

Emerging Convictions

Home alone: EM dealing with USExit

Think big

EM investors are rightly concerned about US tariffs, but we think they should welcome another goal of the administration: a lower USD. The last two times the US officially expressed such a preference, the USD embarked on a decade-long decline. Our G10 team calls 1.20 for EUR/USD by next year. After a USD bull market since the 2015 China downturn, this would be a boon for EM: many markets may produce double-digit returns. We maintain our constructive view inaugurated on Inauguration Day ([Emerging Convictions, 21 Jan](#)).

Home alone – can be scary

The consensus tends to focus on the negatives of US disengagement from global trade, and we must acknowledge the risk of a global domino effect as others seek to protect their industries against competition and their currencies against appreciation. However, for now, the main effect has been to push other economies to boost demand: China has put invigorating consumption at the top of its list of priorities ([The power of expectations](#)), and Germany has adopted the largest fiscal stimulus in post-war history.

But you can find new friends

If the US desires less global integration, EM will need to look for partnerships elsewhere. In fact, even today most EMs, except Mexico, trade much more with Asia and Europe than the US, and investment also originates overwhelmingly from these regions rather than the US. Moreover, even without the US, Asian and European allies have critical mass in terms of GDP, innovation, energy and even defense to integrate more among themselves, but also to provide EM with opportunities to grow trade and investment.

Home alone – can be fun

For the past decade, and particularly post-pandemic, EM has had a hard time competing with high US yields, and the big US current account deficit has sucked in global capital. If the US wants a weaker USD, this by definition lowers the amount of capital going to the US, potentially leaving more of it for EM. After a long drought of flows, global investors are under-invested in EM, leaving a lot of room for allocations to catch up.

How about some optimism?

Our economics team forecasts a shift of growth away from the US and China to the rest of DM and EM. Normally, this is an environment where the USD weakens and EM does well. EMs that are driven by more domestic than external demand and benefit from a weaker USD and lower global interest rates are likely to be the outperformers: think Brazil, India, South Africa. We like EM currencies, including the BRL, INR, MXN, ZAR and CE-3, while CNH is likely to underperform due to low carry and particularly big tariffs.

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Timestamp: 27 March 2025 01:19PM EDT

27 March 2025

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Think big

One of the stated goals of the US administration is a weaker dollar. The Plaza Accord of 1985 is mentioned as a potential template for a “Mar-a-lago Accord”. Two historical examples come to mind where the US explicitly desired a weaker USD: 1971 (end of the gold/dollar standard) and 1985 (Plaza Accord). In both cases, the USD embarked on a decade-long downtrend: eg, in EUR/USD terms (instead of the old Deutschmark), the exchange rate more than doubled – from 0.5 to 1.2 and from 0.6 to 1.4 (Exhibit 1).

Exhibit 1: The last two times the US explicitly wanted a weaker USD, it ended up a lot weaker
EUR/USD (pre-EUR proxied by DEM) since 1960



Source: Haver

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The emerging market (EM) implications of a repeat of such a USD downtrend would be substantial. The USD is the main macro driver of EM across local debt markets, hard currency credit and equities. A USD downtrend would be a gamechanger for EM asset classes that have suffered badly during the decade-long USD bull market that has prevailed since the 2015 “break” of the China-led growth and commodity story.

Our G-10 team targets EUR/USD @ 1.20

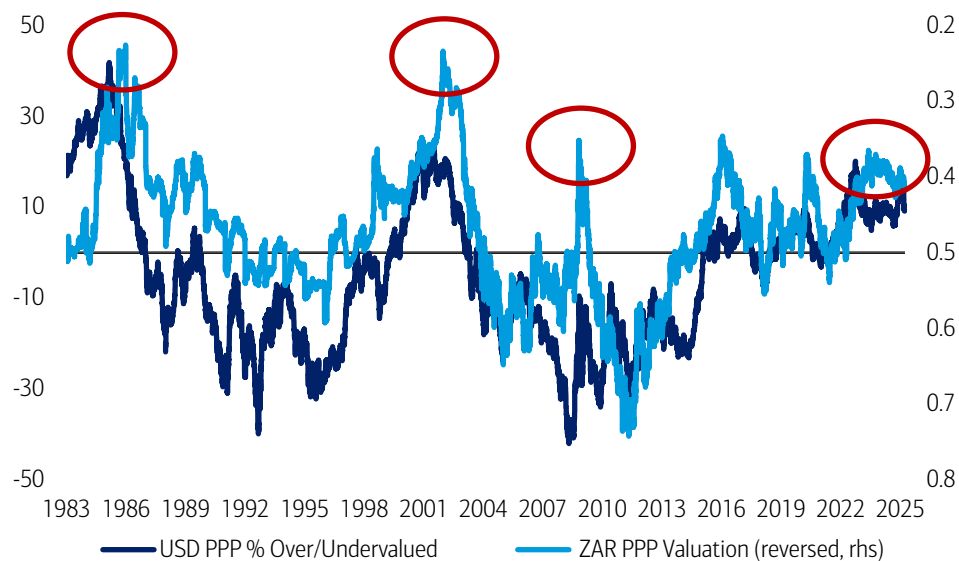
Our G10 team has expected a higher EUR/USD since November 2024 and recently revised up the target to 1.20 for next year. On the EM side, we have advocated a constructive stance since Inauguration Day ([Inaugurating Emerging Opportunities](#)). We like several EM currencies, including the BRL, INR, MXN, ZAR and the CE-3, while we stay away from the CNH, which we see as an underperformer due to the low carry and particularly heavy US tariffs when compared to other emerging markets.

EMFX closely follows the dollar – all the idiosyncrasies of EM notwithstanding. Take ZAR as an example as it is the EM currency with the longest available history. Exhibit 2 shows how closely the valuation of the ZAR vs the PPP (purchasing power parity) implied level has tracked the same measure for the USD. Turning points in these valuations have also been pretty aligned: the undervaluation of the ZAR and overvaluation of the USD today are significant, though not quite as high as in the 1985, 2001 and 2008 peaks.



Exhibit 2: EMFX deviations from fair value closely track the USD valuation – despite all idiosyncrasies

Deviations from PPP (purchasing power parity) for USD & ZAR (the EM currency with longest history of data)



Source: Bloomberg

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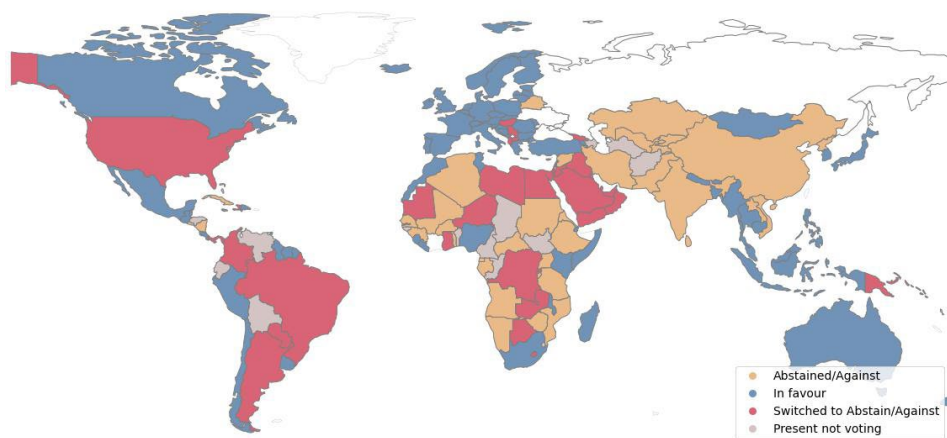
The world is getting even more complicated

Previous turning points in the USD cycle had a geopolitical backdrop, and the next one is unlikely to be different. For many years, geo-economic fragmentation has been one of our top themes. We used to envisage a world where EM needed to navigate tensions between the “West” (including the Asian allies) and the tightening “partnership without limits” between China and Russia. However, the latest developments in the US relationship with its allies suggest that the world is becoming even more complicated.

Now it appears that EM faces a world where the US and its Asian and European allies have increasingly differing views on global security, institutions, trade and capital flows. One illustration of the recent divergence in perspective between the US and the rest of the “West” is the recent UN vote on Ukraine. The US voted differently from its Asian and European allies, in contrast to the previous Ukraine resolutions, eg 2023. Following the US, several other countries switched their votes (eg Brazil or the GCC; Exhibit 3).

Exhibit 3: Latest UN Ukraine vote highlighted emerging differences btw US v Asian & European allies

UN General Assembly voting on Ukraine – compared the vote in 2025 vs 2023



Source: United Nations Digital Library

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Two ways this could go

This additional fragmentation of the world economy is likely to have major implications for EM investment and trade relationships. At the extreme, one could imagine two outcomes: (1) less investment and trade with the US could lead the rest of the world economy to seek more with each other to compensate; or (2) the barriers erected around the US could result in a domino effect as others seek to protect their own industries against competition and their own currencies against appreciation.

These two scenarios would have different implications for EM assets. The first would be more benign – potentially even positive for EM. After a period of US exceptionalism, it would force the other regions, particularly the major economies in Asia and Europe, to run more stimulative policies and trade more with each other to make up for the loss of US demand. A rebalancing of growth away from the US towards the rest of the world would normally weaken the USD and be bullish for EM.

However, the second scenario of mercantilist trade and currency policies would be quite bleak for the global economy. Competitive trade barriers and devaluations across the major countries without countervailing stimulus would be highly dangerous for EM.

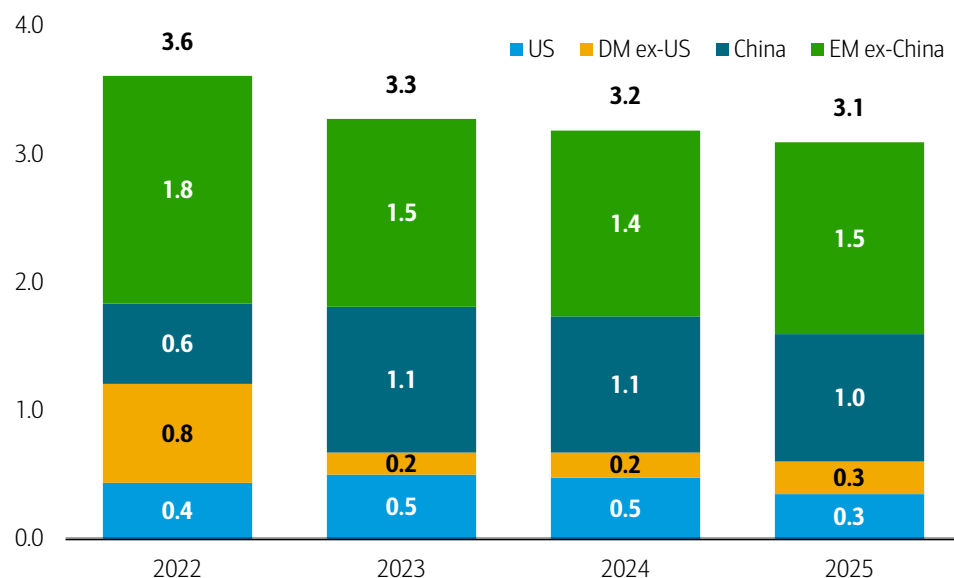
How about some optimism?

For now, there are signs of the benign scenario. It is becoming apparent that the reduced role of the US in driving global growth is pushing other economies to boost demand: China has put invigorating consumption at the top of its list of priorities for this year, and Germany has adopted the largest fiscal boost in post-war history. Our global economics team forecasts a shift of growth momentum away from the US (and China) and towards the rest of DM and EM (Exhibit 4).

Normally, this should lead to a weaker USD, in line with our G10 and EM FX forecast. In this environment, EM economies that are driven more by domestic rather than external demand and that benefit from a weaker USD and lower global interest rates (eg India, Brazil, Türkiye) are likely outperform countries that have been relying on external demand and do not have much policy space themselves (eg China).

Exhibit 4: EMxChina and DMxUS are contributing more to global growth, while US and China do less

Contributions to global GDP growth, %



Source: IMF, BofA Global Research forecasts

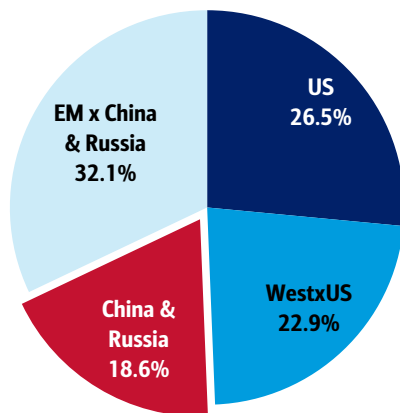
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Introducing the protagonists

Let's explore some basic characteristics of a global economy where the US wants to pull back. For a start, if the US prefers less integration, its Asian and European allies still have critical mass. In terms of nominal USD GDP, the US accounts for about half of the "West". Measured this way, the US remains bigger than China, but so does the rest of the West (Exhibit 5). Adjusted for purchasing power (which favors poorer countries), the rest of the West is significantly bigger than the US and bigger than China (Exhibit 6). EM ex China/Russia (which we group given their "limitless partnership") make up about 1/3.

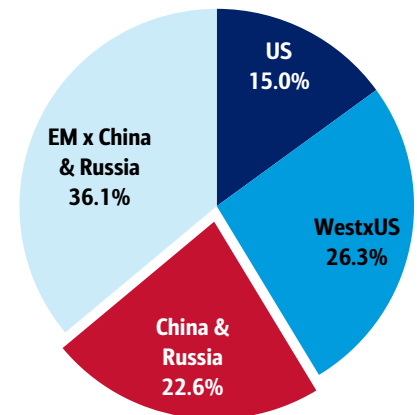
Exhibit 5: Still critical mass of developed countries outside the US...
2024 GDP shares measured in nominal USD...



Source: IMF

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Exhibit 6: ...with whom EM could deepen trade & investment ties
...as well as in purchasing power parities to account for different price levels

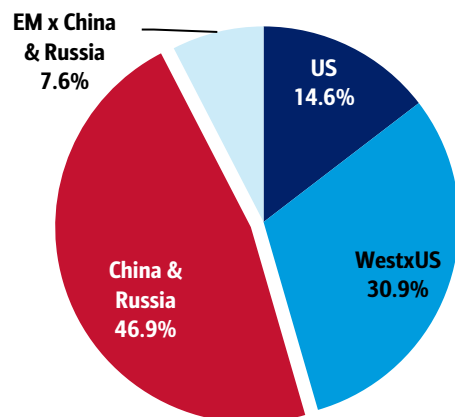


Source: IMF

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In terms of innovation, China and the US are the leaders, but a lot also happens elsewhere. Patent applications are roughly evenly split between the West and China/Russia. The WestxUS by itself still accounts for about 1/3 of the global total (Exhibit 7). In terms of "soft power", the West accounts for about 2/3 of the world, roughly evenly split between the US and the rest (Exhibit 8). Again, there is critical mass that EM could plug into when it comes to investment and trade.

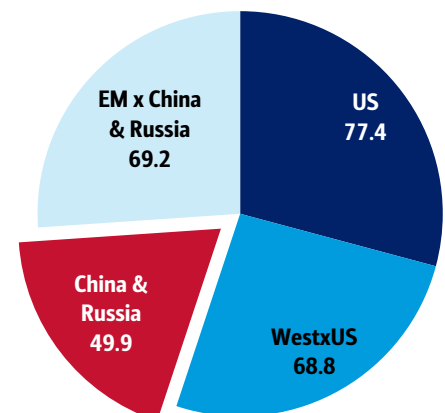
Exhibit 7: China leads in patents, but WestxUS produces 2x the US...
Total patent applications, 2023



Source: WIPO

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Exhibit 8: ...and EM & the WestxUS has plenty of "soft power"
Soft Power 30 Score



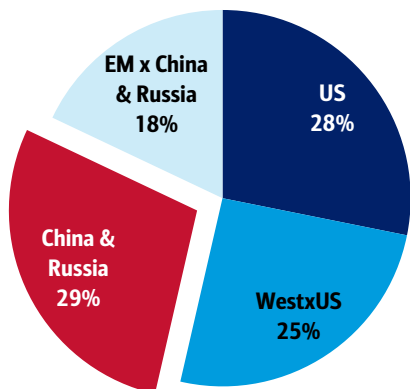
Source: Soft Power 30, 2019

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Geopolitical might is again concentrated between the US and China, but the rest of the world is not insignificant in aggregate. US allies are fragmented, but collectively account

for about the same share in global military spending (Exhibit 9). In terms of energy security, the US allies jointly have more crude oil supplies than either China/Russia or the US itself, but most reserves are in the rest of EM (Exhibit 10).

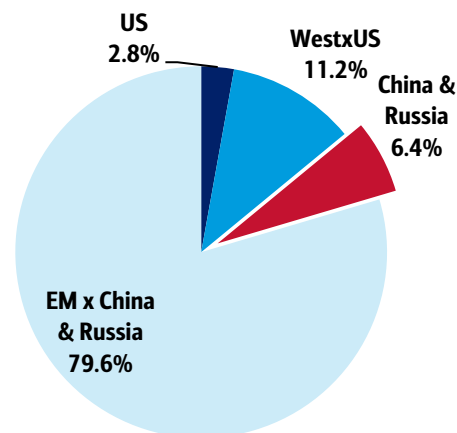
Exhibit 9: Military spend roughly equal btw US, WestxUS, China/Russia
Military spending (PPP in \$bn '23)



Source: World Bank

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Exhibit 10: Emerging markets account for the most energy reserves
Proven oil reserves share, 2020



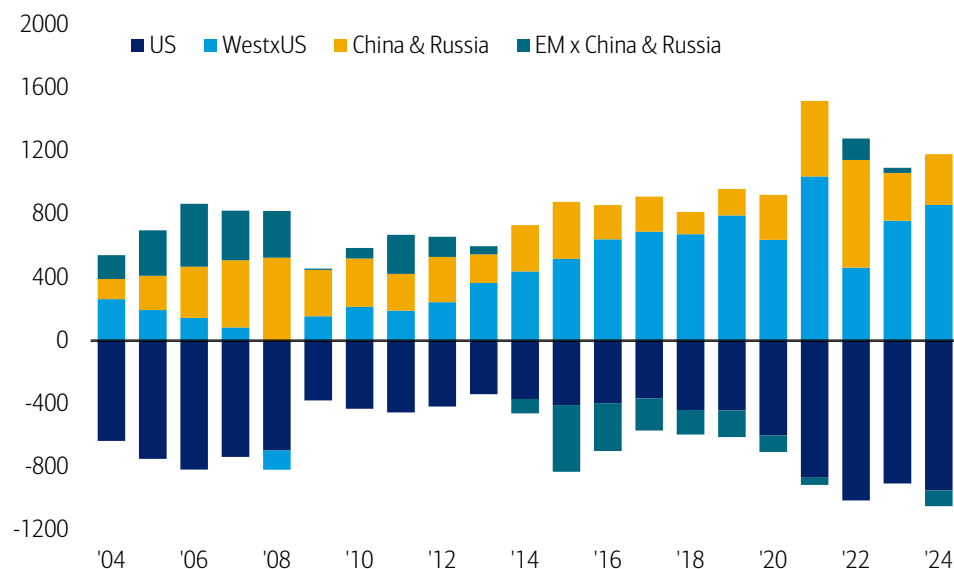
Source: EIA

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Home alone – can be scary

The US current account deficit has been at the heart of the “Mar-a-lago Accord” debate. For most of the past two decades, the US accounted for the majority of the world’s current account deficit, which EM and the rest of DM have been funding (Exhibit 11). Recall that the current account balance equals savings minus investment, and it also equals the trade balance plus other flows like remittances. It’s a chicken-and-egg situation: persistently large current account surpluses (or deficits) could be due to various reasons, including too little/much savings or too much/little investment.

Exhibit 11: US current account deficit has doubled since Covid, funded by EM and the rest of DM
Current account balance (US\$ bn)



Source: IMF

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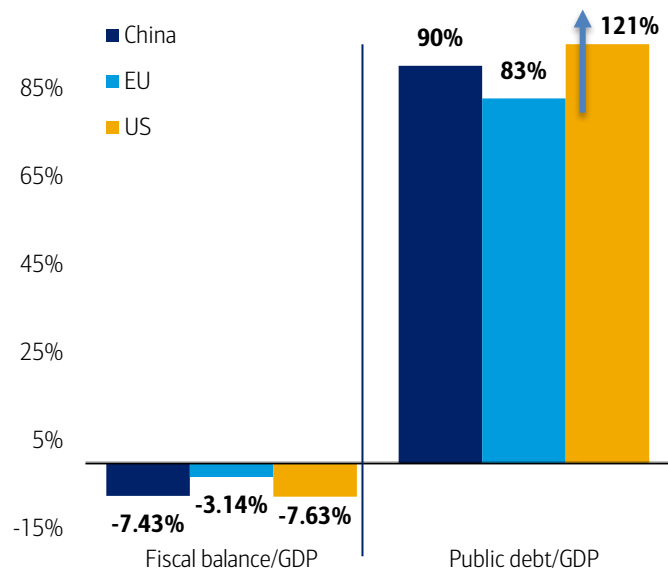
A key factor is fiscal. China and the US are running looser policy than the Eurozone, for example. Both face a fiscal deficit of more than 7% of GDP, and public debt of 90% and



121% of GDP, respectively (general government). In contrast, the Eurozone deficit is 3% of GDP, and public debt is 80% (Exhibit 12, Exhibit 13). Debt/revenue is also much worse for China and the US than for the Eurozone. External debt/exports is benign for China, but the US number is literally double that of the Eurozone.

Exhibit 12: Among the big three blocs, the EU has best fiscal ratios...

Fiscal balance/ GDP and Public Debt/GDP ratios

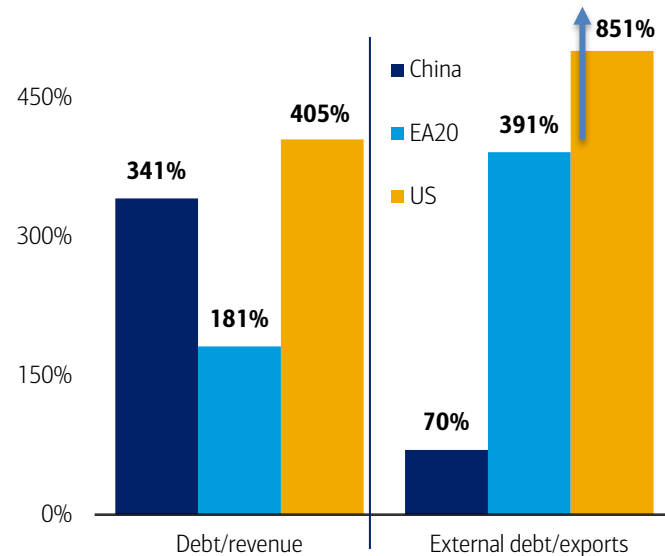


Source: IMF

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Exhibit 13: ...while the US public & external debt is the highest

Debt/revenue and External Debt/G & S exports ratios



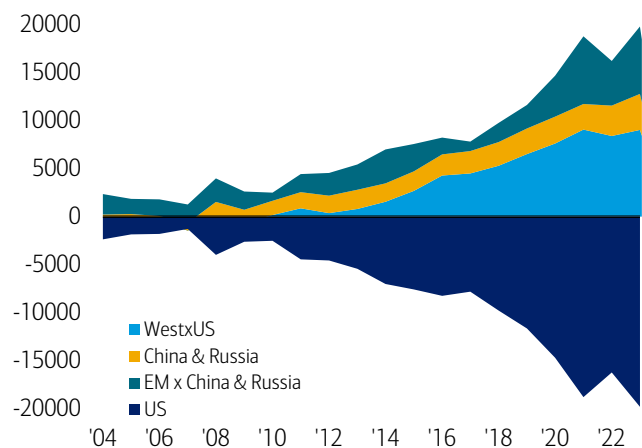
Source: World Bank, ECB, IMF, China SAFE, US Census

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The flipside of these large US deficits has been a major deterioration in the net international investment position. Emerging markets have funded about half of this deficit, with the rest funded by the other advanced economies (Exhibit 14). As a consequence, Western allies own about ¾ of foreign holdings of US equities and fixed income, with the balance held by China and other emerging markets (Exhibit 15).

Exhibit 14: EM & DM have piled into US assets, particularly since 2018

Net International Investment Position (NIIP) in \$ billion

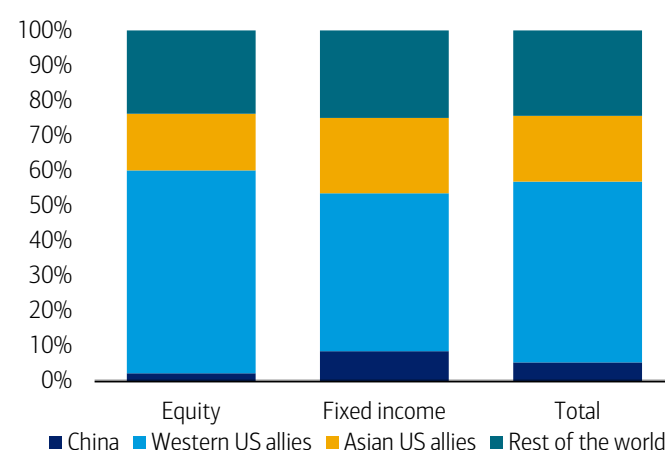


Source: IMF

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Exhibit 15: US allies account for ¾ of foreign holdings of US securities

Foreign holdings of US securities, by country group and type of security



Source: US Department of the Treasury, June 2023

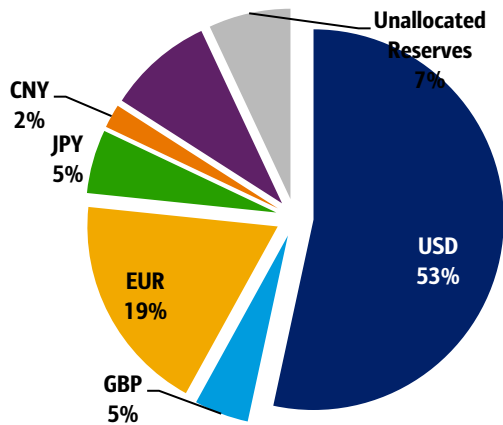
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The large negative foreign investment position of the US mirrors the predominance of the USD as an international reserve currency, accounting for more than half of global

reserves (Exhibit 16). The main holders (about 60%) are emerging markets, which see the need to hoard USD liquidity as an insurance policy (Exhibit 17). A key view of the proponents of a “Mar-a-lago Accord” is that this role as reserve currency leads the world economy to demand dollars, which then drives up the value of the USD.

Exhibit 16: Global reserves 53% in USD but still c.40% in rest of G10...

Foreign exchange holdings (claims on)

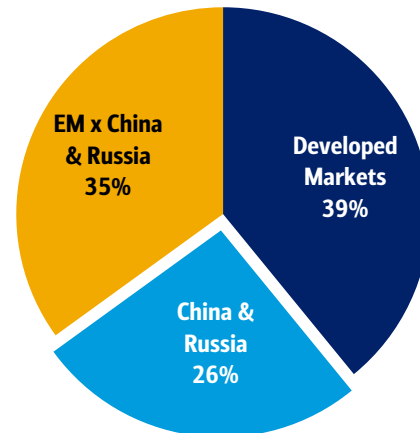


Source: IMF

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Exhibit 17: ...while the reserve owners are 60% EM and 40% DM

Foreign exchange holdings by holder



Source: IMF

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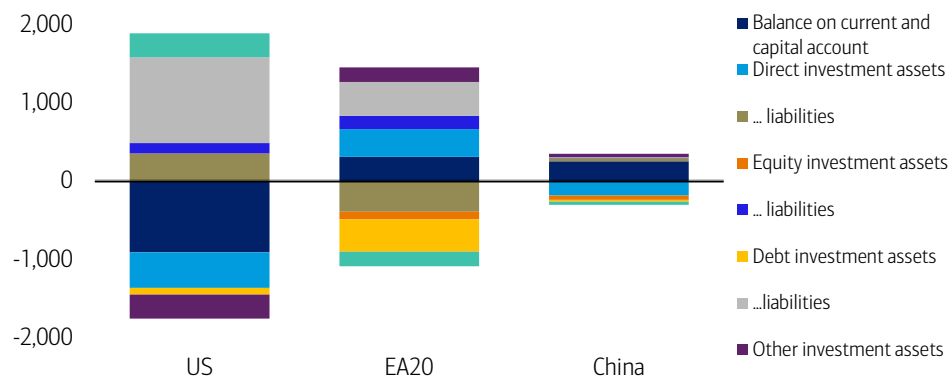
Look on the bright side

For EM, a US desire to reduce its trade and investment ties with the rest of the world initially appears predominantly negative, but we think it also creates opportunities. For many years EM has had a hard time competing with relatively high US fixed income yields and a very dynamic equity market, and the large US current account deficit sucked in a lot of global capital flow, which could have been allocated elsewhere.

Exhibit 18 underscores the outsized role of the US in global capital flows compared to the WestxUS (let alone China), even while these blocs have comparable GDP. This large share in global capital flows is the mirror image of the current account deficit. If the US wants a weaker USD and lower current account deficit, it would necessarily reduce the amount of capital coming in from the rest of the world. This capital could instead flow to EMs with attractive yields and dynamic equity markets.

Exhibit 18: The US has an outsized role in trade and finance that EM would find difficult to replace

Current and financial account flows (US\$ bn) – the US is much bigger than the rest of DM, let alone China



Source: IMF

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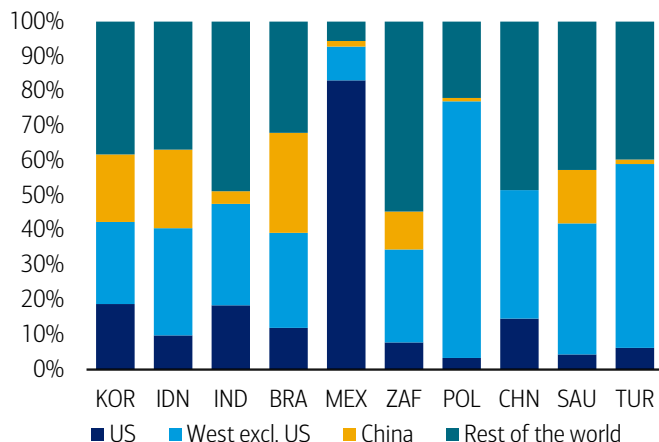
But you can find new friends

A reduced role of the US in global trade and finance would require EMs to deepen their relationships among themselves and with the rest of developed markets.

For a start, the good news is that the US share of trade with the major EMs is already smaller than its share in the global economy suggests. The US is a relatively closed economy compared to the other blocs like the EU or China. Mexico is the only GEM-10 economy where trade with the US dominates. For all others, the most important trading partner is either the EU or China. Also notable, the WestxUS bloc is in aggregate much more important for EM than either China or the US (Exhibit 19 and Exhibit 20).

Exhibit 19: US only accounts for 10-20% of GEM-10 exports, ex Mexico

Country's exports by destination, share of total

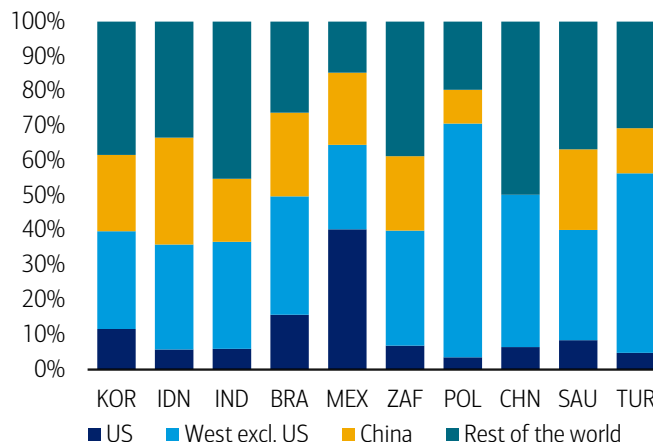


Source: Haver, IMF

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Exhibit 20: ...and the share of EM imports from the US is even smaller

Country's imports by origin, share of total



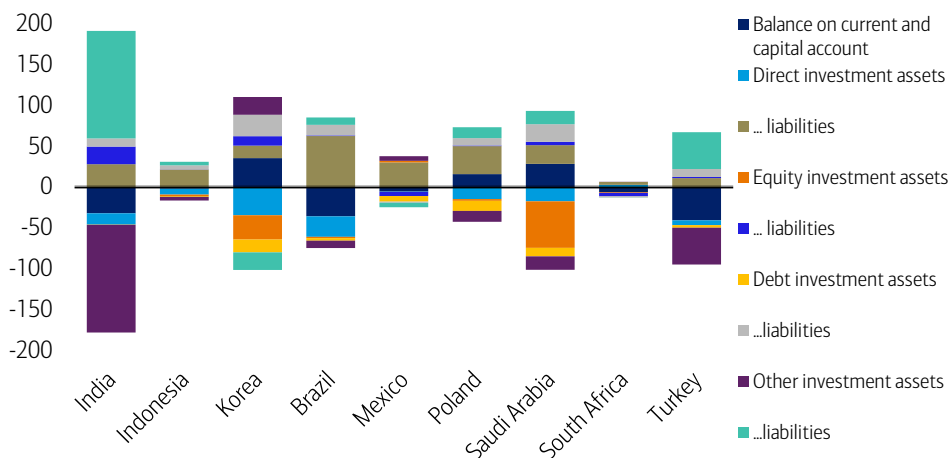
Source: Haver, IMF

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The likely EM beneficiaries of less capital going to the US would be countries that gain from a weaker USD or are attractive destinations for equity capital. India stands out as the EM that tends to receive the biggest equity portfolio flow (Exhibit 21) and it is 2nd globally after the US in terms of consistent equity earnings growth. Brazil and Türkiye are high-yielding EMs that have major current account or fiscal deficits to fund and benefit disproportionately when the USD weakens and funding cheapens.

Exhibit 21: India receives most equity inflow in EMxChina; Brazil, Türkiye have large deficits to fund

Current and financial account flows (US\$ bn, 2023)

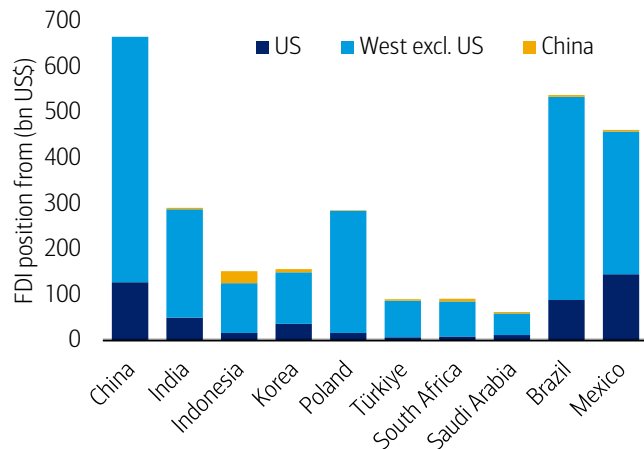


Source: IMF

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Exhibit 22: WestxUS accounts for a vast share of FDI stocks in GEM-10...

Stock of FDI position from... (bn US\$)

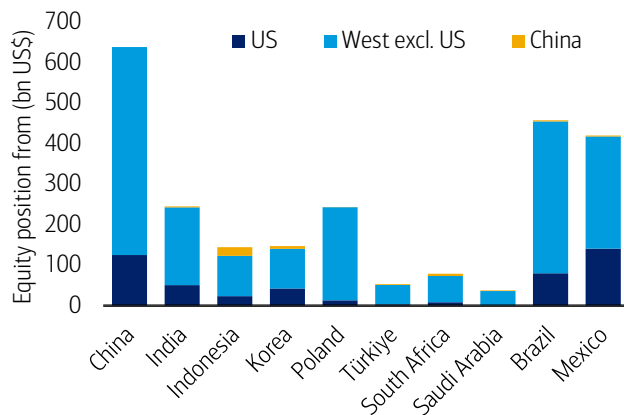


Source: Haver

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Exhibit 24: In GEM-10 equity portfolio stock WestxUS also dominates...

Stock of equity position from... (bn US\$)

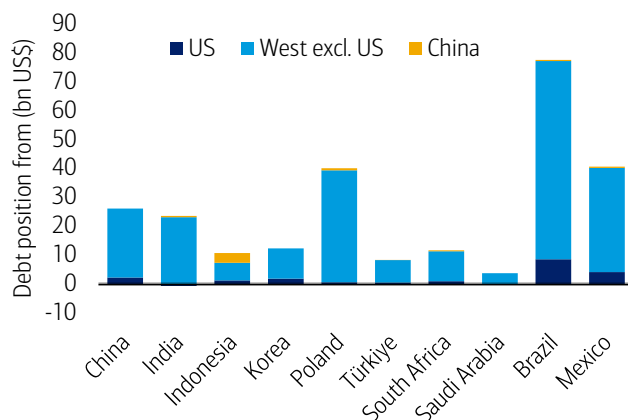


Source: Haver

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Exhibit 26: In debt stock of GEM-10, the US role is even more minimal...

Stock of debt position from... (bn US\$)

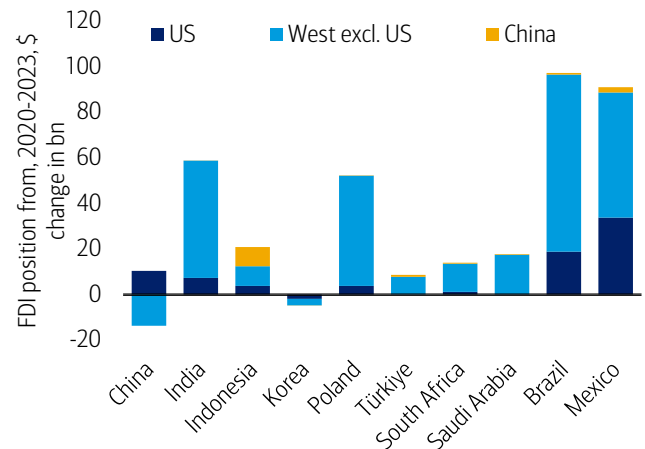


Source: Haver

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Exhibit 23: ...and the same applies for the inflows of the past few years

FDI position from..., 2020-2023, \$ change in bn

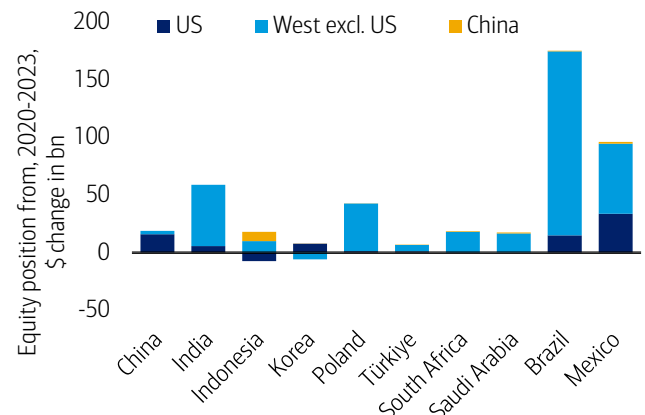


Source: Haver, IMF

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Exhibit 25: ...and only Mexico had meaningful US inflow in recent years

Equity position from..., 2020-2023, \$ change in bn

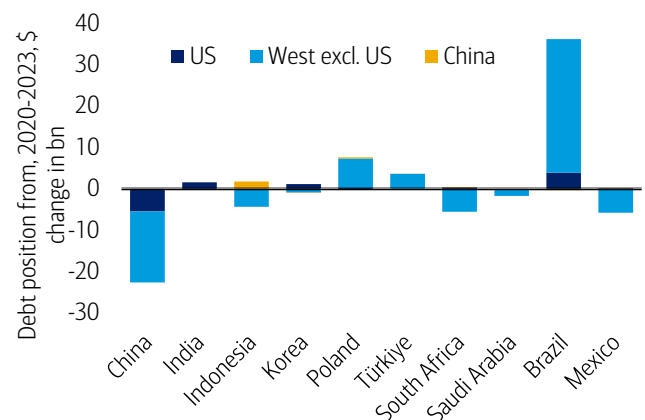


Source: Haver

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Exhibit 27: ...and there was net US outflow in recent years from China

Debt position from..., 2020-2023, \$ change in bn



Source: Haver

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The biggest sources of capital for EM have always been the developed countries outside the US. They account for the vast share of the stock of investment in EM, as well as the



inflow during the past several years. This applies to FDI (Exhibit 22) as well as equity portfolio flows (Exhibit 23) and fixed income flows (Exhibit 24). The US share is, in fact, small in comparison: no surprise given the huge US current account deficits vs WestxUS surpluses. What is surprising is that the share of China is quite small as well.

Thus, it is capital from the WestxUS that is likely to be redirected from the US to EM. Investors from the EU and elsewhere have been underweight EM debt and equity for years. A USD downtrend would likely lead them to reconsider this underweight.

Home alone – can be fun

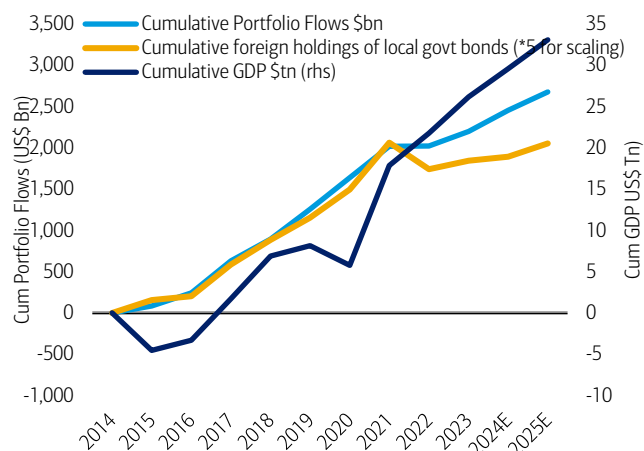
Summing up, a US pullback from global trade and investment could be a blessing in disguise for EM. A USD downtrend would be a major uplift for EMs that have suffered badly during the USD bull market since the break of the China growth narrative in 2015.

Particularly since the pandemic, capital flows to EM have underperformed, principally because the US conducted much more fiscal stimulus than EM. This underperformance has been even more pronounced for inflows into local debt markets than for overall portfolio flows including equity (Exhibit 28). EM flows have a lot of room to catch up.

While a weaker USD favors local currency assets in debt and equity, it would also help EM hard currency assets to outperform their developed market equivalents. The relative performance of EM hard currency debt and US high yield is loosely correlated with the strength of the USD (Exhibit 29). EM equities have become less related to the USD overall due to the rising share of tech stocks, but many equity markets still tend to benefit from USD weakness, including India, Brazil or Türkiye, for example.

Exhibit 28: EM inflows have lagged, so investors are under-allocated

Cumulative portfolio flows and GDP since 2015

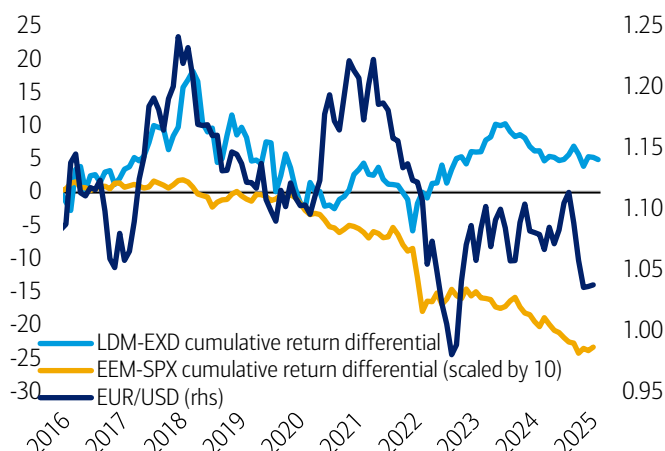


Source: BofA Global Research, Bloomberg, World Bank, IIF. GDP estimates are based on BofA's forecasts, while Flows forecasts are annualized based on current flows YTD

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Exhibit 29: Lower USD normally = LDM > EXD and EM > US equities

Cumulative return differential of LDM/EXD and EEM/SPX versus EUR/USD



Source: Bloomberg

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Even rocky rides can be fun

Ideally for EM, the USD would weaken in a constructive environment for risk assets: the combination of lower DXY and higher SPX implies positive returns across EM equities, FX, local debt and hard-currency debt in 90% of months (Exhibit 30). However, even when US equities are selling off, a weaker USD helps EM assets. Statistically, EMFX was up 70% of the time in months when the S&P was down by 5%+ since 1999 (Exhibit 31 shows these months shaded red when EMFX was down and blue when EMFX was up).

Exhibit 30: For EM, DXY dominates SPX – except for EM equities

Performance of EM assets classes in 4 scenarios: rising/falling DXY/SPX

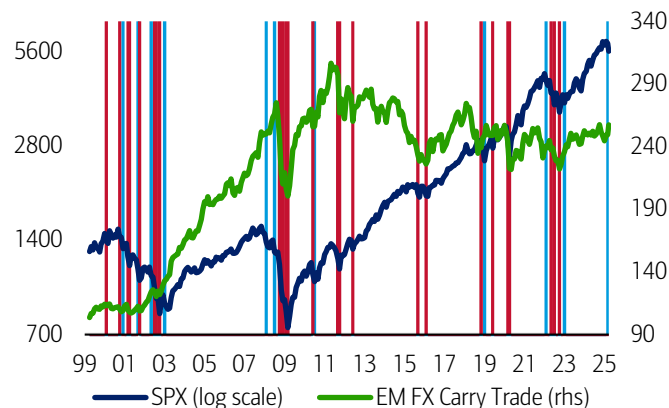
	MSCI EM		MSCI EM Currency	
	DXY up	DXY down	DXY up	DXY down
SPX up	58% (0.9%)	89% (4.7%)	50% (0.0%)	90% (1.4%)
SPX down	20% (-4.7%)	32% (-1.5%)	17% (-1.1%)	71% (0.5%)
	JPMorgan EMBI Global		JPMorgan GBI-EM GI	
	DXY up	DXY down	DXY up	DXY down
SPX up	63% (0.6%)	90% (1.7%)	39% (0.6%)	89% (1.7%)
SPX down	34% (-1.4%)	61% (0.4%)	20% (-1.4%)	73% (0.4%)

Note: Median monthly performance since 2008 for JPMorgan GBI-EM GC, since 2001 for the rest.**Source:** BofA Global Research, Bloomberg

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Exhibit 31: EMFX up in 70% of 37 months since '99 when S&P is down

SPX & EM FX since 1999; red = both down; green = SPX down, EMFX up

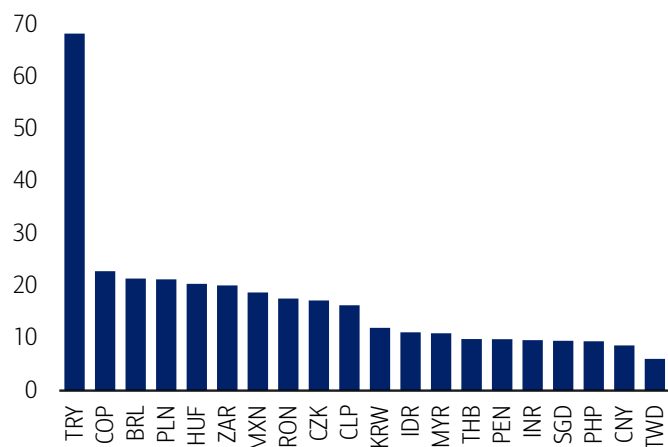
**Source:** Bloomberg

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Our G10 team forecasts EUR/USD to move to 1.20 by next year – this would be a major boost for EM currencies. Assuming EUR/USD at 1.20 over 12 months, the higher carry currencies in EEMEA and LatAm (the COP, BRL, PLN, HUF, ZAR etc.) would mechanically produce about 20% total return based on historical betas to EUR/USD. The TRY would do even better due to its high carry and beta to EUR (Exhibit 32).

Exhibit 32: EUR/USD going to 1.20 would normally provide 15-20% 12-month total return in many EM currencies

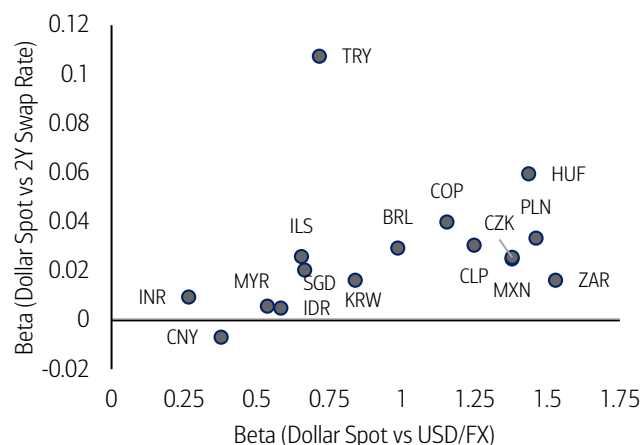
Estimate of USD-denominated total return in 12 months assuming EUR/USD going from 1.08 to 1.20, based on historical betas

**Source:** BofA Global Research, Bloomberg

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Exhibit 33: EEMEA and LatAm markets benefit most from USD weakness – not just FX but also rates

Betas of EM rates and FX markets to USD index

**Source:** Bloomberg, BofA Global Research

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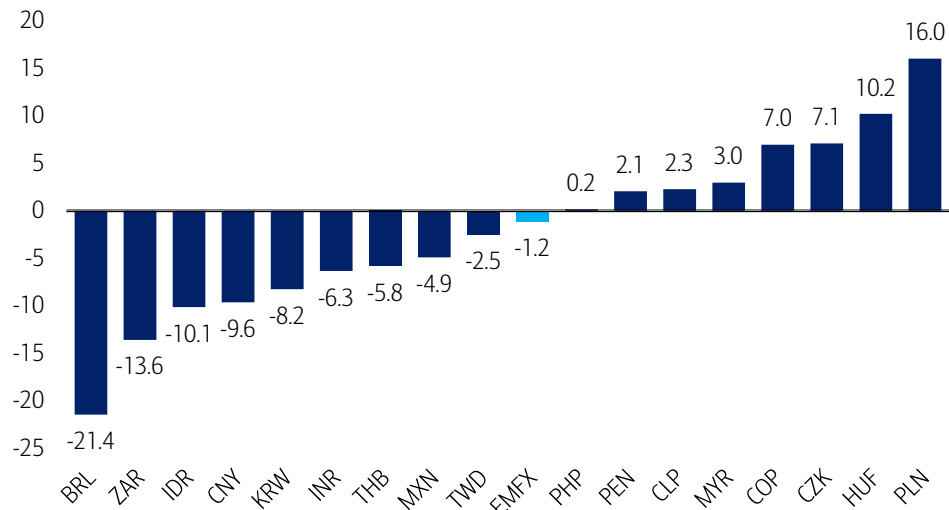
However, EM rates would benefit as well, owing to their high correlation with FX – driven by central bank concerns about exchange rate stability for reasons of financial stability and passthrough to inflation. Thus, a weaker USD provides a positive feedback loop between lower rates, higher economic growth and capital inflows.

The EM local markets with the highest combined beta of FX and rates to the USD index again tend to be the higher-yielding markets in EEMEA and LatAm: USD/ZAR, MXN, CZK, PLN, HUF, CLP and COP stand out with a beta higher than 1 to DXY as well as a high beta of their front-end rates markets to the USD (Exhibit 33). Our BEER model sees EMFX on average as undervalued, with the BRL, ZAR and KRW the cheapest (Exhibit 34).



Exhibit 34: Many EM currencies are cheap on our BEER model, particularly the BRL and ZAR

BEER model deviations from long-run fair value model (%)



Source: BofA Global Research, Haver, Bloomberg

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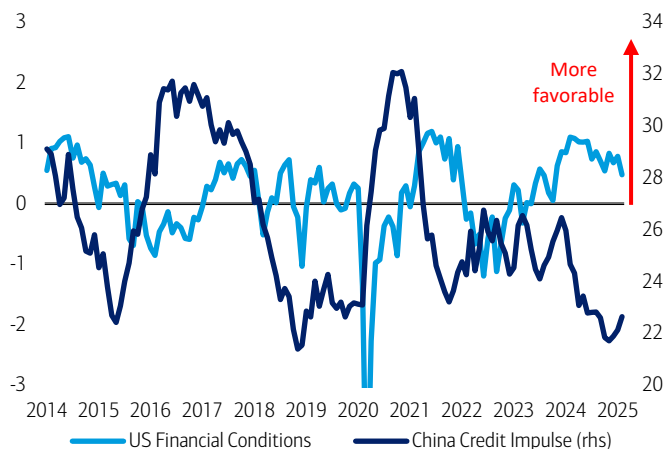
Summing up, we have advocated EM outperformance vs low expectations since Inauguration Day and continue to believe in this theme for the year. We still like several EM currencies, including the BRL, INR, MXN, ZAR and the CE-3, while we fund/hedge these in the CNH, which we see as an underperformer due to low carry and particularly heavy US tariffs when compared to other emerging markets.

For a complete list of open trade recommendations and those closed in the past 12 months, please see the [Global Emerging Markets Weekly](#).

EM MPV Scorecard – Macro

Exhibit 35: China & US financial conditions: improving for EM

US financial conditions vs China credit impulse

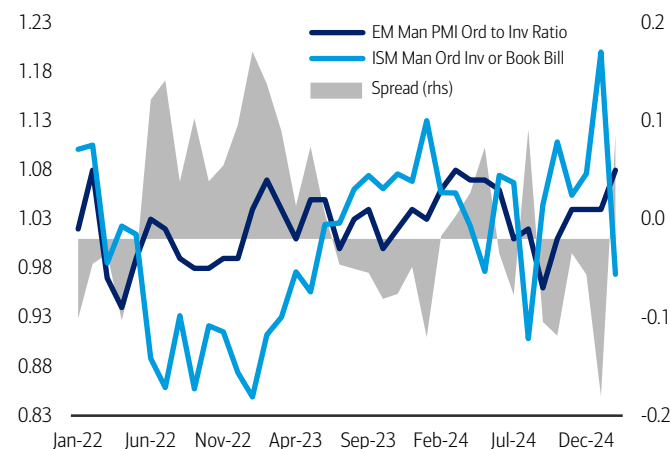


Source: Bloomberg

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Exhibit 36: Growth momentum worsening in the US, improving in EM

Manufacturing PMIs – new orders/inventories ratios – EM vs US

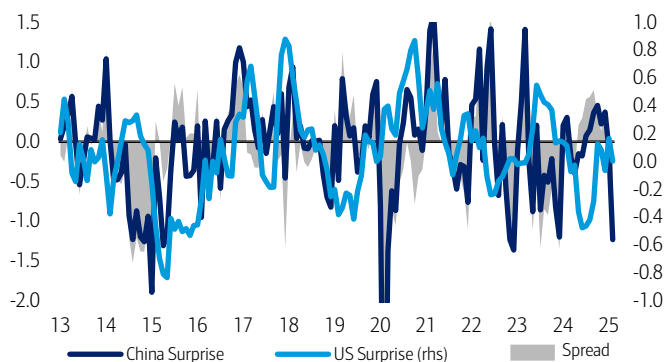


Source: Bloomberg

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Exhibit 37: China data surprises are at low end – contrarian bullish

China vs US economic surprise indices and their spread

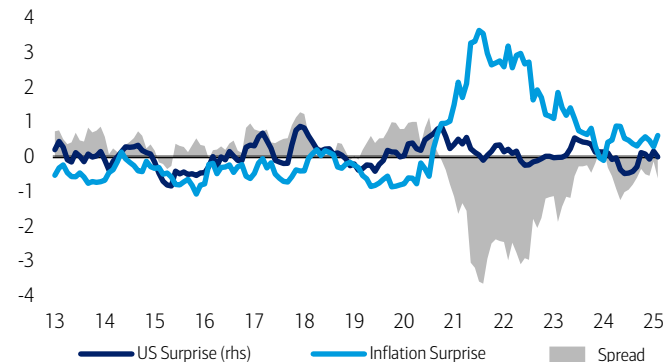


Source: Bloomberg

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Exhibit 38: Stagflation indicator worsening – CPI > growth surprises

“Goldilocks indicator” – US economic vs inflation surprises

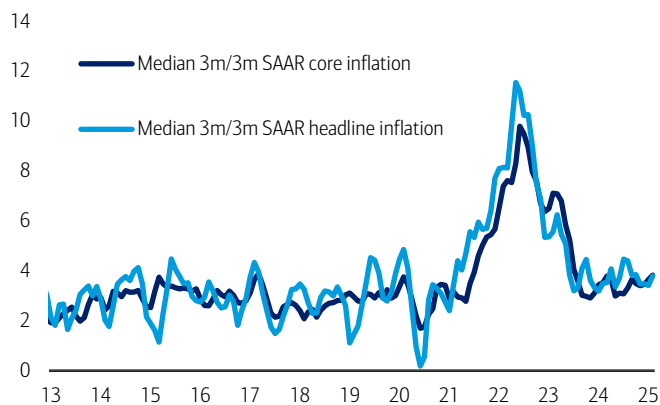


Source: Bloomberg

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Exhibit 39: EM CPI momentum stuck at high end of pre-Covid range

EM inflation momentum (headline vs core)

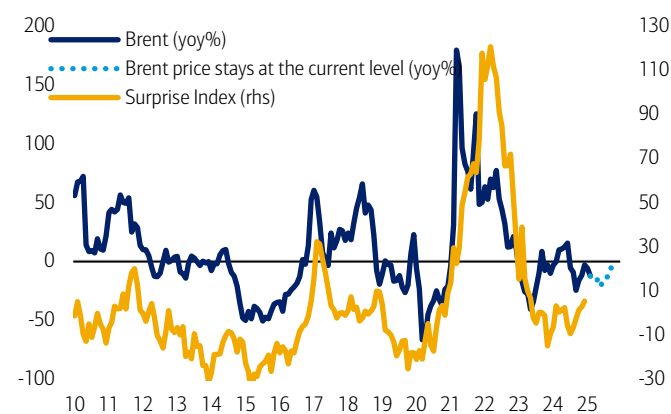


Note: Median 3m/3m SAAR core & headline CPI for 12 countries: Brazil, Mexico, Colombia, Chile, Czechia, Hungary, Poland, India, Indonesia, SA, China, Korea Source: Haver

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Exhibit 40: Lagged oil price impact implies neutral outlook for CPI risk

Brent (yoy%) vs global inflation surprise index



Source: Bloomberg

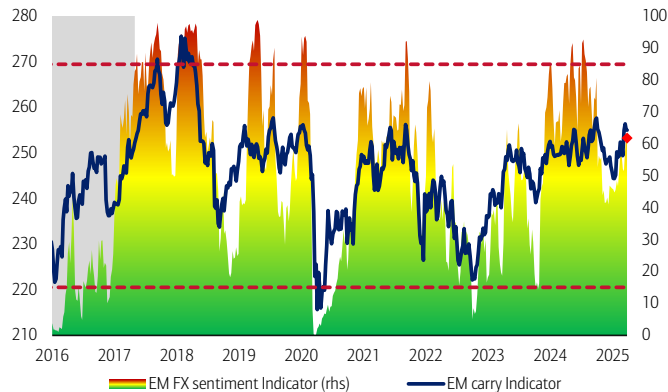
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EM MPV Scorecard – Positioning

Exhibit 41: BofA EMFX sentiment neutral

BofA EMFX sentiment indicator vs Bloomberg EM carry index

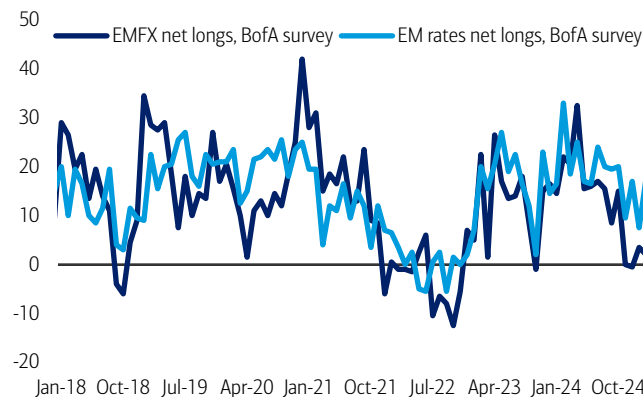


Notes: Backtesting since 10/10 is hypothetical in nature and reflects application of screen prior to introduction. It is not intended to indicate future performance. See also notes to the chart on the right. **Source:** Bloomberg, national sources, BofA Global Research

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Exhibit 43: Survey sentiment very bullish EM rates, medium for EMFX

EMFX and EM rates net longs according to BofA Global FX & Rates Survey

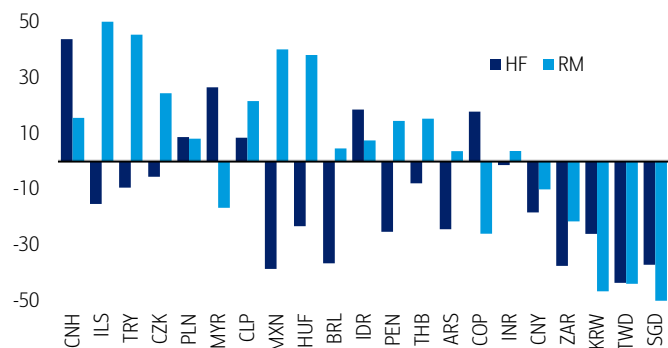


Source: BofA Global Research – Global FX & Rates Sentiment Survey

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Exhibit 45: Real money long the TRY (still), ILS, CZK, HUF, MXN

+50 (-50) represents a max long (short) positioning relative to entire history

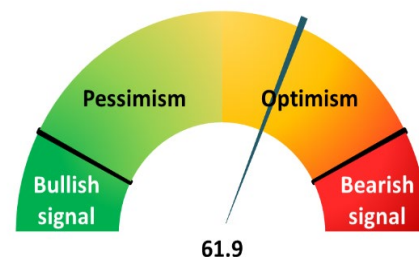


Note: Hedge fund, real money are ranked by latest aggregate positioning. **Source:** BofA Global Research "Liquid Cross Border Flows" based on proprietary trading flow data

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Exhibit 42: Moderate optimism

BofA EMFX sentiment indicator - speedometer

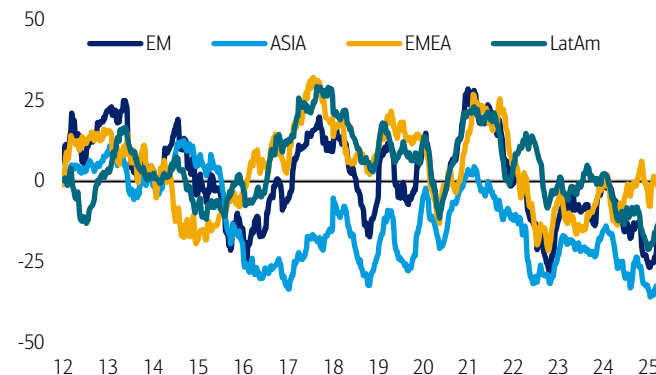


Notes: This indicator was not created to act as a benchmark. It is intended as an indicative metric only and may not be used for reference purposes or as a measure of performance for a financial instrument/contract, or otherwise relied upon by 3rd parties for any purpose without prior written consent of BofA Global Research. **Source:** Bloomberg, national sources, BofA Global Research

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Exhibit 44: Actual flows suggest still bearish positioning – buy EM dips

EMFX positioning according to "Liquid Cross Border Flows"

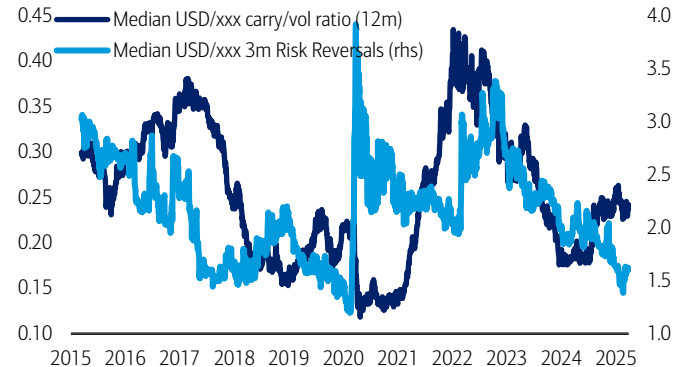


Note: Positioning across real money and hedge funds. Index scaled between +50 and -50. **Source:** BofA Global Research "Liquid Cross Border Flows" based on proprietary trading flow data

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Exhibit 46: EMFX carry/vol attractive, but options risk premia are low

Median carry/vol ratio and risk reversal for 10 EM currencies against the USD



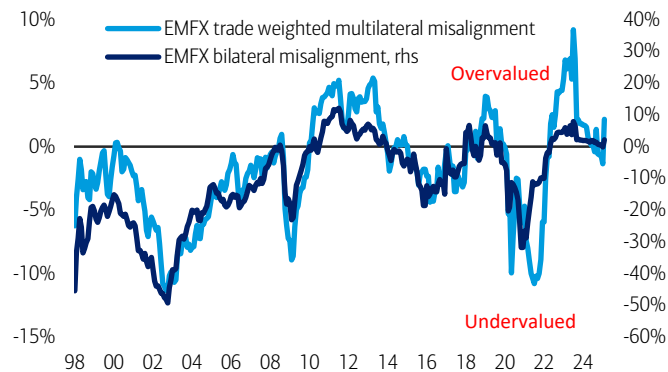
Note: Median USD/xxx carry/vol ratio (12m) & 3m risk reversals calculated for 10 currencies: BRL, MXN, COP, CLP, CZK, HUF, PLN, INR, IDR, ZAR. **Source:** Bloomberg, BofA Global Research

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EM MPV Scorecard – Valuations

Exhibit 47: BofA EMFX Compass long-term model – around fair value

EMFX misalignment v current account fair values: bilateral & trade-weighted

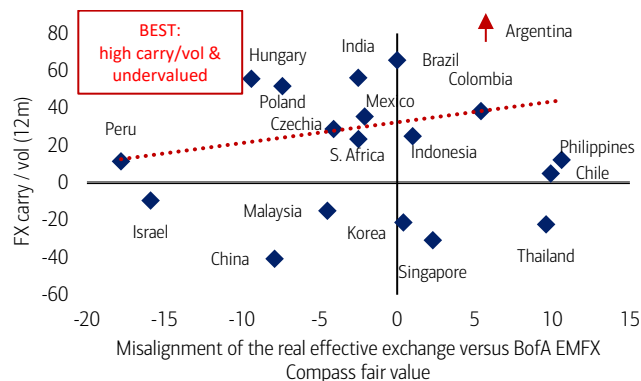


Source: BofA Global Research "FX Compass" model

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Exhibit 49: CEE, INR, BRL, MXN with best mix of carry/vol & valuation

Misalignment of REER based on BofA Compass model vs carry/vol ratio

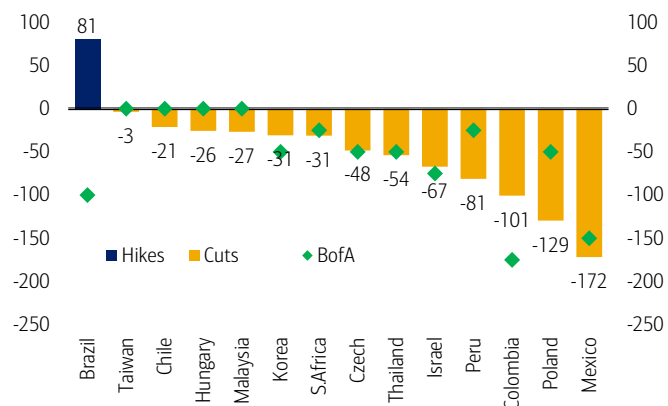


Source: Bloomberg, BofA Global Research Compass model

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Exhibit 51: BofA econ forecasts imply receive BRL, COP rates v pay PLN

What's priced for 12-month policy rate change vs BofA economics forecast

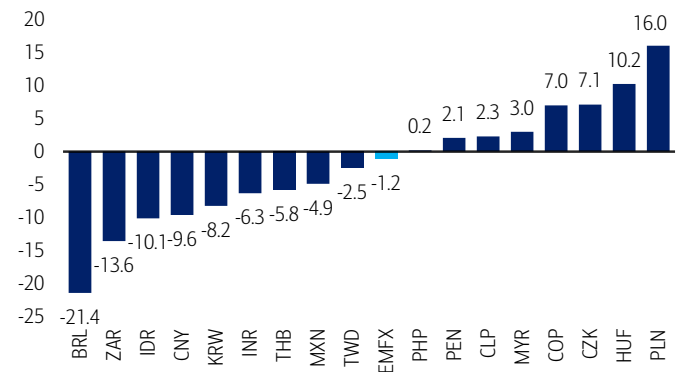


Forecasts and implied policy for Türkiye are inside the report. Updated on March 21. Source: BofA Global Research, Bloomberg. 12 month period ends 21 March 2026

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Exhibit 48: BofA EMFX BEER model – BRL, ZAR most undervalued

BEER model deviations from long-run fair value model (%)

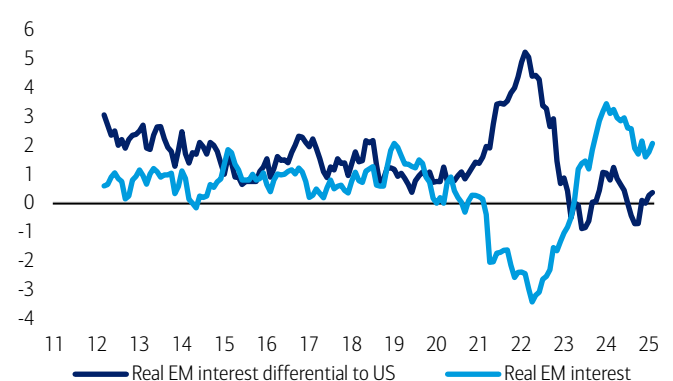


Source: BofA Global Research BEER model, Haver, Bloomberg

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Exhibit 50: EM real rates look high but are neutral compared to the US

Real rate in EM (median of 15 economies vs differential to US)

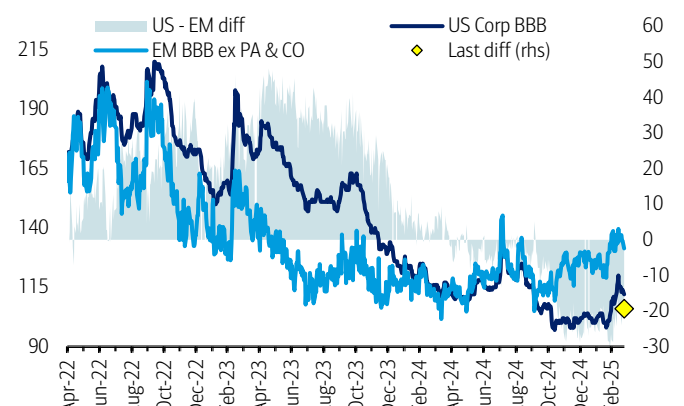


Source: Bloomberg, BofA Global Research

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Exhibit 52: Crossover attracted by EM sovereigns relatively cheap v US

US corporate vs EM sovereign BBB spreads



Source: Bloomberg

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Exhibit 53: EM Alpha Trade Recommendations

Open trades

FX	Entry date	Entry level	Current level	Target	Stop	Notional	Rationale/ Time horizon	Risks
Short USDZAR	6-Mar-25	18.34	18.17	17.43	18.9	10	German fiscal is bullish for EM FX and the ZAR; The ZAR is the most undervalued EEMEA currency.	The risks are stronger US data and rising domestic political risks.
Long INR 1m fwd vs USD	6-Mar-25	87.27	87.32	86	88.0	10	The INR benefits from a softer USD, CA seasonality, lower oil and carry.	Stronger USD, higher oil or tariffs targeted at India.
Long THB vs USD	6-Mar-25	33.66	33.73	32.5	34.5	10	Softer USD, improving CA surplus on lower oil and large BoP surplus from hidden capital flows supports THB.	USD strength, higher oil prices.
Buy USD/PEN	20-Feb-25	3.6894	3.6247	3.78	3.55	10	The global backdrop remains mixed. The USD has weakened, but copper prices have declined and US-China trade tensions remain.	Weaker US dollar, a sharp rise in copper prices, and a de-escalation of trade tensions between US and China.
Long USDTWD 6-month NDF outright	12-Feb-25	32.57	256.0799	33.37	32.08	10	With President Trump discussing tariffs on chips, this can impact Taiwan's export earnings and trigger equity outflow.	Decline in global trade tension resulting in a US\$ sell-off and lower USDTWD.
Sell PEN/CLP	30-Jan-25	266.91	0.90	240.00	280.00	10	The CLP is ~10% undervalued. There will be no additional interest rate reductions. This year's general election is likely to result in a more pro-market government winning.	Risks are lower copper prices and US tariffs.
Short SGD NEER	22-Jan-25	0.97	53.34	0.3	1.5	10	Short SNEER into MAS meeting on expectations of a dovish outcome with guidance for easing ahead.	Further unwinding of short SNEER positioning.
Sell 6m USDEGP NDF	21-Jan-25	53.8	40.87	51.1	55.4	10	IMF program is on track, which should leave USDEGP range bound. Carry is still high.	The risk is EGP weakness stemming from global factors and crowded positioning.
Long TRY vs EUR and USD via 3m forward	16-Jan-25	39.26	spot 7.7726	37.3	40.44	10	The TRY should appreciate in real terms driven by positive real rates, disinflation and tight monetary stance. The carry for the trade is very attractive.	Much stronger broader USD.
Buy USDHKD 12-month outright	26-Nov-24	7.746	spot 1.3353	7.783	7.72	10	Current interest rate differentials are pricing for 12-month USDHKD outright be below the strong-side of the USDHKD band at 7.75.	Further loosening of USDHKD forward points.
Long BRL/COP	21-Nov-24	754	1536.95	900	700	10	Brazil's real should benefit from tightening monetary policy whereas Colombia's peso should weaken from easing monetary policy.	Dovish shift in BCB or hawkish shift in BanRep, fiscal risks deteriorating further in Brazil or improving in Colombia.
Sell USDNGN 3M NDF	07-May-24	1384	-	1285	1700	10	Hikes have materialized and the FX backlog has now cleared. Short-term wins from FX reform and monetary policy, the next big focus is fiscal reform.	Persistent low oil prices and a lack of dollar inflows into the country.
Short CNH, long basket	17-Nov-23	100	18.17	94	102	10	We expect the CNH to underperform peers as the PBOC will lean-in against appreciation in an effort to keep monetary conditions loose. Basket earns 8bps 3M carry.	The risk to the trade is a large fiscal policy stimulus and economic recovery, ending the need for loose monetary policy and the CNY appreciates aggressively in 6 months.

Source: BofA Global Research. Spot values as of March 20, 2025. Bid/offer spreads accounted for in initiation and closing levels. Does not reflect tax withholdings or any investment advisory fees. Past performance is no guarantee of future results. A complete performance record is available on request. Inception date – July 4, 2016 Initiation and closing prices are priced as of trade publication.

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