Monthly Newsletter

March 2018

Upbeat Global Growth Beats Higher Rates in EM. Stability with a Wary Eye on Trade Risks.

The RVX Global Opportunity Fund, Ltd. – Class C ("RVXGO") recorded a net return of 1.82% for the month of March bringing 2018 year-to-date net returns to 4.89%.[1 2]

The RVX Emerging Markets Equity Model Portfolio recorded a net return of -2.73% for the month of March bringing 2018 year-to-date net returns to 2.20%. [2 3]

The RVX Frontier Markets Equity Model Portfolio recorded a net return of -0.36% for the month of March, bringing 2018 year-to-date net returns to 9.60%.[2 4]

The RVX Emerging Markets Small Cap Equity Model Portfolio recorded a net return of -1.07% for the month of March, bringing 2018 year-to-date net returns to 4.80%.[2 5]

Macroeconomic Developments

- Picture of strength: Strong fundamentals are in place to support another year of robust growth. Financial conditions are tightening and the global economy is growing.
- For EM the positive (global economy growing) outweighs the negative (tightening financial conditions). We do not think the bull market is over, but more volatility and lateral trading is likely.
- President Trump's moves on tariffs have stoked fears of a broader global trade conflict. The recent decision to impose 25% tariffs on steel and 10% on aluminum caught markets by surprise. Trade tensions continue to cast a shadow over equity markets, but few are betting on a currency war (the risk premia for a possible trade war are not very large across markets). Fundamentals (job growth, corporate profits expansion, corporate and consumer confidence) remain strong globally, even if manufacturing is downshifting. A trade war could break the positive feedback loop between growth and markets, but this outcome remains a risk rather than a base case. There are risks that U.S. trading partners may retaliate. However, the U.S. is showing signs of flexibility on trade. The prospect of a trade war should subside as a source of anxiety and uncertainty for investors and businesses. This may allow macroeconomic considerations to reassert themselves.

[1] ***Past performance of any kind is not necessarily indicative of future results and future accuracy and profitable results cannot be guaranteed.*** The net performance of Class C shares of the RVX Global Opportunity Fund, Ltd. is net of Management and Performance Fees. RVX Asset Management, LLC ("RVX"), the investment manager of RVXGO, has reimbursed or paid all of RVXGO's non-investment expenses (i.e. legal fees, third party administration fees, etc.) and will continue to do so until such time as RVXGO has AUMs in excess of US$25,000,000. ***Had the Adviser not reimbursed the above mentioned expenses the net performance after deducting Advisory, Performance and Operational Expenses would have been 1.78% for the month and 4.54% for the year.*** See Disclaimer 1.

[2] See also, "Important Additional Disclaimers and Other Legal Information" following this Newsletter.

[3] The returns represent the Emerging Markets Hypothetical Model Portfolio. See Disclaimer 3.

[4] The returns represent the Frontier Markets Hypothetical Model Portfolio. See Disclaimer 4.

[5] The returns represent the Emerging Markets Small Cap Hypothetical Model Portfolio. See Disclaimer 5.

- We think it is highly likely that a deal is reached on NAFTA so Trump can book a win. That should help equities. If this proves true, it would push yields higher.

- The global backdrop for EM looks to be robust in 2018 and is expected to maintain near-term momentum, yet some risks and challenges loom in the medium term. The U.S. economy remains robust, with most local job markets strong and incomes slowly rising. The economy is forecasted to grow 2.9% in 2018 and 2.8% in 2019 on increased global growth momentum and the expected impact of the recently approved U.S. tax policy changes. The Eurozone economy is growing above trend and is forecasted to grow 2.3% in 2018 and 2.1% in 2019, while Japan's economy remains on solid footing and is forecasted to grow 1.5% in 2018 and 1.1% in 2019.

- The Fed, BOE, and BOC have already started rate hiking. Furthermore, the Fed started shrinking its balance sheet. Global liquidity, however, is still plentiful. Despite a sharply wider Libor/Fed funds spread, funding markets remain relatively calm. The lack of follow-through from Fed tightening to other central banks is notable. The BoE and the BoC also are raising rates. Their actions may be loosely motivated by the Fed's, however, the stronger connection probably is the common macroeconomic backdrop.

- The Fed statement was fairly optimistic regarding U.S. growth. A stronger economy and fiscal stimulus now point to a hawkish shift, with the Fed signaling a higher terminal rate for the policy target. We believe that current inflation expectations are too high. <u>After years below 2.0%, the Fed will tolerate above 2% as long as the rate of change is modest</u>. Officials now see core PCE inflation at 2.1% in both 2019 and 2020, the first time the median has foreseen an over shoot of the 2% target.

- The 10-year Treasury had a substantial move since the beginning of the year from ~2.30% to 2.94% in late February. The move is even bigger if we measure it since September 2017 at 2.03%. After such a move up, it is normal to expect a retracement, which can take the 10-year yield back to 2.62% or even 2.50%, while the <u>main long-term trend remains up</u>. In other words, such a correction in yields does not mean that the inflationary outlook in the U.S. is changing. The trend remains up, at least for now.

- <u>USD upward bias</u>: Both bonds and equities in continental Europe are painting a slowing economy, while bonds and equities in the U.S. are painting a growing economy. What has allegedly kept the USD from appreciating is the financing the wider U.S. Twin Deficits. (fiscal and current account of the balance of payments).

- South Korean President Moon will meet with North Korean leader Kim Jong-un in late April. Kim also invited U.S. President Trump to meet for negotiations over his country's nuclear program. The meetings might serve as a catalyst for easing tensions, but it is likely that North Korea will continue to put pressure on both countries to get more concessions.

- The U.S. holds mid-term elections in November. Several special elections, voter interest polls, and early voter registration drives warn that the Republican majority in the legislative branch is in jeopardy. A Democratic victory in one or both houses will likely curtail executive initiatives, though a wing of the Democrat Party shares some of the Trump administration's trade views.

- A heavy election calendar in Latin America: There appears to be more certainty on the outcomes of the region's first two presidential elections in Colombia (May 27th first round; June 19th second round), and Mexico (July 1st, one round). In Colombia, conservative Senator Ivan Duque has taken a commanding lead in the polls. This has calmed market concerns and we expect improved sentiment to support economic growth. In Mexico, left-of-center front-runner AMLO has consolidated his lead. In Brazil, the forecast for the October elections remains exceedingly cloudy. We could finally see front-runner Lula imprisoned though this might only heighten his influence on the direction of the campaign. On the center-right there is no consensus candidate as several more contenders have thrown their hats in the ring – including President Temer and Finance Minister Meirelles.
- Modified TPP will go into effect: Eleven nations just signed on to an alternate version of the Trans-Pacific Partnership (TPP). TPP-11 is made up of Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. This free trade zone will contain 15% of world trade vs. 40% if the U.S. had joined. Others in Asia are interested in joining, including Indonesia, the Philippines, South Korea, Sri Lanka, Taiwan, and Thailand. Colombia and the UK have also expressed interest.

Global Drivers

Global Growth

Synchronized Global Growth Upturn: Global growth is running somewhere in the low 3s and forecasts for 2018 and 2019 have been revised upwards. The IMF sees EM growth of 4.9% in 2018 and 5.0% in 2019. The OECD revised up its global growth forecasts to 3.9% in both 2018 and 2019 vs. 3.7% in 2017. Emerging Asia is forecasted to grow 6.5% in 2018 and 6.6% in 2019; Emerging Europe exceeding 5.0% in 2018 and 3.8% in 2019; and Latin America 1.9% in 2018 and 2.6% in 2019. Elsewhere, MENA is forecasted to grow 3.6% in 2018 and 3.5% in 2019, while Sub-Saharan Africa 3.3% in 2018 and 3.5% in 2019. The solid trade outlook assumes no major trade war. In that regard, the OECD warned that the greatest risk to the global growth outlook is trade protectionism. Small, open economies (much of EM) will be hurt the most by rising protectionism.

Commodities

Commodities have improved but it is not a 'super-cycle'. Oil prices are expected to remain around current levels. Most commodities are down on negative sentiment related to trade war risks. Our 2018 year-end forecast for the price of crude oil is USD 65/bbl, very close to the current spot price. Recent upside has been spurred by production difficulties in some OPEC countries, including Venezuela and Libya, coupled with a general pick-up in global growth. This in turn, has spurred increased energy demand. Nevertheless, further upside will be limited by strong production efficiency gains in the U.S., which has seen total production exceed 10 million bbl/day, although rig counts are far below their 2014 highs. We expect commodity prices to gradually trend higher on stronger global growth and supply absorption. Is it another 'super-cycle'? Not likely, but conditions are better, which is paving the way for an investment upswing. Battery-related commodities, such as lithium and cobalt, are the super-cycle exceptions. The lift in global growth has helped to support demand for commodities and work down the supply overhang from the previous 'super-cycle'. A keen focus on cost reduction by resource producers has also helped to support profit margins as commodity prices have risen. In addition, the environmental policy in China has led to a pullback in onshore metal production, while a global shift to cleaner energy supports demand for gas and battery-related commodities. Despite worries about protectionism, global trade volume grew an estimated 2.4% in 2017. This was the fastest growth rate since 2011, and Q1 indicators from the WTO support forecasts for global trade volume to grow 4% in 2018. Strong global growth is boosting demand for energy and other industrial commodities.

Fed

Underlying core inflation is firming as resource constraints continue to tighten and last year's temporary headwinds fade. The Fed should continue with 25 bps per quarter, as planned, but as UST 20-year yield converges with the UST 10-year, the market could start fearing recession risks. The Fed "dots" remain too bullish; and plots suggest three hikes in 2018, two in 2019, and two in 2020, while the market is pricing less in the medium term. There are no wage pressures in the U.S. yet, but labor markets are already tight and getting tighter. Higher oil and energy prices suggest upside risks to headline inflation globally. The IMF forecasts steady inflation 2018 for Developed Markets, and rising inflation for Emerging Markets.

EM Investment Outlook

Caution Warranted: Volatility on the rise. Fundamentals are good for EM (growth and earnings), but there are many unknowns.

Non-resident portfolio flows to emerging markets saw a modest recovery in March after February's decline.

While mindful of building risks surrounding **trade disputes** in the U.S. and politics in Italy (as well as **upcoming elections** in Latin America), our immediate focus is interpreting the downshift now taking hold in global goods-producing industries. The latest data shows global industry slowing from its torrid pace.

With USD upward risk, compensation for taking local currency is risk falling for EM bonds.

EM Bonds

The medium term EM outlook remains supportive, with EM growth expected to pick up versus DM growth in 2018 and attractive valuations. Global growth, however, is no longer surprising on the upside. In addition, though the direct impact from the prospective tariffs announced by the U.S. administration should be modest, the potential for a shift in sentiment could pose a headwind for EM assets.

Equities

Spooked by trade tensions and policy concerns, investors pulled $40 billion from U.S. equity funds since mid-March.

Protectionism isn't a reason to be underweight in equities broadly, but it is a reason to be underweight in some countries like Mexico. Depending on one's reference point, markets could look either unfazed or anxious about trade tensions escalating into a trade war over the next several months. After an initial drop on March 1st when President Trump announced metals tariffs, global equities have been creeping higher across DMs and EMs – including China and Mexico.

The premium in the dollar is cheaper than rate differentials for trade conflict and the twin deficits. Outside of currencies, the risk premia look very small – if they exist at all.

The Bottom Line

It is prudent to invest defensively in the stronger EM credits. Latin America is likely to underperform due to heightened political risk in Brazil and Mexico. Asean and CEE credits are likely to hold up well, but South Africa and Turkey remain problematic. Lastly, much will depend on what happens in DM. The correlation between MSCI EM and MSCI DM is currently near 0.65, the high for the cycle.

Risks

Partly sunny with a chance of trade wars. There are too many risks to be wildly bullish. Risks to the downside threaten an extended EM rally. EM elections loom.

1. Potential 'trade war' between China and the U.S. is a low probability event.
2. The Fed is not dovish. The risk of a sharp rise in Treasury yields is greater than a rapid USD fall.
3. Elections in Brazil have an open outcome. Lula will probably go to jail.
4. Election in México: to change LatAm political landscape.

While the latest tit-for-tat tariff skirmish between the U.S. and China may only dampen GDP growth marginally, the risk is that it snowballs into something bigger. The U.S. announced (i) a 25% tariff on at least $50 billion of a yet-to-be determined list of imports from China in aerospace, information communication technology, and machinery; (ii) the initiation of a WTO case against Chinese technology licensing practices; (iii) new restrictions on Chinese investment in the U.S. in sensitive technology sectors. There is still surprising ambiguity over whether the $50 billion refers to the tariff base or tariff revenue. Assuming a 25% tariff on $50 billion of imported goods from China, the impact is quite modest and equivalent to 0.5% of total U.S. imports, 0.6% of total China exports, and just 0.06% and 0.10% of U.S. and China GDP, respectively.

Round seven of NAFTA talks concluded in Mexico City amid tensions related to Trump's plans for steel tariffs. The negotiations continue to advance slowly with six chapters completed out of roughly 30 in total. Furthermore, no progress was made on the more controversial issues such as dispute resolutions, national content, and the sunset clause. While the risk of NAFTA's termination remains in place, it has diminished, and the U.S. stance has softened some.

It is hard to judge the severity of this drag since both U.S. policy and the possible responses are in flux. Nonetheless, recent developments suggest the U.S. approach may be thawing somewhat:

- The U.S. granted many temporary exemptions to the steel and aluminum tariffs that can be extended if officials believe trading partners are negotiating in good faith.
- Negotiations between the U.S. and its NAFTA partners appear to have picked up pace amid talk the parties might reach an "agreement in principle" by May 1st, before the steel tariff waivers expire and Mexico's presidential election campaign kicks into high gear. However, there are still important disagreements on rules-of-origin, the dispute settlement mechanism, and the proposed sunset clause that will not be easy to solve.
- The U.S. is contemplating a "cooling off" period before it imposes any new tariffs on

Chinese goods. There will be a 60-day waiting period once the tariff list is published with public comments and potential negotiations.

Equity Investment Outlook

Emerging Markets

Emerging market equities showed a positive return for 1Q, outperforming both U.S. and international developed markets. The MSCI Emerging Market Index (gross) was up +1.47% for the quarter vs. the S&P 500 return of -1.17% and the MSCI EAFE (gross) return of -1.41%.

Brazil and Egypt were the top performers for the quarter, both due to improving macro trends and structural reforms, while the Philippines and India were the main laggards. The Philippines declined on a weakening currency due to a widening current account deficit and rising inflation. India declined due to a combination of increasing worries within its banking sector and the negative impact of rising energy prices, as the country is a net oil importer. From a sector standpoint, Energy and Health Care were the strongest performers while Consumer Discretionary and Telecommunications were the worst. The outperformance of the defensive sectors in 1Q also showed up in the style indices, as the MSCI EM Value Index (gross) beat the MSCI EM Growth Index (gross) for the quarter with a +1.68% return vs. +1.26%.

Frontier Markets

Frontier equity markets, as represented by the MSCI Frontier Markets Index, handily outperformed all major indices with a return of 5.15% (gross) for the quarter. Key outperformers were Kenya and Romania. Kenya enjoyed positive news flow on potential changes to interest rate caps set in place in 2016 as well as signs of political stability. Romania is enjoying strong domestic demand trends driven by a virtuous cycle of tax cuts, low interest rates, and wage growth. The main laggards were Argentina (increasing currency worries and twin deficits) and Oman (downgrade of sovereign ratings due to rising debt burdens).

Equity Investment Strategy

While volatility has returned to equity markets in 1Q, we have always seen such environments as opportunities to improve our portfolio of companies. As a by-product of our bottom-up process, we had become less cyclical and more defensive going into this volatility. We continue to remain well underweight the index and our peers in the largest sector in EM: Information Technology (IT). While we had a 16.3% weight to IT at the end of 1Q 2017, we reduced exposure to 9.4% by the end of last quarter given the over-valuation we had observed. 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 last year (many of which were cap-weighted like their underlying indices) amplified this overvaluation. Now that many of these names are correcting as passive flows abate, we may use this volatility to patiently increase our weight to this sector in the coming months.

On top of lowering our IT weight, we also lowered our Consumer Discretionary weight from 25% to 16.1% and Financials from 18.8% to 13.2% (these time periods are YoY from 1Q 2017 to 1Q 2018). Outliers were in Energy and Materials where we felt that normalized commodities prices should trend higher while the valuation of the underlying stocks did not reflect this potential. We increased Energy from

4.7% to 9.5% and Materials from 2.0% to 7.6% YoY. We have also increased our weights to Health Care, Consumer Staples, and Utilities. A significant part of our "new ideas" pipeline is also coming from these more defensive sectors.

From a country standpoint, while our China/Hong Kong weight of 25.5% may seem high given U.S.-China trade tensions, the underlying names are mostly domestic-oriented companies with little U.S. exposure. Collectively, South Korea and Taiwan (key parts of the global technology supply chain) comprise 27% of the MSCI EM index, while our exposure is low at 8.4%. We are looking at some new ideas in South Korea and may opportunistically increase our weights in the coming months. We have maintained no exposure to Russia, given the threat of U.S. sanctions and a tepid economic recovery.

The main risk to our positioning is if last year's momentum-based bull market resumes with a quick upwards climb in the short-term. There seems to be too many clouds on the horizon (U.S. trade policy, central bank tightening, geopolitical tensions) for that to be a high-probability event. Regardless, we believe our continued focus on sustainable dividends and cash flow and strict adherence to a time-tested investment process will serve us well if the markets remain volatile. We also remain confident that EM and FM will continue to relatively outperform developed counterparts, as we believe EM and FM earnings growth will be more organic and higher quality i.e. not engineered by share buybacks propelled by tax windfalls or debt reduction bolstered by the manufactured low interest rate environment in developed markets.

Country Updates

Brazil (MW)

The economy is finally emerging from a recession. The BRL holds but should weaken upon USD strength. There is substantial uncertainty regarding the election in October, particularly given Lula's likely exclusion. The core scenario is for the current policy direction to persist.

Brazil's economy continues to recover. The negative output gap will close in late 2018 or early 2019 reflecting the above trend 4.4% Q4/Q4 growth. The slack in the economy should allow observed GDP to grow faster than the potential, without raising inflation as the output gap is coming from deep negative territory. The Central Bank lowered the benchmark Selic rate by 25bps to 6.50% and signaled that another moderate cut in the May meeting is warranted. The government will likely meet this year' fiscal target without major difficulties.

The current account deficit remains low thanks to the good performance of the trade balance. Expectation of a gradual increase in the current account deficit, is in line with the rebound in economic activity, but not to the point of compromising Brazil's external sustainability. Direct investment in the country has been smaller than in recent years, but portfolio flows are still positive. There have been favorable results in the profit and dividends account in the past two months.

The public debt dynamics continue to deteriorate. The stock of gross general government debt reached 74.0% of GDP. The stock of net public debt rose to 52.0% of GDP. Primary fiscal deficits should reach 2.4% of GDP in 2018.

Brazil's presidential and national elections will be held in October. The former President Lula has been leading but an appeals court extended his sentence to 12 years. It seems increasingly unlikely that Lula will be able to run again for president. Excluding Lula, rightist lawmaker Jair Bolsonaro is leading, with Leftist candidates Marina Silva and Ciro Gomes behind him. They are closely followed by Centrist candidates Gerardo Alckmin and Luciano Huck.

Whoever wins the election, it will be hard to keep the fiscal and pension reform going. If pension reform is not passed, the government needs to find further austerity measures for improving fiscal conditions. Without them, fiscal deterioration could lead to a weaker real. As long as politics does not take a market-worrying turn, fundamentals should keep Brazilian assets climbing, thanks to a low statistical base following years of grinding recession and below-potential growth, coupled with a return of investment, lower interest rates, and manageable levels of inflation.

Argentina (MW; Tactical OW)

Sentiment has deteriorated. Current account deficit hits 20-year high. Likely entrance of Argentina into the MSCI EM index this June.

Sentiment has deteriorated on CB credibility, seriousness of reaching inflation targets, as well as fiscal targets, a prolonged drought, and a loss of middle class support for President Macri.

The MSCI inclusion, about $6B-$8B for a $32.7B market, 25% of current index value, is huge.

Growth is slowing (drought playing big role) down to just +2% y/y in December. Inflation is sticky and huge CAD (5% of GDP) not good for FX. We expect +3.5% overall growth for 2018.

Macri has lowered export taxes, utility subsidies, energy and transport subsidies and reformed pension system. However, his support has collapsed from 70% to some 40% approval. Primary deficit 3.9% in 2017 target 3.2% in 2018.

Colombia (UW)

Growth declined: No 'peace dividend.' Difficulty in closing the fiscal deficit, and concerns about political dynamics, will keep investment subdued.

In the upcoming presidential election, Ivan Duque is most likely to become Colombia's next president. Given the very large field of candidates, none are likely to get a majority in the first round. Leftist Gustavo Petro leads the polls. If Petro wins in the first round by more than 25%, the market could be spooked and will present buying opportunities. In a run-off, most locals believe that center-right Duque would emerge victorious once the now-fractured right-leaning electorate eventually rallies around him. The biggest market risk is in the run-off the candidates, Vargas-Lleras and Petro. This seems unlikely given Vargas-Lleras' collapse in the polls.

For 2018 and under a center-right government, economic growth will likely pick up from the sluggish pace of 2016-2017, but will remain subdued by recent historical standards. We forecast real GDP growth of 3% in 2018, up from 1.8% in 2017. If Petro ultimately wins, we expect rating downgrades and investment outflows both from FDI and portfolio.

Peru (UW. Add on weakness)

BCRP cuts rates, amid low inflation and disappointing activity.

Stronger global growth will support the price of copper, while Peru's smooth political transition following the President's resignation demonstrated the resilience of the country's institutions. The new president will broadly maintain policy direction, and Peru will see solid growth this year.

Mexico (UW now, add on weakness)

Setting the stage for a pause. Moderate growth ahead, amid elections and NAFTA uncertainty. The central bank and exchange rate flexibility are anchors of stability for the country.

Navigating uncertainty – uncertain relations with the U.S. and the coming election cloud the outlook. NAFTA renegotiation is a potential current account negative. Our base case is that a NAFTA deal will be reached during the first half of this year.

The tides are moving in favor of the anti-establishment candidate, Andrés Manuel López Obrador (AMLO), who widened his lead in February (according to polls). We do not believe that AMLO is fully priced in. Nevertheless, we anticipate that a sell-off will be short lived, since AMLO will be unable (and likely unwilling) to roll back recent reforms. As such, we expect a buying opportunity shortly after the election, following what we anticipate will be an overblown reaction.

The Mexican economy has slowed due to monetary and fiscal tightening. Its GDP has been below 2.0% y/y, following a weak 3Q17 when the country was hit by natural disasters. The factors playing against economic growth in the short-term are tight macro policies (fiscal and monetary) and the uncertainties associated with NAFTA and elections (which put investment decisions on hold). On the plus side, the fiscal drag will be smaller in 2018 relative to 2017. Moreover, a stronger U.S. economy will likely stimulate the manufacturing exports.

Monitor the risks: if Mexico moves to unorthodox policies while there is no agreement on NAFTA, then the scenario becomes more adverse. We note that the two sources of risk that Mexico is facing (NAFTA and elections) are not independent. Clearly, the harsh rhetoric of the U.S. government aimed at Mexico fuels a more nationalistic campaign in the country. At the same time, a change in government could derail (or postpone) talks on NAFTA. Finally, it is important to note that Mexico seems more prepared to deal with shocks than in the recent past, given the substantial narrowing of the twin deficits and the tight monetary policy (turning short positions on the Mexican peso more expensive).

The Mexican government has kept the fiscal policy prudent. The fiscal deficit has continued to shrink. High oil prices should improve fiscal conditions, while fiscal austerity may be eased ahead of the national and presidential elections in July 2018.

Russia (OW)

End to easing cycle in sight after faster rate cuts. Growth to continue.

Growth is likely to be around 1.5-2.0% in the next few years, which is considered to be in line with potential. Fiscal and monetary policies have helped stabilize the economy.

Russian markets tumbled after a new wave of U.S. sanctions left the Kremlin scrambling to find ways to help its tycoons. Moscow-traded stocks headed for their biggest drop in four years and the ruble slumped the most in the world after the U.S. slapped new sanctions on billionaires. Targets include aluminum king and close Putin associate Oleg Deripaska, who saw the value of his biggest company plunge as much as 50%. The Russian government has tried to reassure that it will protect them, but even its well-capitalized state-controlled banks may not be willing to take the risk of continuing to do business with the industrial giants

Targeted by the U.S., Moscow is focusing its efforts on Deripaska and fellow billionaire Viktor Vekselberg but hasn't settled on what form aid will take, according to a senior official involved in the process. The latest U.S. moves marked the first time that major publicly traded Russian companies with global reach were hit with the restrictions, aimed at punishing Russia for aggressive policies from Ukraine to Syria. A precedent has been set. If Rusal can be hit, any Russian company can be included in the future.

Turkey (UW)

Strong growth, but rising vulnerabilities. TRY 1st line of defense.

The Turkish economy has been strong. Strong growth in 2017 came at the cost of a larger current account deficit. This strong GDP data push up our 2018 growth estimate to 4%.

Fiscal easing looks likely to continue as elections loom, which could weigh on credit outlook. Ongoing lira weakness highlights the growing risk to the external financing and inflation outlook.

External demand has been supported by the EU, but the external account has started to deteriorate. Slowed exports, strong import demands, and high oil prices should expand the current account deficit to the highest level since April 2014. Inflation pressures remain high. Headline CPI shows two-digit growth since July 2017.

Relations between the U.S. and Turkey remain strained. The U.S. government could consider Turkey's offensive stance against the Kurdish YPG as an obstacle to their anti-ISIS operations. The Turkish government might face further sanctions by U.S., which would block money inflow from the U.S. to Turkey. The country's foreign reserves have been low to protect against a credit crunch due to U.S. sanctions. Its usable reserve for currency defense is only expected to be around $23 billion.

Saudi Arabia (UW)

FTSE Russell classifies kingdom as secondary EM; Saudi Oil Minister Says Aramco IPO Could Be Delayed until 2019.

Saudi Arabia won classification as an emerging market for the first time (effective March 2019), a key step toward the kingdom's goal of attracting billions in additional stock investor inflows. The kingdom will have a 2.7 % weighting.

Saudi Arabia's energy minister hinted the Initial Public Offering (IPO) of the state oil company Aramco (potentially the largest ever) could be delayed until 2019, pushing back a central plank of Crown Prince Mohammed bin Salman's plan to modernize the economy.

Al-Fali, who serves as Aramco's chairman, insisted the company had made all the necessary preparations for a share sale of the world's largest oil producer.

The IPO is the cornerstone of Prince Salman's economic program to transform Saudi Arabia, dubbed Vision 2030. Saudi officials hope they will raise $100 billion by selling about 5% in the company, valuing Aramco between $1 and $2 trillion.

China (Structural UW. Tactical MW)

Relative stability of growth. The economy remains on solid footing. Booming export and import growth. At the National People's Congress, Premier Li said this year's GDP growth target will be 6.5%, confirming that the government will continue to move cautiously on reforms, including credit.

India (Slight OW)

Regaining momentum. The growth outlook has improved, driven by domestic demand and supportive policies ahead of next year's elections. The external position is benefiting from large foreign capital inflows despite a wider current account deficit, while inflation has risen from record lows.

Indonesia (Slight OW)

Navigating headwinds to prop up growth. Concerns regarding the recent rupiah weakness. The Indonesian economy continues to improve modestly. Rising international commodity prices stimulated export growth. Broad-based economic growth of 5% is expected this year. However, sustained investment is required for stronger growth. The current account balance is forecast to register a larger deficit, reversing the declining trend during the past five years.

Vietnam (OW)

Despite near-term risks, outlook remains positive. Growth is set to continue, driven by a surge in tourism, increasing investment in manufacturing and supportive government policies. Efforts to speed up privatization of state-owned companies and to reduce trade barriers will boost the export-oriented manufacturing sector.

A near 30% increase in tourist arrivals last year also provided a boost to the country's GDP. BMI raised its 2018 real GDP growth forecast to 6.9% from its previous estimate of 6.7%.

The recent signing of the Comprehensive and Progressive Agreement for the TPP provides a mitigating factor to near-term external risks and should contribute to long-term growth prospects.

Pakistan (UW)

First post-program monitoring discussions. Economic growth has continued to strengthen. Improved energy supply, investment related to the China-Pakistan Economic Corridor, strong credit growth, and continued investor and consumer confidence, have been underpinning growth, which could reach 5.6% this fiscal year within a favorable inflation environment. Yet, macroeconomic stability gains achieved during the 2013–16 EFF have been eroding, putting this outlook at risk. The current account deficit has been quickly widening, reflecting strong domestic demand amid an overvalued exchange rate, fiscal slippages, and an accommodative monetary policy stance. As a result, foreign exchange reserves have been declining, reaching 2.3 months of imports, despite significant external borrowing. Net international reserves have declined from $7.5 billion at the end of the EFF to negative $0.7 billion. As a result of fiscal slippages in FY 2016/17, debt-related vulnerabilities have increased.

South Africa (UW, speculative MW)

The Ramapo's revival. Rand and rating are vulnerable. The rand has rallied following the resignation of President Jacob Zuma and the recent affirmation of South Africa's credit rating by Moody's.

We lift our GDP growth forecast to 2.0% this year following the political transition that has been smooth with signs of improving confidence. The cyclical revival will struggle to maintain momentum given daunting structural challenges and persistent imbalances that will preclude SARB rate cuts and keep fiscal and downgrade risks elevated.

Policy has been stronger than we expected. Resolve for fiscal consolidation with Nhlanhla Nene brought back as finance minister underscore the drive of the new regime.

Faster growth has been accompanied by a widening current account shortfall, rising inflation pressures, and little progress towards fiscal consolidation and debt stabilization, as the budget deficit succumbs to revenue risks and spending pressures. Meanwhile, a narrowing output gap, elevated inflation expectations, and a stronger commitment to the mid-point of the 3-6% target range will prevent the SARB from cutting interest rates.

Moody's has kept South African debt on negative watch, which implies that it may downgrade the debt to junk if the Ramaphosa administration fails to improve the country's fiscal position and commit itself to credible growth-enhancing policies.

The rand is expected to remain vulnerable to the prospect of a credit rating downgrade and possible risk-off sentiments generated by political developments.

Nigeria (OW)

Recovery of economic growth with a stable currency.

Kenya (UW)

Fiscal consolidation is critical. The fiscal deficit spiked in 2016/17 due to one-off effects, pushing public debt to 57% of GDP amid debt sustainability concerns. Achieving fiscal targets under the extended IMF SBA program is critical as slippages may add to debt stocks and undermine medium-term growth.

Mozambique (UW)

Restructuring plans are unattractive. Mozambique proposed three scenarios for restructuring its defaulted USD bonds with a 10.5% coupon rate and a maturity of Jan 18th, 2023:

1. No haircut, a 16-year maturity, a 2% coupon for the first 5 years, 3% for Y6-Y10 and then 6% afterwards;
2. A 10% haircut, a 12-year maturity, a 1.5% coupon for the first 5 years and then 5% afterwards;
3. A 20% haircut, a 8-year maturity, and a 2.8% coupon throughout.

All the three bonds would amortize equally in the final three years.

None of the three restructuring scenarios appear attractive. Scenario 1 looks best and Scenario 3 looks worst for bondholders. The post restructure yield should be at least similar to Angola's (c7.7%).

South Korea (UW)

Pricey. Persistent regional tensions will continue to weigh on the won. The won was strong in Q4 2017 and steady in Q1 2018. Strong Korean fundamentals should continue to support the won.

The Korean economy has slowed, but is expected to continue to grow. Exports are firm thanks to the steady global economy. Private consumption should continue to expand under solid employment conditions. The Bank of Korea (BOK) forecasts the economy to grow at around 3.0% this year, followed by another 3.0% in 2019. The current account surplus peaked but has been steady despite a strong won and rising oil prices. The current account surplus of GDP is expected to continue dropping to 5.6% in 2017 and 5.2% in 2018. The foreign reserves continue to be at record highs. Inflation pressures have been capped under the strong won and modest growth. South Korean headline CPI is expected to accelerate to 1.9% from 1.5% in 2017, while core is likely to move at 1.0-1.5% y/y. Modest inflation pressure is likely to make BOK cautious with respect to additional rate hikes. BOK has kept rates at 1.5% since November 2017. BOK believes the current monetary policy stance is accommodative and emphasized that inflationary pressures on the demand side will not be elevated for the time being. BOK's stance should make the won appreciation gradual.

RVXGO[1 2] Contributors and Detractors to Performance
March 2018

Rank	Contributors	Contribution
1	ELSWEDY ELECTRIC CO	1.04%
2	GEOPARK LTD	0.50%
3	COMMERCIAL INTERNATIONAL BANK	0.28%
4	ALLIANCE OIL	0.27%
5	SIX OF OCTOBER DEVELOPMENT	0.26%

Rank	Detractors	Contribution
1	IBNSINA PHARMA SAE	-0.62%
2	SENEGAL 6.75% 13 MAR 2048 REGS	-0.21%
3	DIGICEL 7.125% 01 APR 2022 REGS	-0.20%
4	CIA SIDERURGICA NACIONAL	-0.14%
5	EGYPT KUWAIT HOLDING CO SAE	-0.13%

We thank you for your continued support.

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