Emerging markets and Trump 2.0

Navigating tectonic shifts that’s ushering a new economic paradigm

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Executive summary | Emerging markets and Trump 2.0

Tectonic shifts under Trump 2.0

- Trump 2.0 is heralding a paradigm shift in the global world order. Tariffs are the common denominator. The disruption to trade are far-reaching. Unlike Trump 1.0, the impact this time is more swift and more severe.
- As the policy agenda under Trump 2.0 becomes more discernible, policy reactions are being stepped up to navigate the reconfiguration of global trade with seismic reverberations for global markets.

Implications for emerging markets under the new economic paradigm

- We offer an examination of how EMs may navigate the more assertive Trump 2.0 "power-based" doctrine:
  1. Trade. EMs comprise the largest trade surplus with the US on an aggregate basis (USD874bn; 2.9% of US GDP), placing the complex squarely in the crosshairs of US policy – "factory Asia" is most at risk.
  2. Defence. The rewiring of the global security architecture, led by the US's more bellicose foreign policy strategy, has raised reservations on the support and costs of the US security guarantee.
  3. US de-risking. US "sticks" in extracting concessions, while reneging on prior agreements, hampers trust. The BRICS+ are gaining in heft and may question the risk-adjusted returns of conserving the status quo.
  4. EMs during recessions. We see EM credit spreads widening further, while EM rates tend to bifurcate – low yielders see yields decline (like DMs), and high yielders see higher yields (like a credit asset class).
  5. Where to play to win (and hide). We view that the strategy should be to focus on markets with strong domestic fundamentals, a higher share of household consumption in their GDP, a higher share of services in their export basket, and those which have the fiscal headroom to support if needed, as the rates outlook will be tied to the Fed's future trajectory as well as currency gyrations. The list is not long.

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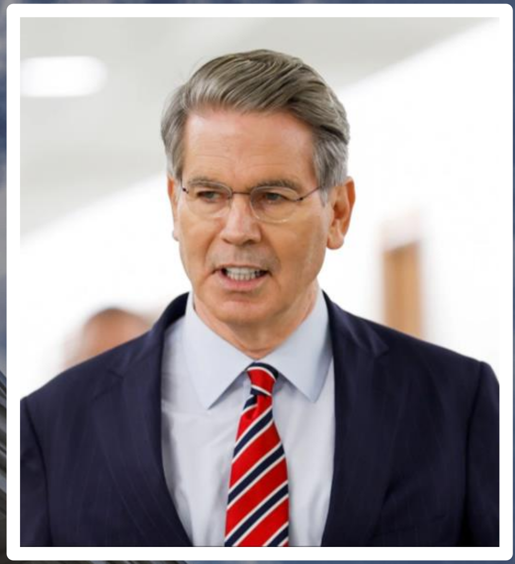
US Treasury Secretary | a grand global economic reordering



Scott Bessent

US Secretary of the Treasury

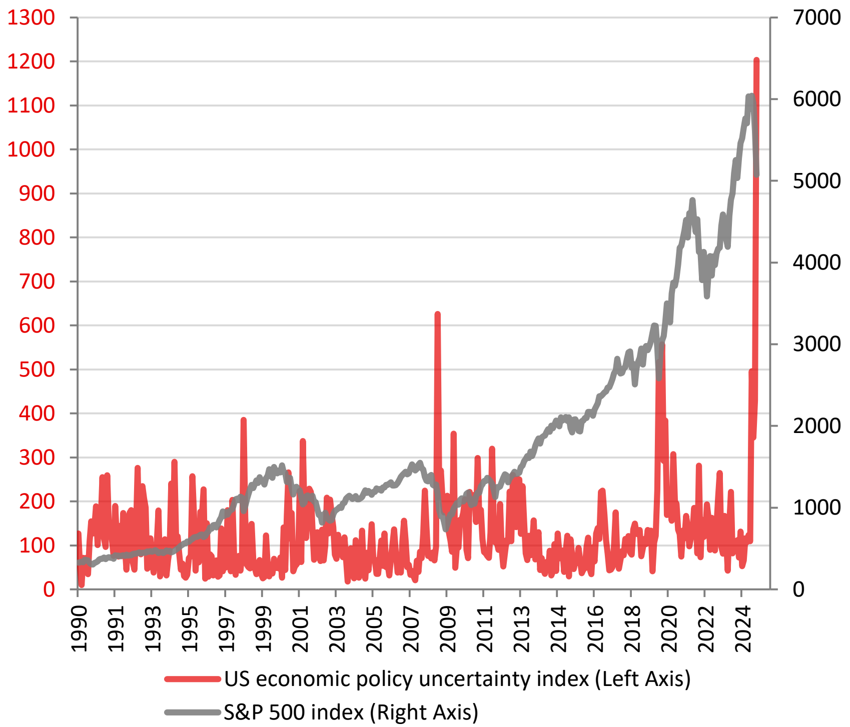
"We're at a unique moment geopolitically, and I could see in the next few years that we are going to have to have some kind of a grand global economic reordering, something on the equivalent of a new Bretton Woods or if you want to go back like something back to the steel agreements or the Treaty of Versailles. There's a very good chance that we are going to have that over the next four years."

Trump 2.0 three months in | unprecedented strain

The ramifications of the new US administration's policies three months in are starting to be felt, and not in a good way. Policy uncertainty from the start of tariffs has surged, plummeting financial markets, sapping corporate confidence and worsening inflation expectations.

US policy uncertainty surging and equity markets slumping

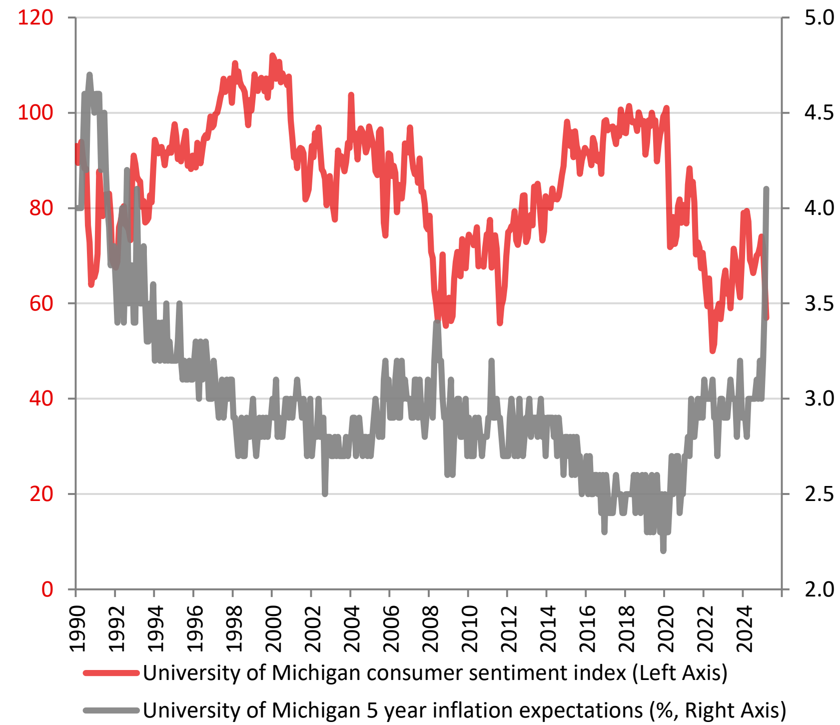
US economic policy uncertainty (index) and S&P 500 (index)



Global markets have been rattled by what President Trump has referred to as **"a little disturbance"** – **policy uncertainty from the start of tariffs has surged with the S&P 500 index plummeting** so far under Trump 2.0.

US confidence worsening and inflation expectations jumping

Uni. of Michigan US sentiment (index) and inflation expectations (%)



While the broad policy agenda is becoming clearer, we are set to live in a highly unpredictable world – **tariff angst is driving inflation expectations higher**, which is **sapping confidence** amongst corporates and individuals.

Trump 2.0 tariffs on Liberation Day | how large is the effective tariff rate?

On 2 April 2025 (Liberation Day), President Trump announced a two-pronged "reciprocal" tariff plan*. Factoring this tariffs levels, alongside other tariffs announced year-to-date, suggests the US effective tariff rate stands at 24.2%.

Reciprocal tariffs, alongside other tariffs announced post Trump 2.0, would raise the US effective tariff rate by 24.2%

Effect of US tariff announcements to date – as of 2 April 2025

	Trading partner	Import 2024 (USD bn)	Effective tariff rate 2024 (%)	20% China (%)	25% Canada / Mexico non-USMCA (%)	25% steel and aluminium (%)	25% autos and auto parts (%)	Announced reciprocal tariff (%)	Effective reciprocal tariff with exclusion (%)	Total tariff rise as of 2 April 2025 (%)
1	EU	606	1.4	---	---	0.6	2.1	20.0	10.8	13.5
2	Mexico	506	0.5	---	2.4	0.9	4.1	---	---	7.3
3	China	439	10.9	20	---	0.5	0.7	125.0**	---	125.0**
4	Canada	413	0.3	---	2.2	1.2	2.2	---	---	5.5
5	Japan	148	1.7	---	---	0.7	7.6	24.0	11.7	20.0
6	Vietnam	137	4.1	---	---	0.4	5.9	46.0	40.4	46.7
7	South Korea	132	0.4	---	---	1.1	0.5	25.0	14.0	15.6
8	Taiwan	116	1.1	---	---	0.6	0.7	36.0	26.4	27.8
9	India	87	2.6	---	---	0.6	0.5	26.0	18.5	19.5
10	Latin America FTAs	76	0.4	---	---	0.2	3.9	10.0	8.2	12.3
11	UK	68	1.2	---	---	0.5	0.0	10.0	5.6	6.1
12	Switzerland	63	0.8	---	---	0.1	0.6	31.0	18.5	19.2
13	Thailand	63	1.8	---	---	0.5	0.1	36.0	29.4	30.1
14	Malaysia	53	0.8	---	---	0.3	0.0	24.0	16.1	16.4
15	Singapore	43	0.3	---	---	0.1	0.4	10.0	4.9	5.3
16	Brazil	42	1.5	---	---	1.9	0.3	10.0	6.5	8.6
17	Indonesia	28	5.1	---	---	0.3	0.1	32.0	28.1	28.5
18	Israel	22	0.3	---	---	0.2	1.2	17.0	10.0	11.3
19	Turkey	17	3.5	---	---	1.6	0.2	29.0	23.0	24.8
20	Australia	17	0.3	---	---	0.7	3.7	10.0	8.0	12.5
21	South Africa	15	0.5	---	---	0.8	1.6	30.0	14.8	17.2
22	Philippines	14	1.5	---	---	0.1	0.0	17.0	13.1	13.2
23	Saudi Arabia	13	0.6	---	---	0.2	0.0	10.0	3.4	3.6
24	Cambodia	13	7.2	---	---	0.1	0.0	49.0	41.3	41.4
25	Ecuador	9	0.6	---	---	0.2	0.0	10.0	5.6	5.8
26	Bangladesh	8	15.4	---	---	0.0	0.3	37.0	36.6	36.9
27	UAE	7	2.4	---	---	4.8	0.1	10.0	4.9	9.8
28	Argentina	7	1.3	---	---	1.9	0.0	10.0	5.7	7.6
29	Norway	7	0.8	---	---	0.3	0.1	10.0	7.1	7.5
30	New Zealand	6	1.3	---	---	0.2	0.0	10.0	9.0	9.3
31	Pakistan	5	9.8	---	---	0.1	0.3	29.0	28.5	28.9
32	Others	88	1.4	---	---	0.5	0.3	14.0	7.8	8.6
33	Total/avg, import weight	USD3,267bn	2.5%	2.4%	0.6%	0.7	2.2%	23.3%	18.6%	24.2%

President Trump announced a "reciprocal" tariff plan that consists of **two parts. First, a 10% baseline tariff would apply to imports from all countries**, excluding Canada and Mexico – effective 5 April. **Second**, countries that comprise the **largest trade deficits with the US**, excluding Canada and Mexico, would face **an additional tariff that equals half the ratio of the US bilateral trade deficit with the country divided by US imports from that country** – effective 9 April (**now paused for 90 days bar China**). The fact that these two components were structured separately suggests that the 10% baseline tariff is unlikely to be negotiated down, but that the additional tariff rate could decline following negotiations.

The **tariffs average to 23.3% when weighted by imports**, but the **increase in the effective tariff rate would likely be ~18.6% due to product exclusions**. We estimate this and other tariffs announced year-to-date would **raise the US effective tariff rate by 24.2%**. The executive order states that these tariffs exclude products that are subject to sectoral tariffs, including sectoral tariffs not yet announced. Notably, **tariffs will not apply to steel, aluminium, and autos where tariffs have been implemented, copper, lumber, pharmaceuticals, semiconductors, or critical minerals*****. The **exemption also applies to energy products**.

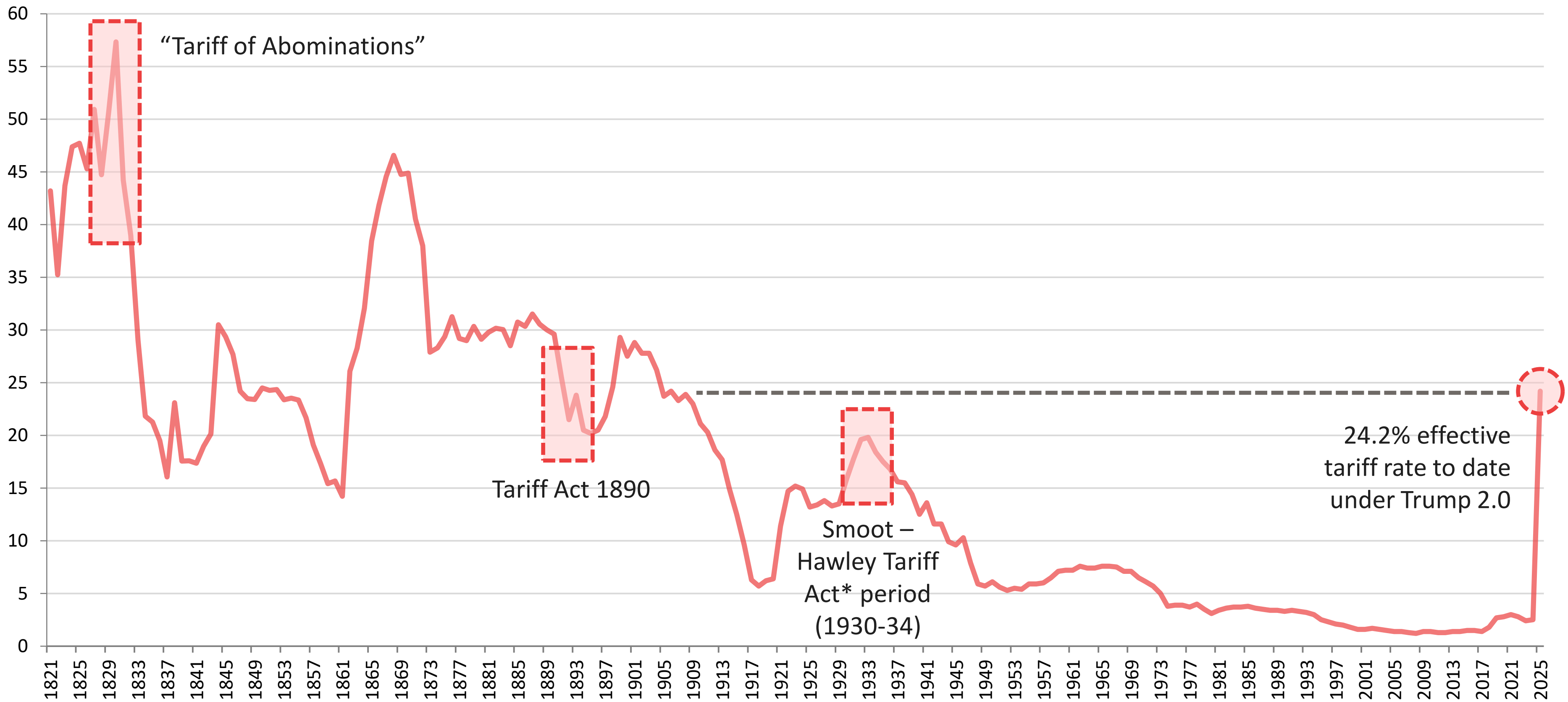
April 2025 | Source: Bloomberg, US Department of Commerce, White House, MUFG Research; * on 9 April, President Trump announced that he has authorised a 90 day pause of the country-specific portion of the "reciprocal" tariff for countries that have not retaliated against the tariffs imposed; ** on 9 April, President Trump declared that the tariff rate on imports from China will rise to 125%; *** these face pending Section 232 investigations

Trump 2.0 tariffs in historical context | highest since the 1900s

Our estimate of the tariffs announced year-to-date under Trump 2.0 thus far that raises the US effective tariff rate by 24.2% would be the highest average rate since 1905. While we assume negotiations to yield somewhat lower "reciprocal" rates, uncertainties abound.

We estimate that the reciprocal tariffs announced on 2 April (Liberation Day), alongside other tariffs year-to-date, would raise the US effective tariff rate by 24.2% – marking the highest level since 1905

Average US tariff rate on all imports (%)



April 2025 | Source: Bloomberg, Tax Foundation, US Census Bureau, MUFG Research; * a trade protectionist measure widely accepted as exacerbating the 1930s Great Depression and impairing international trade relations for many years

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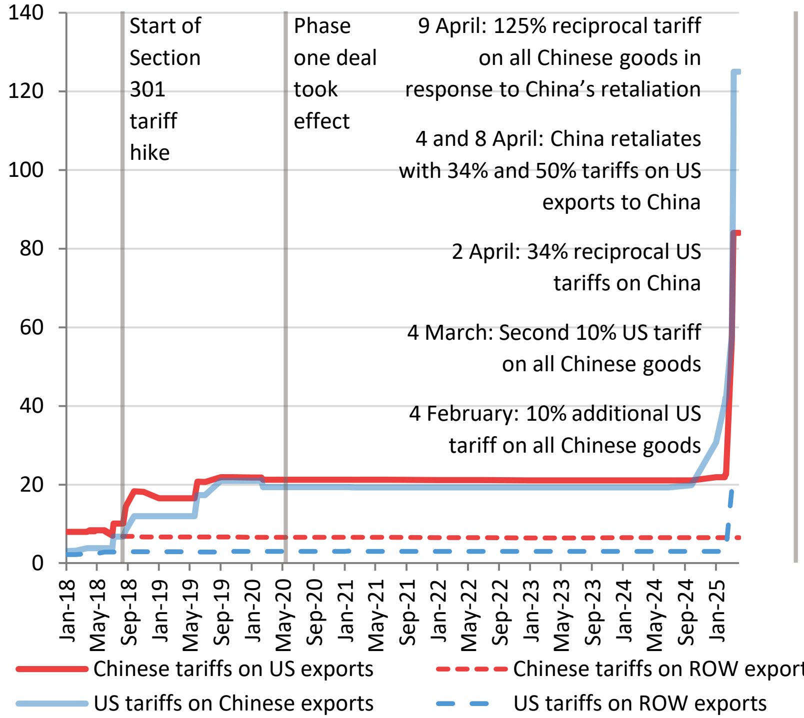
China retaliates to Trump 2.0 tariffs | mirroring US actions

Following the increase in the US tariff rate on China to 104%, China responded by announcing an additional 50% tariff increase on the US, for a total of 84%, to be implemented 10 April – mirroring the US move*. The US has since upped its tariff rate on China to 125% (9 April).

China's retaliatory tariffs ups the average rate on US to 84%

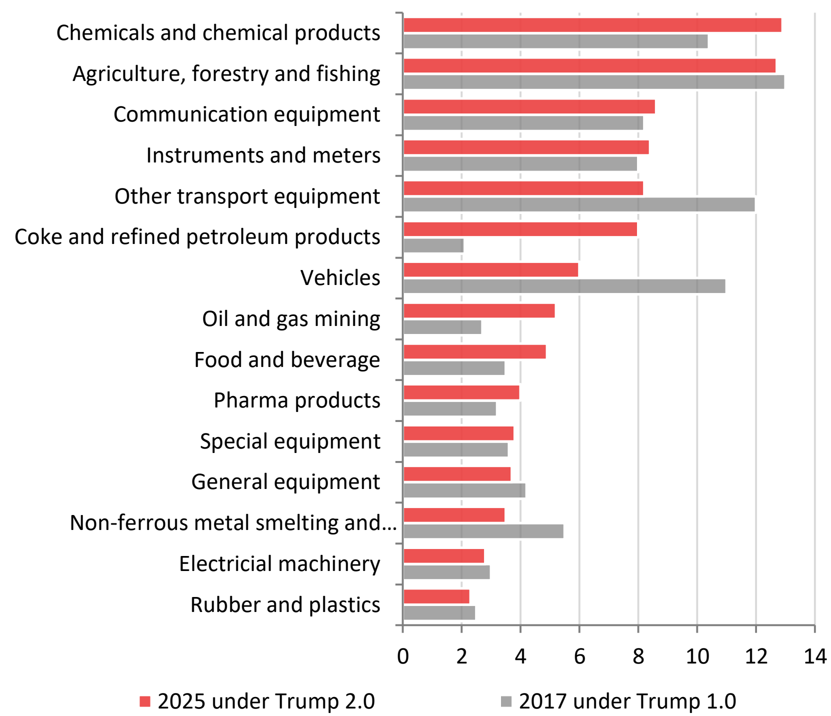
US and China effective tariff rates and against rest of the world (%)



The combination of extremely high US tariffs, sharply declining exports to the US, and a slowing global economy is expected to generate **substantial pressures on the Chinese economy and labour market**.

Commodities/intruments are key Chinese imports from US

Top Chinese imports from the US (% of Chinese imports from the US)



Whilst the growth implication of the retaliatory tariff per se is marked for China, **importers may begin to shift some of the commodity purchases from the US to other commodity-exporting countries**.

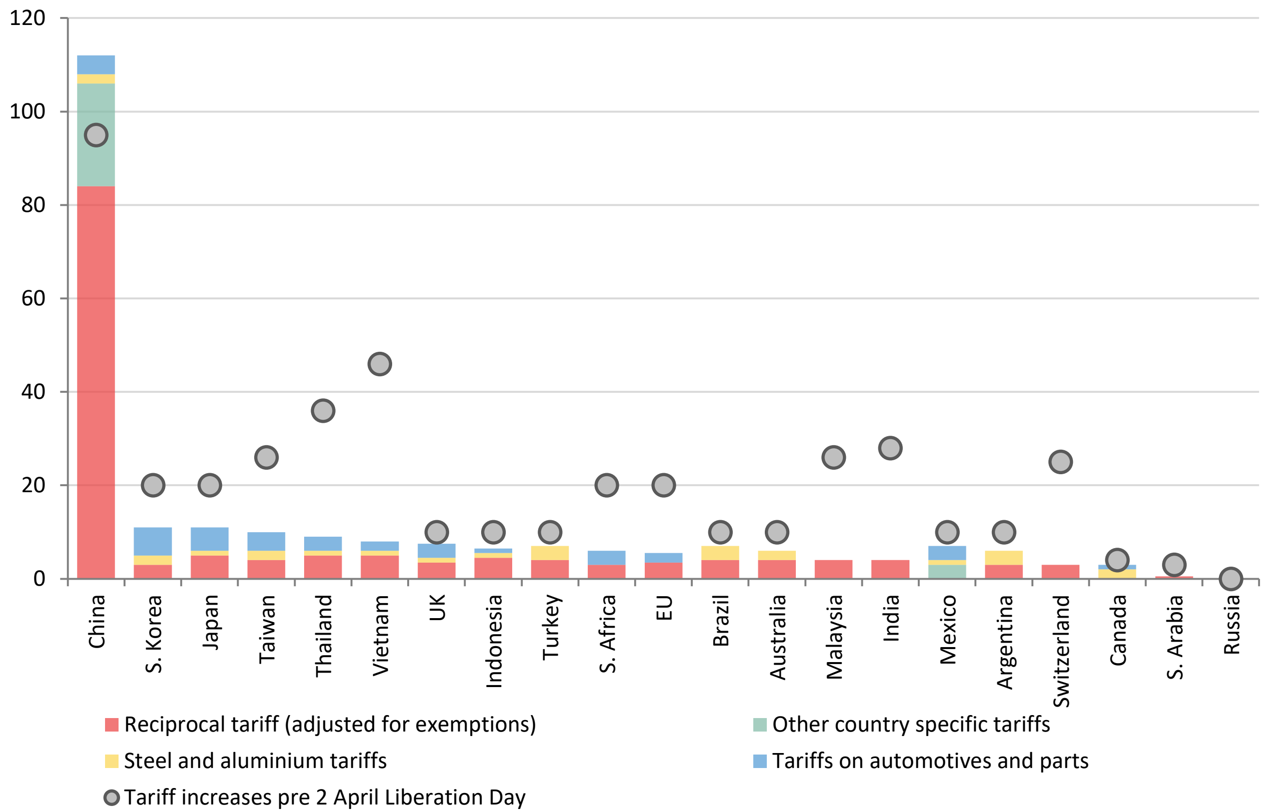
April 2025 | Source: Bloomberg, US Trademap, US International Trade Commission (USITC), US Trade Representative (USTR), MUFG Research; * the tariff action is part of a broader set of countermeasures, including export controls on rare earth minerals, entity list additions, and import ban for select US companies. The composition suggests high-tech sectors are targeted in this round of retaliation

Trump 2.0 tariffs hones in on China | "art of the delay" 90 day pause

President Trump has announced a 90 day pause on the additional country-specific portion of the "reciprocal" tariff. This leaves in place all prior tariffs and the 10% minimum portion of the reciprocal tariff, and we continue to expect additional sector-specific tariffs.

China is now the only part of the reciprocal tariff wall left standing – what will it take for the two sides to draw down from their current escalatory positions?

Increase in average tariff on goods exported to the US from January 2025 under Trump 2.0 (%)



The Trump administration announced on 9 April a **90 day pause on the tariffs**, which went into effect at 12:01am Eastern Time (ET), **targeting the country-specific portion of the "reciprocal" tariffs that are higher than the baseline universal 10% established in his 2 April Executive Order**.

All countries will be subject to a 10% tariff in this 90 day period, at which point the administration will revisit imposing the higher rates initially announced. 25% tariffs on finished autos and metals tariffs are unchanged, and **China is now paying a 125% tariff**.

Although **additional tariff increases on China are likely to have a diminishing marginal impact**, the combination of extremely high US tariffs, sharply declining exports to the US, and a slowing global economy is expected to generate **substantial pressures on the Chinese economy and labour market**.

Looking ahead, with China the only part of the tariff wall left standing, it will become even **more difficult for the two sides to draw down from their current stances**. The Chinese seemingly are prepared to ride out the storm, and the US has just targeted them in the middle of their protectionist policies*.

April 2025 | Source: Bloomberg, CEIC, IMF, Macrobond, UN, MUFG Research; * though 125% tariffs are unlikely to be the endgame, it is unclear how to get here from here. Negotiations are going to be slow to unfold, and there is no clarity on how they will begin.

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Trump 2.0 outlook anchored on US-China relations | scenario analysis

Given the complex degree of uncertainties in what is a fluid situation, we contextualise through scenario analysis prospects for US-China relations. China's assertive posture signals that future retaliation may be more forceful, raising the odds of unmanaged decoupling.

US-China trade scenarios in 2025	Details of scenario	Probability within the lifespan of the Trump 2.0 administration: 2025	2026	2027	2028
1 Grand bargain	Dovish backchannels and President Trump's desire to "deal", alongside concessions lead to a bargain that avoids large-scale tariff escalation	15%	10%	10%	5%
2 Managed decoupling	Less hawkish voices lead on trade, increasing the probability that both sides can reach a deal mid-term after tariff escalation	15%	40% (base case)	50% (base case)	40% (base case)
3 Unmanaged decoupling	Trade hawks maximal trade decoupling and security hawks cross China's "red lines", leading to a freeze in bilateral relations	55% (base case)	35%	25%	35%
4 Crisis	US or Taiwan change the status quo on Taiwan policy, provoking Chinese military escalation such as island seizure or blockade	15%	15%	15%	20%

Overall, a deal between the US and China seemingly remains unlikely at the current juncture given the **mismatched negotiation styles of the two leaders** – the unpopularity of deal-making in the US beyond President Trump, and China's perception that President Trump's tactics are malevolent. However, **China is seemingly leaving the door open for negotiations**, leading to a small probability of a deal.

China's latest moves adopt a more confrontational posture relative to Trump 1.0 by upgrading retaliation via tariffs ranging from reciprocal to targeted and rising beyond tit-for-tat retaliation with the other elements of the package.

Two elements of China's retaliation break recent patterns: (1) **the timing of its response prior to US implementation of tariffs**, and (2) the **strength of its tariff retaliation**.

Other elements of retaliation follow a phased progression up the ladder of retaliatory moves and therefore are largely symbolic, leaving stronger actions in reserve for further escalation while also **maintaining space for possible talks**.

A key question is what follows when China exhausts its **weaker hand of symmetric economic responses and chooses (or feels forced) to retaliate asymmetrically with non-economic measures**.

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Framing EM exposure with the US | which jurisdictions are most at risk?

EMs comprise the largest trade surplus with the US on an aggregate basis (USD874bn; 2.9% of US GDP), placing the complex squarely in the crosshairs of US policy. EM Asia accounts for the bulk of the EM trade surplus with the US with all witnessing hefty reciprocal tariffs.

EMs trade surplus with the US is large at USD870bn (2.9% of GDP)

EM EMEA — USD24bn (0.02% of US GDP) trade surplus with the US

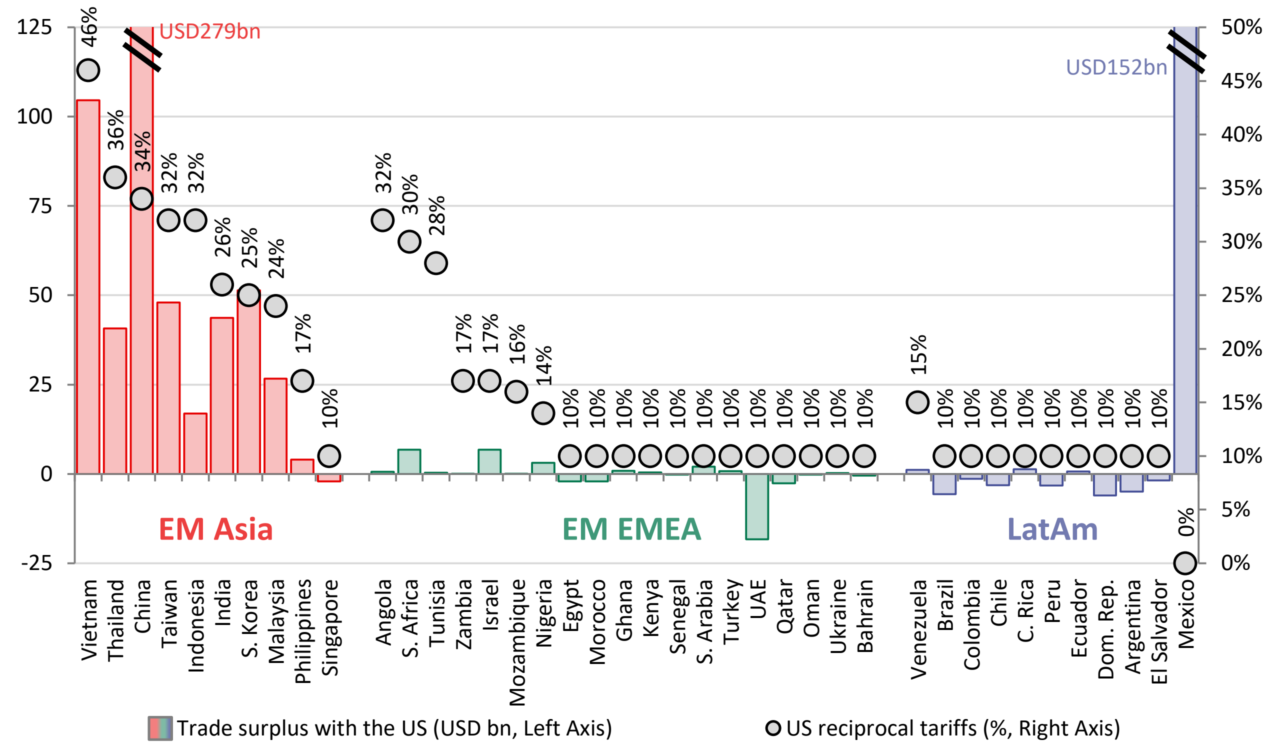
Latin America — USD214bn (0.8% of US GDP) trade surplus with the US

EM Asia — USD636bn (2.2% of US GDP) trade surplus with the US

EM average — USD874bn (2.9% of US GDP) trade surplus with the US

EM Asia run sizable trade surpluses with the US, thus subject to higher US tariffs

Trade surplus with the US (USD bn) and reciprocal US tariff rate (%)



Overall, it is **too early to deliver a definitive damage assessment across the EM complex**, but the risks on global growth – the most important ingredient for EM returns – have **significantly risen**. While some **countries** may emerge as winners, the **deterioration in sentiment and visibility** warrants caution.

EM trade with the US | concentrated in EM Asia

We summarise major EM trading partners with the US, ranked by the value of US imports to gauge exposure levels. While this usually correlates to the net trade deficit, it does not always explicitly match. The exports to US/GDP is a good proxy to see those most exposed.

Region / Market	US imports from (USD bn)	US exports to (USD bn)	US trade balance (USD bn)	% of total US imports	US trade balance / US imports (%)	Exports to US/GDP (%)	Tariffs charged to the US* (%)	US (discounted) reciprocal tariffs (%)
World	3084.11	2019.55	-1064.56	---	-35%	---	---	18.1%
Asia – China	427.23	147.81	-279.42	13.9%	-65%	2.9%	125%	125%
Asia – South Korea	116.23	64.84	-51.40	3.8%	-44%	6.8%	50%	25%
Asia – Vietnam	114.44	9.81	-104.63	3.7%	-91%	22.1%	90%	46%
Asia – Taiwan	87.75	39.78	-47.98	2.8%	-55%	11.6%	64%	32%
Asia – India	83.77	40.12	-43.65	2.7%	-52%	2.1%	52%	26%
Asia – Thailand	56.37	15.65	-40.72	1.8%	-72%	9.4%	72%	36%
Asia – Malaysia	46.15	19.44	-26.70	1.5%	-58%	8.5%	47%	24%
Asia – Singapore	40.34	42.45	2.11	1.3%	5%	9.0%	10%	10%
Asia – Indonesia	26.81	9.94	-16.86	0.9%	-63%	1.7%	64%	32%
Asia – Philippines	13.27	9.29	-3.98	0.4%	-30%	2.6%	34%	17%
EM EMEA – Israel	20.82	14.03	-6.79	0.7%	-33%	3.5%	33%	17%
EM EMEA – Saudi Arabia	15.88	13.87	-2.00	0.5%	-13%	1.4%	10%	10%
EM EMEA – Turkey	15.50	14.69	-0.80	0.5%	-5%	1.3%	10%	10%
EM EMEA – UAE	6.58	24.86	18.28	0.2%	278%	1.2%	10%	10%
EM EMEA – Qatar	2.05	4.66	2.61	0.1%	128%	0.6%	10%	10%
EM EMEA – Oman	1.65	1.86	0.21	0.1%	13%	0.5%	10%	10%
EM EMEA – Ukraine	1.30	1.05	-0.26	0.0%	-20%	0.3%	10%	10%
EM EMEA – Bahrain	1.18	1.68	0.50	0.0%	42%	2.3%	10%	10%
EM EMEA – South Africa	13.97	7.16	-6.81	0.5%	-49%	2.2%	60%	30%
EM EMEA – Nigeria	5.70	2.60	-3.10	0.2%	-54%	1.3%	27%	14%
EM EMEA – Egypt	2.39	4.49	2.10	0.1%	88%	0.5%	10%	10%
EM EMEA – Morocco	1.70	3.75	2.06	0.1%	121%	0.9%	10%	10%
EM EMEA – Ghana	1.67	0.85	-0.82	0.1%	-49%	1.0%	17%	10%
LatAm – Mexico	475.61	323.23	-152.38	15.4%	-32%	27.4%	---	0%
LatAm – Brazil	39.12	44.81	5.69	1.3%	15%	1.7%	10%	10%
LatAm – Colombia	16.16	17.55	1.39	0.5%	9%	3.8%	10%	10%
LatAm – Chile	15.54	18.72	3.18	0.5%	20%	4.3%	10%	10%
LatAm – Costa Rica	10.46	9.14	-1.31	0.3%	-13%	9.7%	17%	10%
LatAm – Peru	8.73	12.04	3.30	0.3%	38%	3.2%	10%	10%
LatAm – Ecuador	8.60	7.95	-0.65	0.3%	-8%	6.2%	12%	10%
LatAm – Argentina	6.44	11.44	5.00	0.2%	78%	4.5%	10%	10%

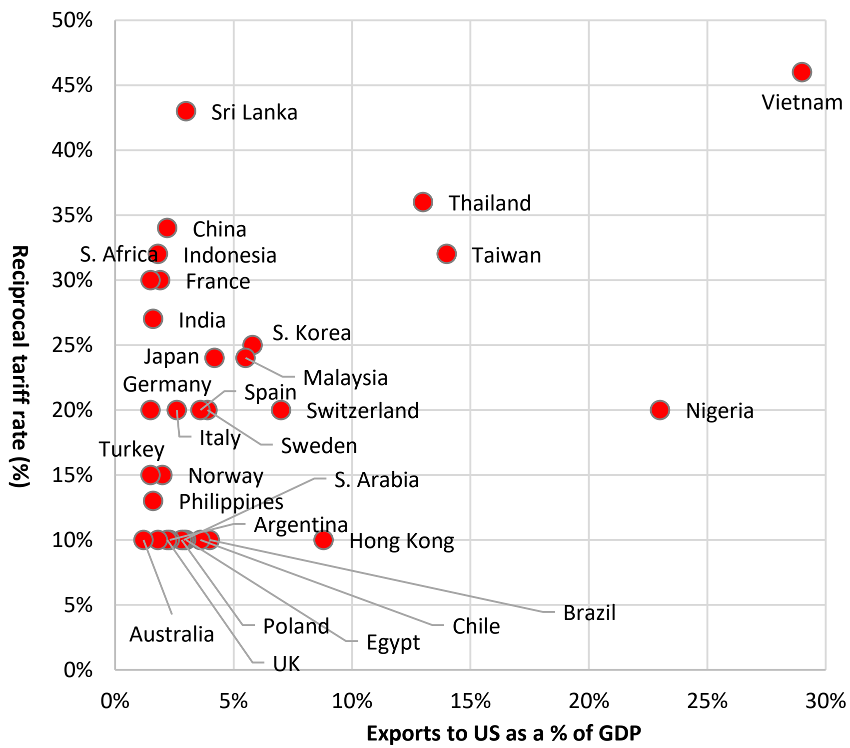
April 2025 | Source: Bloomberg, CEIC, IMF, Macrobond, UN, White House, MUFG Research; * includes currency manipulation and trade barriers according to the White House

EM trade diversification | shares towards China and EU are heterogeneous

EM Asia faces the brunt of reciprocal tariffs given their large trade surpluses with the US. There is uncertainty about the durability and future scope of tariffs – smaller Asian trade partners may negotiate lower rates, but retaliation from larger blocs (China, EU) are key risks.

EM Asia faces the brunt of reciprocal tariffs in the EM space

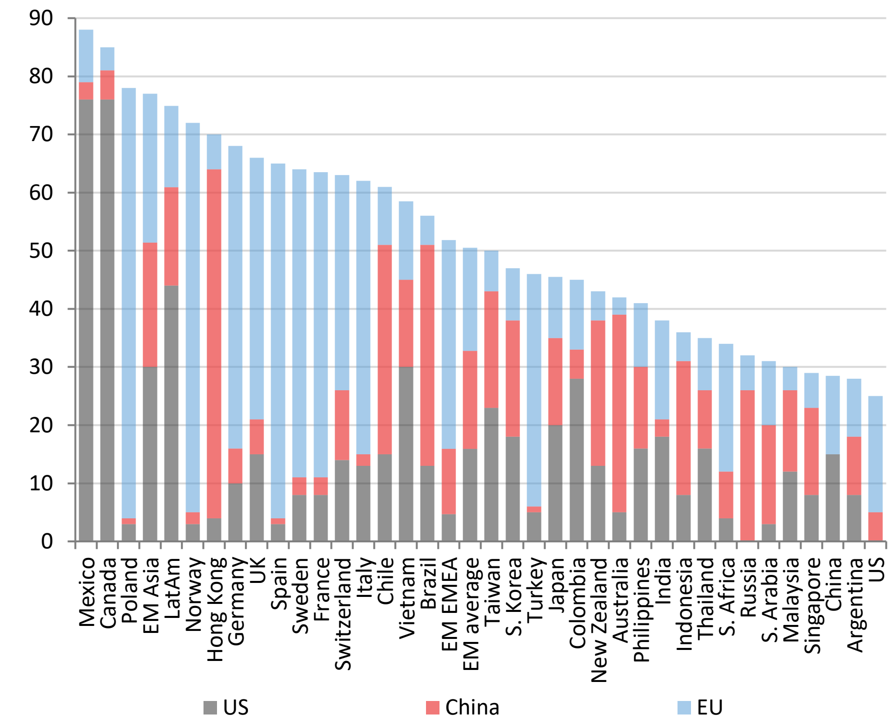
Country exports to US (USD bn) and US reciprocal tariffs (%)



Beyond **Mexico** (excluded from reciprocal tariffs), **China, Vietnam and Taiwan** are some of the most exposed EM countries given their **reliance on the US market and deep integration into US supply chains**.

EMs with less US exposure are best placed to weather storm

Goods exports to the US, EU and China for major EMs (% of exports)



Some **EMs have managed to diversify their export markets** and may be able to **grow exports to China and/or the EU** if domestic growth improves there and/or should the punitive US tariffs be sustained.

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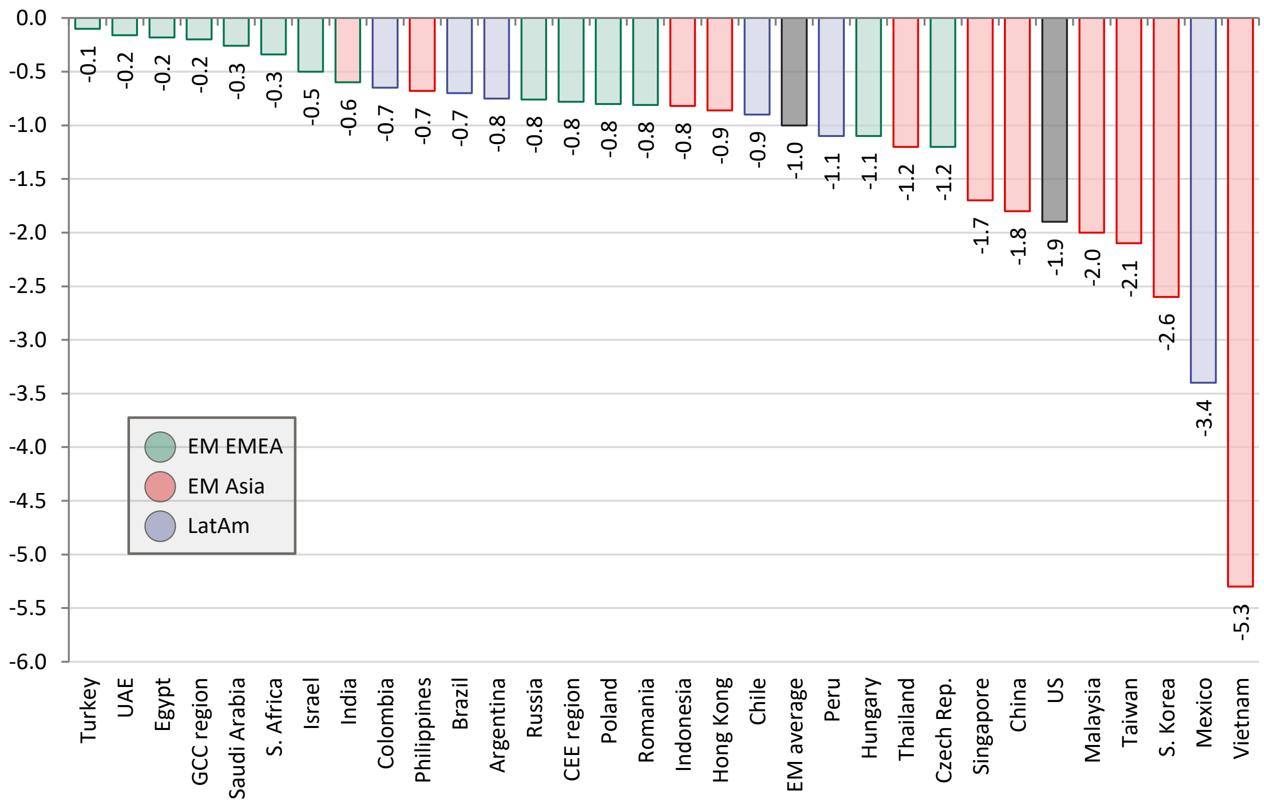
EM growth impact from US tariffs | EM Asia bearing the brunt

We simulate growth impacts across the EM complex to factor in the US reciprocal tariff rates, alongside the tariff retaliation from China. Given the brunt of the US tariffs are borne on EM Asia, this is where we expect most of the negative growth impulse to be inhibited.

Simulating the cumulative real GDP growth impact across EMs from US tariffs and China's retaliation points to EM Asia bearing the brunt of the negative impulse

Estimated real GDP impact of US's reciprocal tariffs and China's retaliation in 2025 (%)



The **impact on EM Asia is most acute**. **Vietnam's negative growth impulse is most severe**, owing to both its sizable trade exposure to the US (29%) and the severity of the tariff asymmetry (46%), with a growth shock estimated in this model to be cumulative large at -5.3%.

Mexico and South Korea are also relatively exposed at -3.4%, and -2.6%, respectively.

Some economies are forecast to have cumulative growth shocks that are comparable to the US (-1.9%), notably, **Taiwan (-2.1%), Malaysia (-2.0%), China (-1.8%) and Singapore (-1.7%)**.

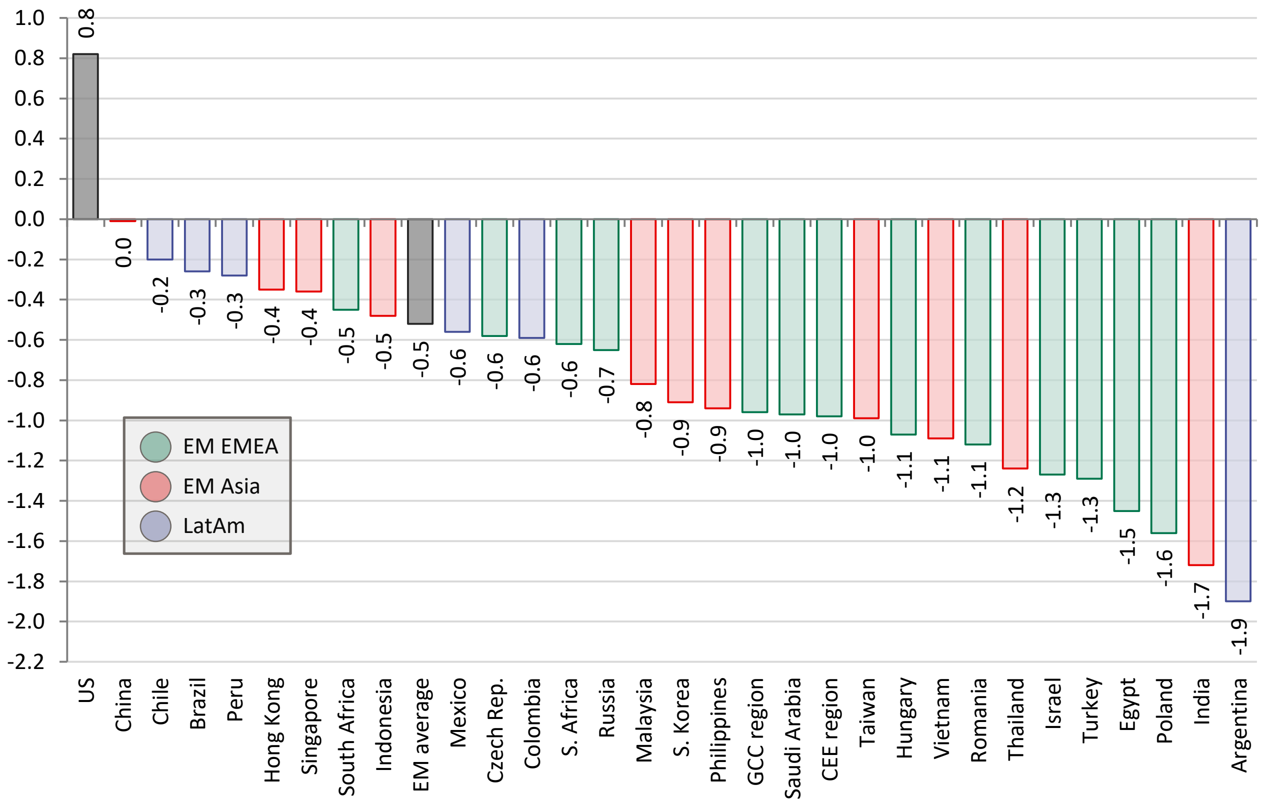
Across EM EMEA, **Czech Republic (-1.2%) and Hungary (-1.1%) are most exposed** within the region, predominantly due to the impact on Eurozone, led by Germany. Elsewhere, the **GCC region, Turkey (-0.1%) and Egypt (-0.2%) look relatively more insulated**, as well as **Israel (-0.5%), India (-0.6%) and the Philippines (-0.9%)**, though we would caveat this analysis given the second order impact that is absent from this simulation.

EM inflation impact from US tariffs | divergence across jurisdictions

We also simulate the impact on inflation across the EM complex. For EM (US trade partners), the impact of tariffs is akin to a negative external demand shock – driving weaker exports and putting downward pressure on domestic inflation in the tradables sector.

Simulating the inflationary impact across EMs from US tariffs and China's retaliation points to a wide degree of divergence

Estimated inflation impact of US's reciprocal tariffs and China's retaliation in 2025 (%)



At a high level, the **first order impact of tariffs is akin to a negative supply shock for the US** – driving inflation higher and a negative real income squeeze for consumers.

For **trade partners**, it is akin to a **negative external demand shock** – driving weaker exports and putting downward pressure on domestic inflation in the tradables sector.

With this context in mind, with **the US standing out facing a stagflationary shock, the rest of the world (that includes EMs), is likely to inhibit a disinflationary shock**.

Yet, we would caveat this analysis given significant assumptions in the model. For instance, the initial inflationary shock attributed to the tariffs on China is likely fuelled by the short-term supply-side inflation assumed from China's retaliatory tariffs, or possibly some assumed policy-easing support.

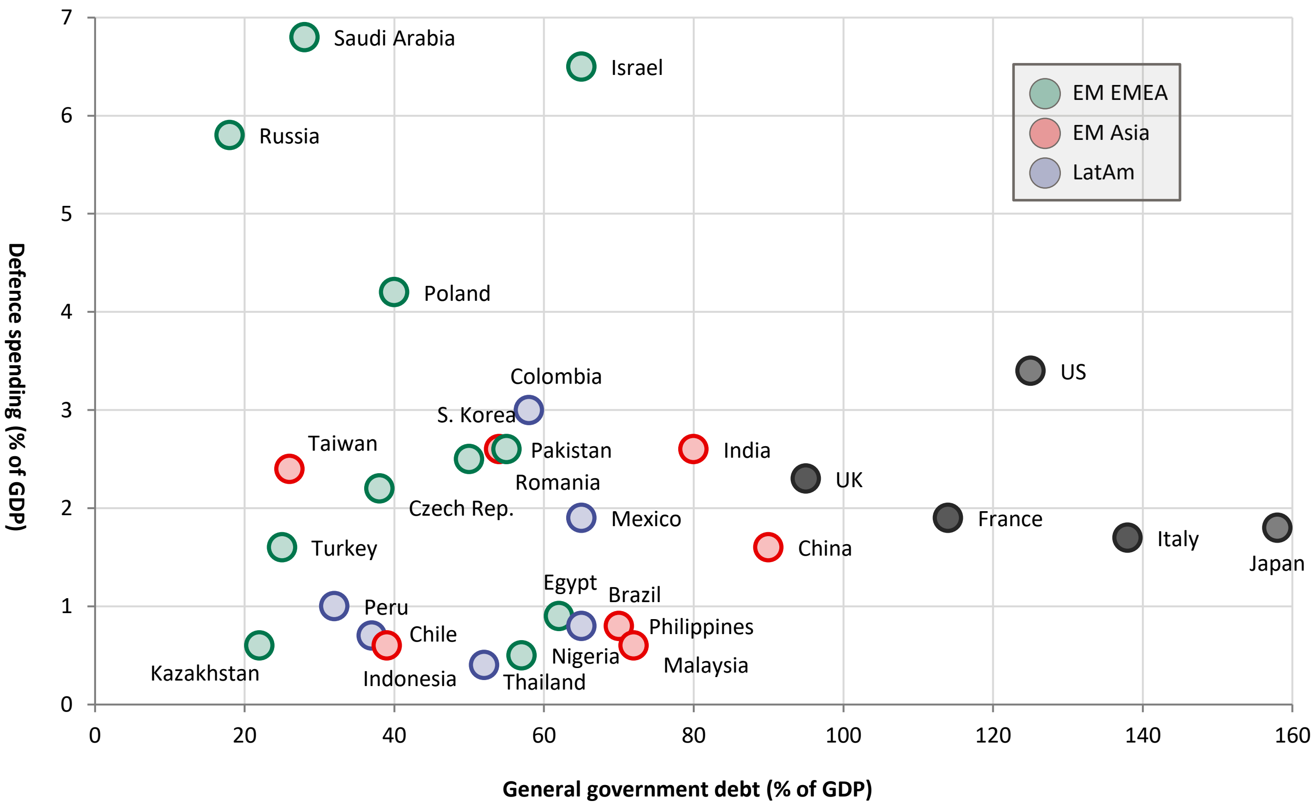
All in, the **key conclusion from the CPI inflation simulation is the divergence of the inflation shock, with EM being in the disinflationary camp**.

Defence | rewiring the global security architecture

The rewiring of the global security architecture, led by the US's more bellicose foreign policy strategy, has raised reservations on the support and costs of the US security guarantee – only a handful of EMs have a sizeable military industrial complex that stand to benefit.

While the emphasis of EM defence spending increase in recent years has been in EM EMEA (led by the GCC region and Israel), EM Asia is witnessing a rising trend

Defence spending (% of GDP) and general government debt (% of GDP)



There are **many known, unknowns on how US will manage a more overt power based strategic shift**. What concessions will the US extract from its allies in exchange for US protection? Could the Trump administration undercut APAC allies to do a bilateral deal with China, akin to arguably undercutting Ukraine/Europe's interests to deal directly with Russia?

There are **conflicting signals** – on the one hand, the selection of Taiwan and the Philippines as recipients of unblocked US foreign aid suggests EM Asia's strategic importance to US interests, whilst on the other, there are also hints at less commitment to defend Taiwan.

There are **only a handful of EMs that have a sizeable military industrial complex that could benefit from increased demand for military spending – Israel, Turkey, Poland, South Korea, Czech Republic**. Of these, **Turkey, Poland and Czech Republic stand out as NATO members, and Turkey** in particular, has arguably strategic importance given that it provides the second largest armed forces to NATO, after the US.

On net, **rising defence spending could pose further fiscal pressures in select EMs facing heightened security risks, with less certain multiplier and long term productivity impacts***.

April 2025 | Source: Bloomberg, CEIC, Macrbond, NATO, Stockholm International Peace Research Institute (SIPRI), MUFG Research; * studies often find multipliers less than one, though should be higher when a country is in slack. Over the longer term, military buildups can be a catalyst for productivity and growth via stimulating infrastructure investment, knowledge spillovers and innovation, either via learning by doing and government-funded R&D

US de-risking | entering the era of geofragmentation and trading blocs

US policy centred on what some dub, “sticks / threats” to extract concessions, while reneging on prior agreements, hampers trust. EMs, notably the BRICS+ that are gaining in economic heft, may question the risk-adjusted returns of conserving the status quo with the US.

Deglobalisation

De-globalisation is slow moving, but trade tensions have now sharply risen to structurally disruptive levels

Recession base case?

Market expectations are increasingly pricing in the risks of a global recession as now the base case scenario

Greater regionalisation

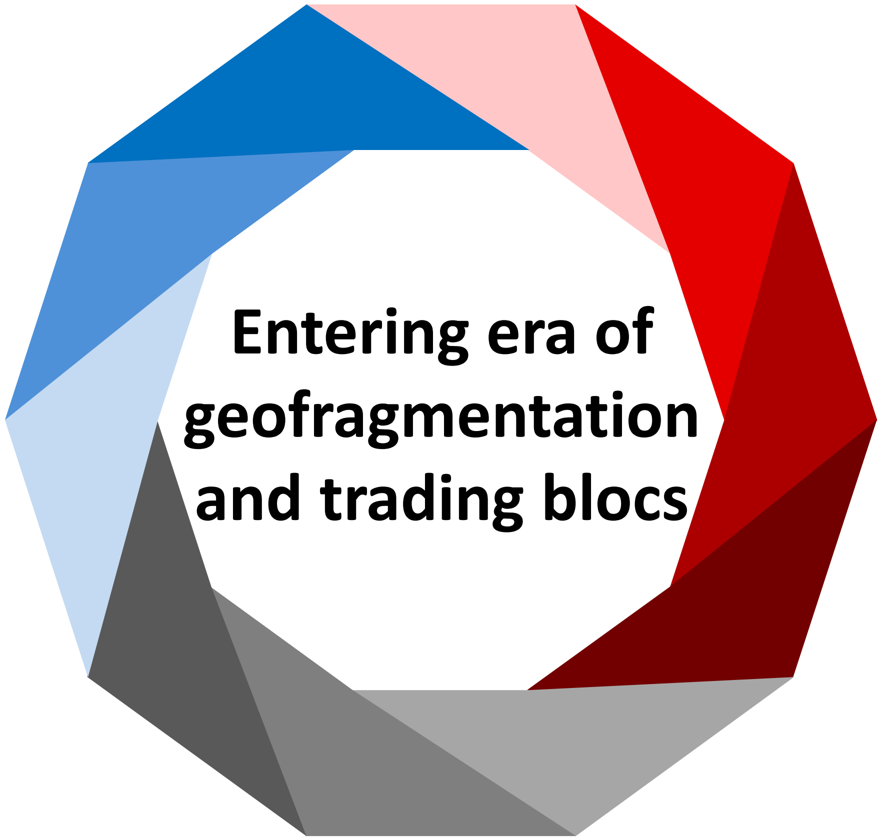
Geopolitical fault lines are driving greater regionalisation and trading blocs, with shifts in cross-border capital flows

Supply chains

Multinational companies are set to structurally diversify supply chains away post Liberation Day

Reshoring?

Reshoring is dwarfing friend-shoring and near-shoring, does this trend have further to run?



Trump autarky?

President Trump is taking a personalised approach to policy making, raising concerns about partial autarky

Dollar dominance?

President Trump’s policies are accelerating a long-term erosion of dollar dominance but is a recognised no near-term alternative

“Small-c, small-w”

Geopolitics continues to reshape the world order as trade / military wars align into a new “small-c, small-w” cold war

MAGA support

President Trump’s support from his MAGA base is not yet eroding – sentiment from non-traditional media is key to monitor

Three-world model

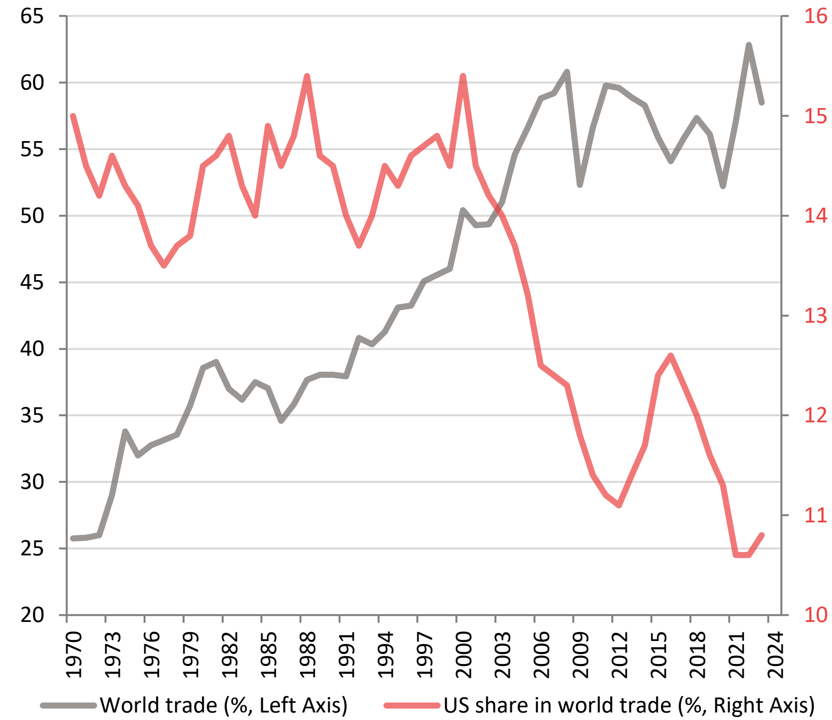
Is a three-world model emerging, between (1) the Global West, (2) the Global East and (3) the Global South?

US de-risking by EMs | tariff war 2.0 to accelerate de-risking even further?

Trade policy uncertainty has risen to structurally disruptive levels with the 2 April reciprocal tariffs. Yet, the US's share of global trade has fallen sharply even before Liberation Day, exacerbated by Trump 1.0 with China's trade importance to the EM complex gaining in traction.

US share of global trade has dropped since tariff war 1.0

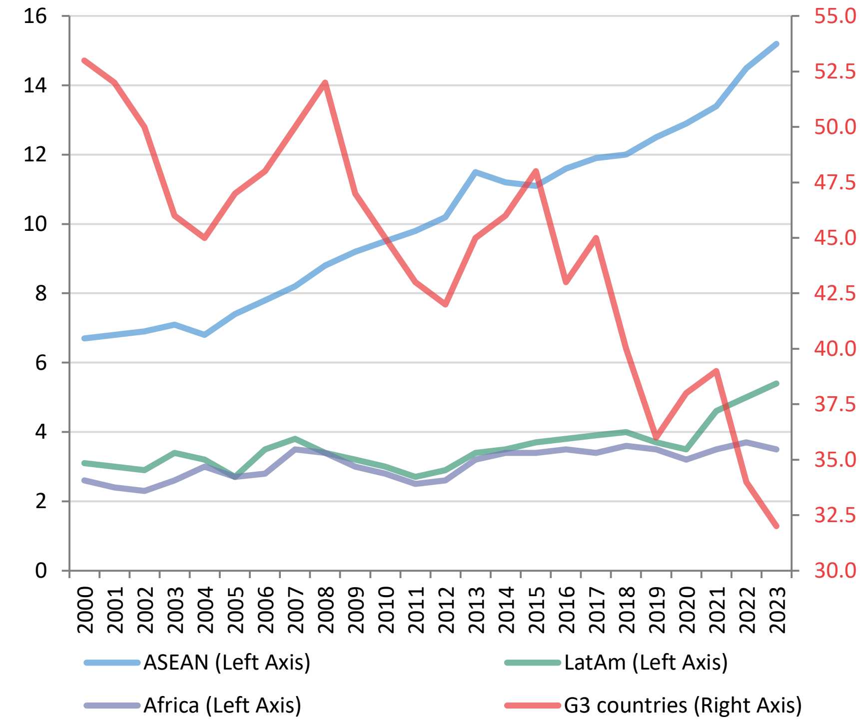
World trade (% of GDP) and US trade (% of world trade)*



As industrial policy and reshoring have taken hold, the **US share of global trade has dropped since tariff war 1.0**, even as the use of tariffs is being weaponised – will Trump 2.0 breed strategic decoupling?

China has steadily diversified export destinations to EMs

Share of total China exports (%)



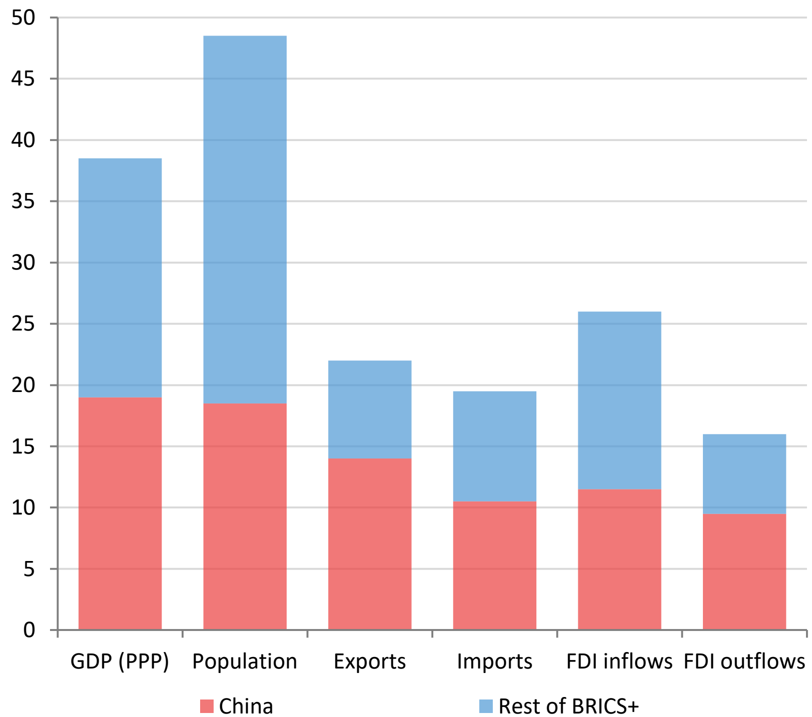
China remains the world's largest trading economy and the largest exporter, still dominating the global supply chain, with **EM trading patterns increasingly shifting and becoming more reliant on China**.

BRICS+ value add | BRICS+ compete on many metrics

EM BRICS+ nations (Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Iran, the UAE and Indonesia) account for ~40% of global GDP (higher than G7 in PPP terms), ~50% of world population and ~20% of global trade flows – could they drive a realignment in trade flows?

BRICS+ comprise large shares of the global economy/trade

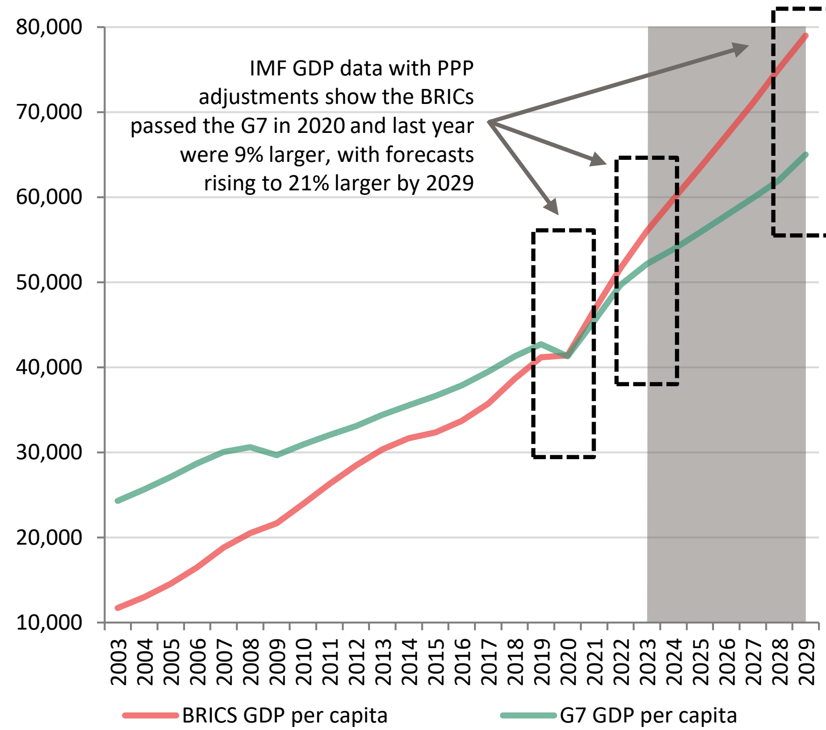
BRICS+ share in key global macro indicators (% share)



The **BRICS+ have risen in global economic and trade might** as the grouping continues to expand – the BRICS+ comprises ~40% of world GDP, ~50% of the global population, and ~20% of global trade.

BRICS+ surpassed the G7 in 2020 on a GDP PPP basis

GDP purchasing power parity (PPP) (USD)



BRICS+ passed G7 nations in terms of size of economy in 2020. The IMF sees this gap widening further this decade, even as the G7 keeps its advantage when measures using market exchange rates.

BRICS+ drawbacks | economically and politically heterogeneous

Notwithstanding the BRICS+ burgeoning economic heft, the group remains a political grouping for all intents and purposes. The grouping is not a free trade area, so there is no formal pact to tackle barriers to trade between members*.

Geoeconomic fragmentation is raising the BRICS+ profile but the group is currently more of a political grouping than a viable alternative trading bloc

Key metrics in gauging economic and political similarities/difference amongst the BRICS+

Market	GDP PPP terms (ranking)	Real GDP per capital (ranking)	Population (ranking and global share)	Exports (ranking and global share)	Imports (ranking and global share)	Democracy index (ranking)
Brazil	7	85	7 (2.6%)	24 (1.4%)	27 (1.0%)	52
Russia	4	50	9 (1.8%)	18 (1.8%)	23 (1.3%)	145
India	3	128	1 (17.8%)	17 (1.8%)	8 (2.8%)	42
China	1	79	2 (17.4%)	1 (14.2%)	2 (10.5%)	150
South Africa	33	109	24 (0.8%)	38 (0.5%)	37 (0.5%)	48
Egypt	17	91	13 (1.4%)	61 (0.2%)	45 (0.3%)	128
Ethiopia	56	164	10 (1.6%)	135 (0.0%)	84 (0.1%)	117
Iran	23	95	17 (1.1%)	41 (0.4%)	51 (0.3%)	154
UAE	38	14	86 (0.1%)	14 (2.0%)	16 (1.9%)	126
Indonesia	8	107	4 (3.5%)	28 (1.1%)	30 (0.9%)	57

It is important to note **what the BRICS+ is not** – which could, in some ways, **limit the grouping's ability to cohesively represent the interests of EMs and truly become a counterweight to the G7 economic and political prowess**.

For instance, **BRICS+ is not a formal grouping and does not have a founding treaty/is not regulated by a set of treaties** (unlike the EU or NATO), meaning there are **no binding arrangements** for how the group should function – though there are agreements for its financial bodies.

The grouping is also **not a free trade area**, so there is no formal pact to cut tariffs or tackle other trade barriers between members. Additionally, the bigger the grouping gets, the harder it will be to achieve consensus.

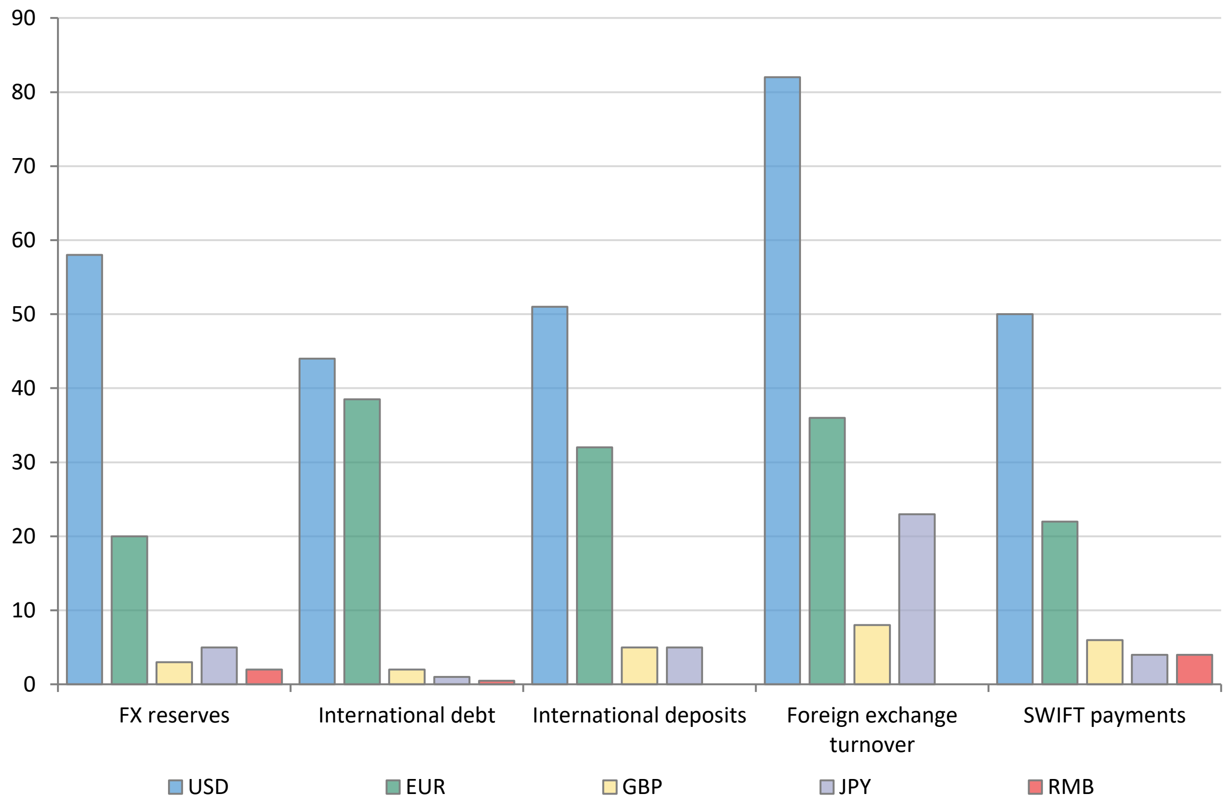
Moreover, unlike the G7, the BRICS+ grouping is much **more diverse economically and politically**. For example, the grouping includes some of the largest and most populous economies in the world, but also some of the weakest economically with diverse political structures.

BRICS+ and dollarisation | navigating US tariffs

While there are times where the US dollar's role may be challenged, but by most measures it is the dominant currency and plays an outsized role in international finance across a range of metrics – FX reserves, debt, deposits, FX turnover and SWIFT payments.

US dollar dominance apparent in FX reserves, international debt, international deposits, foreign exchange turnover and SWIFT payments

Use of major currencies in international finance (% of share)



BRICS+ economies have been the subject of tariff threats from US President Trump over many months, who said the **group could face a 100% tariff it moves away from using the US dollar**.

While much has been deliberated about the possibility of the group increasing trade in local currencies, potentially **establishing a common BRICS+ currency and de-dollarisation, this has not materialised on any scale** – nor is there common consensus that it will any time soon for practical, political and operational reasons.

Indeed, although conducting commerce in a non-US dollar currency that may help certain BRICS+ nations skirt US sanctions (such as Russia and Iran) that restrict their ability to transact with other markets, both **South Africa and India have rejected the idea of de-dollarisation**. The South African government recently said there are no plans to create a BRICS currency, but noted that BRICS discussions focus on trading among members using their own national currencies.

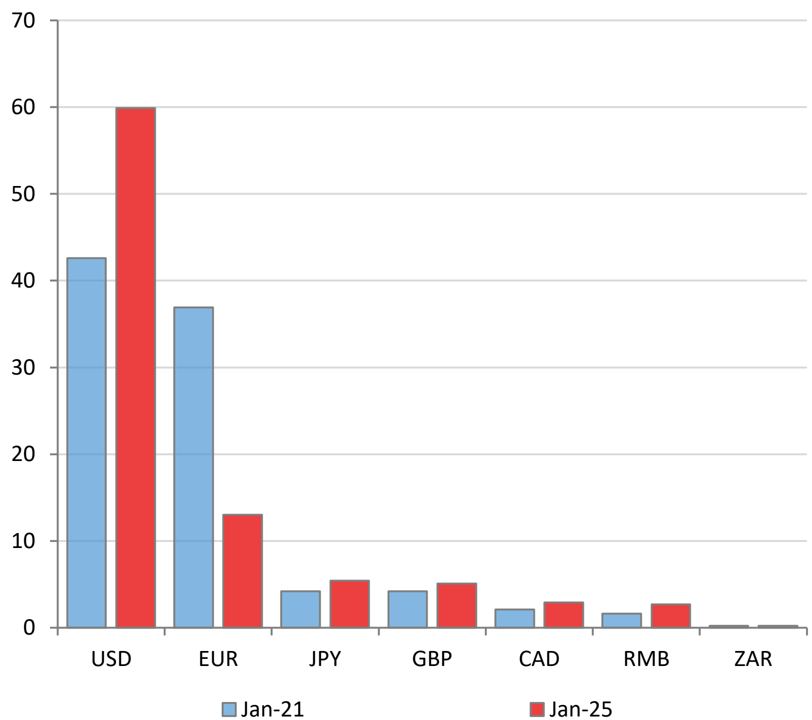
At the 2024 BRICS summit in Kazan, members agreed to look at the **feasibility of establishing an "independent cross-border settlement and depositary infrastructure"**, called **"BRICS Clear"**, and tasked their finance ministers and central bank governors to "continue consideration" of local currencies and payment instruments, where appropriate.

BRICS+ and RMB's internationalisation | burgeoning role

BRICS+ nations have been increasingly transacting in local currencies, with suggestions that the RMB is being used to denominate ~30% of China's own goods trade with other markets. Promoting RMB acceptance remains a key long-term goal of the Chinese authorities.

The RMB is gradually being used in international payments

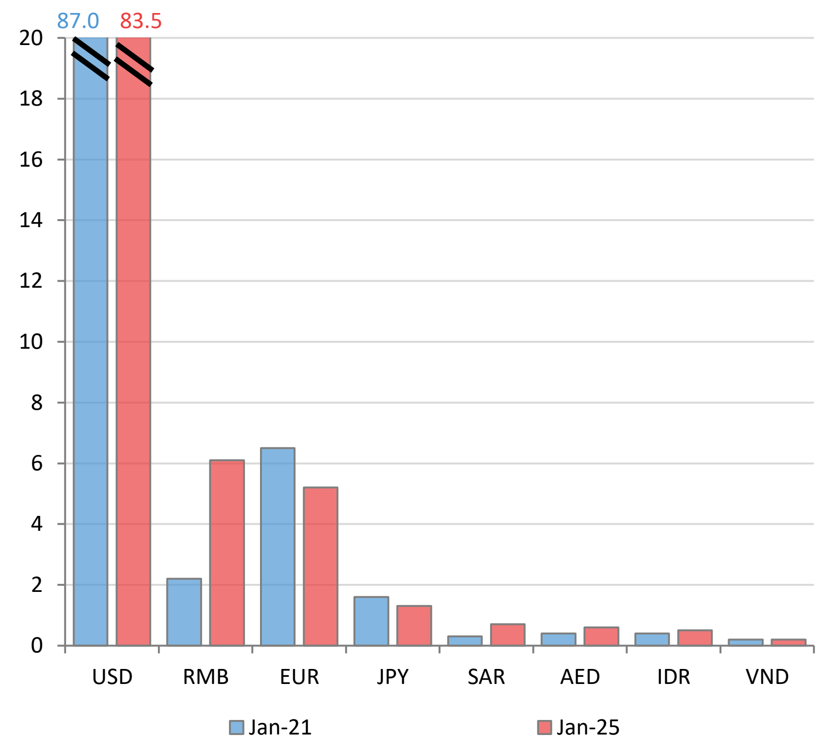
Share of global currencies used in international payments (% of total)



The **RMB is increasingly being used for international payments** – with its share having increased slightly from 1.6% in January 2021 to 2.7% in January 2025. Promoting RMB acceptance is a strategic priority for China.

The RMB is also increasingly being used in trade finance

Share of global currencies used in trade finance (% of total)



The RMB has gained market share in global trade finance, from ~2% in January 2021 to ~6% in January 2025. Yet, the **USD's dominances remains unrivalled with its ~90% of the share**.

US President Trump | "no chance that the BRICS will replace the US dollar"

US President Donald Trump

47th President of the United States

"The idea that the BRICS countries are trying to move away from the US dollar, while we stand by and watch, is OVER. We are going to require a commitment from these seemingly hostile countries that they will neither create a new BRICS currency, nor back any other currency to replace the mighty US dollar or, they will face 100% tariffs, and should expect to say goodbye to seeling into the wonderful US economy. There is no chance that BRICS will replace the US dollar in international trade, or anywhere else, and any country that tries should say hello to tariffs, and goodbye to America!"

Source: Truth Social Platform, @realDonaldTrump

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Trump 2.0 recession countdown | pain, panic and payback

The spectre of a tariff escalatory spiral has brusquely raised the probability of a global recession. This will imply weaker equities, wider credit spreads, a deeper Fed cutting cycle and higher longer-dated market volatility.

History signals equities and policy rates have more room to fall in a recession

Recession period	Equity drawdown (%)	Fed cut (basis points)	Unemployment rate increase (%)	Core CPI (% y/y)
1980	-17%	1230bps	2.2%	12.0% y/y
1981	-27%	1410bps	3.6%	11.6% y/y
1990	-20%	525bps	2.6%	5.5% y/y
2001	-49%	550bps	2.5%	2.7% y/y
2008	-57%	525bps	5.6%	2.5% y/y
2020	-34%	150bps	2.9%	2.1% y/y
Current**	-19%	---	---	3.1% y/y

VIX index is in territory associated with recessions but other gauges are not

	Current	1990 max		2001 max		2008 max		2020 max	
		3m	Whole recession	3m	Whole recession	3m	Whole recession	3m	Whole recession
VIX	52bps	36bps	36bps	35bps	44bps	32bps	81bps	83bps	83bps
HY credit spreads (bps)	449bps	---	---	749bps	902bps	831bps	1971bps	1100bps	1100bps
12m SPX implied volatility	22bps	---	---	23bps	27bps	25bps	46bps	5.5% y/y	38bps
5s30s (bps)	85bps	58bps	64bps	105bps	178bps	211bps	219bps	2.7% y/y	110bps

Markets have priced a **large downgrade to growth** views alongside a hawkish policy shock that reflects fear that the Fed response will be more hesitant than usual given inflation risks. The **implied growth downgrade on 3 and 4 April exceeded anything seen outside the initial COVID shock, one episode in the GFC, and Black Monday in 1987**.

The history of equity drawdowns and policy rate cuts in recessionary periods shows a **wide range of outcomes**. The current peak-to-trough equity drawdown of ~18% takes us to the smallest of those recessionary bear markets, but significantly less than an average experience.

Typical declines in the US rates in past recession are also much larger than what the market is currently pricing (less than 100bp in 2025 and ~130bp to the trough). The standard has been for rates to fall by over 500bp. Thus, **front-end rate markets are not yet pricing recession***.

On net, while the market has put a much larger weight on a recessionary case, the **risks still skew to the downside unless we see a shift in the policy path**. Acknowledging that the landscape is fluid, we highlight **four conclusions**: (1) there is a high chance that we continue to push towards full recession pricing; (2) a policy pivot is the most clear route to market recovery; (3) as in other bear market periods, the risk of sharp counter-trend rallies is higher than normal; and (4) after asset market movements this acute, it is critical to keep an eye on the kinds of financial stresses that could accelerate downside risks.

April 2025 | Source: Bloomberg, CEIC, Macrobond, MUFG Research; * although it is not unprecedented for markets to price less easing than is delivered going into recessionary episodes, this still implies that there is ample scope for front-end yields to move lower in a full-blown recession; ** as of 9 April 2025

EMs during recessions | EM assets do not trade well

EM markets trade differently in recessionary episodes. We see EM credit spreads widening further, while EM rates typically bifurcate in recessionary episodes – low yielders see yields decline (like DMs), and high yielders see higher yields (like a credit asset class).

EM spreads have widened markedly into US recessions, seeing cyclical peaks*

Key EM and DM asset price moves in US recessions since 1960

		DM markets			EM markets		
US recession start	US recession end	US equity max drawdown (%)	US BBB corp spread change (bps)	US BBB corp spread peak (bps)	EM sovereign spread change (bps)	EM sovereign spread peak (bps)	EM FX max drawdown (%)
Apr-60	Feb-61	-28%	70bps	132bps	---	---	---
Dec-69	Nov-70	-35%	187bps	276bps	---	---	---
Nov-73	Mar-75	-48%	220bps	331bps	---	---	---
Jan-80	Jul-80	-17%	201bps	299bps	---	---	---
Jul-81	Nov-82	-27%	242bps	382bps	---	---	---
Jul-90	Feb-91	-20%	85bps	236bps	---	1305bps	---
Mar-01	Nov-01	-49%	113bps	266bps	429bps	1040bps	-26%
Dec-07	May-09	-57%	668bps	784bps	740bps	891bps	-26%
Mar-20	Apr-20	-34%	347bps	474bps	385bps	662bps	-13%
Current		-17%	32bps	130bps	64bps	346bps	-2%

EM credit assets have not moved much as prior sell-offs in US risk-off periods

Credit asset moves from the min/max spread widening dates of the EMBIG index

Period of low US growth		EMBIG spreads	USCEMBI BD spreads	EMBIGD HY spreads	EMBIGD HY/IG spread ratio	CEMBI HY/IG spread ratio	CEMBI vs US HG spread	CEMBI oil & gas vs utilities spread
Min	Max	Spread chg (bp)	Spread chg (bp)	Spread chg (bp)	Ratio change	Ratio change	Spread chg (bp)	Spread chg (bp)
Sep-00	Oct-00	148bps	---	---	---	---	---	---
Aug-02	Sep-02	127bps	35bps	130bps	0.2	0.5	42bps	204bps
May-06	Jun-06	53bps	22bps	70bps	0.2	0.4	14bps	20bps
Jan-11	Mar-11	55bps	45bps	76bps	0.3	0.2	44bps	30bps
Jul-11	Oct-11	206bps	241bps	263bps	0.3	0.4	135bps	46bps
Mar-12	Jun-12	125bps	87bps	159bps	0.4	0.2	46bps	43bps
Dec-13	Feb-14	72bps	41bps	100bps	0.2	0.1	37bps	10bps
Nov-15	Feb-16	131bps	110bps	177bps	0.2	0.2	62bps	121bps
Oct-18	Jan-19	82bps	70bps	124bps	0.4	0.2	21bps	28bps
Jan-22	Jul-22	174bps	126bps	462bps	2.1	0.6	102bps	147bps
Average		117bps	86bps	173bps	0.5	0.3	56bps	99bps
Feb-25	Apr-25	64bp	50bps	130bps	0.3	0.2	19bps	31bps

EM assets do not trade well in recessions. Recessions are economic discontinuities that happen infrequently and EM markets trade differently in recessions compared to the rest of the cycle. Analysis of EM moves in US recessions is hampered by the fact that there have **only been a few cycles since the early 1990s when the modern EM asset classes emerged and even fewer from the early 2000s when our full suite of EM fixed income indices started**. We have therefore looked at EM asset behaviour in these recessions available but also highlight proxy "risky asset" behaviours over more cycles*.

What looks clear through these US recessions is that: **(1) the moves wider in credit spreads and lower in equities are substantial into US recessions; (2) these moves are typically larger than at any other point in the cycle; (3) these moves are consistent across cycles, i.e. there hasn't been a US recession that didn't involve a large spread widening and large equity drawdown**. These conclusions seem intuitive as a US recession is the tail of the cyclical distribution which involves economic discontinuity.

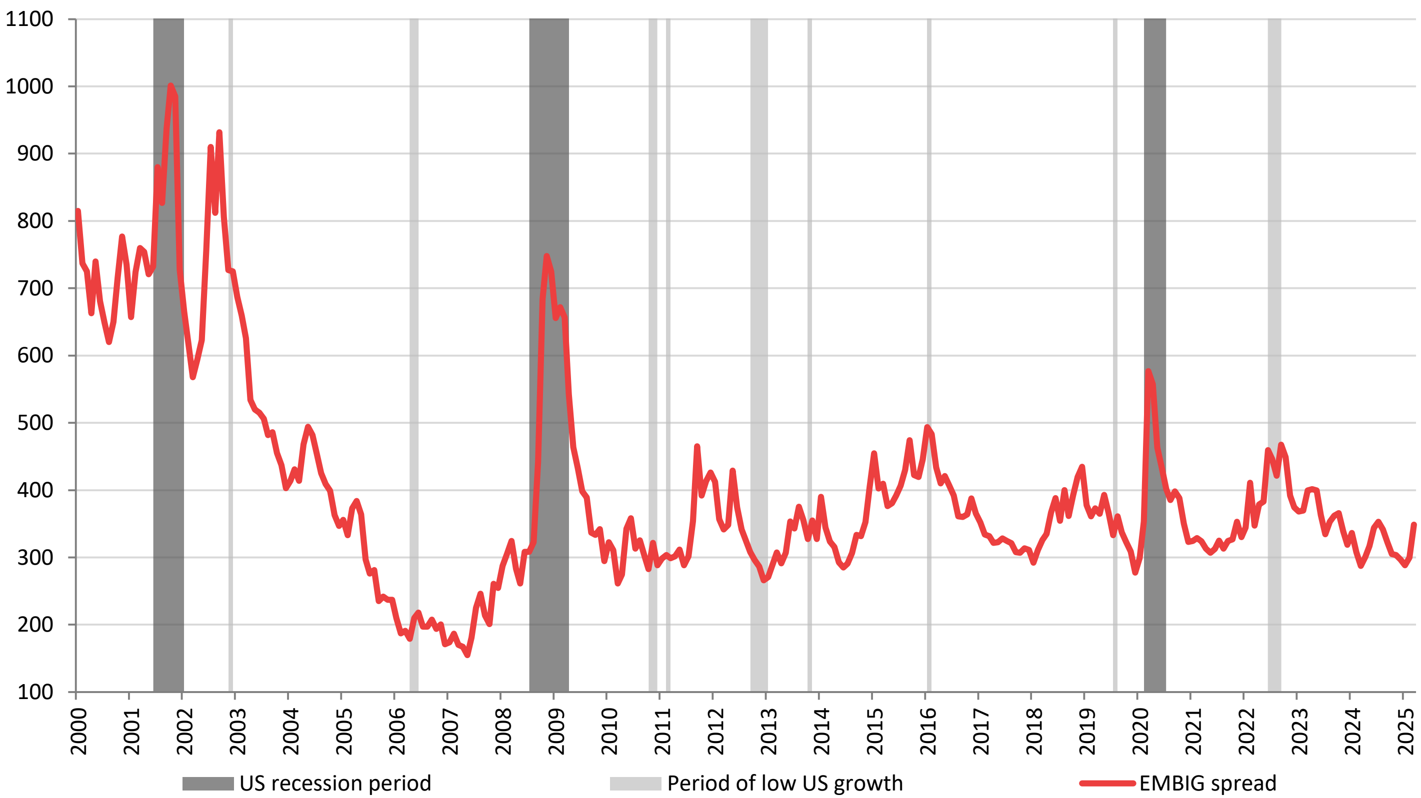
The patterns for EM assets in the cycles we have seen since the 1990s are also consistent with these behaviours. **EM spreads have widened significantly into US recessions and seen their cyclical peaks at that point**.

EM credit spreads | not pricing in a recession (as yet)

Despite the recent widening EM credit has not fully priced a particularly bad outcomes for US growth. Following recent moves, spreads are 70bp from recent lows but still look expensive, and if markets need to price more recession risk then spreads can go much higher.

EM credit spreads widened in the lead up and during past periods of low US growth – recent widening EM spread has not fully priced a bad US growth outcome

EMBIG spread (basis points)



While a US recession is increasingly coming into view, we assess how **EM assets trade in non-recessionary low US growth periods** (i.e. sub-1% on a quarterly SAAR basis). **EM sovereign (EMBIG) spreads sold off on average ~400bp in past US recessions and ~120bp (for EMBIGD) in previous periods of low US growth**. Since the recent lows in mid-February, **EMBIG has widened ~75bps, still less than during periods of past low US growth**.

Looking at a wider range of indicators for signs of stress, credit markets are still under-pricing bad outcomes for US growth: **(1) EM sovereign bond-CDS basis is yet to markedly rise; (2) CEMBI has not underperformed; (3) US HG significantly and; (4) cyclical EM corporate sectors such as oil and gas have not moved much versus defensive utilities.**

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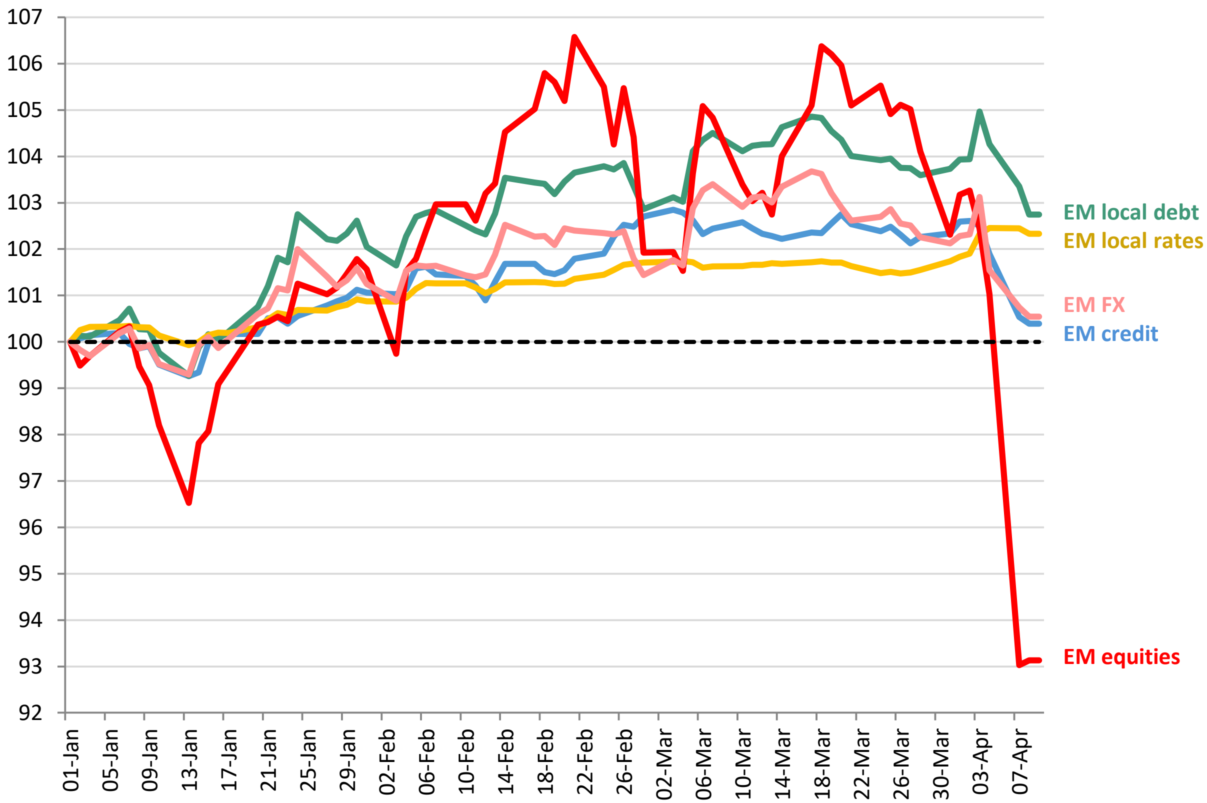
EM cross-assets | the sum of all fears

It was a rollercoaster first quarter of 2025 for EM cross-assets with shifting narratives from US exceptionalism/de-exceptionalism, tariffs, trade tensions, geopolitics, China's policy stimulus, Germany's fiscal reform, and US recession angst. We are highly cautious going forward.

Notwithstanding the confluence of moving parts, it all started well for EM cross-assets in Q1 2025 – tariff angst from 2 April warrants caution

EM financial asset performance (rebased 1 January 2025 = 100)



Few expected 2025 to start as a quiet period, given the highly unpredictable global backdrop – ranging from looming tariffs under the new US administration and Chinese uncertainty to shifting inflation, monetary policy expectations and rising fiscal concerns – but the **scale and scope of shifts in market narratives has been surprising**.

EM has weathered the storm relatively well, as all assets ended the first quarter in positive territory. **EM local currency debt led the pack**, thanks in large part to a strong contribution from EM FX following a bout of US dollar weakness. EM equities also did rather well, with some markets, such as Colombia, Poland, Mexico, and mainland China posting strong gains in Q1 2025.

Although the essential features of the outlook remain the same as we documented in our EM 2025 outlook (see here), **several significant developments have occurred during Trump 2.0** thus far. **First**, the uncertainty in US policy seems to be affecting US growth more than growth elsewhere. **Second**, that uncertainty has also had a galvanising effect on policy outside the US, leading to, among other things, significant changes in German fiscal policy and greater European cooperation. These unexpected developments have contributed to an admirable outperformance across all major EM assets. Yet, **we are cautious for the rest of Q2 2025 and prefer fixed income amid dovish repricing of monetary policy**.

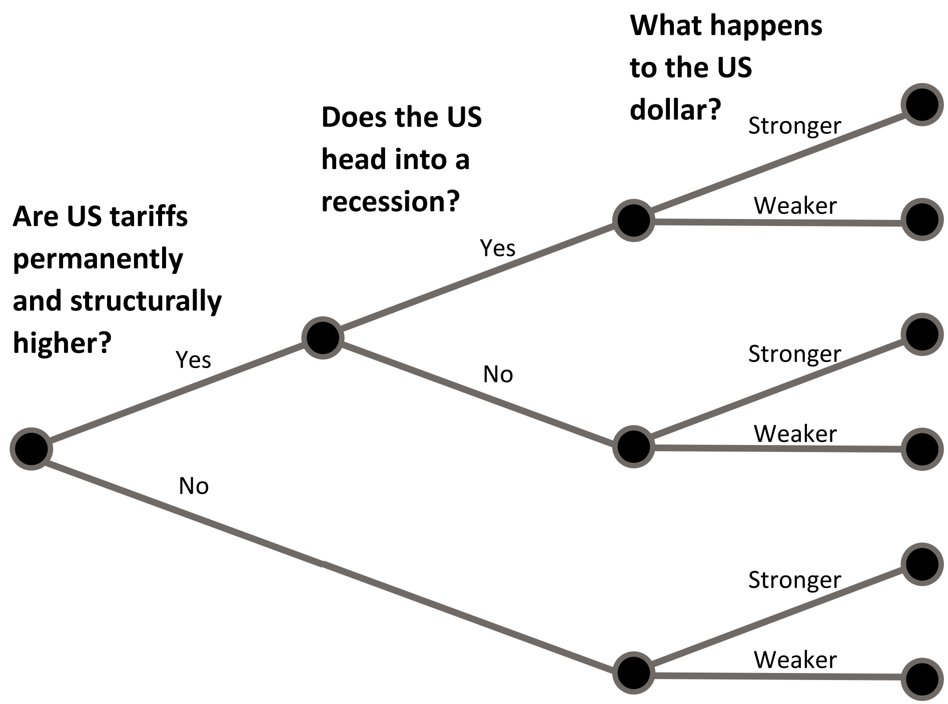
America First, rotation to EM second | inflection point

President Trump's focus on an America First trade policy to unleash domestic investment, jobs and growth, has raised US exceptionalism concerns. In the medium-term, we see EMs rising as relative winners, benefitting from global capital re-allocation away from the US.

Inflection point for EMs

- Near-term downside risks are extremely elevated. The growth shocks from President Trump's reciprocal tariffs could be significant and compounded if followed by tit-for-tat retaliatory measures, as already seen from China. In a broad risk-off event triggered by recession fears EM assets could be hit hard.
- We could be on the precipice of a structural shift in equity flows globally. Heightened geopolitical and trade tensions could reinforce an "anti-America" trade with important consequences – safety first but EMs may begin to benefit from global capital re-allocation away from the US.

EM scenario analysis



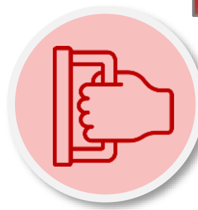
Scenario	EM vs DM	Outperformers and underperformers
High tariffs, large recession	EM: down vs US: down	• Outperform: GCC, China • Underperform: LatAm, ASEAN, Taiwan
End of US exceptionalism	EM: sideways vs US: up	• Outperform: China, India, CEE • Underperform: LatAm, Taiwan, S. Korea
Stagflation	EM: up vs US: sideways	• Outperform: GCC, China • Underperform: ASEAN, S. Africa
President Trump's objective	EM: up vs US: up	• Outperform: Turkey, India, LatAm • Underperform: GCC, Taiwan, S. Korea
Return of US exceptionalism	EM: up vs US: down	• Outperform: Taiwan, S. Korea • Underperform: China, CEE
Goldilocks	EM: up vs US: up	• Outperform: LatAm, Taiwan, ASEAN • Underperform: China, GCC

Forces driving the EM rotation | push-and-pull

What could drive a greater reallocation to EMs? We split "push" and "pull" factors. "Push" factors are US centric and force investors to move out of US assets and into global alternatives. "Pull" factors are EM centric and entice investors to choose EM over others.

Push factors

- **"Push" factors are US centric and force investors to move out of US assets and into global alternatives**.
- From this perspective the spotlight is on the US macro and policy picture and specifically three key drivers: (1) the scale and uncertainty around US tariffs, (2) the depth of the US economic slowdown and (3) the path of the US dollar. Each factor remains in flux with uncertainty at unprecedented highs.



Pull factors

- **"Pull" factors are EM centric and entice investors to choose EM assets over other markets**.
  - The biggest "pull" factor is China in our view, where sizeable fiscal stimulus should offer support to the economy amid tariff uncertainties.
- We also see "pull" factors from idiosyncratic and structural stories in EM which are resilient to the tariff headlines and potential US growth slowdown. This includes GCC IG, Chile and several EM high yielders.

1 Pull factor 1: tariffs

- The outcome of the "Liberation Day" tariff announcement was **benign for LatAm**, especially compared to the rest of EM and in particular EM Asia. It's clear that the tariff announcements will have done **little to reduce uncertainty and is potentially a starting point for negotiations rather than a clearing event for EM assets**.
- Importantly, **some goods are exempt from the reciprocal tariffs**. These include steel/aluminium articles, copper, pharmaceuticals, semiconductors, lumber articles, bullion, and energy. However, it is unclear whether this is just a sign of even more to come. For example, President Trump has previously mentioned hitting other sectors such as semiconductors, pharmaceuticals and agriculture with a more targeted tariff in a similar fashion to the 25% tariffs already imposed.

2 Pull factor 2: US recession risks

- The **recession narrative in the US is picking up**, and it is increasingly becoming a base case scenario for markets. Downside risks to US economic activity is on the rise due to trade policy uncertainty and a diminishing likelihood of a Fed or Trump put compared to 2016-20.
- A **large slew of US economic indicators from confidence measures to Fed surveys, to uncertainty indices now point to slowing activity in the months ahead**. If tariff noise and uncertainty persist, the slowdown in leading indicators, investment, and hard data could turn into a nosedive. The potential impact from DOGE-related spending cuts is another concern and we will be watching Federal spending outlays closely.

3 Pull factor 3: US dollar

- The **outlook for the USD is another key driver of the relative performance for EMs – for EM assets to sustainably outperform, it requires the USD to weaken, or at the very least, not strengthen meaningfully**.
- The **narrative for the USD has shifted**. What once fuelled expectations of USD strength – significant US policy uncertainty – has now morphed into fatigue, and more recently, a drag on the USD. The US administration's disruptive policy mix, with focus on tariffs and anti-immigration over pro-growth tax cuts and deregulation, has chipped away at the US exceptionalism narrative. What now matters most is whether we will see a structural shift in global portfolio flows which remain skewed towards US assets.

4 Push factor: China and EM structural narratives

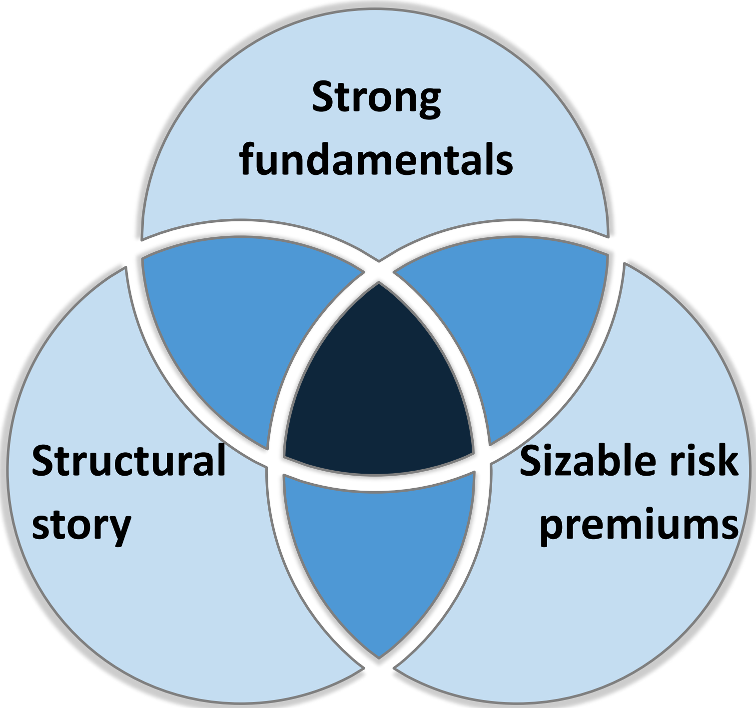
- The **biggest "pull" factor is China in our view, where sizeable fiscal stimulus should offer support to the economy amid tariff uncertainties**.
- We also **see "pull" factors from idiosyncratic and structural stories in EM which are resilient to the tariff headlines and potential US growth slowdown**.
- The **well-positioned defensive Middle East investment grade economies and Chile** are sound macro narratives in this setting. **Egypt, Israel, Philippines and Turkey** are most trade insulated. **Larger EMs – Argentina, Brazil and India** – fairly closed with some strategically vital as a counterweight to China, may better contain trade strains through US negotiations.

EM winners and laggards from tariffs | investor positioning

It is prudent to remain cautious in an unfavourable setting marked by low growth / sticky inflation. We anchor our EM selection criteria on the three "S's" – "strong" fundamentals, "structural" narratives and "sizable" risk premiums – with extreme uncertainties abound.

We favour EMs that comprise at least one of the 3 "S's"

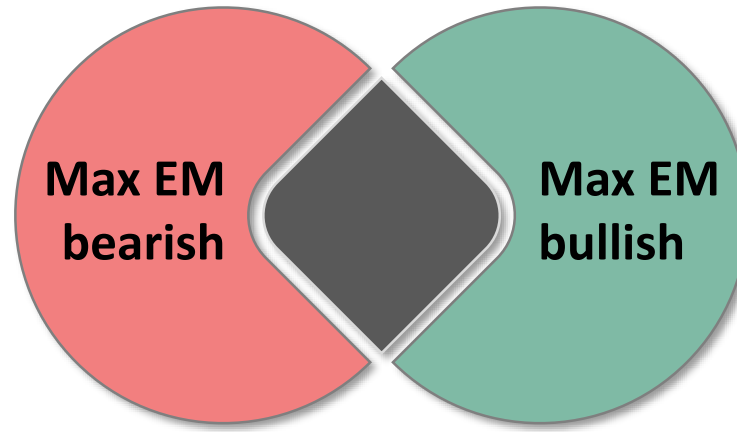
EM selection criteria premised on the "3S" model



The well-positioned defensive **Middle East investment grade economies and Chile** are **sound macro narratives** in this setting. **Egypt, Israel, Philippines and Turkey** are **most trade insulated**. **Larger EMs** – **Argentina, Brazil and India** – fairly closed with some strategically vital as a counter to China, **may better contain trade strains through US negotiations**.

A muddle-through scenario between two extremes

Outlook for EM cross-assets defined under two extreme scenarios



Despite our **three "S" selection criteria**, we view EM prospects span a wide spectrum of possibilities, defined by **two extreme scenarios**:

Max EM bearish

- US exceptionalism
- High/attractive US rates
- A strong US dollar
- Robust US growth with limited EM spillovers given extentive protectionist policies in the US

Max EM bullish

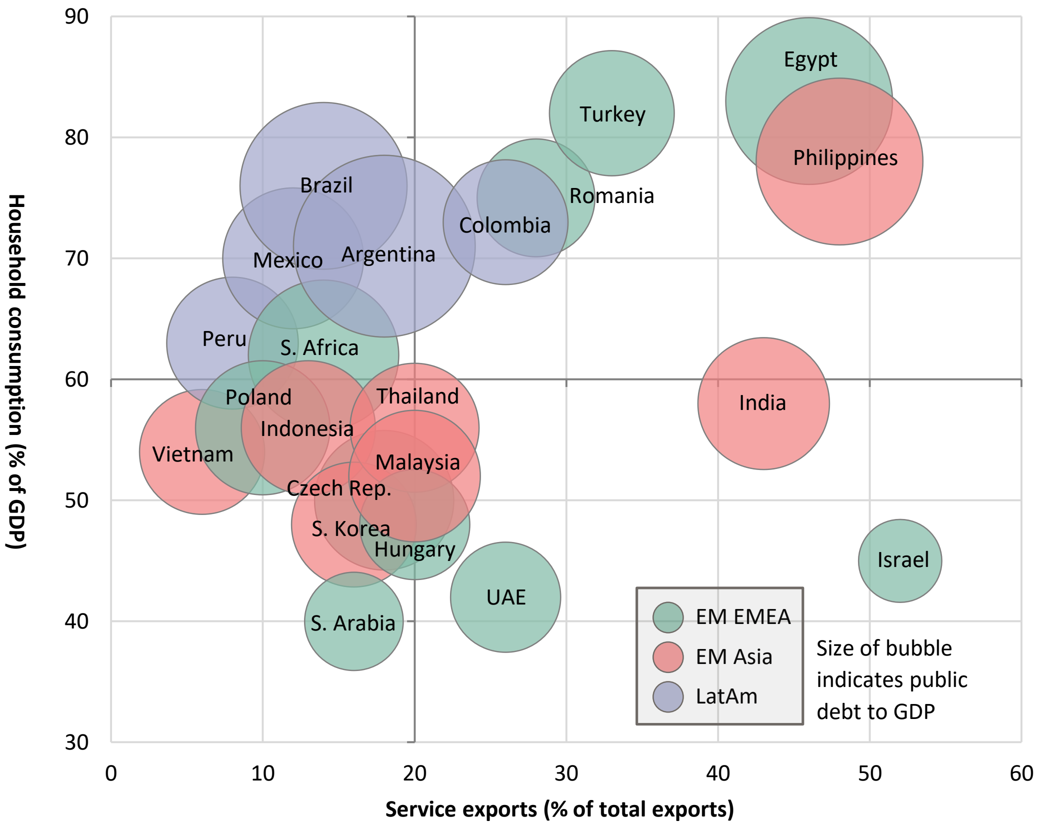
- Akin to Trump 1.0 in 2017
- US growth spillovers into EM/RoW despite (less) protectionist policies
- China stimulus drives confidence and a rebound in the economy
- With US and China performing, this goldilocks is ideal for EMs

Where to play to win (and hide) | the list of EMs that standout is not long

Given all the uncertainties, the path of least resistance is to remain cautious. EM's moment will come as the dust settles with adjustments to the new normal. Until then, the strategy is best focused on those EM's comprising strong domestic fundamentals and fiscal headroom.

EMs with a higher share of household consumption and services exports will likely stand out given risks on the goods trade front

EM household consumption (% of GDP) and services exports (% of total exports)



Given EM's exposure to the US markets and the fact that the rest of the world combined simply cannot replace the US's consumption power, it's likely that there might be **further downward pressure on EM activity**. It is possible that the **trade-dependent economies could try to divert their exports out of the US, although this might itself cause some tensions with those who would find their markets flooded with cheap products, prompting them to potentially raise their own protectionist trade barriers and/or tariffs**.

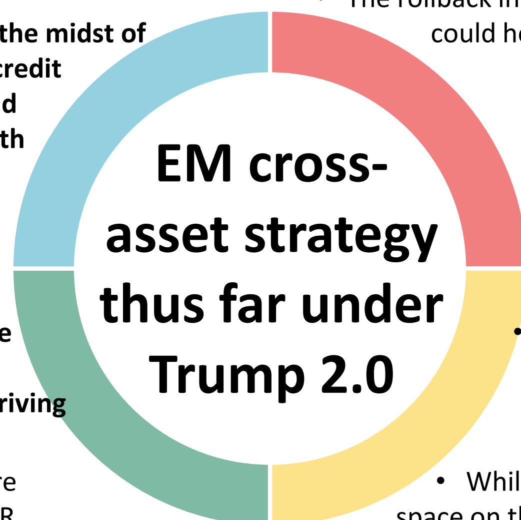
In such an environment, we view that the **strategy should be to focus on markets with strong domestic fundamentals, a higher share of household consumption in their GDP, a higher share of services in their export basket, and those EMs which have the fiscal headroom to support their economies if needed, as the rates outlook will be tied to the Fed's future trajectory as well as the gyrations in their currencies**.

Regionally, LatAm seems to be the region that is relatively less impacted. EM Asia has seen the highest tariffs, so the region's central banks will likely prioritise growth by reducing interest rates, but currency volatility might intervene. Meanwhile, EM EMEA is in-between in terms of the tariff impact.

In such an environment we ask **where to play to win (and hide)? The list of EMs is not long, in our view. The well-positioned defensive Middle East investment grade economies and Chile are sound macro narratives in this setting. Egypt, Israel, Philippines and Turkey are most trade insulated. Larger EMs – Argentina, Brazil and India – fairly closed with some strategically vital as a counter to China, may better contain trade strains through US negotiations**.

EM cross-asset strategy | fixed income over equities

Could it get any more challenging? Given the extreme uncertainty and volatility, it would be prudent to be cautious in stance. In terms of positioning, the backdrop is more supportive of fixed income assets rather than equities. Rate cuts will likely support local currency debt.



1 EM local rates

- Market consensus was bearish on EM rates on the view that EM rate-cutting cycles were coming to an end, with select markets hiking, inflation risks were to the upside and that the market was already pricing in over two Fed rate cuts.
- However, the **impact on local rates going forward in the midst of a growth and sentiment shock is ambiguous**. **Rising credit risk premia and FX depreciation, as well as an on-hold Fed, pose upside pressure against the negative growth shocks**.

2 EM equities

- With recession fears sparking a broad risk-off mood, **EM equities could be hit hard in the coming weeks and there's few obvious places to hide**.
- The rollback in some of the tariff announcement or the Fed/Trump put could help the market form a bottom – we await for the dust to settle to determine where we are post 90 day pause in reciprocal tariffs on 9 April.
- Still, once the dust settles and market volatility eases, we believe **EM equities could emerge as an eventual winner**.

3 EM FX

- The **FX markets need to consider the large magnitude of these tariffs and the impact on trade**, but also the **second-order effects that the tariffs could have on driving capital flows out of the US**.
- These second-round effects on the USD are likely more **pertinent for DM reserve currencies** – JPY, CHF or EUR.
- For **EM FX, the trade channel will loom large and EM currencies are unlikely to receive capital inflows in a risk-off environment**.

4 EM sovereign credit

- We remain **cautious EM sovereign credit as recession risks seem to be only pointing higher that could spur a larger correction to what have been historically tight levels of USD credit spreads**.
- While ongoing room to run in distressed stories had kept the space on the sidelines on EMBIGD, with a spread compression bias heading into 2025, we now see rising risk of a more beta driven classic decompression move – this may **warrant a spread target of 400bp should recession probabilities rise**.

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EM performance and forecasts | as of April 2025

#	Country	Real GDP (% y/y)			Fiscal balance (% of GDP)			Current account (% of GDP)			Inflation (% y/y, average)			Policy interest rates (end period, %)			FX against USD (end period)		
		2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025*	2026**
--	**EM**	**4.9%**	**4.2%**	**4.1%**	**-5.6%**	**-4.6%**	**-4.5%**	**1.7%**	**1.1%**	**0.8%**	**6.6%**	**3.4%**	**3.1%**	---	---	---	---	---	---
--	**EM EMEA**	**2.8%**	**2.5%**	**2.8%**	**-4.6%**	**-3.8%**	**-3.2%**	**0.8%**	**0.1%**	**0.1%**	**17.0%**	**11.9%**	**7.6%**	---	---	---	---	---	---
1	**MENA**	**2.1%**	**4.2%**	**4.3%**	**-1.7%**	**-2.0%**	**-3.4%**	**2.5%**	**1.5%**	**0.6%**	**14.8%**	**11.6%**	**9.8%**	---	---	---	---	---	---
2	**GCC**	**1.8%**	**4.0%**	**4.1%**	**0.8%**	**0.3%**	**-1.3%**	**6.2%**	**4.4%**	**1.9%**	**1.9%**	**1.9%**	**2.3%**	---	---	---	---	---	---
3	Bahrain	2.6%	3.0%	2.9%	-4.0%	-5.3%	-5.0%	5.3%	4.2%	1.9%	1.4%	1.7%	1.9%	6.00%	5.50%	5.25%	0.38	0.38	0.38
4	Czech Rep	1.1%	2.3%	2.4%	-2.8%	-2.3%	-2.2%	1.3%	0.9%	0.8%	2.5%	2.3%	2.1%	4.00%	3.25%	3.00%	24.34	21.88	21.67
5	Egypt	2.4%	4.2%	4.8%	-4.3%	-7.8%	-6.0%	-6.6%	-4.5%	-3.2%	33.3%	18.5%	12.0%	27.25%	18.25%	13.25%	51.02	45.50	51.40
6	Hungary	0.6%	2.3%	3.2%	-4.9%	-4.4%	-3.9%	2.0%	1.9%	1.8%	3.7%	4.2%	3.5%	6.50%	5.75%	5.00%	397.45	356.30	364.0
7	Iraq	-2.9%	4.1%	5.2%	-1.2%	-8.2%	-9.0%	4.5%	-3.4%	-4.4%	4.4%	3.5%	3.5%	---	3.50%	3.25%	1310.0	1310.0	1310.0
8	Israel	0.3%	3.5%	3.9%	-6.8%	-5.1%	-3.7%	4.4%	4.0%	3.7%	3.1%	2.9%	2.3%	4.50%	4.00%	3.00%	3.64	3.10	---
9	Jordan	2.4%	2.6%	2.7%	-4.3%	-4.0%	-3.4%	-5.0%	-4.6%	-4.3%	2.1%	2.0%	2.2%	7.25%	6.75%	6.50%	0.71	0.71	0.71
10	Kuwait	-2.7%	3.0%	2.9%	-4.8%	-5.7%	-3.4%	28.2%	17.0%	17.2%	3.0%	2.5%	2.3%	4.00%	3.50%	3.25%	0.31	0.30	0.30
11	Morocco	3.1%	3.9%	3.8%	-4.4%	-3.8%	-3.3%	-2.0%	-2.4%	-2.3%	1.7%	2.2%	2.1%	2.50%	2.00%	1.75%	9.88	9.77	---
12	Nigeria	3.1%	3.3%	3.4%	-4.6%	-4.2%	-4.1%	-0.5%	2.9%	2.5%	33.2%	25.8%	15.0%	27.50%	25.00%	19.00%	1544.08	---	---
13	Oman	1.0%	3.2%	3.0%	1.5%	-0.5%	-1.1%	2.3%	-0.7%	0.2%	1.3%	1.3%	1.2%	4.68%	4.50%	4.25%	0.38	0.39	0.39
14	Poland	2.9%	3.3%	3.2%	-5.8%	-5.6%	-4.8%	0.3%	-0.3%	-0.5%	3.7%	4.4%	3.2%	5.75%	5.00%	4.00%	4.13	3.84	3.7280
15	Qatar	1.5%	2.7%	5.2%	4.5%	2.6%	5.0%	13.4%	13.1%	14.5%	1.0%	1.7%	1.9%	4.85%	4.25%	4.00%	3.64	3.64	3.64
16	Romania	0.8%	2.9%	2.9%	-7.9%	-7.3%	-7.3%	-7.6%	-7.2%	-7.2%	5.6%	3.9%	3.9%	6.50%	4.50%	4.50%	4.80	4.50	4.412
17	Russia	4.1%	1.6%	1.4%	-1.7%	-1.2%	-1.1%	3.0%	2.6%	2.4%	8.4%	7.6%	5.4%	21.00%	17.00%	11.00%	113.52	92.03	89.37
18	Saudi Arabia	1.2%	4.6%	4.6%	-2.9%	-3.2%	-3.2%	1.0%	-0.2%	-0.2%	1.7%	1.9%	1.9%	4.50%	4.00%	4.00%	3.76	3.75	3.75
19	South Africa	0.6%	1.7%	1.9%	-5.0%	-4.6%	-4.2%	-0.6%	-1.9%	-2.2%	4.4%	4.1%	4.5%	7.75%	7.00%	7.00%	18.84	18.75	18.75
20	Turkey	3.2%	2.6%	3.5%	-4.9%	-3.5%	-3.0%	-0.8%	-1.3%	-1.4%	60.0%	32.5%	21.0%	47.50%	28.50%	22.00%	35.35	35.50	46.00
21	UAE	4.0%	5.0%	4.2%	4.7%	4.3%	4.5%	8.8%	8.7%	8.4%	2.3%	2.0%	2.1%	4.44%	3.75%	3.50%	3.67	3.67	3.67
22	Ukraine	3.9%	3.4%	4.8%	-19.0%	-17.7%	-10.7%	-7.8%	-7.5%	-7.9%	6.5%	11.6%	6.7%	13.50%	13.50%	11.00%	38.13	---	---

April 2025 | Source: Bloomberg, MUFG Research; * for Q4 2025, **for Q1 2026

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Commodity price performance and forecasts | as of April 2025

	Commodity BCOM Index	BBG Ticker	Unit / USD Weight	Quarter Averages									Annual Averages			
				Q4-23	Q1-24	Q2-24	Q3-24	Q4-24	Q1-25	Q2-25	Q3-25	Q4-25	2023	2024	2025	2026
1	**Energy**	BCOMENSP Index	39.8%													
2	WTI Crude	CLA Comdty	USD/b	79.32	71.59	74.98	71.34	69.13	68.00	64.00	69.00	72.00	70.38	71.76	68.25	78.00
3	Brent Crude	COA Comdty	USD/b	83.12	76.07	79.44	75.61	72.84	73.00	69.00	74.00	77.00	75.01	75.99	73.25	83.00
4	US Natural Gas	NGA Comdty	USD/MMBtu	3.38	3.03	3.06	2.86	2.81	3.20	2.90	2.70	2.90	3.59	2.94	2.93	3.40
5	EU Natural Gas	TZTA Comdty	EUR/MWh	48.51	30.64	35.30	38.27	42.67	52.00	38.00	33.00	29.00	45.53	36.72	38.00	28.00
6	EU ETS EUA	MOA Comdty	EUR/MT	77.79	63.90	72.47	70.80	68.18	73.00	75.00	79.00	82.00	93.28	68.84	77.25	85.00
7	**Metals**	BCOMIN Index	28.1%													
8	Copper	LMCADS03 Comdty	USD/MT	8,172	8.540	9,873	9,336	9,308	9,050	9,275	9,650	9,900	8,523	9,264	9,469	11,500
9	Aluminium	LMAHDS03 Comdty	USD/MT	2,219	2,241	2,565	2,420	2,603	2,600	2,675	2,750	2,875	2,288	2,457	2,725	2,950
10	Zinc	LMZSDS03 Comdty	USD/MT	2,501	2,475	2,877	2,829	3,058	3,150	3,050	3,200	3,325	2,651	2,810	3,181	3,450
11	Nickel	LMNIDS03 Comdty	USD/MT	17,748	16,837	18,660	16,499	16,232	16,025	15,800	15,700	15,850	21,688	17,057	15,844	15,500
12	Gold	GCA Comdty	USD/Troy Oz	1,987	2,072	2,338	2,479	2,661	2,850	2,775	3,050	3,080	1,943	2,387	2,939	3,280
13	Silver	SIA Comdty	USD/Troy Oz	23.51	24.78	30.39	30.56	32.17	32.50	31.85	32.80	33.50	25.51	29.48	32.66	35.50
14	Platinum	PLA Comdty	USD/Troy Oz	905.79	946.80	1,019.61	989.18	982.55	1,015	1,045	1,020	1,045	971	984.53	1,031	1,090
15	Palladium	PAA Comdty	USD/Troy Oz	1,094	1,028.50	1,013.67	975.69	1,026.58	940	960	965	1,020	1,240	1,011	971	1,050
16	**Bulk Commodities**															
17	Hard Coking Coal	IACA Comdty	USD/MT	323.99	274.14	273.25	243.60	226.69	215.00	235.00	240.00	230.00	252.08	254.42	230.00	275.00
18	Iron Ore	ISIX621U Index	USD/MT	124.58	105.92	105.58	98.24	102.07	95.00	90.00	100.00	105.00	97.86	102.95	97.50	112.50
19	**Agriculture**	BCOMAG Index	32.1%													
20	Soybean	S A Comdty	USD cen/lb	1,326	1,188	1,189	1,068	1,022	1,020	1,000	1,050	975	1,250	1,117	1,011	1,050
21	Wheat	W A Comdty	USD cen/bush	599.45	638.43	685.21	598.27	585.58	615.00	600.00	620.00	675.00	716.00	626.87	627.50	620.00
22	Corn	C A Comdty	USD cen/bush	493.68	491.40	491.00	433.63	444.05	420.00	450.00	415.00	475.00	535.00	465.02	440.00	485.00
23	Cotton	CTA Comdty	USD cen/lb	83.17	82.73	79.20	73.05	72.83	70.00	72.00	75.00	78.00	79.29	76.95	73.75	80.00
24	Coffee	KCA Comdty	USD cen/lb	174.75	185.29	213.98	239.34	280.54	350.00	380.00	375.00	390.00	173.29	229.79	373.75	420.00
25	Sugar	SBA Comdty	USD cen/lb	26.75	21.00	19.11	18.86	19.95	21.50	21.25	21.00	21.50	19.82	19.73	21.31	22.00

April 2025 | Source: Bloomberg, MUFG Research

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For more information please contact: ehsan.khoman@ae.mufg.jp

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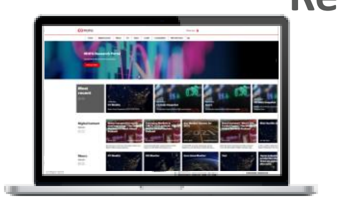

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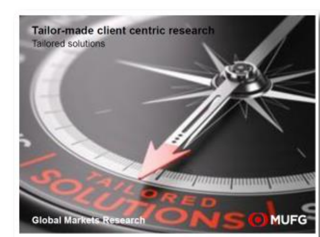

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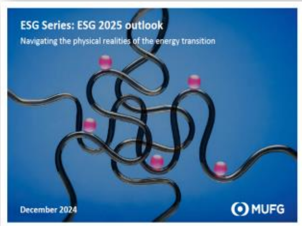
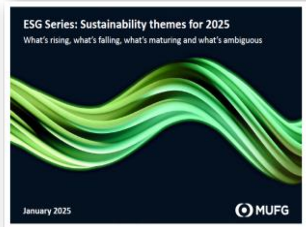
ESG 2025 outlook
Navigating the physical realities of the energy transition



Sustainability themes for 2025
What's rising, falling, maturing and ambiguous

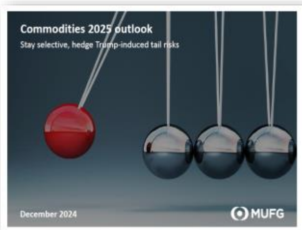


ESG 2025 considerations (part 1 of 3)
Climate

ESG 2025 considerations (part 2 of 3)
Sectors

ESG 2025 considerations (part 3 of 3)
Regions

Commodities 2025 outlook
Stay selective, hedge Trump-induced tail risks



Energy 2025 outlook
Abundant supply, watch the tails

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Themes shaping the outlook in 2025

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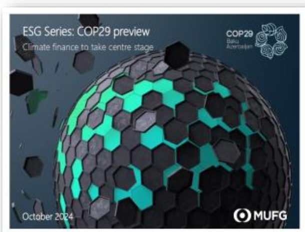
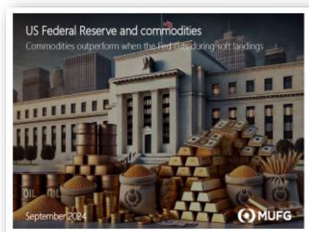
Historic "face value" climate finance agreement

COP29 preview
Climate finance to take centre stage



US Federal Reserve and commodities
Commodities outperform on Fed cuts in soft landings



Natural capital in the balance
Scaling the nature transition

US Inflation Reduction Act (IRA) two year on
How the US elections may alter the capex supercycle

Energy transition's shortage of returns
Profitability (not capita) remains the critical barrier

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Strategically positioned to be a vital decarbonisation vanguard

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Forthcoming gas "mega-supply" will end the energy crisis

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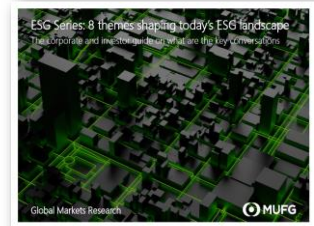
Corporate and investor guide on the key conversations



US Inflation Reduction Act one year on
Contextualising the capex renewables capex supercycle

ESG 2024 outlook
The corporate trilemma between growth, profitability and sustainability

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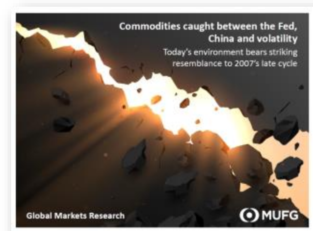
Transformative or disruptive?

Putting global carbon markets to work
Scaling up to meet net zero ambitions

Commodities caught between the Fed, China and volatility
2007's late cycle redux



EU's response to the US Inflation Reduction Act
Scaling the "Atlantic IRAs" renewables capex supercycle

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Contained and constrained

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Performing and transforming

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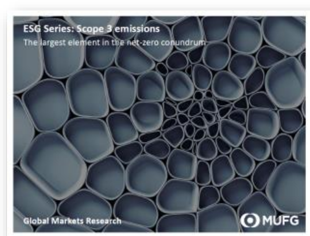
The largest element in the net-zero conundrum



Recession risks across emerging markets
Demystifying debt, distress and defaults

ESG in the EMEA region
The corporate and investor guide to the pillars for the next phase

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