The trade war threatens to disrupt some market supply chains.

But EMs overall appear resilient to a future tightening of global liquidity.

The indicator is constructed with a 75/25 weighting of current account and FX relative vulnerability of EMs in case global liquidity conditions start to tighten. Source: TS Lombard. Data as of March 19, 2019.
Emerging markets (EMs) are interesting. In 2018, trade wars threatened to disrupt supply chains throughout Asia, while the prospect of rising U.S. interest rates and a stronger dollar prompted some capital flight from the region.

These pressures have diminished in recent months, however, and there are some early indications of cyclical recovery, such as strengthening activity indicators, lower exchange rate volatility and higher risk appetite, as well as corrections in external imbalances of laggard countries of 2018. Emerging market equities and debt have responded favorably.

The key question is whether all the good news is priced in: in our central scenario, we expect EMs to hold up well as a group, and idiosyncratic risk in some of the problematic countries seems to have diminished. Overall, thanks to easier global financial conditions translating into looser policies in EMs, stabilizing Chinese growth in H2 2019, and an overall stable USD, we believe 2019 could be a good year for EMs as a whole. A pickup in global growth and trade could be significant ammunition for an even better year for EMs, in our opinion.

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All investments involve risk, including the possible loss of principal.

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Definitions:

**Manufacturing PMIs:** The purchasing managers’ index (PMI) is an economic indicator that surveys purchasing managers at businesses that make up a given sector. The most common PMI surveys are the manufacturing PMI and the services PMI.

**Domestic Value Added:** Domestic value added in exports is an estimation of value added, by an economy, in producing goods and services for export.

**Supply Chain:** In the context of exports, the supply chain means that an economy may be contributing to the manufacturing of certain goods or services but does not manufacture the entire product.

Investing in foreign denominated and/or domiciled securities involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

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