BBVA Research

Global Funds Outlook

4Q18

Emerging markets

What has happened?

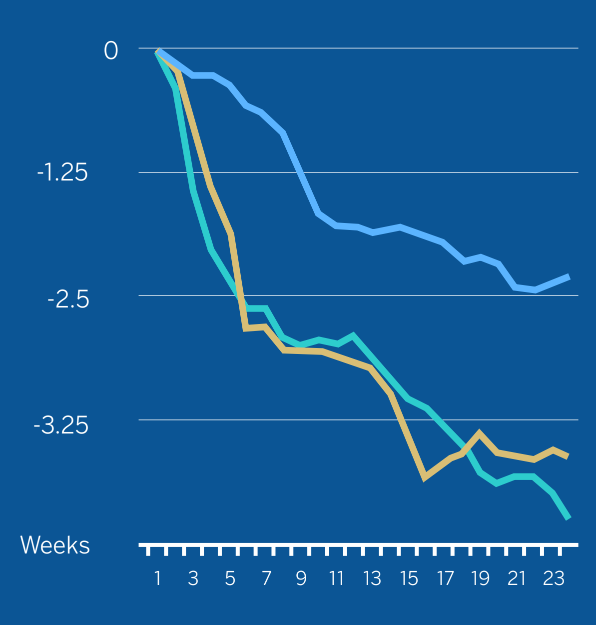
In line with our forecasts, **outflows from emerging markets continued through 3Q18**. For now there has been no "sudden stop" scenario

Outflows have **not been extreme** if we take into account:

- The deterioration in EM asset prices
- In comparison with other crisis episodes,

And the **low volatility** in developed markets also helped

Outflows from funds upon occurrence of risk events
(% of AUM)

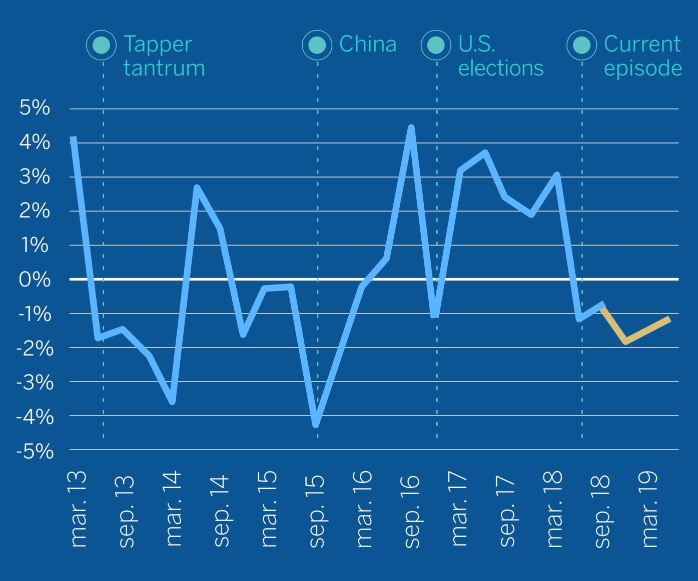


Source: BBVA Research, EPFR

What do we expect?

We predict that the **outflows will continue**:

Portfolio flows to emerging economies
(% of total assets, monthly data)



Source: BBVA Research, EPFR

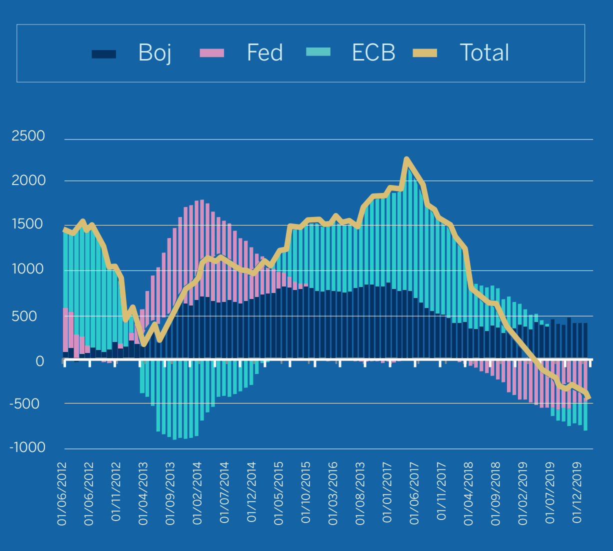
How much?

With all this in our baseline scenario we **expect outflows to persist but at current levels** due to the combination of global and idiosyncratic factors, all of them negative

Why?

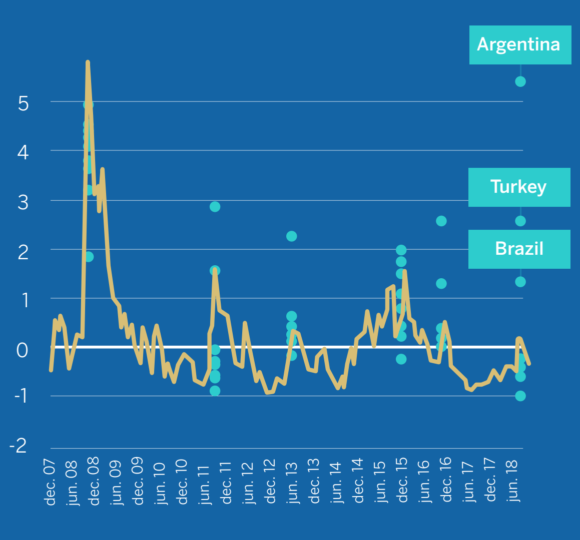
The tailwinds of 2017 are swinging around and becoming headwinds. Above all due to the central banks, which continue their process of normalisation, and the adverse effects of trade tensions

Change in central bank balance sheets
(US$ billions, constant exchange rate)



Source: BBVA Research, Bloomberg

BBVA index of financial tensions in emerging economies
(normalised index)



Source: BBVA Research

The outflows could become much more intense if the trade war escalates or in the event of a misstep by the Federal Reserve on its path to monetary normalisation

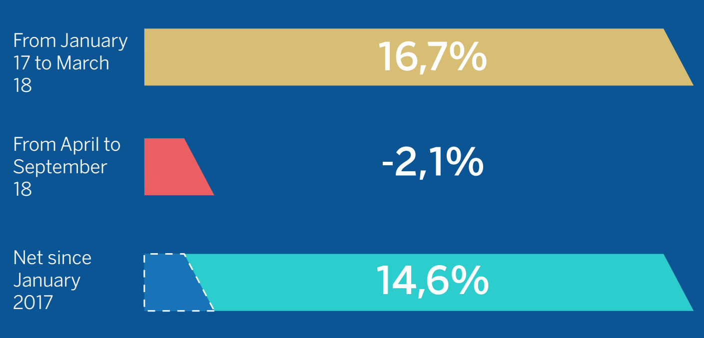
What's special about this episode?

Normal duration of an episode with these characteristics: twelve months, so we can expect at least two more quarters of outflows

What's more, being less intense **they may last longer**

The strong inflows of 2017 lend weight to the view that **outflows may be persistent**, but we do not see all that came in flowing out

Cumulative flows of capital
(% of total assets, January 2017)

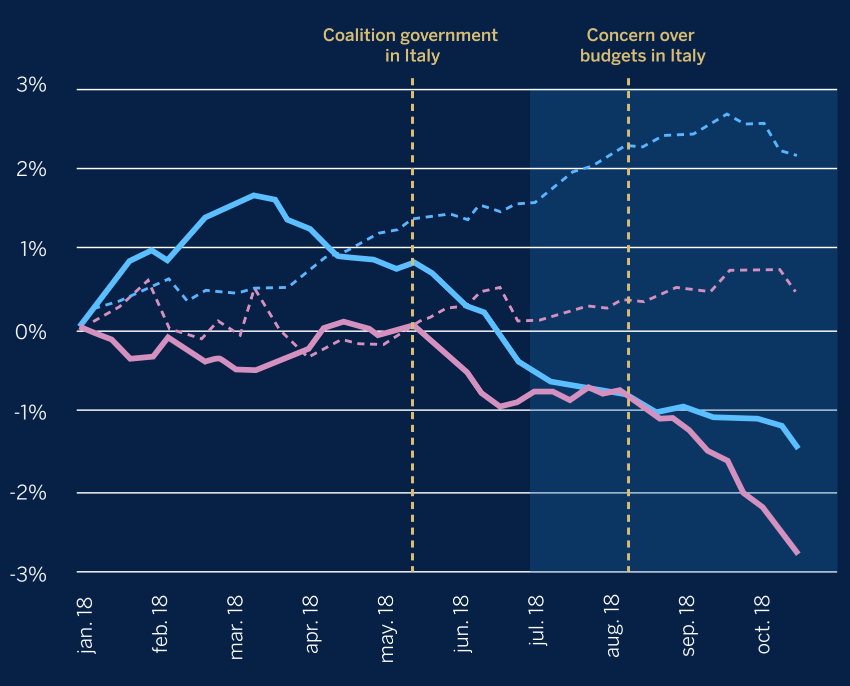


Source: BBVA Research, EPFR

Outflows since May represent about **15%** of total inflows in 2017, so there is still **room to see more outflows**

Developed countries

In developed countries we have seen clearly differentiated behaviour between the U.S. and the euro zone



Cumulative flows to developed markets
(% of AUM in January 2018)

U.S. equity
U.S. bonds
EZ equity
EZ bonds

Source: BBVA Research, EPFR

Euro zone: clearly worse behaviour due to implied risks (*brexit* and Italia)

Italy's risk premium
(spread on 10-year bonds: Italy - Germany)

Source: Bloomberg