Quarterly Market Letter

December 2018

Return to Normality. From Quantitative Easing to Quantitative Tightening.

Macroeconomic Developments

- **Background:** 2018 was an inflexion point in monetary policy for the major central banks. The global liquidity cycle peaked. Yield-seeking behavior on the part of investors, an implicit part of how QE is meant to work, has given way to increasing volatility and more frequent (and stiffer) corrections in the main equity markets.
- **Outlook:** As 2018 ends, the market is prepared for a dovish Fed. G7 money supply growth is restrictive in real terms, and given the usual time-lags with economic activity, it points to slower G7 GDP growth. Concerns about the global impact of a tighter Fed policy are overdone. Spillovers to EM are real, but the market has already priced most Fed Fund hikes for this cycle. Thus, most of the adjustment to more normal U.S. interest rates is probably behind us. The main risk to this view is a more substantial U.S. overheating, that eventually forces steeper rate hikes. We do not see the risk of recession in 2019 as unusually high. These pressures are likely to build, however, alongside sustained above-trend growth. The slide in the equity markets coincides with "peak" global growth, and forecasting bodies like the IMF and OECD have revised down their global GDP forecasts for 2019, albeit modestly to 3.7%.
- **Global trade:** A temporary U.S. – China truce was announced following the G20 meeting and China announced a 90-day suspension of tariff hikes on U.S. cars, but the CNY is still expected to weaken modestly to 7.10 by end-2019. Donald Trump and Xi Jinping spoke on the phone, according to Trump, and made "progress" toward cutting a deal. Trump said in a tweet that negotiations were moving along very well toward a comprehensive deal, while Chinese state media said Xi believed both sides wanted "stable progress." The consensus story line is that the U.S. has more leverage on China since they exported $505 billions of goods into the U.S. in 2017, while the U.S. only shipped $130 billion of goods to China. The target is much bigger on China's back than on the U.S., since the U.S. can slap tariffs on more goods than China can. China is easing fiscal and monetary policy in a myriad of ways as an insurance policy and to enable itself to extend negotiations.
- **Geopolitics:** The risk premia is already decent for Euro area politics, Brexit and Iran. They need not be the source of high volatility market declines, like in 2018. Cross-border political conflicts are specific regional risks for Europe and China, mostly threatening the capex outlook through business sentiment.

- **Global Monetary Policy:** *The "monetary divergence" theme which was the consensus view behind market forecasts of a rising dollar is losing momentum*. The more important variable to watch will be U.S. monetary policy. There is a growing consensus that the U.S. is headed for a recession later this year or next. This has been the longest expansion in U.S. economic history, and the country is due for a downturn. The high level of volatility in the equity markets and the flattening of the Treasury curve suggest that a slowdown is imminent. Even though the Fed continues to advocate further tightening of monetary policy, an eventual downturn should force it to reverse its course. While the Fed essentially started to run down its balance sheet in October 2017, the ECB has been gradually tapering its program of asset purchases during 2018, which is scheduled to cease at the end of December. Neither the ECB nor the BoJ are at the stage where they are likely to abandon negative interest rates given the slowdown in growth, the persistence of below-target core CPI inflation, and rising political risk e.g. France and Italy, in particular.
- **FX:** The long dollar trade is crowded. If it becomes apparent that the Fed is not raising in March and is in fact in pause mode, at least in theory, the USD will start to fall
- **BREXIT:** PM May's decision to postpone the Commons vote to early January was a surprise and suggests sensitivity to the inevitable loss of an initial vote. The most likely outcome is the Commons passing the withdrawal agreement in early 2019, the next most likely is a second referendum.

Global Drivers

Global Growth

Global expansion should stabilize at a rate slightly above trend. Risks to 2019 growth are skewed to the downside.

Healthy macroeconomic fundamentals, still-accommodative monetary policy, and building fiscal supports should allow for global GDP outcome expansion that will reach its 10th anniversary in mid-2019. However, no rebalancing of growth: U.S. demand strength contrasts with sluggish China and Euro area. The increased global reliance on U.S. demand in the middle quarters of this year is not sustainable as U.S. fiscal supports will start to fade and monetary policy tightening bite.

The global economy looks poised to slow moderately in 2019, led by deceleration in the U.S. and further softening in China. Yet, with growth still above potential in most DM economies, we look for continued labor market tightening, gradually rising core inflation, and in many cases higher policy rates. The Chinese economic growth is slowing. Growth has become unsynchronized and dependent on the U.S., where a fiscal stimulus has created above-trend economic growth. The impact of that stimulus is peaking and will gradually fade through 2019. At the very least, this will weigh on U.S. growth. Rising federal debt-GDP ratios and Congressional gridlock suggest that there will be no more U.S. fiscal stimulus in the medium-term. With global debt-GDP at a record high, the availability of fiscal space to sponsor a sustained economic recovery is clearly limited.

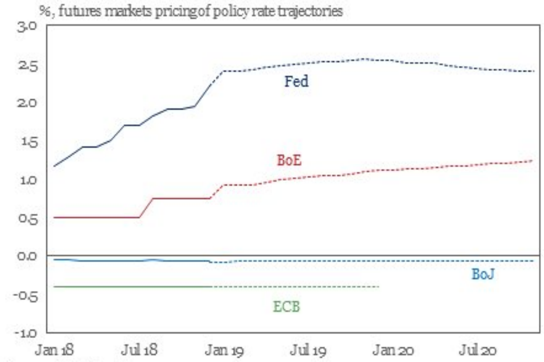
U.S. Monetary Policy

The FOMC raised the funds target rate to 2.25% -2.50%, as expected. However, in a slightly dovish shift, the Committee's median rate projections were lowered 25bp for 2019, 2020, and 2021, and for the longer run. A certain note of caution was added to the policy statement: The Committee now plans to "monitor global and financial developments and assess their implications for the economic outlook." The deliberate reference to global financial conditions suggests that the Committee will hesitate to tighten policy further if heightened volatility in global financial markets persists. However, this policy statement raises the possibility that the timing of rate hikes in 2019 could be delayed if heightened financial volatility continues through the first quarter of 2019.

Futures markets are increasingly expecting that the Fed will only hike once in 2019 before pausing:

Growing expectations of a Fed pause

%, futures markets pricing of policy rate trajectories



Source: IIF, Bloomberg

The FOMC should be pausing for three reasons: They want to see how pronounced the slowing becomes and whether it proves temporary. They also want to know how the tariff and trade negotiations will impact growth after the March 2nd deadline. Finally, one of their primary goals has been to increase the funds rate to a neutral level so monetary policy is neither accommodative nor restrictive, and where growth and inflation are both at their natural rate on a stable basis. By raising the funds rate at the December meeting, the FOMC knows it is close enough to neutral to pause since there is no qualitative way to precisely measure the neutral rate.

Commodity Prices

We view Chinese demand to sustain commodity prices broadly. For 2019, we forecast ongoing demand will take WTI to $65 p/b. This is offsetting inflation pressures, especially in some commodity prices. The OPEC, along with allies such as Russia, announced in early December they would reduce supply by 1.2 million barrels a day in the first half of 2019, but this has actually done little to lift the oil price.

In the absence of a severe economic slump, world oil consumption will continue to expand at roughly the pace seen in recent years, powered by emerging economies such as China. Although doubts remain that OPEC will cut output deep enough to prevent a surplus. OPEC will begin to cut production, and leading member Saudi Arabia has pledged to slash output by even more than it formally agreed to.

Shale Curbed? U.S. production will surge to 12.06 million barrels a day in 2019, according to Energy Information Administration data, more than the other two major global producers – Saudi Arabia and Russia – are currently pumping. Yet, the shale-oil industry may prove to be a victim of its own success. As prices in Midland, Texas, fell this month for the first time since 2016, some have begun to cast doubts on how much U.S. supply will grow next year. These weak prices are likely to force a slowdown in U.S. production growth in the second half of 2019.

EM Investment Outlook

Play defensive. The environment over the next couple of years will be more challenging than it has been in the recent past: lower returns, higher risk. Fewer interest rate hikes expected,

then, U.S. (maybe global) slow down and weaker USD. EM equities and bonds should do well.

2018 has been a bad year for multi-asset portfolios with very few assets delivering positive returns. At the beginning of the year investors had a difficult starting point, with elevated valuations across assets pointing to lower returns and elevated drawdown risk. Valuations for risky assets have declined YTD – they are currently below the 1990s average for both equities and credit – but with the weaker macro backdrop, we still expect low risk-adjusted returns in 2019.

Investor perceptions of interest rates and the bond market have been very manic over the course of 2018. During the spring and summer months, many worried that 10-year interest rates were moving too high too quickly and rising rates were a risk to the equity market. Longer term interest rates then began to fall and concerns turned to a flattening yield curve, possibly signaling recession.

Emerging-market bonds generally weakened during 2018, but less so than other asset classes. However, economic growth in emerging markets has continued to beat developed-market growth. That leaves EM debt well-placed for this year. Going into 2019, valuations have improved, and we expect a modest tightening in EM Credit spreads on an index level, driven by a slight improvement in EM growth. While our estimates point to positive total returns for the asset class, we continue to take a cautious stance and recommend quality over beta given the large share of countries with high external vulnerabilities in the index. Looking at the technical backdrop in 2019, gross issuance should be broadly unchanged relative to this year, skewed to the upside in the oil-exporting GCC region.

Investors will start looking at emerging markets as a major source of yield, which should allow flows to return and asset prices to recover. Therefore, 2019 may prove to be a vast improvement from the EM turmoil of last year. We remain modestly pro-risk in our asset allocation. Equities have undershot growth expectations and a bear market remains unlikely.

This year's EM sell-off underscored the importance of FX valuation with markets, in dramatic fashion, going after meaningful FX overvaluations. For much of EMFX, valuations are neutral or cheap now, so that currency misalignments are less of a risk factor in 2019. By November, for example, the Indonesian rupiah traded at its lowest exchange rate versus the U.S. dollar in over a decade, despite the country's solid economic outlook.

Emerging Market Equities in 2019: For EM equities earnings are expected to deliver low double-digit growth in 2019, with valuations providing a nice cushion (forecasts are 10% for EPS growth and 10.6x for forward P/E). However, the case for multiple expansion is weak due to: a) U.S. policy rates rising and global central banks' balance sheet shrinking; b) limited room for sovereign spread compression in EM; and c) an unlikely decline in the low levels of volatility.

Risks

The 2019 Outlook is focused on protection. The main risks entail:

1. Rate shock risk, both due to too dovish Fed pricing and the shift from Quantitative Earnings to Quantitative Tightening
2. EM/China risks related to trade tension but also China growth risks
3. European political risk, in particular in Italy

4. U.S. recession concerns, especially in 2H19 when we expect lower growth.

The main threat to the global expansion should come from supply constraints tied to weak productivity and labor supply trends. Tight labor markets are a central factor raising recession vulnerabilities as they tend to drive a wedge between wage inflation and productivity growth. As central banks tend to respond to this development by moving toward restrictive stances, rising interest rates and corporate profit margin compression are generally underlying factors associated with recession.

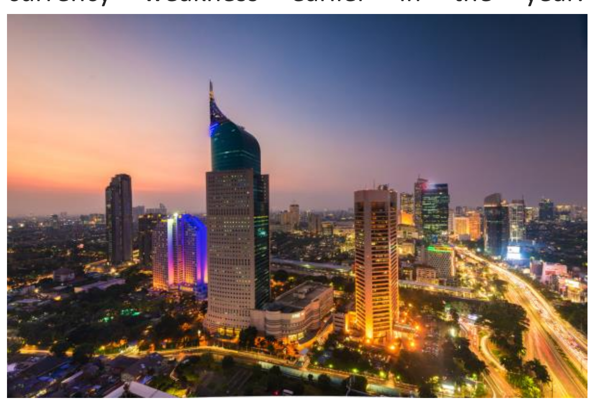
After "Goldilocks" in 2017 the global macro backdrop has weakened in 2018, with growth decelerating and inflation firming. One of the major concerns is that Washington does not have many tools to address the eventual recession. Interest rates are already low, the Fed's balance sheet is full and the government's fiscal deficit is already high; there is not much room for fiscal and monetary maneuvering. Within the **Banking sector**, the absence of restructuring and recapitalization in Europe, creates a "zombie" banking system that in turn creates a "zombie" economy (much like it happened in Japan decades ago). The good thing is that the U.S. financial system is in good shape. Banks were recapitalized after the financial crisis, and lending standards have been prudent (neither interest rate nor margin pressures are currently evident). Global real policy rates remain in negative territory, but the risk is that curve inversion, especially at the short end, can result in a contraction of bank lending. This can add to concerns about the prospects for global economic growth in 2019. Indeed, it is looking like 2018 was the peak year for economic growth.

Emerging Market Equities

Investment Summary

While the 4th quarter of 2018 was one of the most volatile for global equities in recent years, emerging market equities outperformed both U.S. and international developed markets. The MSCI Emerging Market Index (gross) was down -2.60%[1] for the quarter vs. the S&P 500 return of -9.18%[2] and the MSCI EAFE (gross) return of -4.83%[1].

From a country standpoint, China, South Korea, Taiwan were the worst performers for the quarter. China was hit by the double whammy of increased trade war rhetoric and worries over an economic slowdown. South Korea and Taiwan, two key countries in the global technology supply chain, were hit by similar worries. Top performers included Brazil, India, and Indonesia. Brazil was buoyed by the ascendance of a market-friendly candidate for President, while India was a key beneficiary of a marked downturn in oil prices. Indonesia showed early signs of economic stability after currency weakness earlier in the year.



[1] MSCI
[2] Bloomberg

From a sector standpoint, Information Technology, Consumer Discretionary, and Communication Services were the worst performers, while defensive areas such as Utilities and Real Estate outperformed. The MSCI EM Value Index outperformed the MSCI EM Growth Index for the quarter with a -6.66%[1] (gross) return vs. -8.16%[1] (gross).

Outlook

While the 4th quarter and 2018 overall was negative for emerging market equities, we enter 2019 with a high degree of optimism around our portfolio positioning.

While the return of volatility was the key event of 2018, we have always seen such environments as opportunities to improve the quality of our portfolio, as drawdowns are usually indiscriminate and sometimes irrational. As a by-product of our bottom-up process, we had become less cyclical and more defensive going into 2018: for example, we entered the year with roughly an 8% weight in Information Technology vs. the MSCI EM Index weight of 27.6%[3] (before the sector splintered into Communication Services mid-year). While we were strong believers in the long-term prospects of many companies in this space, our adherence to our process and style led us to the conclusion that they were not worth buying and holding "at any price." We also felt that the massive flows into passive products in 2017 (many of which were cap-weighted like their underlying indices) amplified this overvaluation. This positioning was the main reason for our outperformance in 2018. As the downturn we were anticipating in the sector began in 4Q 2018, we also began adding to our positions.

As a result of buying into technology names that most market participants were selling, we did underperform in 4Q 2018. As fundamental-oriented managers, we are almost never able to time the bottom perfectly as we initiate a position, so we generally do underperform at first. Yet, we are now able to go into 2019 significantly narrowing that technology underweight and also improving the quality of our portfolio at a much more attractive valuation entry point.

Our Energy overweight going into 2018 was another major reason for our 2018 outperformance. We entered the year with the base scenario of oil prices continuing to gradually rise, given the drawdown of global inventories, a normalizing of shale projections, and further geopolitical tensions in the Middle East. This overweight was also another reason for our 4Q underperformance, as oil prices fell quickly from $75 to under $50. We have maintained our overweight and used the recent downturn to add to existing holdings and even buy a new name in the sector. We expect 2019 to show continued support for energy prices and a gradual resumption upwards: spare capacity remains tight, and the prolonged economic and humanitarian crisis in Venezuela as well as renewed volatility in Libya and Nigeria may continue to worry markets.

We remain confident in our China positioning, which is our largest country weight and as mentioned in prior commentaries, a lot of our names in China are either domestic-demand oriented companies or companies in the energy sector. We have very little exposure to companies that may be directly impacted in the short-term by increased trade rhetoric. We would expect China to continue fiscal stimulus

[3] MSCI EM Fact Sheet, 12/31/2017

that would mitigate the effects of any prolonged global slowdown. Our new idea flow is centered on beaten-up technology names, as well as the Latin American region (specifically Brazil and Mexico).

For 2019, key risks will include ripple effects from a potential further devaluation of the Chinese renminbi, especially if U.S. – China tensions continuing rising, election uncertainty (India and Indonesia both have key elections), and geopolitical risk. We would expect EM to continue its recent outperformance vs. U.S. and developed markets. Valuations are attractive, currency issues seem to be in the rear view mirror, and a weakening of the U.S. dollar due to a deteriorating fiscal situation could provide further tailwinds.

Country Updates

LatAm

Growth ahead. The region is expected to be the one with the relatively faster activity within EM, to be led by Peru, Chile and Brazil.

Brazil (OW)

President Bolsonaro took office on January 1st. Economy continues lackluster as real rates still high, but reform expectations are positive.

His inaugural speech was in line with his campaign promises, addressing the need to fight corruption, respect contracts, and foster a market-friendly environment. He noted that his administration will seek to approve structural reforms and to improve the business environment by cutting red tape.

The SELIC rate remains unchanged at 6.5% for the sixth consecutive meeting. The Central Bank remains comfortable with the current monetary policy stance. Inflation will reach the targets in 2019 and 2020 if the USD/BRL remains around 3.85. The CB's projections reinforced that with a stable exchange rate, the SELIC rate could remain unchanged for longer.

Retail sales disappointed again. 12-month primary deficit is at BRL 100bn or 1.5% of GDP. The current account deficit surprised on the downside lately, putting the 12-month deficit at USD $14bn (0.7% of GDP).

Economy Minister Paulo Guedes was sworn in and defended liberal reforms and privatizations. He reinforced the importance of Social Security Reform (SSR) and mentioned a barrage of measures that will be presented in the coming days. Overall, the signaling has been consistently market-friendly, likely maintaining the positive expectations about the incoming administration. The greatest uncertainty now lies on the feasibility of implementation of the new government's agenda, particularly regarding social security reform.

Fitch said Brazil's sovereign rating can improve if there are "clear signs" of fiscal consolidation and progress on reforms. An improved path for economic growth amid macroeconomic stability will also be important to improve the ratings outlook. Policy inertia, political gridlock and inability to pass fiscal reforms, in addition to financing constraints, including deterioration in the composition of debt, would be negative for the rating.

Argentina (UW, Spec MW)

Improving external environment plus IMF support ensure a stable scenario until October elections.

The IMF published program details: the drawdown distribution of disbursements ring-fences financing from election-cycle noise and from any potential deviation from 0% primary fiscal deficit target in 2H19. The IMF expects public debt to peak at 81% of GDP. The Staff's baseline scenario for Argentina includes lingering recession in 2019. They expect a rebound of agricultural activity to contribute to a gradual recovery starting in 2Q19, but still project a 1.7% full-year contraction for the whole year. So far the government will outperform the 2.7% of GDP primary deficit target for 2018, and the FX is within the established bands.

Mexico (MW)

Airport cancellation is a setback but we do not think it signals a trend. Conservative budget, a positive.

AMLO canceled the Mexico City Airport project, worth about 1% of GDP, through an unorthodox, narrowly-based public consultation. Business sentiment took a hit. Fitch revised the outlook on Mexico's BBB+ credit rating from stable to negative (It could downgrade Mexico's rating to BBB in the next six months).

The new administration sent the 2019 budget initiative to Congress. The proposal aims at a primary surplus target of 1% of GDP, using conservative macro assumptions. In general terms, it seems to be a conservative budget. Key questions remaining relate to funding the new refinery (Pemex or the Federal Government) and the obstruction or lack of follow-through in the implementation of recent reform, particularly in the energy sector, which could lead to fiscal deterioration on larger public spending.

Chile (MW)

Mining production revived; unemployment still at a cyclical high.

Strong mining production. While the IP data continue to suggest overall expansion, the labor market seems unable to gain steam. The unemployment rate was stable at 6.8% in November, 0.3%-pt above the level a year ago. Although the economy created jobs again (+33k), it was at a softer pace than a year ago (+74.8k). Continued slack in the labor market caps the growth of wages and non-tradable prices.

Peru (MW)

Referendum favors Pres. Vizcarra.

Peru's referendum validated Pres. Vizcarra's initiatives on the National Justice Board, financing of political organizations, immediate reelection of congress and the implementation of a bicameral system in Congress. 75% of the population participated, and approval rates hovered between 80% and 92% of people voting in favor for three of the initiatives. The only item the population voted against was the introduction of a bicameral system, as this was a reform that Vizcarra publicly criticized. This is a strong victory for Vizcarra and a welcome development for his political capital, with the latest popularity votes showing his approval at 65%.

Venezuela (Spec)

Jan 10th is when Maduro's new period at president starts. The elections that he "won" are not seen as valid internationally.

Maduro won an election in 2013, and under the country's constitution, that term ends on January 10th. He has rarely exceeded 30% approval. The President is expected to remain in office under powers of the constitutional assembly. Maduro was sworn in by the Supreme Court on Jan 10th as the National Assembly rejects to recognize his re-election. The Assembly new board led by the member of the opposition party Voluntad Popular Juan Guaido, took office on Saturday, offering to present a route for a political transition. Few analysts see a catalyst for change in 2019.

With little chance for debt restructuring under the current presidency, Venezuela and its state enterprises have USD 9.2bn of unpaid interest and principal on their bonds. Venezuela's crude oil production dropped to half in just two years, to 1.1 million barrels per day from 2.2 million.

Turkey (Spec MW)

Economic slowdown was sharp but politically digestible. External accounts improved radically.

A hard landing is currently underway with rising downside risks. Geopolitical risks have receded following improved relations with the U.S. The final months of 2018 have seen both domestic and external headwinds having turned into tailwinds: C.B.R.T.'s prudent policy stance, weak domestic demand, a stable lira, and depressed energy prices likely will continue to help contain inflationary pressures.

While the Presidential elections that took place in June 2018 were an important milestone to shift to the Executive Presidential system, the outcome from municipal elections, particularly in Istanbul and Ankara, has the potential to alter the political outlook by showing whether the ruling AKP is still fully holding the reins or the opposition bloc is gaining momentum. AKP's renewed alliance with nationalist MHP following a break-up in late October also reflects the ruling party's strategic positioning to increase the likelihood of success against rising voter concerns due to ongoing economic woes.

Russia (MW)

3Q growth revised up to 1.5%. Solvency stays impeccable.

The CBR hiked policy rate 25bp to 7.75%, surprising a large part of consensus; it also announced a return to FX interventions. Resumption of FX purchases will weigh on RUB. The new concern was the risk of oversupply in the oil market amid slowing global economy and increased supply from shale oil.

Ukraine (Spec MW)

Credit rating Moody's upgraded. Not as risky after new stand-by with IMF. Conflict with Russia is not as serious. A Poroshenko-Tymoshenko showdown might be the most probable scenario at this stage.

The IMF committed to a new standby arrangement. The campaign for March 31st presidential elections officially begins in Ukraine with the start of the new year. Incumbent President Petro Poroshenko saw his prospects improve somewhat following months of lackluster performance in opinion polls.

Still, his main rival from the opposition, Yulia Tymoshenko, remained the favorite to win the race. Two opinion polls released in late December moved Poroshenko into second place behind Tymoshenko.

Nigeria (MW)

GDP growth up slightly in 3Q18, but momentum remains weak.

The current account fell into deficit in 3Q18. After enjoying over a 40% rise in 2017, the benchmark NSE index surged into the New Year to hit a multi-year high over 45,000 points. Yet, it didn't last. Months of steady declines saw the index plunge back to earth, down more than 30% from its peak. Nigeria's corporate sector has great investment potential. Companies in sectors such as telecoms, banking, food and technology tend to be extremely concentrated with incredible pricing power. However, the valuations are very low: Nigeria's being priced as if it's a failed state.

Nigeria's ultra-deep offshore Egina oil field has produced its first oil. The 200,000 -barrels-per-day project achieved first oil on Dec. 29, 2018. The new oil field is already adding to Nigeria's crude-oil daily production, which rose by 9% from 2017 to reach about 2.09 million barrels per day in 2018.

South Africa (UW)

Vulnerable rand: exposed to global jitters until growth prospects improve.

The macroeconomic policy mix hinges on fiscal and external risks. We expect fiscal deficit to remain elevated at 3.5% of GDP in 2019. We see a weaker ZAR, higher electricity tariffs, and rising inflation expectations.

China (MW)

Decelerating: China, as a global growth driver, is now less able via policy stimulus to help underpin the global economy.

Trade lost momentum, but surplus widened. Industrial activity slowed, retail sales remained soft. CPI inflation decelerated.

China has slowed quite sharply in 2018, on the back of slower credit growth and fears about a more damaging trade war. With monetary and fiscal policy now in easing mode, we expect only a modest further deceleration. It is expected that the policy makers will lower the growth target for 2019 and unveil more growth stimulus, including sizable tax cuts and spending increases. The PBoC is expected to further ease financial conditions by cutting RRR and loosening macro-prudential regulations. Looser monetary policy will weigh on RMB next year. The macro impact of increasing tariffs is also likely to remain manageable, even under some further escalation in early 2019.

Reform in 40 Years: President Xi delivered an 80-minute speech to commemorate the 40th anniversary of China's "reform and opening" in 1978. He offered little in the way of new reform, and presented no new policy initiatives in response to the slowing economy and trade tensions.

Indonesia (OW)

Bank of Indonesia: Still nearing the end.

Growth is likely to slow slightly and inflation is not an issue. The current account is tracking a deficit of 3% of GDP in 2018, a sensitive level, and there are risks the deficit may rise above BI's target of 2.5% next year. This provides a domestic rationale for a further hike.

The central bank will be extremely sensitive to outflow risks in the months leading up to the April 17th presidential and legislative elections. At the same time, BI will likely react to any further deterioration in the trade balance. And growth? From a high frequency data perspective, growth is holding up relatively well in the short term – with loan growth accelerating to 13.3% y-o-y in October. As a result, BI is unlikely to be worried as it continues to see 2019 growth of 5.0%.

Pakistan (UW, Spec)

Ratings agencies highlight Pakistan's challenges.

Fitch downgraded the country's credit from B to B- in light of concerns over its debt levels and low foreign-currency reserves. The firm highlighted the recent growth in foreign-currency-denominated debt as a particular risk, given the steep slide in the value of the country's domestic currency over the past year. Moody's also offered a bleak view due to "high external vulnerability (external imbalance), weak debt affordability, and very low global competitiveness." It's not all bad, though. According to Moodys, in the longer term Pakistan's economic growth should be "robust" as it benefits from improvements in power supply, infrastructure and national security.

With its stock market still on the ropes, its currency is slumping, growth is slowing and its finances are in a perilous stat. Yet, Pakistan could yet find its way to the top of investors' shopping lists. Prime Minister Imran Khan's lack of political experience has led to things being a bit chaotic, but if he can get things under control they may be laying the groundwork for a recovery. They need a deal (with the IMF), they're running out of reserves, and veering towards a precipice. However, there are a few political players who would still prefer Pakistan not to go through an economic crisis, and looking 12 months ahead, it shows potential.

We thank you for your continued support.

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