VanEck

VanEck FUNDS

Views on the 2017 Spring International Monetary Fund (IMF) Meeting

Eric Fine, Portfolio Manager, Emerging Markets Fixed Income

David Austerweil, Deputy Portfolio Manager, Emerging Markets Fixed Income

Investors' Perspective

Investors are bullish. Normally, this would be a negative on the margin. However, inflows are set for a near record, and positioning in portfolios is not as aggressive as where views are going. This positioning favors local currency and high yielders – otherwise known as Latin America and parts of Africa, together with Russia (local currency), South Africa (local currency), and Turkey (local currency, in theory). (However, we think one should avoid the country and look elsewhere for market beta).

In the bull case of investors for emerging markets, China did not figure. Now it will. Investors went in thinking that China was a neutral factor that may eventually cause some accident. Investors left thinking it will be a positive factor (though still one that may eventually cause some accident). China presentations and officials were fantastic. (Though their quality is not new to those who travel to China, they are new to presenting at the IMF, which is part of their new communications push. Currently, they also have an easier story to tell.)

Developed Markets/Global Macro

- In our opinion, Europe was pretty bad. It has not solved its underlying problems. The political pressures will be relentless and do not simply end with a Dutch or French election. The authorities are up to neither the policy nor the crisis management job. There is little political capital to invest in serious solutions. Nonetheless, growth is okay and the French election will be a big relief (many were hedged for an adverse outcome). Over time, however, we believe such "victories" will deepen the complacency and inadequacy of political authorities, rather than be used as an opportunity to reform.

- Global central bank policy, led by the U.S. Federal Reserve's quantitative easing experiments, is here to stay, even if the central banks think they can exit it. Any exit that has excessively adverse asset price outcomes will be reversed. In other words, the central banks are co-opted, trapped, and no longer independent. They, however, do not think they are. So attempts to exit the trap may occur, but they will be reversed. We think investors will stop worrying about what happens when rates rise and start worrying about what happens if rates never really rise. As they do start worrying, it will become clear that the end of the party will be the barn-buster of all barn-busters before the cops get called. And the cops will be from a new sheriff's department that is "populist" – to use the over and misused term favored by policy elites.

Emerging Markets Economies

- Russia was universally praised. However, many did so reluctantly, as in: "Gee, they really are as great policy-wise as I've heard!" While Russia positioning is high, it is, perhaps, not so relative to a rethink that it involves putting Russia into a category of countries with more permanently good policy.

- Mexico was impressive, but that is almost always the case with its policymakers. Moreover, the central bank was basically saying it wanted the currency stronger, to the extent that any central bank can say that. Growth is looking better than expected, as are tax revenues for the first quarter of the year.

- Brazil was mixed. Some meetings were good, while others were not. A big risk would be the government's inability to get enough votes to pass social security reform. We'll be following that closely. No real change to our Brazil view so far. Real rates are high, the central bank is more independent, inflation and inflation expectations are very low, the external accounts have improved, and the government is addressing the key concern of a deteriorating debt dynamic (the extent and duration of which is the subject of current debate).

- Argentina is okay. The end of capital controls has generated significant momentum, even if the fiscal situation is disappointing. Our biggest takeaway is how so many investors are only now (as in the past year) looking at Argentina positively (we've had a big overweight for five years), pointing to further increases in exposure. Officials presented very well, noting the more credible fiscal consolidation and two new structural reforms: a fiscal responsibility law that could pass Congress this fall and cap spending in real terms at zero (à la Brazil), and a pension reform (though one that would not become law until after another presidential election).

- Turkey was hotly debated, with many of my experienced friends loving it and some hating it (we don't like it). The bullish view is that the central bank will cut rates, making duration a good trade. And, inflation will decline because the currency will rally because people think the central bank will cut rates: it is a bit tautological. Mehmet Simsek presented, but many don't know he is irrelevant as a policy maker and just gets trotted out to impress people like us. We see low real rates, inflation that is not yet set to decline, and policy that is becoming co-opted (à la Brazil under former president Rousseff).

- On South Africa, virtually no one was negative after the meetings, but they went into the meetings very negative. Probably a win, and certainly not disappointing for them. We need to compare and read notes more.

- Chile, Brazil, and Colombia (less so) are cutting rates. Mexico has already built in a lot of hikes. Nothing new, just confirmations.

- Some good peripheral stories, such as Angola (we really like it) and Mongolia (we used to really like it, but the "good story" is largely priced in by now). Uruguay is getting some attention from some big guys. (Thanks to us!) Zambia was disappointing and we are becoming more concerned about it.

Concluding Remark

Investors continued to make jokes about President Trump and were mildly negative about prospects for tax reform. Given their track record on him, this made me more bullish on such prospects. Mexico and China trade tensions will probably be less bad than many expect. Still, many seemed to think the election hadn't happened and few Clinton supporters were thinking about what lessons could be learned, other than that Russia hacked the election, or Bernie did, or Comey did… anything other than a deep analysis.

VanEck™

Van Eck Securities Corporation, Distributor
666 Third Avenue | New York, NY 10017
vaneck.com | 800.826.2333

VANECK FUNDS ▪ VANECK VECTORS ETFS/ETNS ▪ INSURANCE FUNDS ▪ SMAS ▪ ALTERNATIVES