

**2020: EMERGING MARKETS  
OPPORTUNITIES TO SEIZE AND  
PITFALLS TO AVOID**

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As we enter a new year, investors face uncertainty regarding the global economic and political environments and how these forces will impact their investment portfolio. Robert Koenigsberger, Managing Partner and CIO, and Mohamed El-Erian, Senior Advisor, present their views on how best to capitalize on opportunities while avoiding the pitfalls that permeate the global markets. Detailed analyses by Kathryn Exum and Petar Atanasov, Co-Heads of Sovereign Research, explore several thematic issues we expect to be prominent as we start the year. Specifically, the pages that follow discuss:

- A global, top-down macro perspective with general implications for emerging markets
- The predominant themes that we anticipate will impact our investment decisions
  - Global monetary and fiscal policy
  - The outlook for global growth
  - Clouds on the horizon: U.S. presidential elections, U.S.- China relations and global social pressure
- Asset allocation within emerging markets
- Liquidity concerns and how to prepare for the next dislocation

We hope you find what follows enlightening and useful as you contemplate strategic and tactical allocations.

**Decoding the Global Macro Environment: A Top-down Perspective and the Related Implications for Emerging Markets**

Entering 2020, the global economy finds itself in a better place than it was a year ago. The global growth outlook has improved, it appears that trade tensions are diminishing, and financial conditions are more accommodating. As notable as these improvements are, however, they are not as yet sufficient to lift some major medium-uncertainty. Moreover, geopolitical risks have increased. As such, how the global economy navigates the year as a whole will be as much a function of policy responses as it will be of its initial conditions.

After what was a worrisome period of synchronized slowing in both advanced and emerging countries, the global economy has been showing signs of some bottoming out.

At around 2%, the U.S. economy continues to be powered by consumption, compensating for more sluggish business investment and exports. A still-buoyant service sector has partially offset the sharp contraction in European manufacturing, containing the spread of recessionary risk from a stagnant Germany, the region's powerhouse. In emerging economies, Chinese internal economic activity and further policy stimulus have limited the economic downside of what has been a notable turnaround in the influence of the global economy – from a tailwind for growth and reforms to a notable headwind.

Unfortunately, this global economic stabilization owes more to temporary (and potentially reversible) factors than to the sustainable onset of genuine medium-term growth drivers, and this at a time when debt levels have been growing both in advanced countries and especially emerging economies.

The mini trade deal between China and the United States has allowed for an immediate de-escalation of tensions between the world's largest two national economies but is yet to set the stage for durable resolution of long-standing differences on trade practices (particularly with respect to intellectual property rights, technology transfers, and reciprocal market access). Meanwhile, the continuous support that central banks have been providing has been subject to growing concerns. This is particularly the case in Europe where there is partial evidence that unconventional policies may not just be ineffective, but could well prove counter-productive (especially when it comes to the adverse impact of negative interest rates on domestic demand, productivity and economy-wide resource allocation). All this as heightened tensions between Europe and the U.S. increase the instability of a Middle East full of proxy wars involving regional and outside actors, both state and non-state.

To build on the recent economic improvements and increase resilience to non-economic shocks, the global economy needs a boost from a more comprehensive pro-growth policy stance.

The good news is that there is general agreement among economists on what such a policy response should look like, one that would be centered on a handoff from protracted and excessive reliance on monetary policy to a more comprehensive policy approach powered by structural reforms and, where there is fiscal space, budgetary stimulus. Indeed, the constraint to the much-needed transition to genuine growth drivers is less one of design and more one of political implementation:

- The United States is heading into a noisy and potentially divisive run-up to the November elections.
- China is looking to advance its structural reforms in the context of less effective short-term stimulus measures and, over in Hong Kong, continued protests.
- Several large European countries (including Germany and Spain) are in the midst of political transitions while France faces continued political pushback to President Macron's economic reform efforts. The result is to undermine the needed policy transition and risk stall speed growth that would increase substantially the probability of Europe tipping into recession as 2020 proceeds.
- The decisive electoral victory in the United Kingdom by Boris Johnson has eliminated the reduced risk of either a disorderly hard Brexit or continued "no war and no peace:" with the European Union, but tough negotiations still lie ahead regarding the specifics of the transition period.
- A growing number of other countries face the challenge of containing popular discontent that, on occasion, has already translated into violent street protests.
- The new Argentine government will be looking to strike that delicate balance between growth, financial austerity and orderly relations with creditors.

This tug of war for the global economy – between more favorable initial conditions and considerable challenges to high and more inclusive growth – highlights the important medium-term uncertainties that investors face. Simply put, neither the current policy stance nor the continued support of central banks appears sufficient to translate the recent global economic improvement into a genuinely and sustainably supportive environment for risk assets that validates existing valuations and pushes them higher.

To navigate such a tug of war, and even before we incorporate the effects of climate change and technological disruptions, investors need to find ways to retain a claim on the upside while building resilience to navigate the possibility – indeed likelihood – of a medium-term deterioration in fundamentals and in the effectiveness of central banks' unconventional measures. This calls for careful security selection, more direct access to the real economy, solid balance sheet and collateral underpinning, and a dynamic tactical overlay to secular and strategic investment positioning.

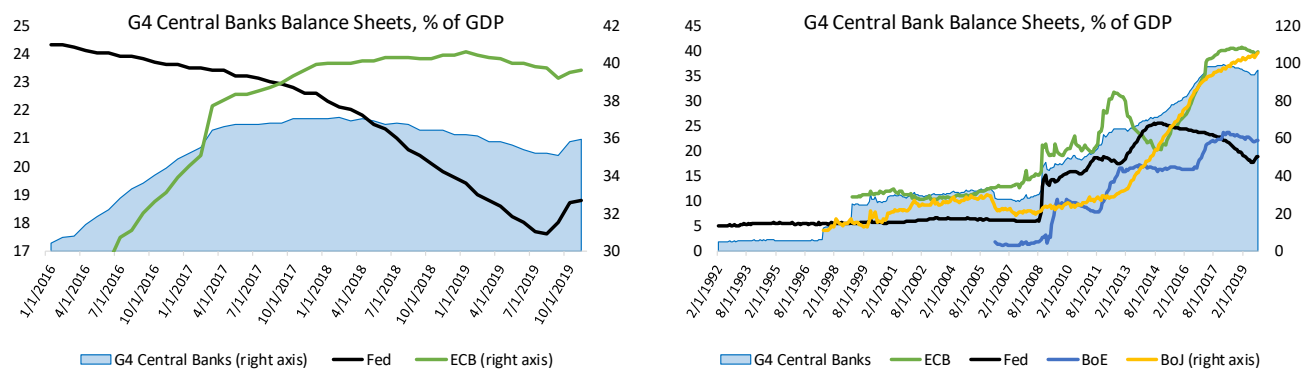
Such considerations are particularly relevant for emerging economies investors. They cannot rely on global growth or liquidity to sustainably narrow the general valuation gap for equities relative to the S&P. The spread compression in parts of the debt markets could well have run ahead of what fundamentals can support over time. Additionally, the proliferation of more liquid index offerings has eroded investor differentiation and reasonable assessments of liquidity risk.

### Themes Influencing Investment Decisions in 2020

**Theme 1: Ample liquidity provisions by the large systemically-important central banks will continue to support financial markets in the near term. However, a sustainable improvement in global macro fundamentals requires help from structural reforms and the fiscal policy channel, where we think space is limited.**

During 4Q19 all four systemically-important central banks - the U.S. Federal Reserve (Fed), European Central Bank (ECB), Bank of Japan (BoJ), and Bank of England (BoE), collectively known as the G4 Central Banks ("G4"), increased the size of their balance sheets (Exhibit 1). In addition, the Peoples Bank of China cut its required reserve ratios again. The massive "liquidity wall" provided by global monetary authorities in the post-global financial crisis era peaked in early 2018 as the systemic central banks embarked on a process of partially unwinding their Quantitative Easing operations for the most part of 2018-19. However, faced with unprecedented uncertainty and rising risks to the global growth outlook for 2020, the G4 reverted back to pumping additional liquidity into the global system, generating an inflection point in October 2019 (Exhibit 1). Renewed balance sheet expansion by the large central banks anchored the financial market rally of late 2019 amid easing trade tensions between the U.S. and China – all of which also opened a larger window for interest rate reductions by central banks in emerging economies.

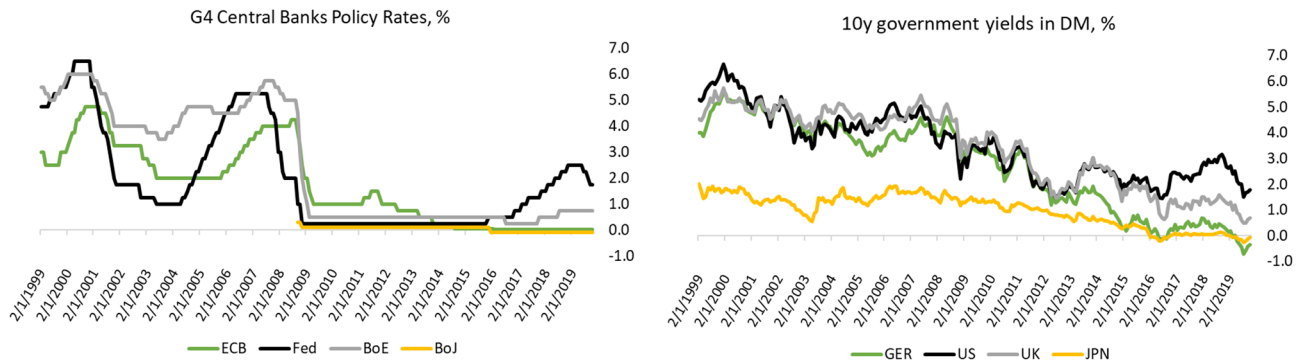
**Exhibit 1:** The massive post-GFC balance sheet expansion by the global systemic central banks peaked in early 2018, but has resumed since October 2019.



Source: Bloomberg.

Furthermore, in the absence of any meaningful inflation pressures, the G4 have been able to either maintain their policy rates near or at zero or, in the case of the Fed, cut rates three times in a "mid-cycle adjustment". As such, both short-term (monetary policy) and long-term (government 10-year yields) interest rates in the global economy remain at historically low levels (Exhibit 2), creating very easy financial conditions in both emerging and developed markets while supporting risk appetite. On the flip side, the monetary policy space that would be required to counteract a more pronounced economic downturn in the future is either non-existent or has been eroded from already low levels. Moreover, concern is growing regarding not just the effectiveness of central banks but also the risk that their current policy stance may eventually prove counterproductive for both medium-term economic well-being and financial stability.

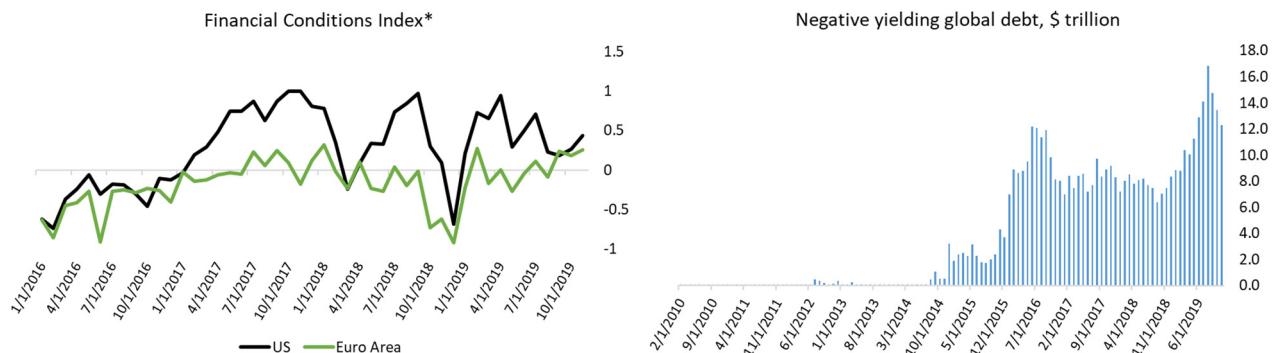
**Exhibit 2:** Both short-term (CB monetary) and long-term (10y market) interest rates in Developed Markets remain at historic lows.



Source: Bloomberg.

In an environment of easy global financial conditions and a still large pool of financial assets trading at negative yields, emerging markets (“EM”) assets (especially those offering a substantial pickup in yield) stand out as one of the main beneficiaries of ample global central bank liquidity and historically low developed markets (“DM”) interest rates (Exhibit 3). As concerns about an imminent U.S./global recession have dissipated, the total pile of negative yielding debt continues to trend down from the heights reached at the end of August 2019 (~\$17 trillion), but still stands at close to \$11 trillion, which is two times higher than the level in late 2018 (~\$6 trillion).

**Exhibit 3:** Easing financial conditions in DM and the large pile of negative yielding debt globally incentivize a global search for yield in riskier assets, including EM.



\*positive value = accommodative financial conditions

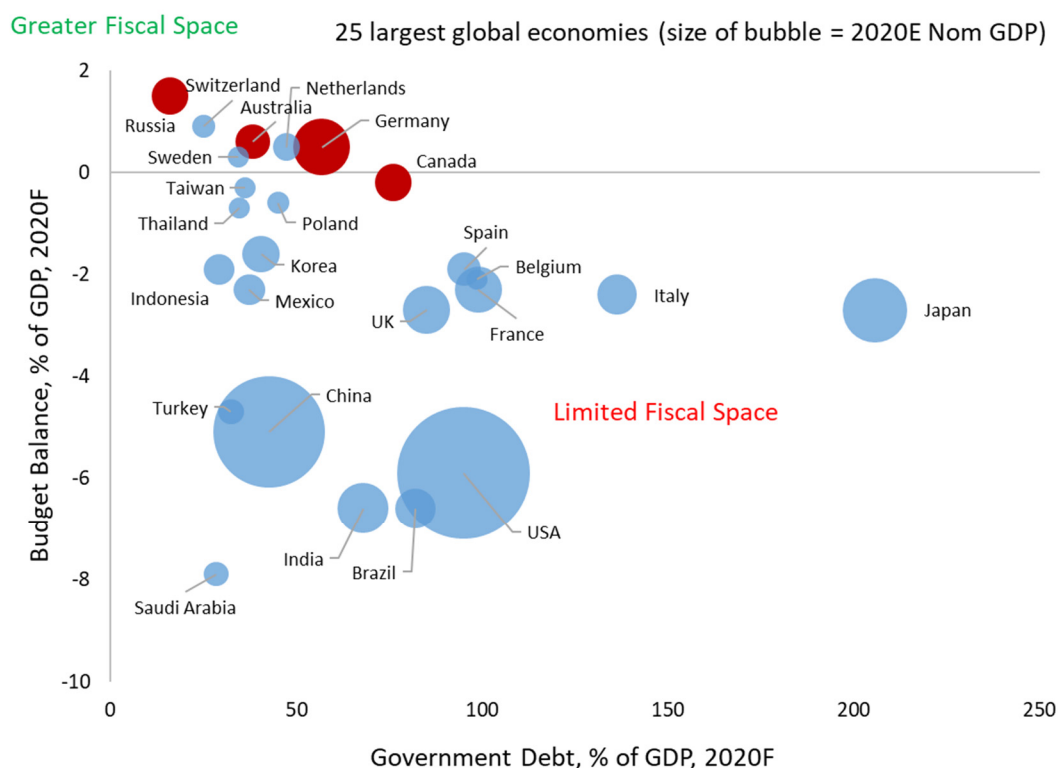
Source: Bloomberg.

Despite the clear medium-term risks stemming from ultra-accommodative monetary policy, we believe that the systemically-important central banks will maintain their “lower for longer” policy stance and continue to provide abundant liquidity in 2020. In a context of easing trade tensions and some major political risks that plagued global markets in 2019 fading (at least in the near term) markets will continue to be driven in the short-term by policy-induced liquidity and thus likely remain well supported in 1Q20. This being said, we are increasingly concerned about the limits of the monetary policy channel and the likelihood that the systemic central banks are close to reaching it. In addition, we do not believe that the easing of global policy uncertainty is sustainable beyond the very near term and we are doubtful that central bank liquidity alone will be sufficient to shield markets from renewed volatility and downside pressures as 2020 progresses. Also, the escalation of the Iran-U.S. tensions adds significantly to geopolitical risks.

With monetary policy likely stretched to its limits, could a significant fiscal stimulus shock materialize and prop up the global economy in 2020? We think the answer to this important question is “No” and we believe that recent market optimism on this issue is overdone.

Looking across the 25 largest developed and emerging economies (Exhibit 4), we do not see any material fiscal space other than in Germany and a few less systemic economies such as Russia, Australia, Netherlands and to some extent Canada. Although Germany arguably has the ability to substantially increase fiscal spending, we are highly skeptical about the domestic political willingness to do so. The largest global economies whose potential fiscal stimulus impact would be felt in the most material way across the global economy tend to fall in the camp of limited (U.S., China, India, Japan) or severely limited (UK, France, Brazil, Italy) fiscal space.

**Exhibit 4:** There is little fiscal space among the 25 largest global economies; where it exists, it is limited to a handful of relatively smaller ones and Germany, where we do not see political willingness to deploy fiscal stimulus.



Source: Moody's, national authorities.

**Theme 2: We anticipate a modest near-term improvement in global growth but our outlook remains fluid beyond 1Q and highly dependent on policy and its ultimate impact on investment.**

After sluggish global economic growth in 2019, a mild acceleration in early 2020 is expected as a result of a confluence of factors, most notably improved sentiment in the U.S.- China trade outlook and loose monetary conditions.

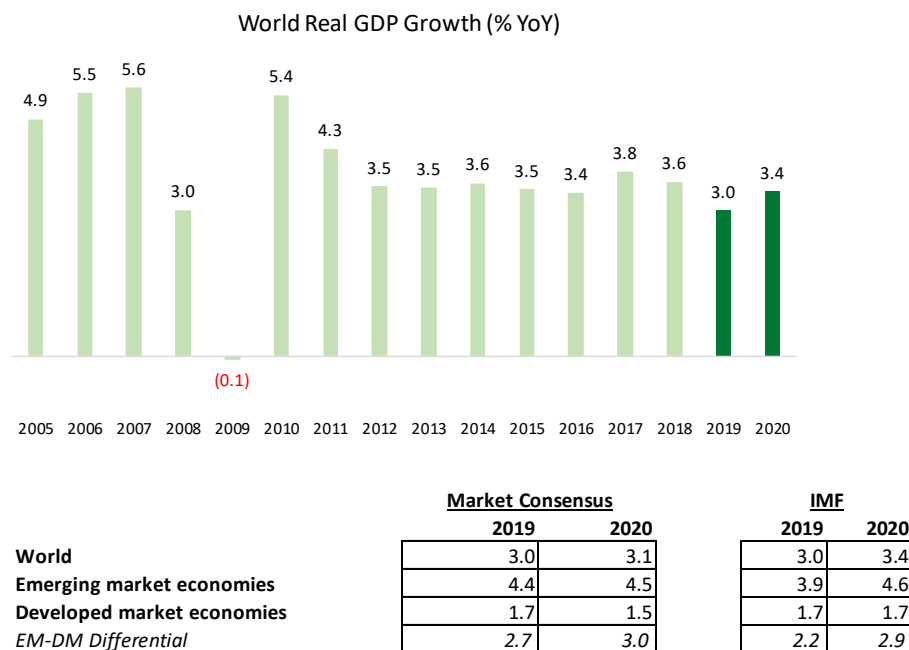
Thereafter, the forecast remains fluid amid U.S. policy uncertainty, rising inequality and social pressure globally, structural rigidities particularly in Europe, and limited prospects for fiscal policy support.

The IMF forecasts that World Real GDP growth eased to 3.0% in 2019 (vs. 3.6% in 2018), the lowest level since the global financial crisis in 2008/09. Weakness was broad-based and largely driven by a slowdown in industrial output with subdued business confidence in the backdrop of the U.S.- China trade war and softer Chinese demand.



While both the markets and the IMF anticipate acceleration, street analysts are more cautious on the degree of pick-up. Meanwhile, market valuations suggest that investors are more bullish. Any improvement is generally expected to be led by emerging market economies as they are seen to benefit most from improved trade and global demand conditions as well as greater monetary easing (Exhibit 5).

**Exhibit 5:** Acceleration in global growth is likely to be modest, concentrated in 1H20, and led by EM economies.



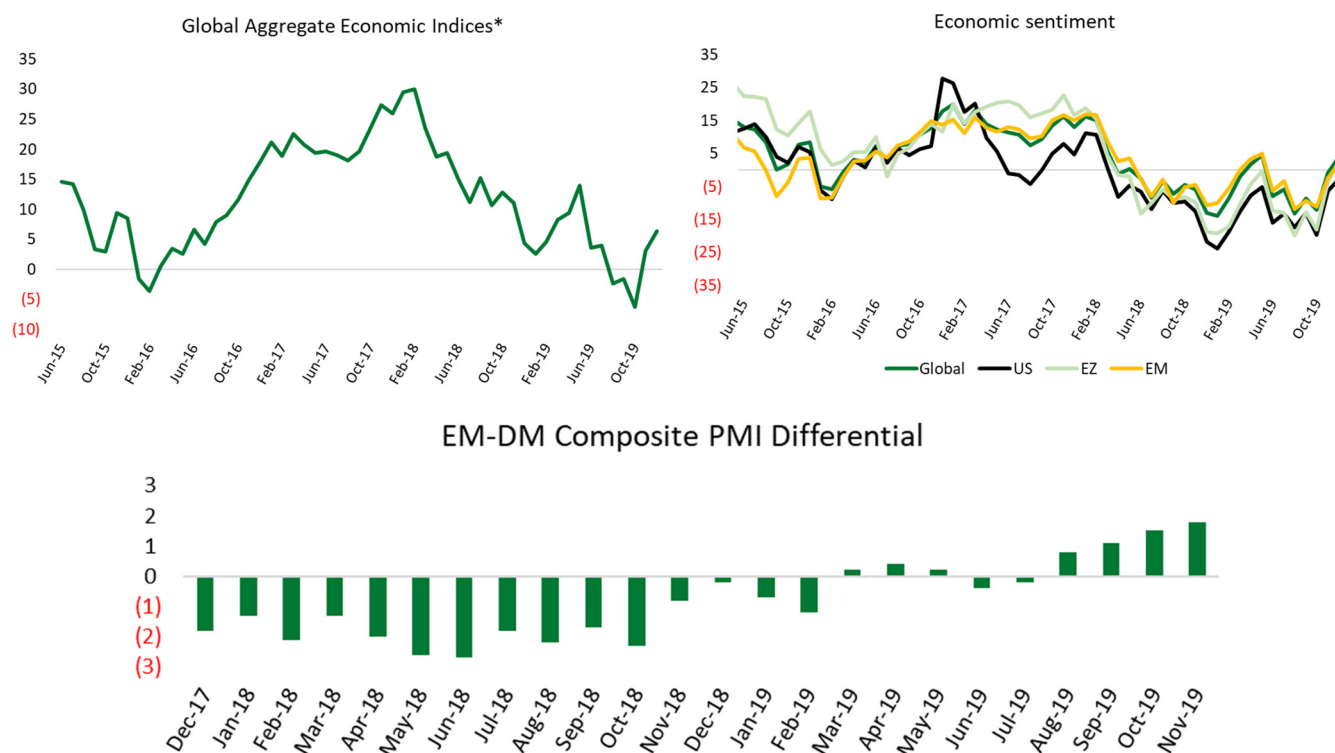
Source: IMF World Economic Outlook October 2019, Bloomberg.

High frequency indicators currently support a positive short-term narrative. Global composite PMIs have largely stabilized or improved marginally while sentiment indices have rebounded meaningfully (Exhibit 6). Meanwhile, sustained resilience in services sectors activity, particularly in the U.S., limits downside risks. It will be crucial to monitor the health of consumer-oriented parts of the economy throughout the year. Potential headwinds include the resumption of U.S. tariff implementation on consumer-oriented goods, political crisis or volatility which sparks a crisis of confidence, and spillover from renewed manufacturing weakness on wages or employment that in turn weighs on consumption.

The U.S.- China Phase One Deal officially reached, albeit not signed, in mid-December is a critical component to the recent rebound in data and forecasts. The agreement encompasses cancellation of previously planned tariffs of 15% on \$190bn of Chinese imported goods, partial reduction of tariffs implemented on September 1<sup>st</sup> on \$120bn of Chinese imported goods to 7.5% from 15%, significant purchases of U.S. agricultural goods by China of over \$40bn annually for two years and structural reforms on intellectual property and currency related issues.

While we agree with markets that this is positive for sentiment and growth in the short term, we caution that the optimism and upside from the deal may be temporary, and ultimately, quite modest. Meaningful progress on a Phase Two Deal that results in further tariff rollback should be challenging due to pending issues that are more structurally difficult to resolve, particularly in an election year.

More broadly, as the year progresses beyond the first quarter, several developments could derail the optimistic growth narrative including unresolved structural issues between the U.S. and China, the U.S. presidential race, and social pressures globally. The greatest weakness would likely be witnessed in open economies with high inequality or idiosyncratic political dynamics.

**Exhibit 6:** Rebound in leading economic indicators in 4Q support constructive near-term growth outlook.

Source: Bloomberg; \*Tracks how many business cycle indicators are moving higher or lower; % balance.

**Theme 3: We see various risks on the macro horizon beyond 1Q20 that could undermine the constructive market narrative at the start of the year; the U.S. presidential elections naturally take the center stage, but we will also be watching in particular for a potential re-escalation in U.S.- China tensions, the evolution of the Iran - U.S. conflict and social turmoil around the globe.**

### 1. 2020 U.S. Presidential Elections

We expect that by the middle of 1Q20, as the 2020 U.S. Presidential election primaries begin in early February (Iowa caucus on February 3<sup>rd</sup>), the U.S. policy outlook after November 2020 will gradually start to dominate the global top-down narrative and drive global financial market dynamics. We caution that it is too early to make any informed projections about the outcome of the primaries, let alone the subsequent race between President Trump and his eventual Democratic opponent, but see at least a few election scenarios that can quickly lead to markets materially recalibrating their baseline expectations about the trajectory of U.S. economic and foreign policy from November 2020 onwards. Furthermore, the composition of the next Senate will also be critical in terms of the future president's ability (or lack thereof) to follow through on his/her policy agenda and the corresponding market implications.

All else being equal, investors will likely look favorably at scenarios in which President Trump looks likely to face off against a moderate/centrist Democrat (i.e. Vice President Biden, Mayors Bloomberg or Buttigieg), while the scenarios involving Democratic candidates whose economic policy proposals are perceived as "extreme" by markets (i.e. Senators Warren and Sanders) will likely introduce considerable risk volatility, especially if polls start signaling a competitive general election race in November.

In terms of timeline, markets could have a good idea about who the Democratic frontrunner will be by early March. The so called 'Super Tuesday' will take place on March 3<sup>rd</sup> and it looks set to be more important than ever: a total of sixteen states and territories will hold their primaries on that date, including California and Texas, so more than one-third of all primary delegates on the Democratic side will be allocated.

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There are six states that look likely to be “battlegrounds” that will decide the outcome of the general election in November 2020: Arizona (11 electors), Florida (29), North Carolina (15), Michigan (16), Pennsylvania (20), and Wisconsin (10). President Trump won all six in 2016 and will likely need to secure two-thirds of the 101 total Electoral College votes from these states in order to be re-elected in November.

At the current early stage, we see a number of possible risk-off market scenarios materializing from the upcoming U.S. presidential elections and the policy outlook remains clouded, at best. Furthermore, President’s Trump impeachment trial by the Senate in 1Q20 can introduce additional twists to the pre-election narrative. Last but not least, we believe that a second term President Trump will likely be more hawkish and assertive in terms of foreign policy (i.e. increasing pressure on China, Iran, Venezuela, global alliances etc.). At the same time, we do not believe that a major shift on trade/China policy is likely to materialize under a Democratic administration in the White House after November 2020. As such, we are structurally cautious on the U.S.-China relationship, by far the most powerful driver of global economic, political and market dynamics for the foreseeable future.

## 2. U.S. Foreign policy pressure

The perceived economic and security threats posed by China to the U.S. are a bipartisan issue and largely remain unresolved, despite the Phase One agreement. Progress on key areas in technology will be more difficult to address than negotiated issues thus far. As such, there is a decent probability that U.S. pressure on China persists throughout 2020 with utilization of a broader toolset beyond tariffs. This could include targeted measures in the technology sector such as export or import controls or targeted company action as well as further efforts to drive financial decoupling via restrictions on Chinese listings on U.S. exchanges or limitations on U.S. federal pension fund investments in Chinese assets. Implementation of these measures could challenge ultimate execution of the Phase One deal and limit any progress on Phase Two discussions.

Relatedly, Trump’s desire for a weaker and more competitive dollar may result in additional attacks on countries with currency weakness similar to recent tariffs on Brazil and Argentina. This action was reportedly linked to both Trump’s campaign against the Fed as well as the countries’ gained agricultural market share from China as a result of reduced U.S. purchases.

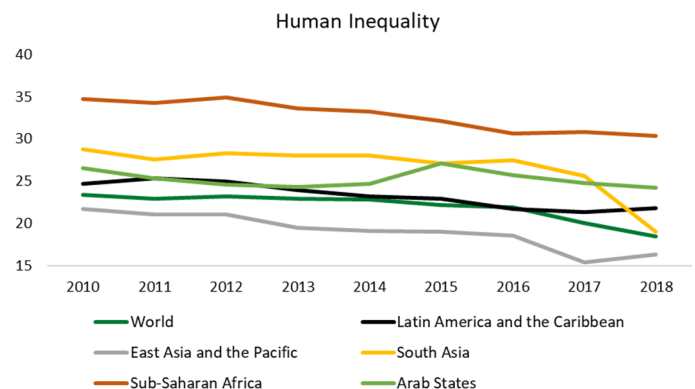
Foreign policy issues also pose risks to the bilateral relationship, including the ongoing unrest in Hong Kong, Taiwan, (which will hold presidential and legislative elections in early January), as well as North Korea. The U.S. could respond to escalation in any of the aforementioned scenarios with legislation that would increase tensions and potentially threaten the status of the Phase One deal.

Middle East tensions have moved back to the fore amid the recent escalation between the U.S. and Iran following the death of Iranian General Qassem Soleimani.

## 3. Global social turmoil

Discontent among ‘left-behind’ populations is on the rise with few signs of abatement. There are several examples to point to just within the past few months including Chile, Ecuador, Bolivia, Lebanon, Iraq, Iran, and Hong Kong. While the world as a whole has continued to see improvement from a global economic and equality perspective over the past decade, there are regional and sub-regional laggards that have resulted in pushback against existing policies and political norms. Latin America and Sub-Saharan Africa are two regions that stand out in the context of otherwise

**Exhibit 7:** Inequality has fallen globally but increased or has remain unchanged in Latin America and Sub-Saharan Africa.



*The vertical axis depicts the overall score where a higher number represents a higher level of inequality. Sub-Saharan Africa scores consistently high and Latin America has seen a recent increase.*

Source: World Bank; Average of inequality measured by life expectancy, education, and income; higher=greater inequality.



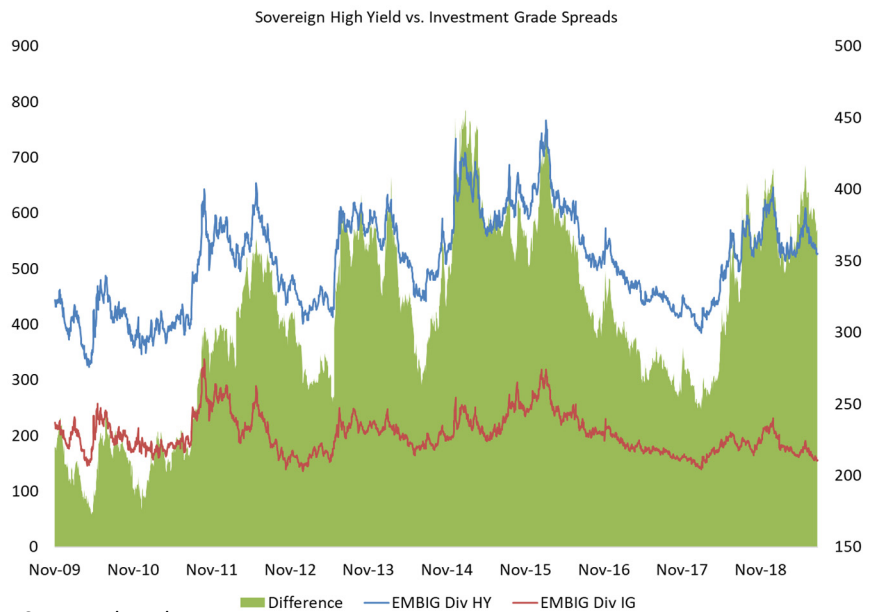
improving trends (Exhibit 7). This unrest becomes particularly problematic in countries already facing economic and political pressure such as Lebanon.

### Market Implications of the Predominant Themes

The risk-on sentiment in early 2020 should result in decent performance of sovereign high yield credit relative to investment grade but selectivity will remain critical to avoid idiosyncratic pitfalls (Exhibit 8). As such, we favor exposure among credits with strong balance sheets, limited debt imbalances, and solid cash flow generation.

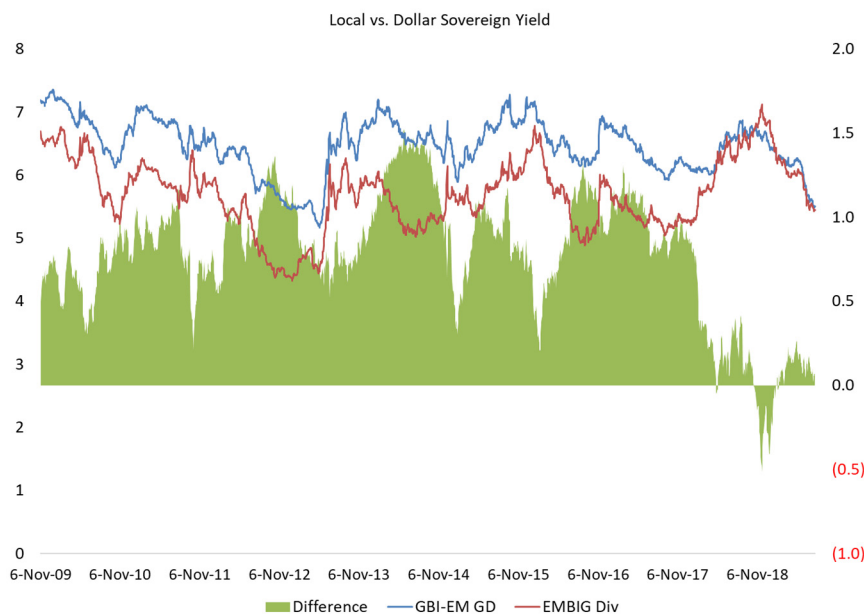
Similarly, the more benign global backdrop combined with fundamental factors of widening fiscal and external balances in the U.S. should result in a mildly weaker USD in the near-term, providing modest support to EM FX. Some high real rate economies have space to continue to cut rates further (Egypt, Ukraine, Mexico, South Africa and Russia for example), depending on domestic idiosyncratic developments, however, more broad monetary policy space will be more limited in 2020 (Exhibit 9). Lower rates and generally fair valuations leave EM currencies subject to depreciation risk in the event of resurfaced growth concerns or social and political distress.

**Exhibit 8:** Sovereign High Yield vs. Investment Grade spread remains 100bps wide to the tight.



Source: Bloomberg.

**Exhibit 9:** Only moderate space for EM local rally amid constructive conditions, given valuations.



Source: Bloomberg.

Modest rotation from EM fixed income into equities is expected amid the more constructive growth outlook, but 2020 flows into EM hard currency fixed income are still expected to be positive.

EM corporates should outperform EM sovereigns as corporate fundamentals improve on the back of accelerating growth and positive flows (Exhibit 10). While corporate high yield spreads show room to compress versus investment grade, underlying macroeconomic and country stories will be key to performance in 2020 and cautious credit selection will be imperative.

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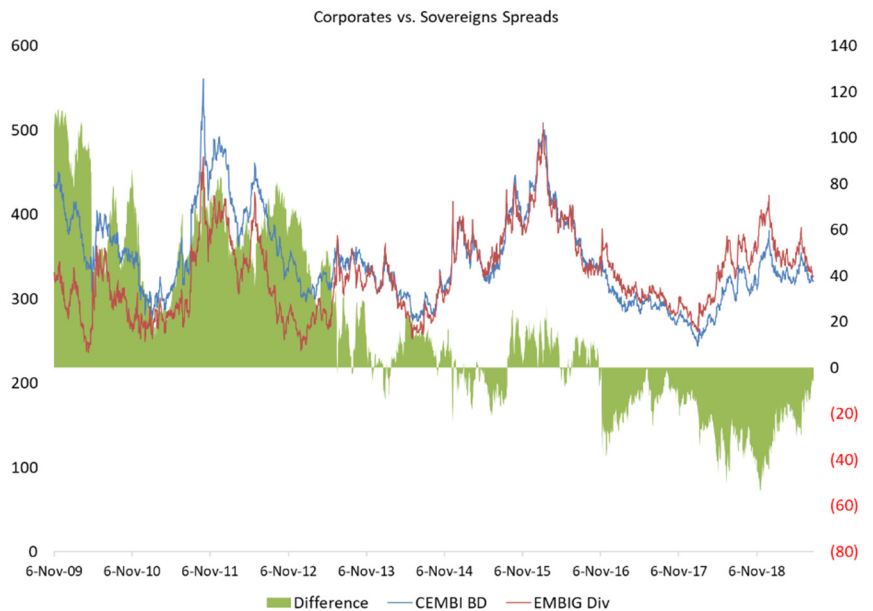
### 2020: EMERGING MARKETS OPPORTUNITIES TO SEIZE AND PITFALLS TO AVOID

Lastly, cyclical sectors should benefit from improved growth prospects in key EM jurisdictions. Similarly, oil prices should be well anchored in the short term with modest risks to the upside in 1H20 on more favorable supply and demand dynamics as well as increased tensions in the Middle East.

#### Asset Allocation within Emerging Markets & Liquidity Concerns and How to Prepare for the Next Dislocation

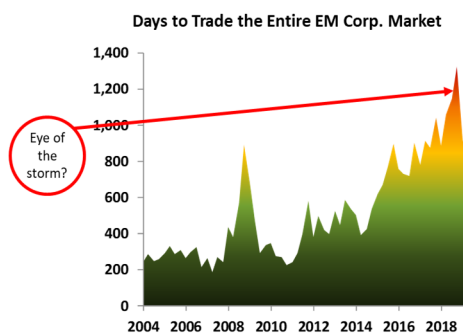
With the aforementioned themes in-mind, we now turn to the implications for asset allocation and security selection within emerging markets credit. As we enter 2020, we rely upon a barbell approach to remain consistent with our dual objective of claiming the upside while building resilience and optionality on an opportunistic approach to dynamically shifting asset allocation choices as market conditions dictate.

**Exhibit 10:** Corporate Hard Currency spreads remain slightly cheap to sovereigns.



Source: Bloomberg.

**Exhibit 13:** Market Liquidity?



Source: JPMorgan, EMTA. As of June 30, 2019.

On the one end of the barbell, we are looking for higher-quality credit that can weather bouts of volatility and fundamental credit deterioration. Highly secured, structured private credit ranks high in our preferences when seeking higher quality credit. For one, investors are explicitly paid for illiquidity as opposed to being short a put on liquidity in “liquid” public securities (more on this later). By underwriting / structuring highly collateralized private credit, we can

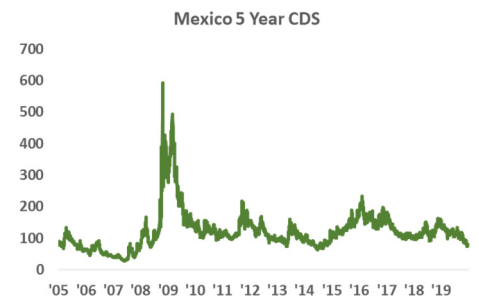
also gain more access to the real economy, solid balance sheets and robust collateral packages in absolute terms and relative to public credit bonds. We will continue to look to capture the upside in the arbitrage between public and private debt in emerging markets. We believe the current private landscape could provide opportunities that deliver a premium yield to public credit of the low to mid-teens. Many of these opportunities are likely to be short term in nature.

In our long-only EMD portfolios we enter 2020 favoring High Yield Corporate Credit and Local Markets. Consistent with the themes discussed early herein, as the year progresses we expect to build resiliency by shifting toward High Grade Corporates and USD Sovereigns while also shortening duration. Doing so will permit us to participate in the residual upside of this credit cycle yet protect the EMD portfolios against fundamental deterioration, bouts of volatility and potential outflows. By successfully protecting our portfolios against material drawdowns, we will be well positioned to dynamically shift towards dislocated opportunities that will likely present themselves in the near future.

**Exhibit 11:** 5 Year CDS Spread to U.S. Treasuries



**Exhibit 12:** 5 Year CDS Spread to U.S. Treasuries



Source: Bloomberg.

Past performance is not necessarily indicative of future results.

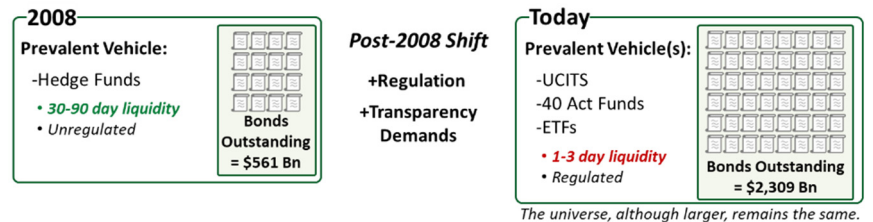
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In our Alternative portfolios, we intend to use cheap, asymmetric hedges to protect against the downside that could present itself due to dislocations, volatility and credit deterioration. The cheapness of such hedges is approaching levels not witnessed since 2007 and snapback levels that seemed unobtainable in the depths/wides of the 2008/09 credit crisis (Exhibits 11 and 12). For example a basket of “high grade” EM Sovereign Credit Default Swaps (“CDS”) today trades at 50-75 basis points (“BPS”) vs 500-750BPS+ in 2008/09. CDS overlays serve as life insurance for our portfolios that capture ever-decreasing premiums as the credit cycle ages and the risk of credit deterioration increases. This is the opposite of life insurance for individuals that charges materially higher premiums as the insured ages.

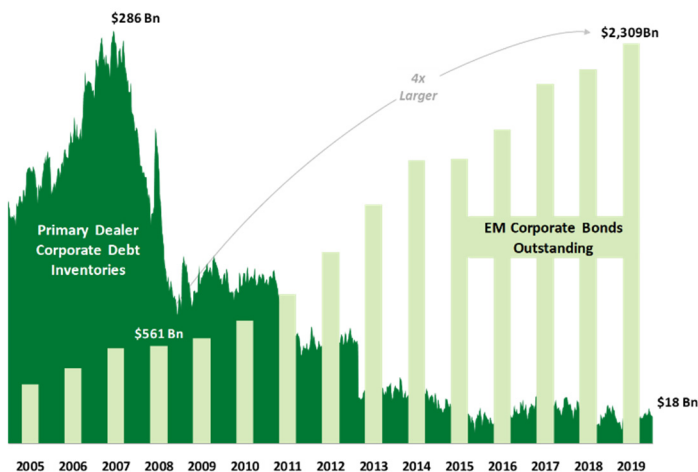
On the other end of the barbell, we are looking to prepare for and underwrite the next dislocation(s) before it (they) happen so we are ready fundamentally and psychologically to attack the opportunity set that such events will create. We are becoming cognizant of the dislocation risk/opportunity that exists in the market place today. We are convinced that “liquid markets” are not necessarily liquid and that when tested with outflows/demand to exit/reduce exposure, dislocations will occur ushering in a new era of extraordinary return potential.

**Exhibit 13a: Market Liquidity?**



Source: Gramercy.

**Exhibit 14: Market Expansion vs. Shrinking Dealer Inventories.**



As of September 30, 2019. Source: Gramercy, JPMorgan, Federal Reserve Bank of New York.

drawdown from peak to trough was 20% over 5 months. The investment opportunities in the rebound are confirmed in the subsequent return data that suggests that on average, 8 months later the markets had recovered 27%. Even more compelling, look-backs confirm that after 12 and 24 months the markets had averaged 30% and 54% returns respectively (Exhibit 15). In addition to the systemic dislocations that we have witnessed there have also been a series of one-off, idiosyncratic dislocations that provided meaningful upside in their recoveries. Recently these include in Brazil, Ukraine, Turkey and Argentina.

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Exhibit 15: Drawdowns and Recoveries.

#### Selection of the Largest Drawdowns and Subsequent Recoveries Since EMBIG Index Inception

EM Event	Index Analyzed	Drawdown (Peak to Trough)				Recovery (From Trough)			Post-Trough	
		Peak	Trough	Duration	Loss	Date	Duration	Gain	+12 Mos.	+24 Mos.
1. Tequila Crisis	EMBI Global	1/94	3/95	14 Mos.	-38%	12/95	10 Mos.	+61%	+62%	+129%
2. Asian Flu	EMBI Global	10/97	11/97	1 Mos.	-15%	3/98	4 Mos.	+18%	-6%	+16%
3. Vodka Crisis	EMBI Global	3/98	9/98	6 Mos.	-34%	12/99	15 Mos.	+53%	+40%	+77%
4. Tango Crisis	EMBI Global	6/01	7/01	1 Mos.	-10%	4/02	9 Mos.	+12%	+7%	+37%
5. Post-9/11 Turmoil	EMBI Global	4/02	7/02	3 Mos.	-11%	11/02	4 Mos.	+13%	+35%	+50%
6. Global Financial Crisis	EMBI Global	5/08	10/08	5 Mos.	-29%	7/09	9 Mos.	+42%	+56%	+83%
	CEMBI Broad	5/08	10/08	5 Mos.	-29%	7/09	8 Mos.	+41%	+55%	+79%
7. Eurozone Debt Crisis	CEMBI Broad	8/11	10/11	2 Mos.	-9%	2/12	4 Mos.	+10%	+20%	+20%
8. Taper Tantrum	EMBI Global	5/13	6/13	2 Mos.	-12%	5/14	11 Mos.	+14%	+15%	+14%
	CEMBI Broad IG	5/13	6/13	2 Mos.	-8%	5/14	10 Mos.	+9%	+11%	+13%
9. China Hard Landing / Commodity Sell-Off	CEMBI Metals & Mining	5/15	1/16	8 Mos.	-19%	6/16	5 Mos.	+24%	+40%	+57%
	CEMBI Oil & Gas	5/15	1/16	8 Mos.	-12%	6/16	5 Mos.	+14%	+21%	+32%
Average				5 Mos.	-20%		8 Mos.	+27%	+30%	+54%

As of August 2019. Source: Bloomberg, JPMorgan. Past performance is not necessarily indicative of future results. All performance is quoted as index total returns.

In conclusion, we believe the best way for sophisticated investors to capture these extraordinary returns in the future is underwrite them today before they happen. Wouldn't it have been nice in 2006/07 to underwrite the 2008/09 dislocation before it happened so that you would be prepared to attack it in 2009? (Most investors were too scared to even pick-up the phone in the depths of the 2008/09 downturn, and understandably so) Underwriting the next dislocation(s) before it (they) occur would afford investors the proper time and mindset to do so. Simply put, and using a long-standing Gramercy mantra, investors need to "plan the trade and trade the plan."

January 9, 2020

#### About Gramercy

**Gramercy is a dedicated emerging markets investment manager based in Greenwich, CT with offices in London and Buenos Aires.** The firm, founded in 1998, seeks to provide investors with superior risk-adjusted returns through a comprehensive approach to emerging markets supported by a transparent and robust institutional platform. Gramercy offers both alternative and long-only strategies across emerging markets asset classes including capital solutions, private credit, distressed debt, USD and local currency debt, high yield/corporate debt, and special situations. Gramercy is a Registered Investment Adviser with the SEC and a Signatory of the Principles for Responsible Investment (UNPRI). Gramercy Ltd, an affiliate, is registered with the FCA.

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