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# Global Funds Outlook

## Cautiously optimistic on EMs in the short run

1Q20

Creating Opportunities

# Key messages

Global Investment Funds (GIFs) closed a turbulent 2019 on a fairly optimistic note, with market's regaining risk-on mood post US-China trade truce, lower Brexit uncertainty, and further monetary easing.

The current 'window of weakness' is thus giving way to signs of stabilization in global growth in early 2020.

Past quarter saw increasing appetite for EMs (vs DM) and Equity (vs Bonds).

EM equity funds have been biggest beneficiaries of investors' risk-on mood while hard as well as local currency bond inflows have improved.

Limited scope for further monetary policy easing as well as ebbing uncertainty weighs on sovereign bonds while improving prospects of growth pick up supports global high yield bonds

Net inflows to global money market funds were a record in 2019.

We expect EMs to continue benefiting from positive net portfolio inflows during the first half of 2020.

On a cautiously optimistic note, underlying concerns over potential disruptions caused by geopolitical conflicts, trade tensions and social protests will limit sharp incremental gains in EM inflows. Furthermore, policy uncertainty could resurface in the run up to the US elections.

# The new year has begun on a high note for riskier assets as easier financial conditions underpin growth stabilization while key tail risks ebb

## 01

**Signs of stabilization in global growth** as tail risks, marked by trade tensions and Brexit uncertainty, ebb, while activity data improves.

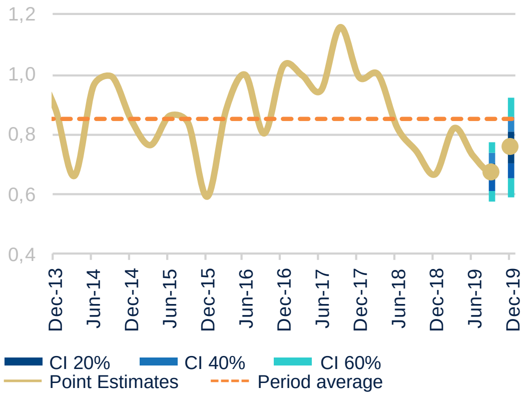
## 02

**Major central banks expected to maintain an extended pause** while still being accomodative.

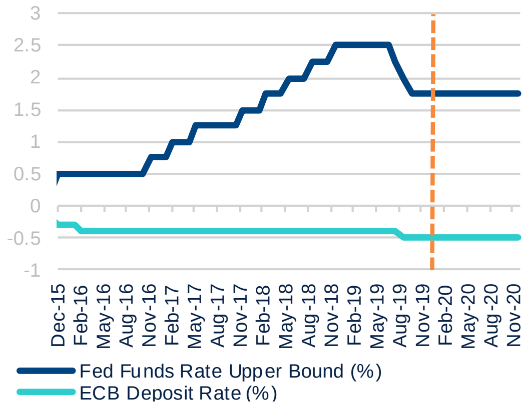
## 03

**Volatility subsides** while risk appetite picks up, pushing core sovereign bond yields higher.

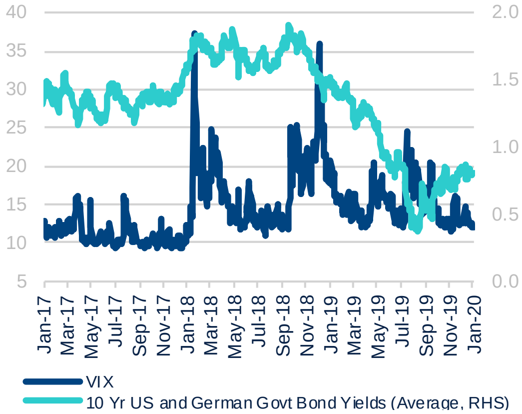
### WORLD GDP GROWTH
(FORECAST BASED ON BBVA-GAIN, % QOQ)




### FED AND ECB POLICY RATE
(%)




### VIX VS. SAFE HAVEN YIELDS
(%)




Source: BBVA Research, Bloomberg

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# Index

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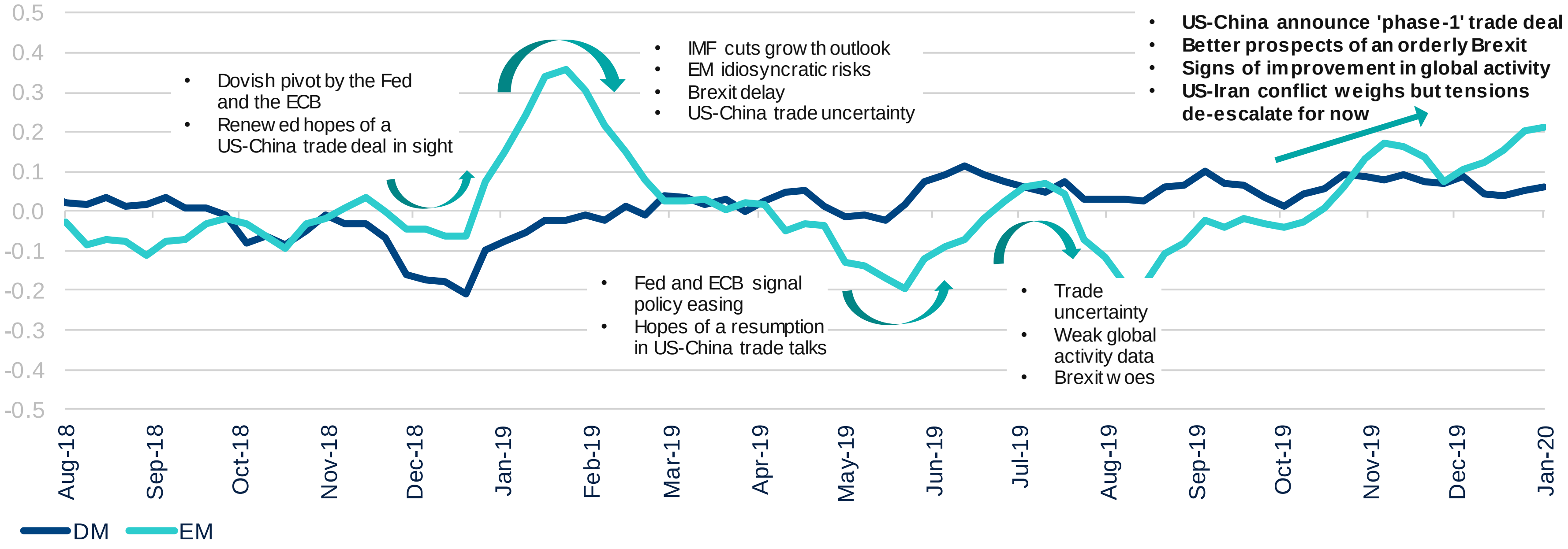
# 01

# New year sees extended appetite for EM bond and equity funds

# Revival in EM flows in Q4 2019 gains further traction beginning 2020

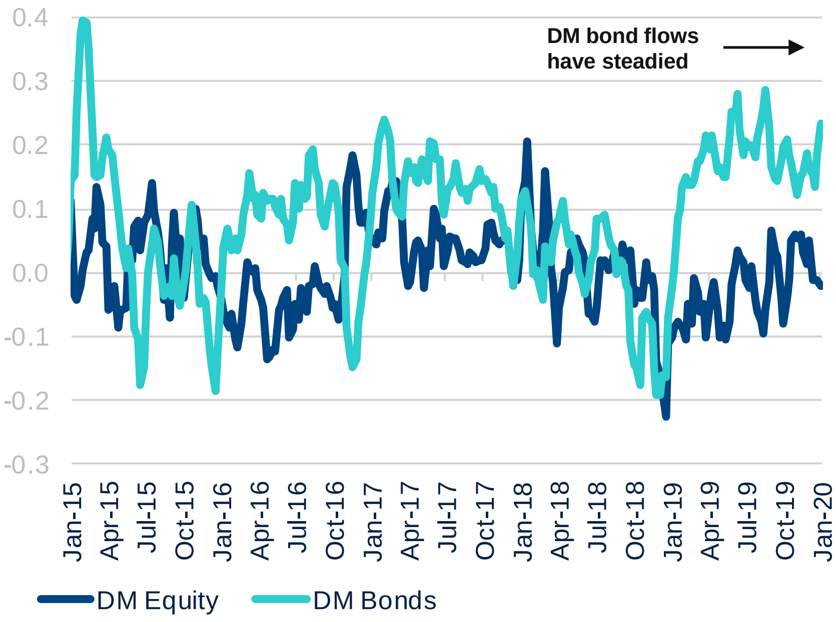
## WEEKLY FLOWS, 4W MOVING AVERAGE
(% AUM)



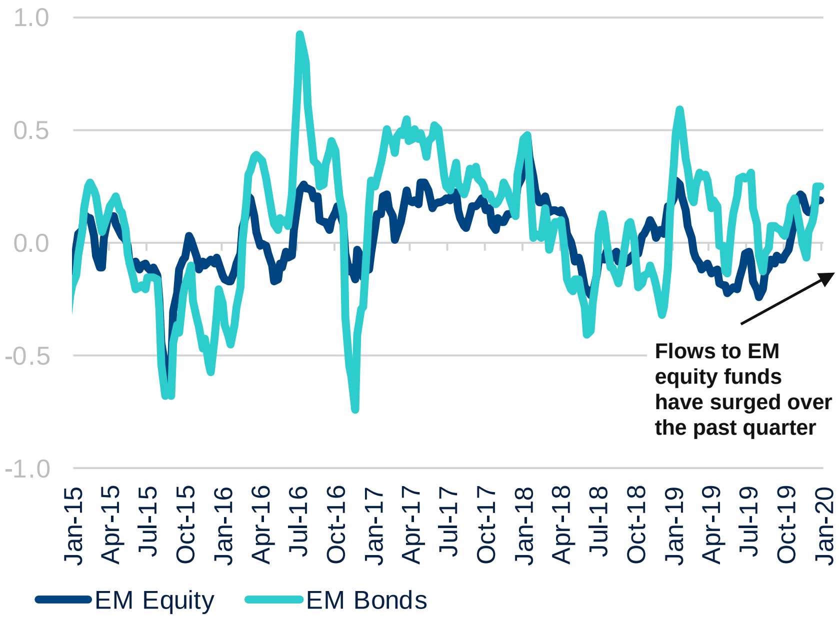

Source: BBVA Research, EPFR

# Flows to DM bond funds have steadied, while flows to EMs have recovered markedly, led mainly by EM equity funds

## DM FUND FLOWS – EQUITY VS. BONDS
(% AUM)



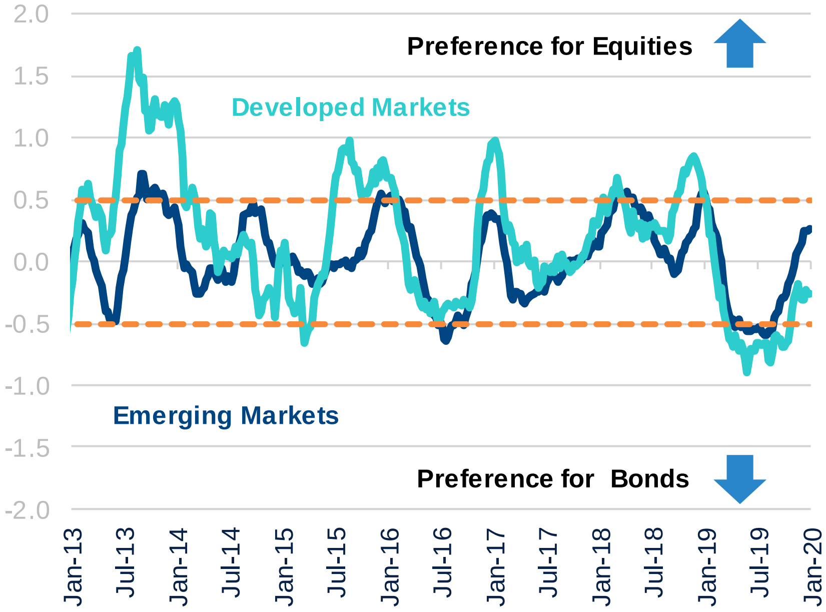

## EM FUND FLOWS – EQUITY VS. BONDS
(% AUM)




Source: BBVA Research, EPFR

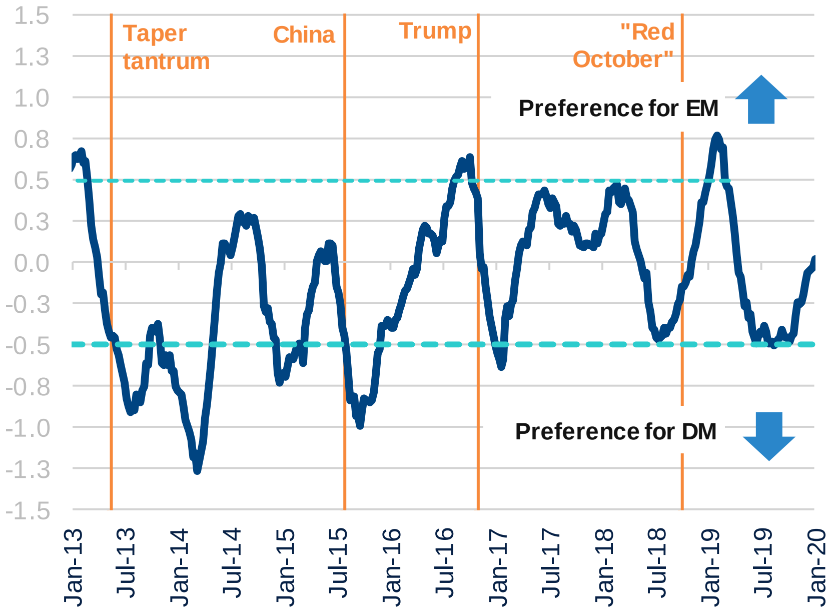
# Preference for EM equities has strengthened significantly over the past month

## INVESTOR APPETITE FOR EQUITIES VS. BONDS
(STANDARD DEVIATION FROM HISTORICAL MEAN)




Source: BBVA Research, EPFR

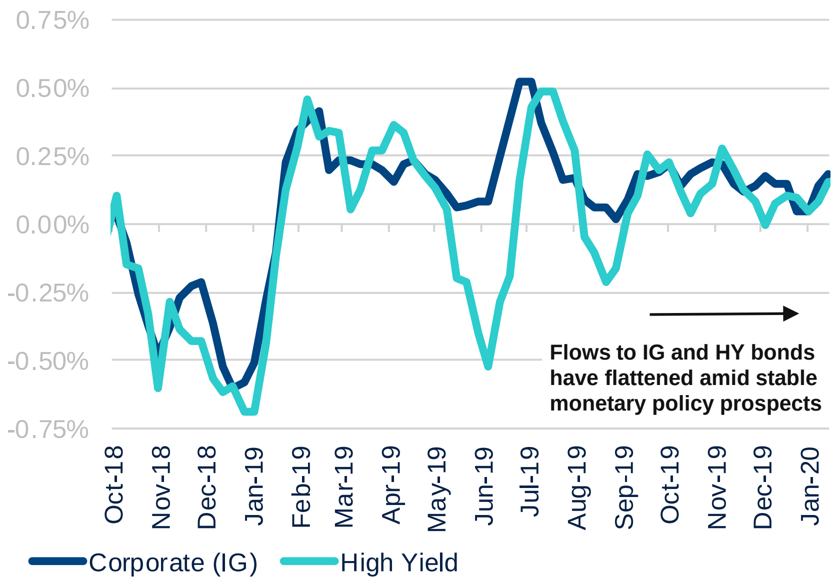
## INVESTOR APPETITE FOR EM VS. DM
(STANDARD DEVIATION FROM HISTORICAL MEAN)



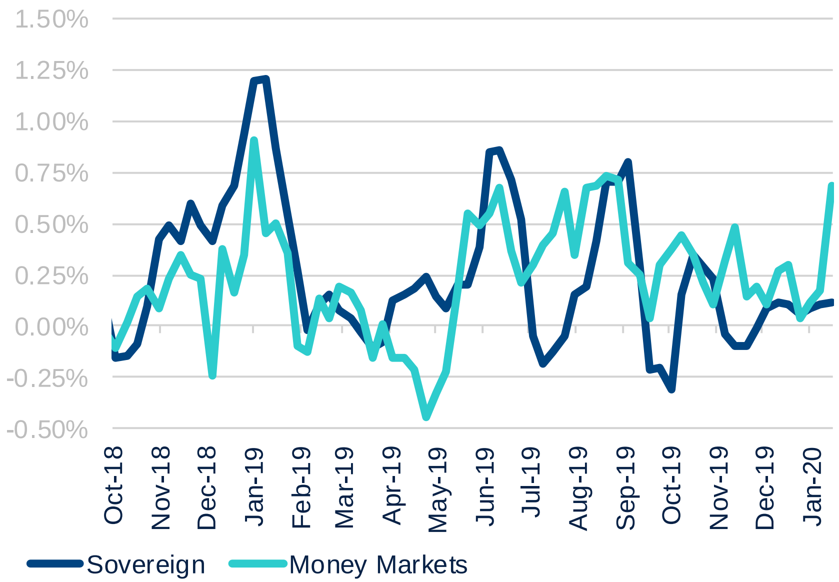

Source: BBVA Research EPFR

# Limited scope for further policy easing weighs on sovereign bonds while investors park cash in money market funds to facilitate portfolio rotation

## FLOWS TO HY & INVESTMENT GRADE CORPORATE BONDS
(4W M.A. % OF AUM)




## FLOWS TO SOVEREIGN BONDS & MONEY MARKETS
(4W M.A. % OF AUM)

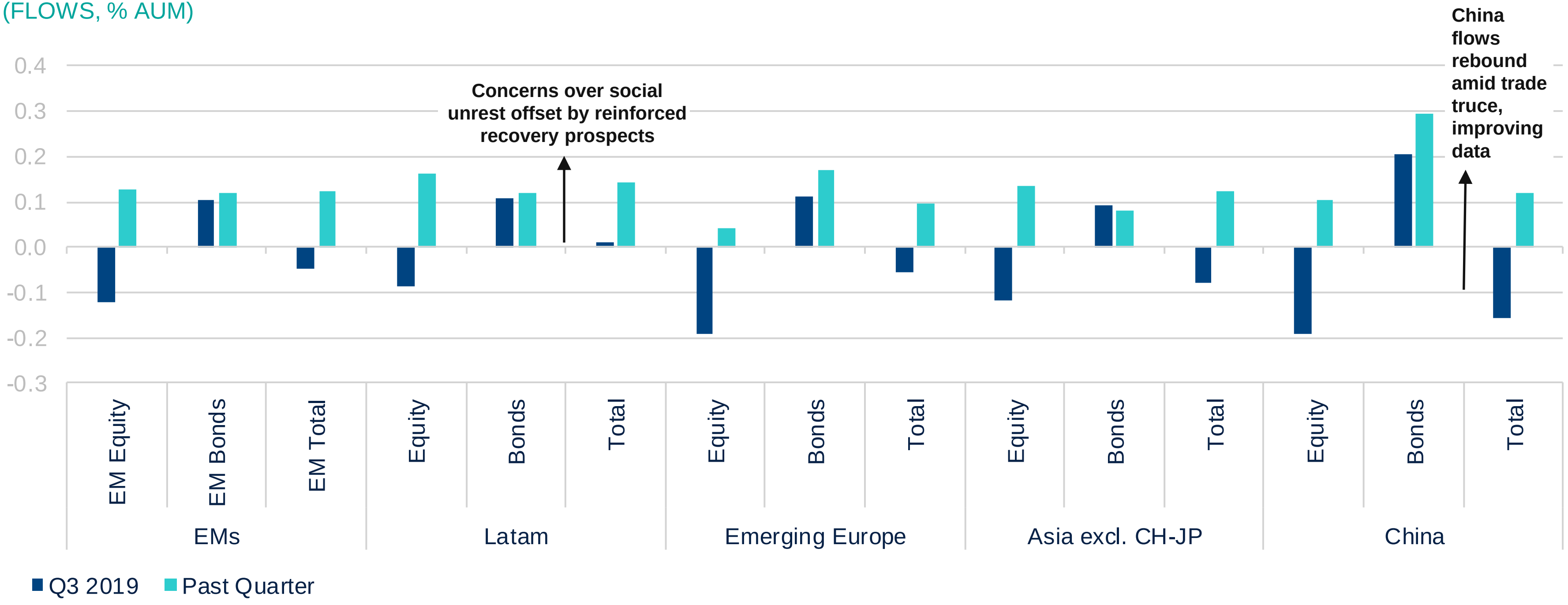



Source: BBVA Research, EPFR

# Emerging market equity funds have been biggest beneficiaries of investors' risk-on mood while hard as well as local currency bond inflows improve

## GIF FLOWS ACROSS EM BY REGION AND ASSET CLASS

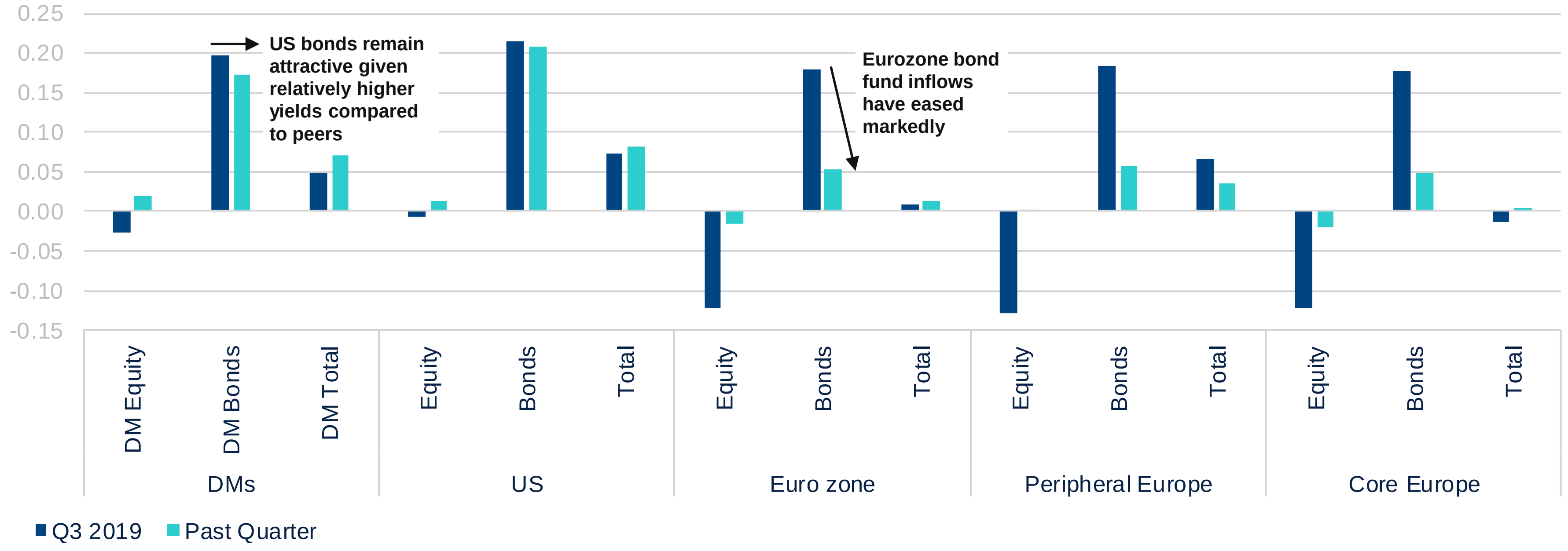
(FLOWS, % AUM)




Source: BBVA Research and Bloomberg

# Appetite for European, but not US, debt has clearly moderated; and there seems little appetite for equity funds in DMs

## GIF FLOWS ACROSS DM BY REGION AND ASSET CLASS
(QUARTERLY FLOWS, % AUM)




Source: BBVA Research and Bloomberg

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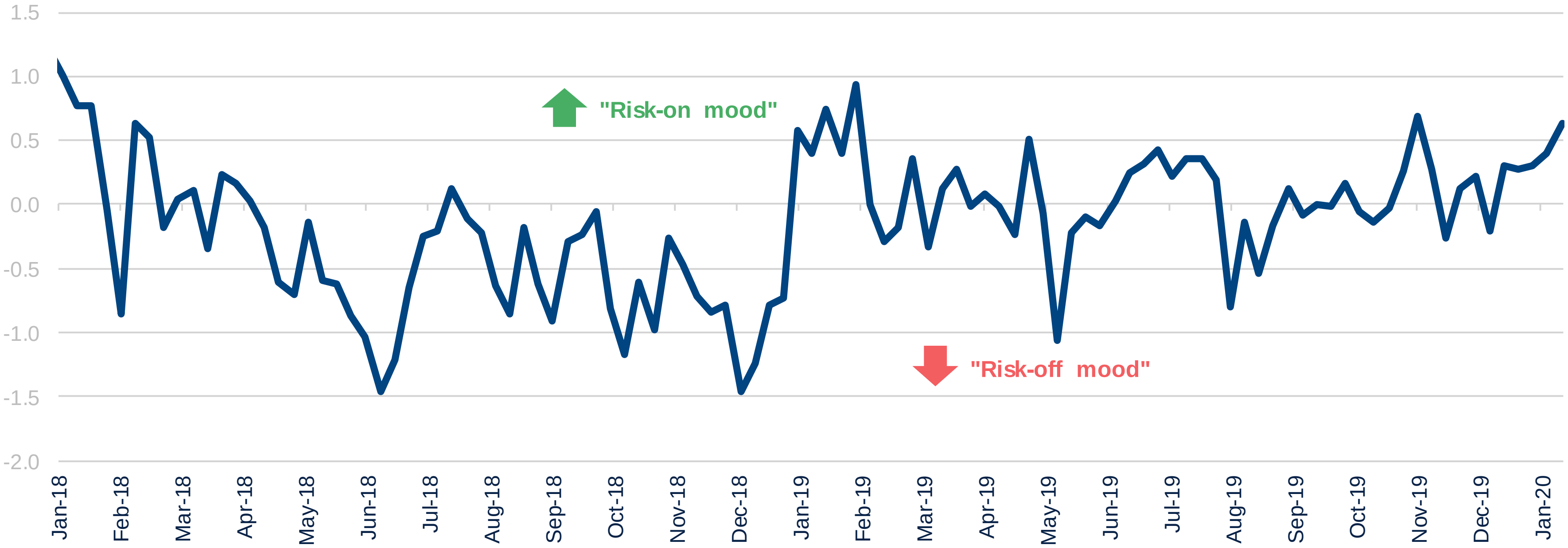
# 02

# Warnings from our risk-off indicator

# Our investment mood index reflects a significant improvement in market sentiment over the past month

## INVESTMENT MOOD INDEX*

(ABOVE (BELOW) ZERO = RISK-ON (RISK-OFF) MOOD




Source: BBVA Research and Bloomberg

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# 03

## What next?

Creating Opportunities

# The environment will favor a soft landing of global growth

## LOWER TRADE TENSIONS

- **US-China** “Phase-one” deal **positive but partial and** faces challenging implementation.
- **Protectionism** will continue to be a source of concern, also in other regions.
- **A less disruptive *brexit***, at least in the short-term.

## COUNTER-CYCLICAL POLICIES

- The expansionary tone of **monetary policy** will be maintained, following recent easing.
- A limited **fiscal stimulus** in Europe and somewhat greater in China.

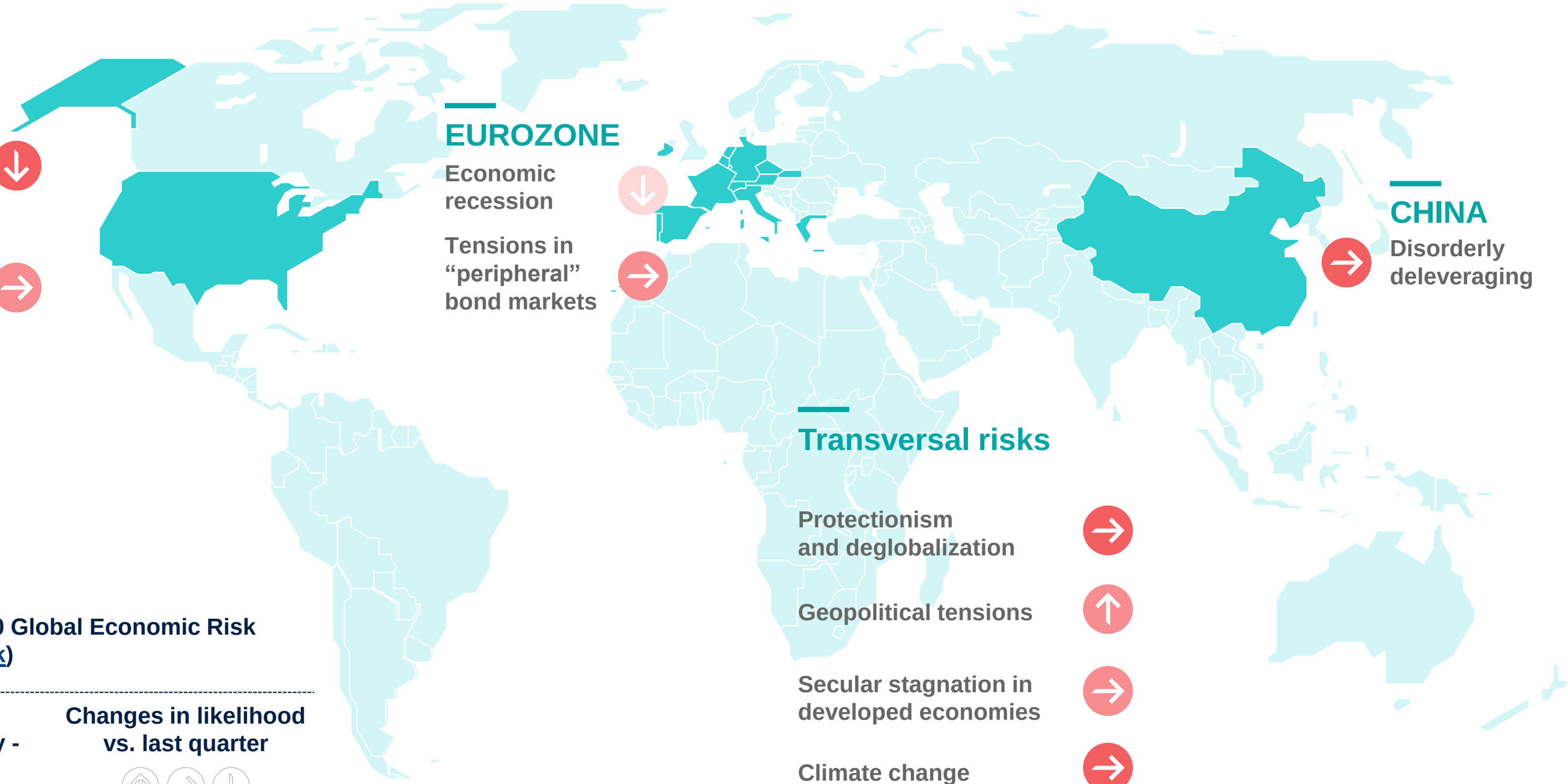
## LIMITED FINANCIAL VOLATILITY

- **Volatility is suppressed** by central banks actions but expect limited further downside.
- **Volatility could rebound if risks re-intensify** across trade, Brexit, or geopolitics, or policy uncertainty rises ahead of US elections.

## COMMODITY PRICES UNDER CONTROL

- **Oil prices** around 61 dollars in 2020-21
- Relative **weakness of demand** and **increase in the supply of non-OPEC countries.**

# Risks map: Reduction in the cyclical global risks, but not in the structural ones that reshape the asset allocation (climate change)



## USA

Economic recession

Fall in bond prices due to higher inflation

## EUROZONE

Economic recession

Tensions in “peripheral” bond markets

## CHINA

Disorderly deleveraging

## Transversal risks

Protectionism and deglobalization

Geopolitical tensions

Secular stagnation in developed economies

Climate change

**See our 1Q20 Global Economic Risk Outlook: (link)**

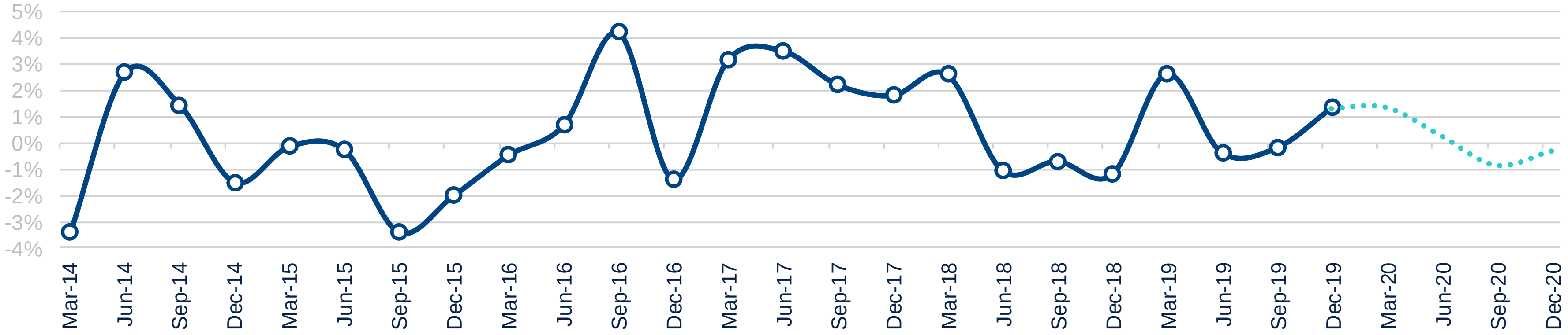
**+ Global severity -**

**Changes in likelihood vs. last quarter**

# We expect EMs to continue benefiting from net positive portfolio inflows during the first half of 2020, albeit at a receding pace as uncertainties remain

- Expect EMs to benefit from positive portfolio inflows during 1H20 on the back of rising investor confidence over prospects of a global growth recovery given the completion of Phase-one US-China trade deal, lower Brexit uncertainty, signs of a recovery in global manufacturing and continued policy support.
- However, underlying concerns over potential disruptions caused by geopolitical conflicts, trade tensions and social protests will limit sharp incremental gains in EM inflows. Furthermore, policy uncertainty could resurface in the run up to the US elections. In this context, net EM inflows are expected to ease starting 2Q20.

## PORTFOLIO FLOWS TO EM (ACTUAL AND FORECAST AS UNDER OUR BASELINE SCENARIO)
(% OF AUM)




Source: BBVA Research, EPFR ; See assumptions in Annex

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# 04

# Annex

# Glossary

## GIF

Global Investors Funds: these are the funds covered by the EPFR database in the “Country flows” allocation, with amounts shown in millions of US Dollars. This database includes the flows in country-denominated funds and the proportional amounts in global or supranational labelled funds.

## AUM

Assets under management in the EPFR database.

## DM

Developed markets included in our sample are Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the US.

## EM

Emerging markets included in our sample are Argentina, Brazil, Chile, China, Colombia, Czech Republic, Hungary, India, Indonesia, Korea, Mexico, Peru, Philippines, Poland, Russia, Slovenia, South Africa, Thailand, Turkey and Venezuela.

# Assumptions under our baseline scenario

01

**Fed** on a long pause.

02

**Volatility** : VIX eases to 11.5 by end March before rising gradually up to 13.25 by this year end.

03

**US 10 year treasury yield to see a gradual rise** to above 2.0% by end 2020. Yield curve to steepen.

04

**Fed balance sheet continues to expand, although at a receding pace during 2020**

05

**Oil prices remain contained, with Brent crude averaging USD 61 per barrel in 2020**