
EMERGING MARKETS AND POLITICAL DYNAMICS

Jeremy Schwartz – Global Chief Investment Officer
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Last Friday's "Behind the Markets" podcast featured two guests: Greg Valliere, chief U.S. policy strategist at AGF Investments, and Caesar Maasry, emerging market cross-asset strategist at Goldman Sachs.

Opportunity in Emerging Markets

Maasry sees positive signals in emerging markets over the next three months, but the outlook is more mixed for the next full year and beyond. We discussed a variety of subjects within the emerging markets topic.

- Maasry sees the United States as the main determinant for risk asset allocations around the world. Depending how U.S. [growth](#) moves, so too does sentiment toward risky assets. China is also an important element to consider independently, and Maasry sees signs that [credits](#) easing in China, which is an important stimulus measure for the short term.
- On [monetary policy](#), Maasry noted that emerging market central banks have cut [interest rates](#) aggressively with a lack of [inflation](#) pressures. Maasry prefers countries that can still cut interest rates, and he mentioned Brazil, Mexico, Russia and potentially Indonesia as those that are insulated a bit from the trade war.
- He also discussed how the composition of emerging markets is not nearly the same as it was a decade ago. In 2008, the [MSCI Emerging Markets Index](#) was about 40% concentrated in commodity sectors (such as Materials and Energy), while today the commodity sector share has dropped to just 14%. Many of those commodity companies were also state-owned and we are thus seeing [non-state-owned](#) companies generally become more prominent in emerging markets. Maasry sees this as a positive development for growth in emerging markets over the long run.

The Race for the White House

We switched gears a bit in our conversation with Valliere, shifting the discussion toward U.S. politics, the state of the economy and their implications for the 2020 presidential election.

- Valliere echoed comments from Professor Jeremy Siegel describing the jobs report on Friday as a "Goldilocks" report, featuring strong job gains and sound economic fundamentals. Valliere thinks these strong economic indicators are very good for President Donald Trump's re-election prospects, labeling him the favorite to win next year's election despite the ongoing chaos in Washington and impeachment probes.
- The Democrats are fighting over who plans to raise taxes more, and Valliere warns against this with a history lesson. He mentioned how this did not work out so well for Walter Mondale, who lost 49 states in the election versus Ronald Reagan in 1984.

- Meanwhile, he added, Trump instructed Larry Kudlow, director of the National Economic Council, to work on a bill to *lower* taxes even more, one element of which would make Trump's prior tax cuts from 2017 permanent. Valliere believes the debate between tax cuts and tax hikes is set up to be a major election issue next year, with the Democrats vowing to substantially raise tax rates while Trump likely positions himself as trying to do the opposite.

At a time when much of the global macro discussion focuses on what is happening in China, emerging markets and U.S. politics, these were two timely conversations. We thank our guests for joining us; please see the links below to listen to the full discussions.

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