Ba1/BB+), all purchases being USD-denominated and maturing in 10 years. Investors will now turn their focus to the fourth quarter earnings reports, with some major US banks provided better-than-expected results for a good start of the earnings season.

We hope you find this information useful and will be glad to answer your questions

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