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## Highlights

- As vaccination rates increase, it is possible to start considering what a post-Covid world might look like.
- From an investing viewpoint, the big change, both in developed and emerging economies, is the change in fiscal and monetary policies.
- Suggestions of a 'new-normal' are often proved wrong, but some of the trends we have seen may endure.
- One legacy of Covid in EM has been changes in either the direction or stability of politics in several different countries.

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## Emerging Markets Spotlight

Despite the ongoing success of the global Covid vaccination program, it is too soon to claim to be in a post-Covid world. Nevertheless, with some countries having achieved vaccination rates of over 70% of their populations, it is possible to start considering what a post-Covid world might look like, especially in emerging markets (EM). As William Gibson said, 'the future is already here - it's just not very evenly distributed.'

From an investing viewpoint, the big change, both in developed and emerging economies, is the change in fiscal and monetary policies. The (at the time, shockingly large) support to economies and financial systems after the 2008 crisis has been dwarfed by the stimulus response in 2020-21. JP Morgan estimates that the balance sheets of developed economies' central banks will increase by US\$11.7trn during 2020-21, with an aggregate size of US\$28trn by the end of this year. In most of these countries, central banks are the largest single buyer of government bonds, with those financing economic support programs as well as vastly-expanded healthcare systems.

With economies recovering, policy focus is now turning to ending quantitative easing and tightening policy, but this is deliberately being done slowly. The sheer size of the stimulus will sit on government and central bank balance sheets for years to come, but the tapering is being done with an eye on allowing inflation to run at higher levels.

This tolerance of inflation should be a net positive for nominal GDP growth around the world, and also for commodity prices, which, in turn, should create a different, more positive, economic environment for more indebted and more commodity-intensive emerging economies.

### The enduring 'new normal'

We have also seen signs of shifts within some industries in EM. Suggestions of a 'new-normal' are often proved wrong, but some of the trends we have seen may endure. The move to a more online, digital and e-commerce-based world is a long-term trend, but that trend has accelerated markedly in the last year-and-a-half, and most of the companies that have benefited expect to keep their new customers. We have various exposures to this theme within the portfolio, particularly food delivery and online games.

Another shift that looks like it will endure is the shift in travel and tourism patterns. International travel has collapsed, but so, noticeably, has business travel. Partly replacing this, particularly in larger countries like Brazil and China, has been very strong growth in internal travel and tourism, including higher-end travelers who would previously have gone abroad. This has led to, for example, wide-body jets normally used for international long-haul flights being used to service internal tourist routes. An additional shift in this industry has also been a strong rise in dedicated freight flights, as cargo capacity in the holds of passenger flights declines and e-commerce volumes ramp up. Finally, online booking continues to replace brick-and-mortar travel agents. We have exposure to all these trends in the portfolio.

## Covid-19 and politics

One legacy of Covid in EM has been changes in either the direction or stability of politics in several different countries. Some governments have overseen weak or chaotic responses to the pandemic, and where infection rates and death tolls have been high, it has proved variously difficult or impossible to continue to govern.

The main incidence of this so far has been Latin America, where the human impact of Covid has been worst. We wrote in June about the challenging political environment in the smaller countries in the region, and the human and economic impacts of the pandemic have been major drivers of the swing towards populism and/or socialism in Chile, Peru and Colombia. Although yet to coalesce into a coherent political movement, it should be noted that the combinations of Covid-driven lockdowns and poverty have led to the worst unrest in South Africa in over twenty years.

Where populists are in power, the pandemic has been a major challenge to incumbents' popularity. We see this at its most stark in Brazil, where opinion polling on the Bolsonaro presidency has largely tracked Covid case data. In Turkey, economic stress is elevated because of policy mistakes as well as the impact of Covid, but the effect in aggregate is that the governing AKP (and President Erdogan) are closer to losing power than at any time since the AKP came into power in 2003.

Governments claiming to operate on a more technocratic basis (sometimes using this as an excuse for holding to weaker democratic values) have not been immune. In Malaysia the governing Bersatu party have lost their coalition partner and are (at the time of writing) using the pandemic-driven suspension of parliament as a tool to cling to power.

So far it is only really in the smaller Latin American countries where we can already see evidence of permanent change as a result of Covid, but there will be many electoral cycles in EM in the next few years, and the pandemic may well prove a decisive factor in next years elections in Brazil, Colombia and the Philippines.

Some of these changes may not prove lasting, and, doubtless, others will appear, but it is definitely the case that the post-Covid world will differ from what came before, and investors need to factor in those risks and opportunities.

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