

World Eco New Cycle?

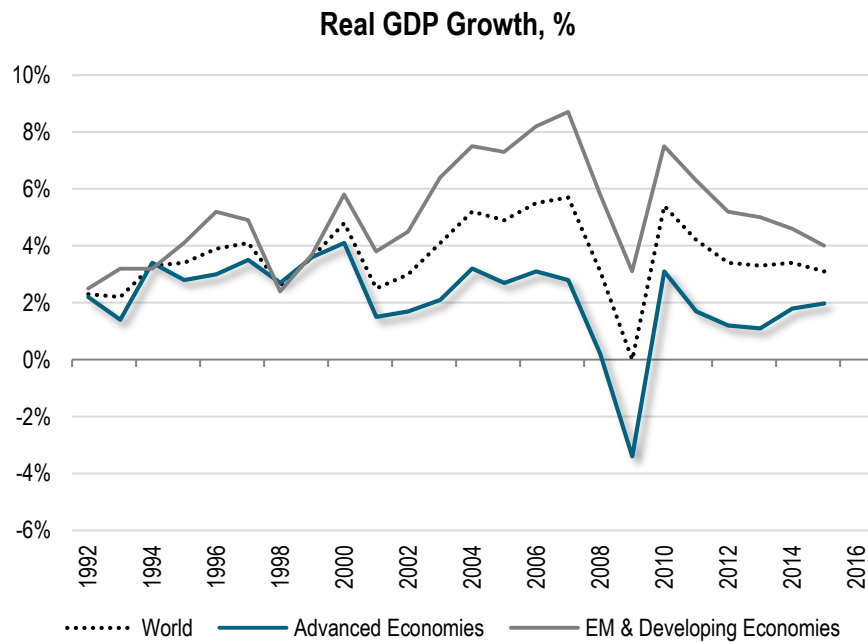
Seeming & Real Risks



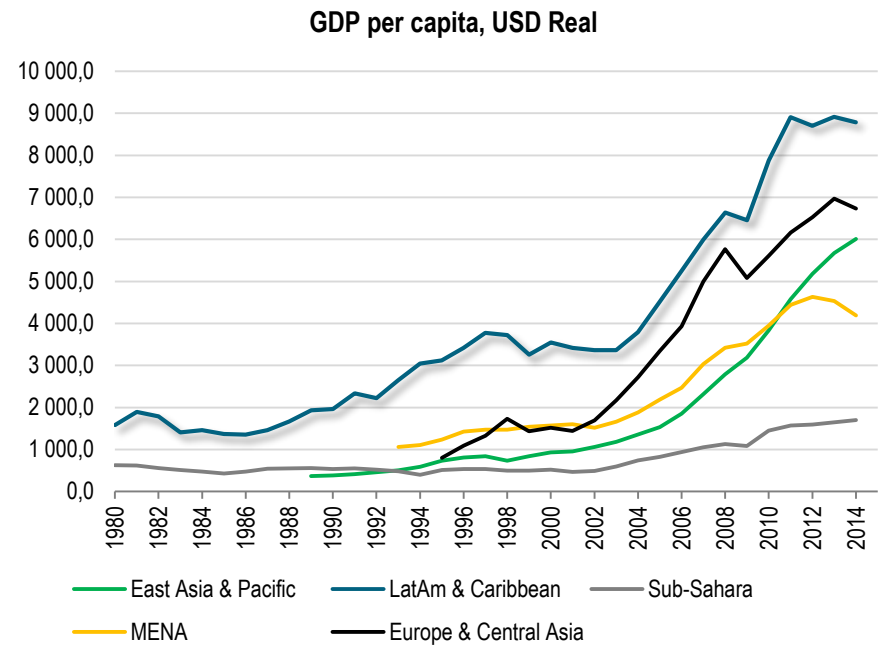
Alexander Ovchinnikov

March, 2016

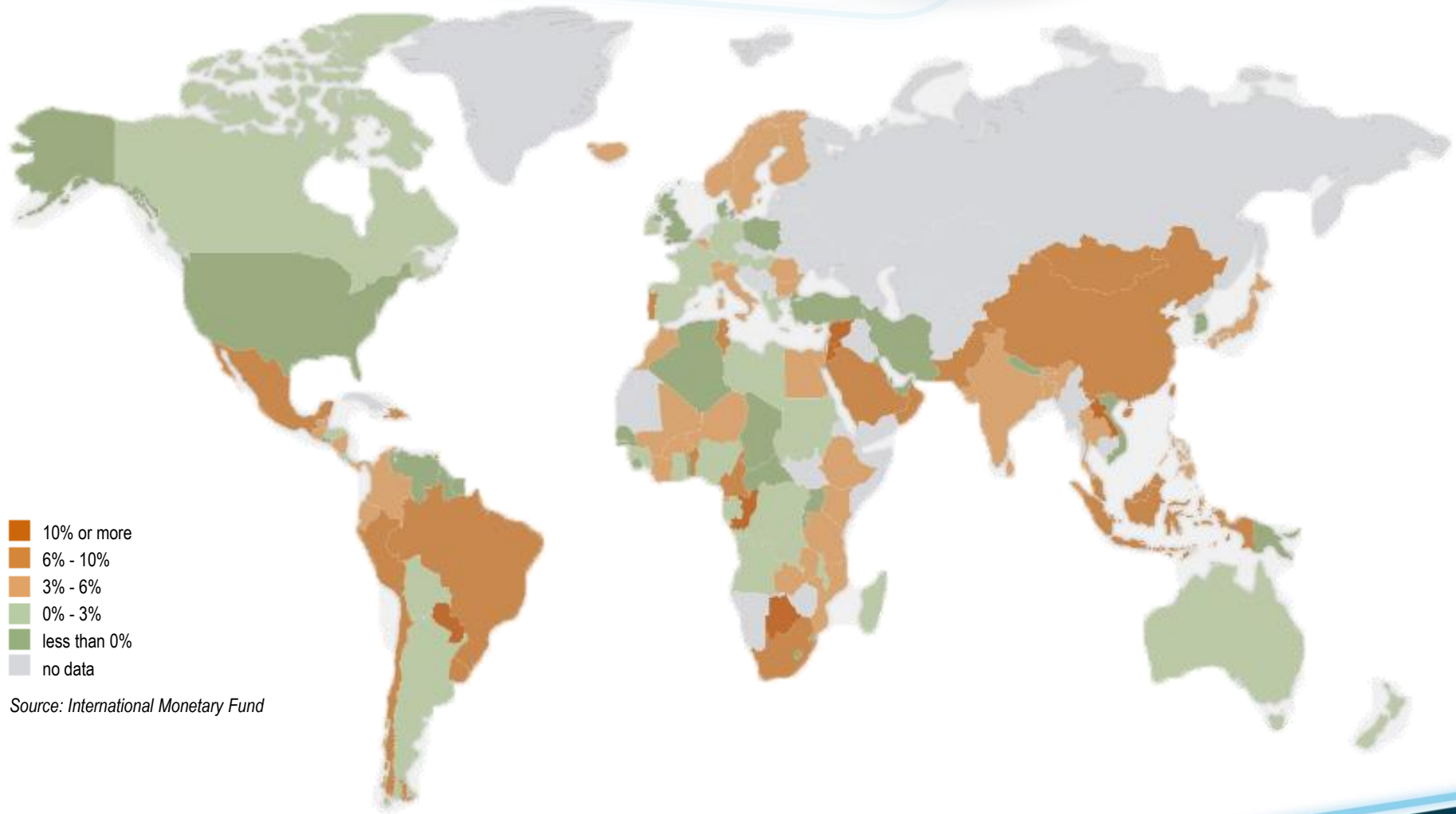
World Economic Cycles



Source: International Monetary Fund, World Bank

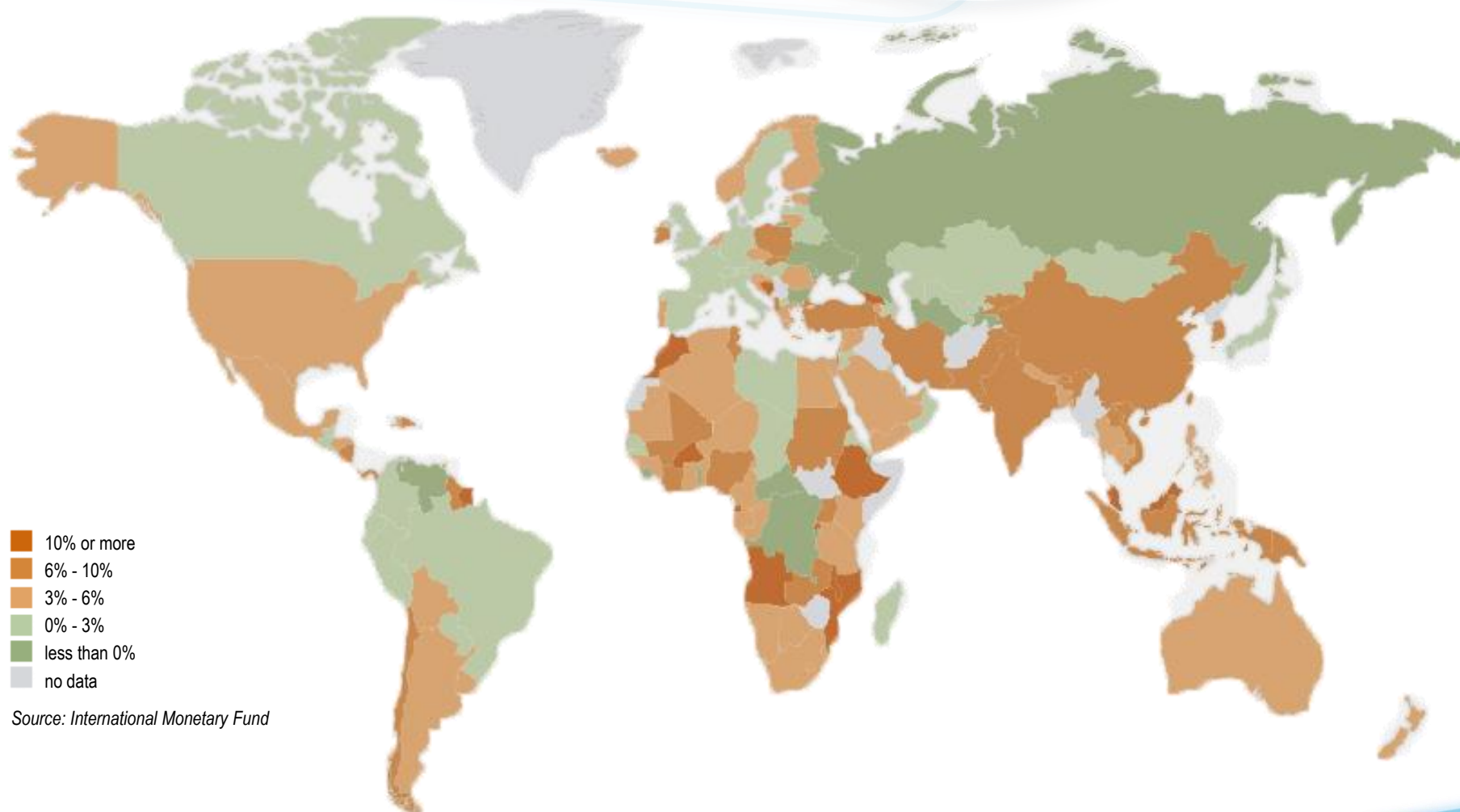


GDP Growth Evolution: 1980



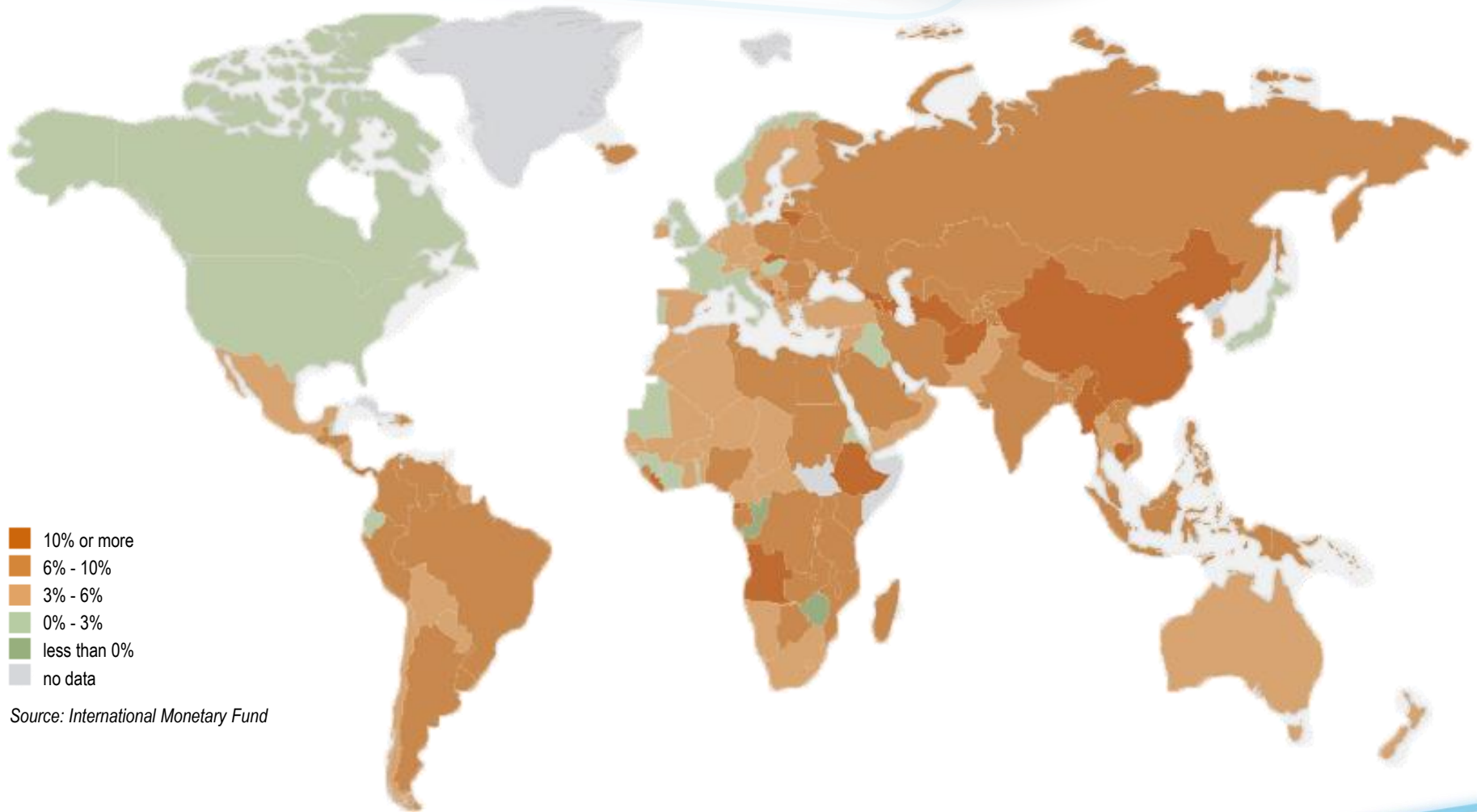
Source: International Monetary Fund

GDP Growth Evolution: 1996



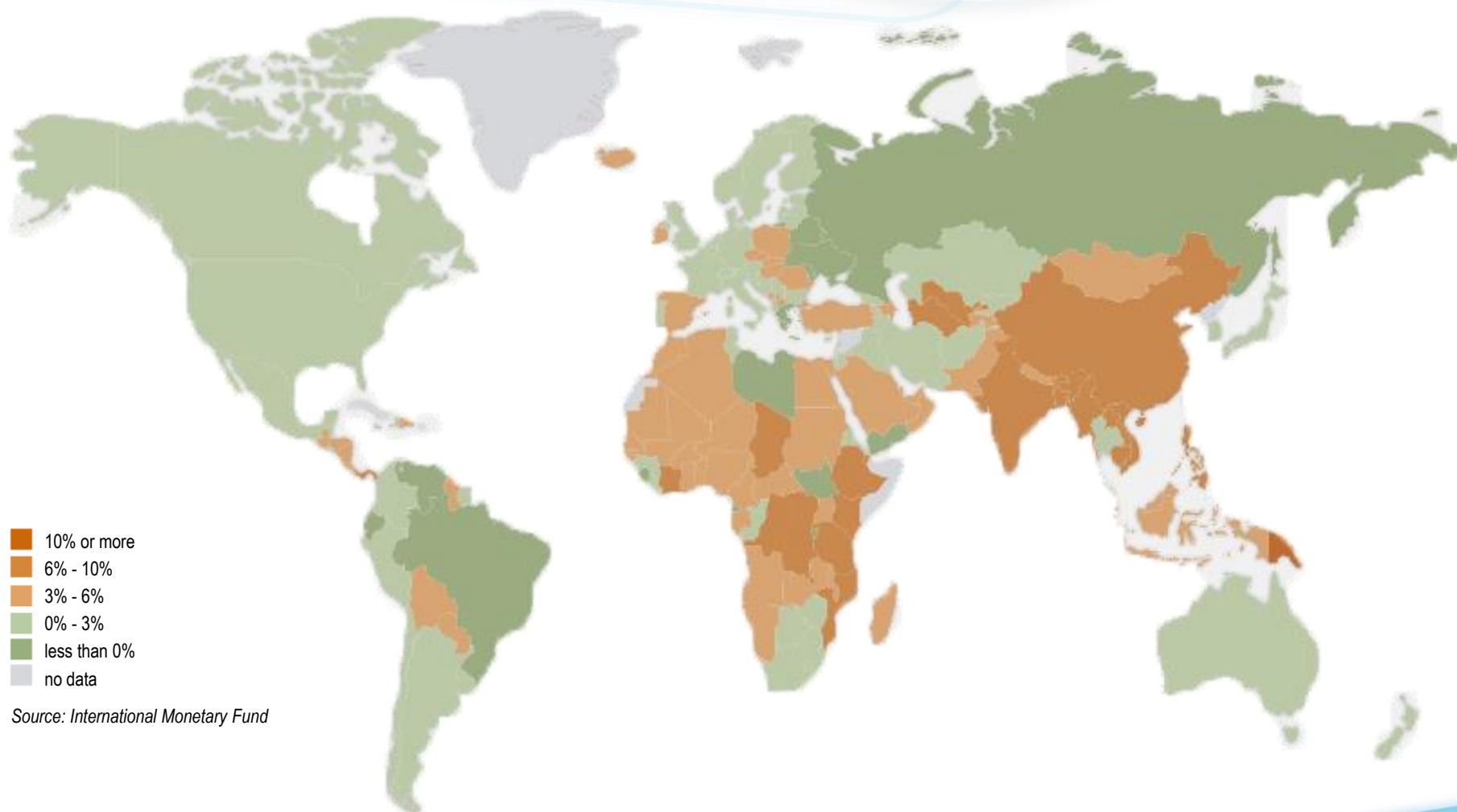
Source: International Monetary Fund

GDP Growth Evolution: 2007



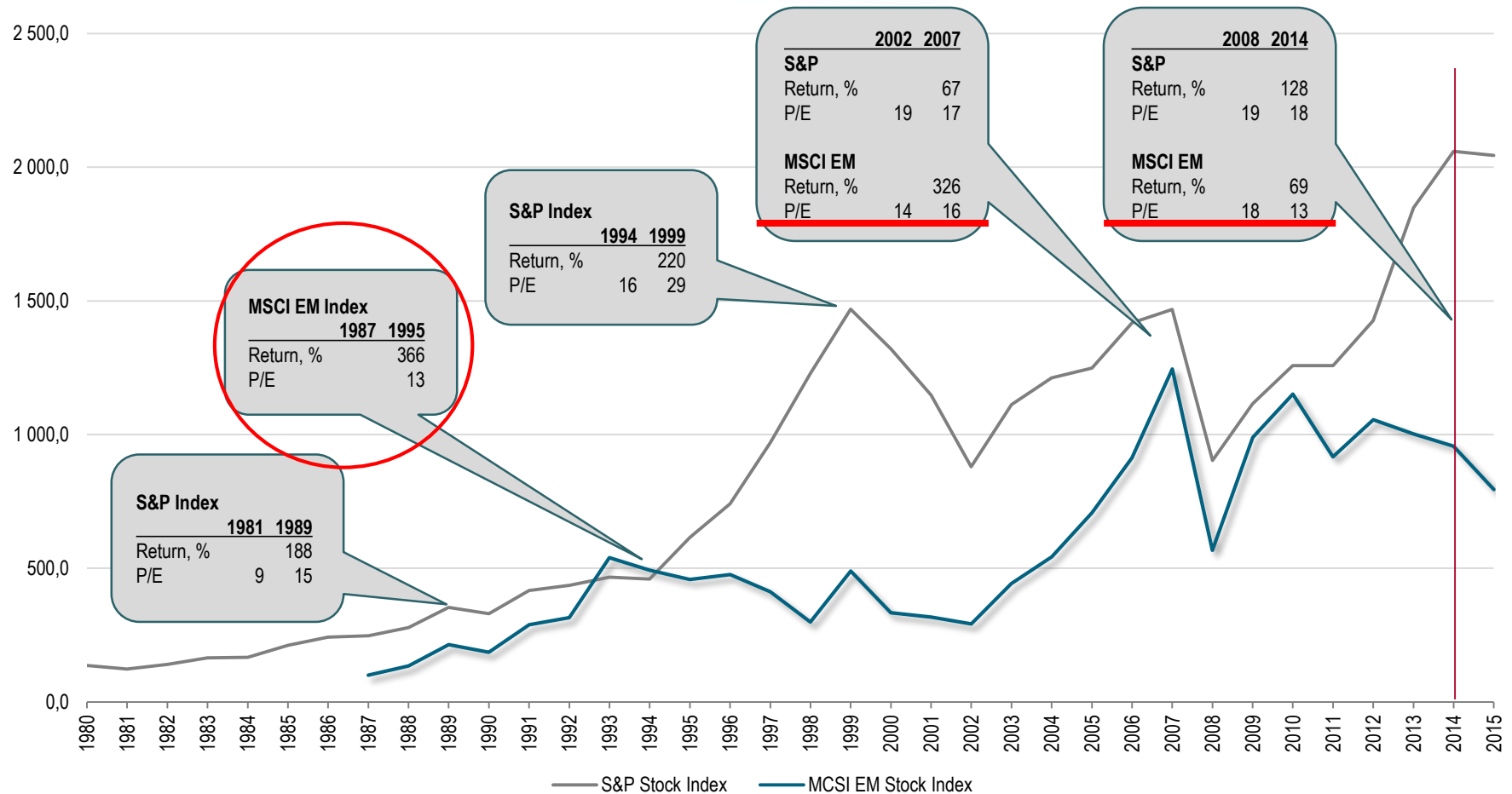
Source: International Monetary Fund

GDP Growth Evolution: 2015



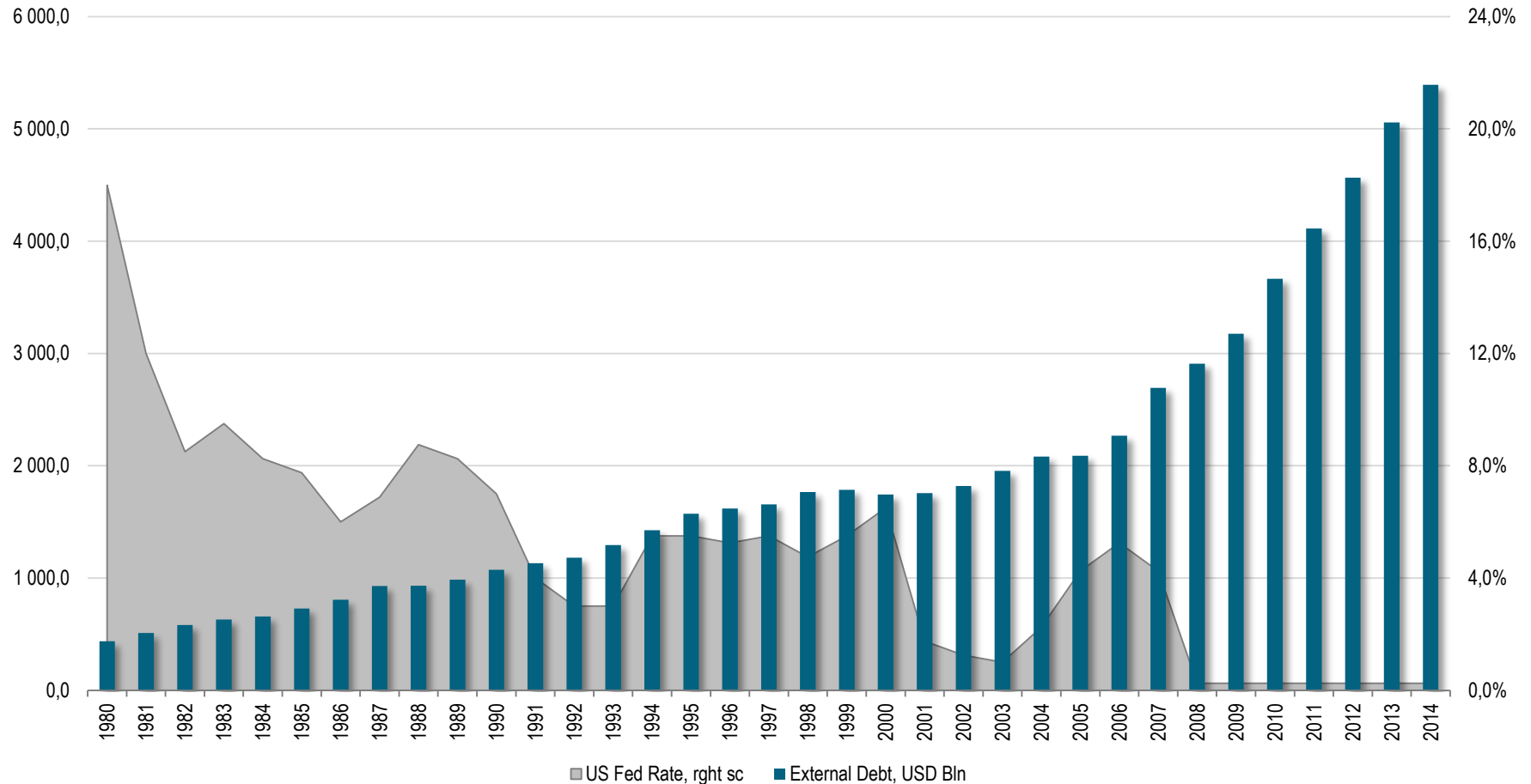
Source: International Monetary Fund

Global Stocks Performance



Source: Bloomberg

EM International Borrowing

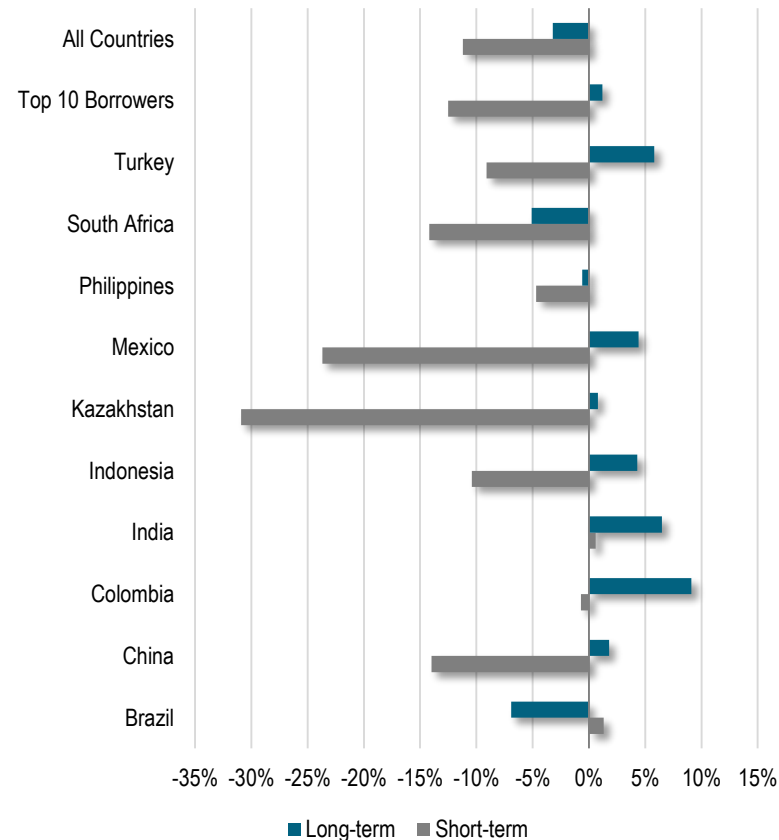


Source: World Bank, Bloomberg

EM External Debt Trends of 2015

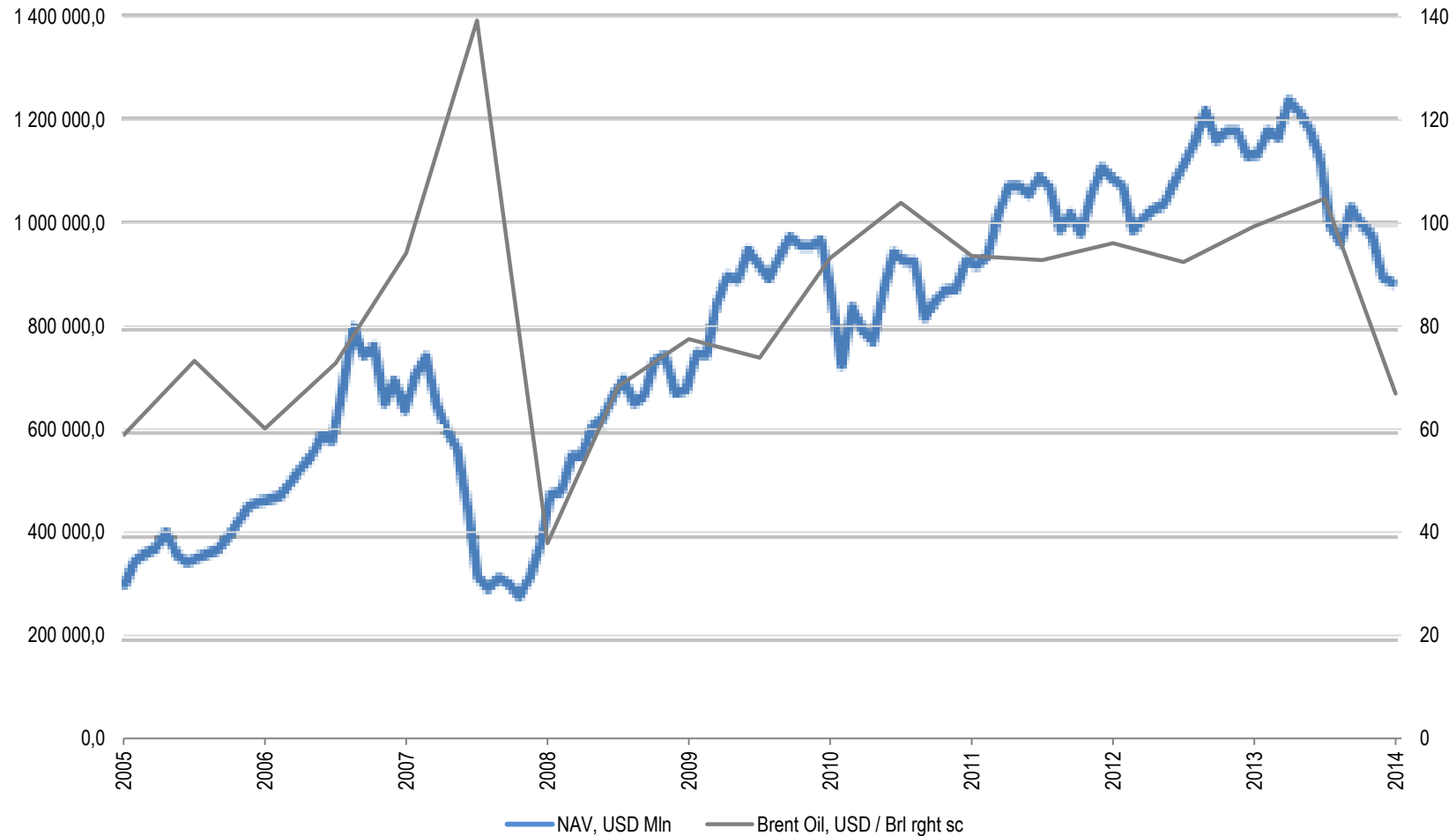
- World Bank: the external debt outstanding estimated around \$5.4 trillion by the end of 2015, which is almost flat to 2014.
- The top 10 borrowers account for almost 80% outstanding EM external debt
- Oil-exporters and countries in the group reduced its short-term debt by 12.5% vs 1.2% rise in long-term debt in average.
- Russia, special case: the ST debt - 25%, the LT debt -8%

External Debt Change 3Q15 YTD



Source: World Bank

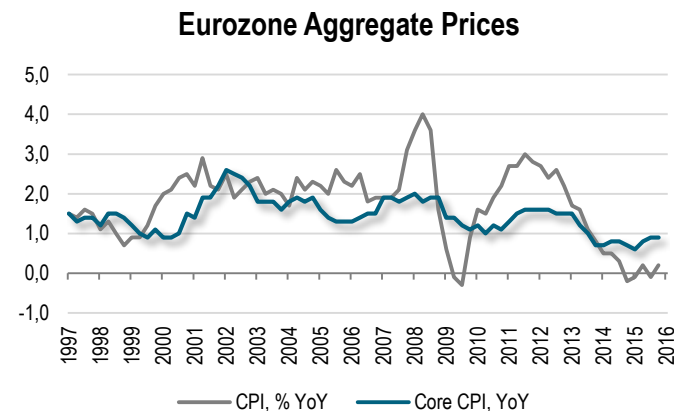
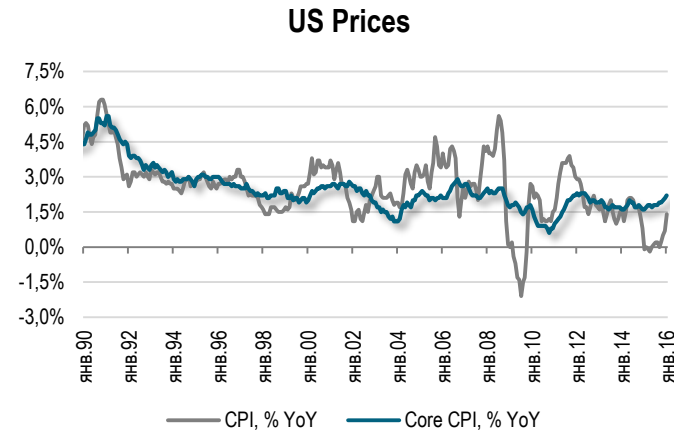
Total EM Equity Funds NAV, USD Mln



Source: EPFR Global, Sberbank CIB

Policy Divergence and Growth Outlook Limits Investors' Conviction

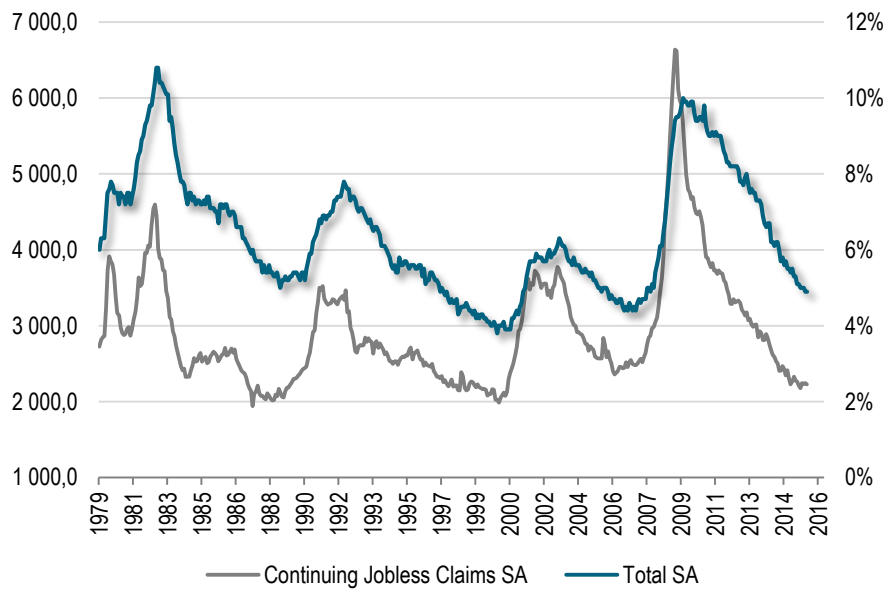
- The business cycle in the US is fairly advanced already.
- Measures of core inflation in the US are rising and the labor market is strong.
- Potential rate hike should be seen in the context of the global environment.
- Leading economic indicators outside the US are fairly lackluster: ECB or BoJ are easing monetary policy.
- This policy divergence is likely to keep underlying uncertainty in financial markets elevated.



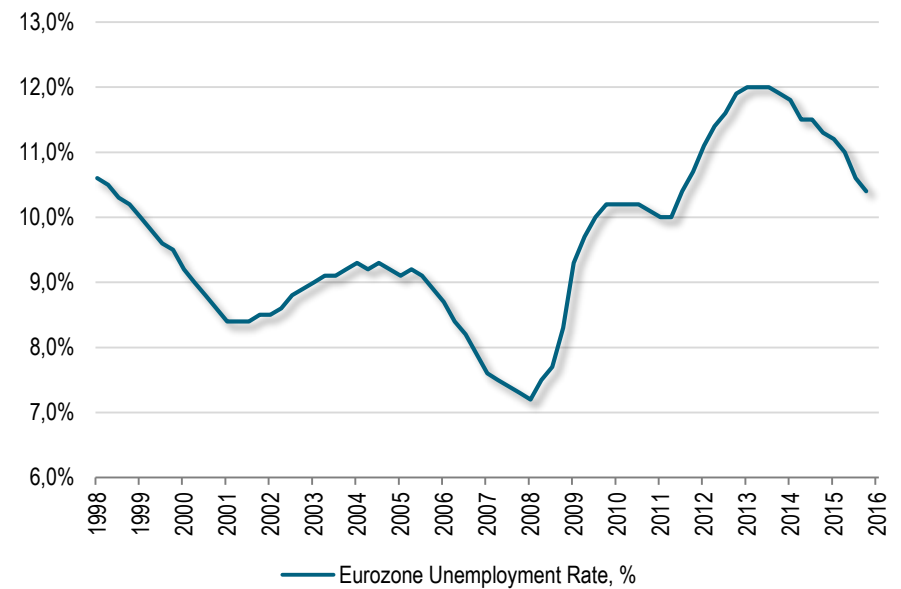
Source: Bloomberg

Labor Market

U.S. Labor Market

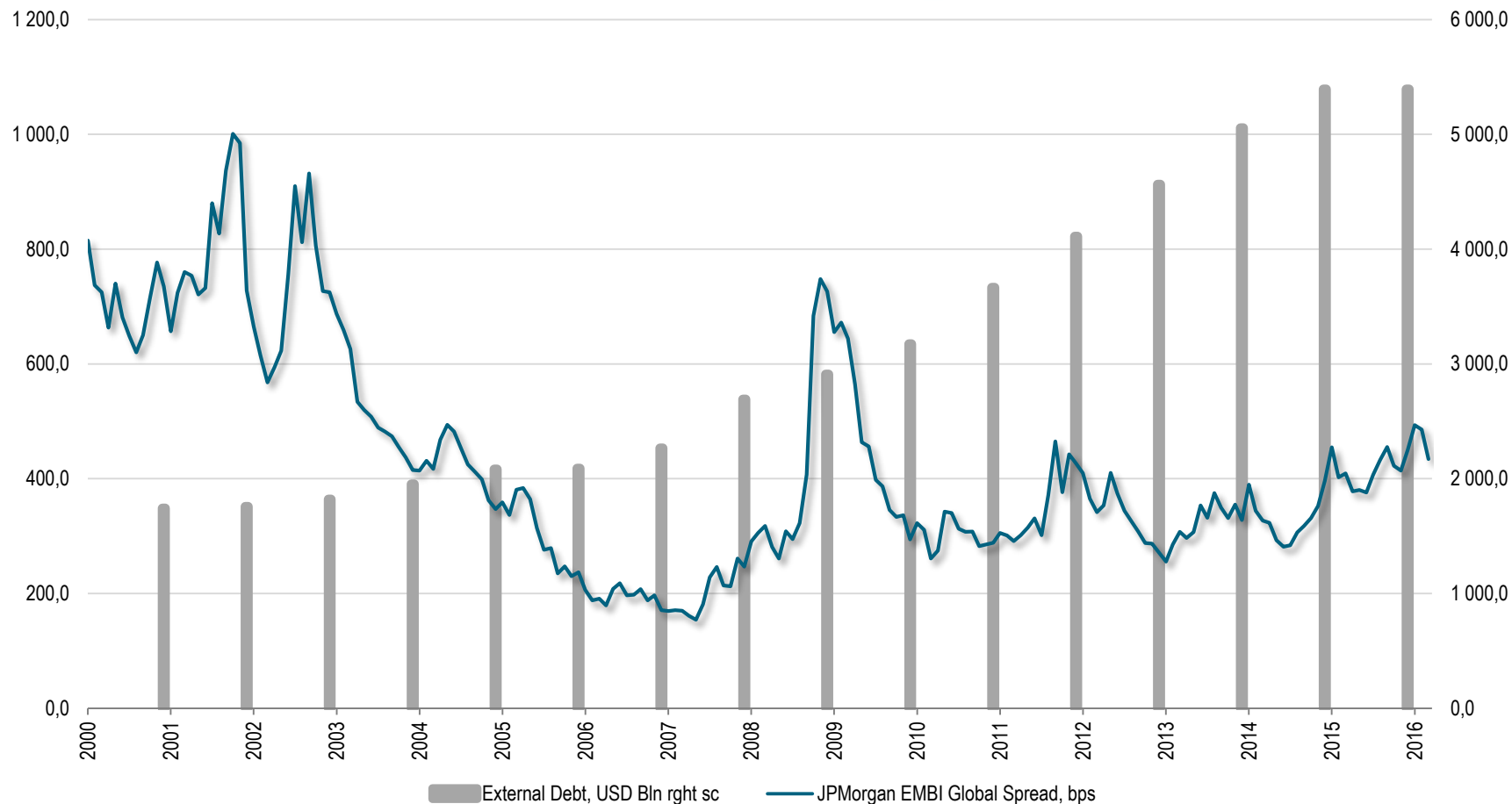


Eurozone Unemployment Rate, %



Source: US Department of Labor, Eurostat

Risk Perception

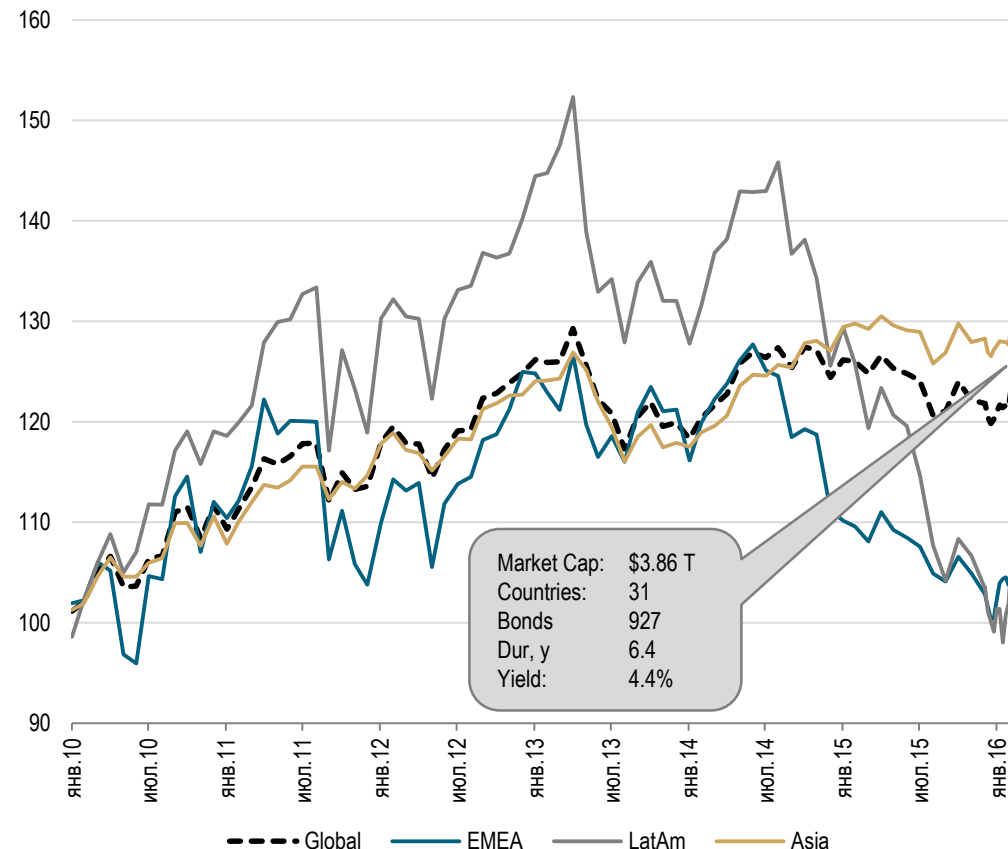


Source: JP Morgan Case

Kicking the can down the road

- The cyclical slowdown in EM economic growth, the US interest rate hikes perspective, low commodity prices and prevailing risk-off sentiment on GEM prompt Developing countries to replace its external debt with local, postponing structural reforms.
- In some countries the level of debt is already dangerously high
- The low degree of the local currency bond markets development is also potential risk of instability.

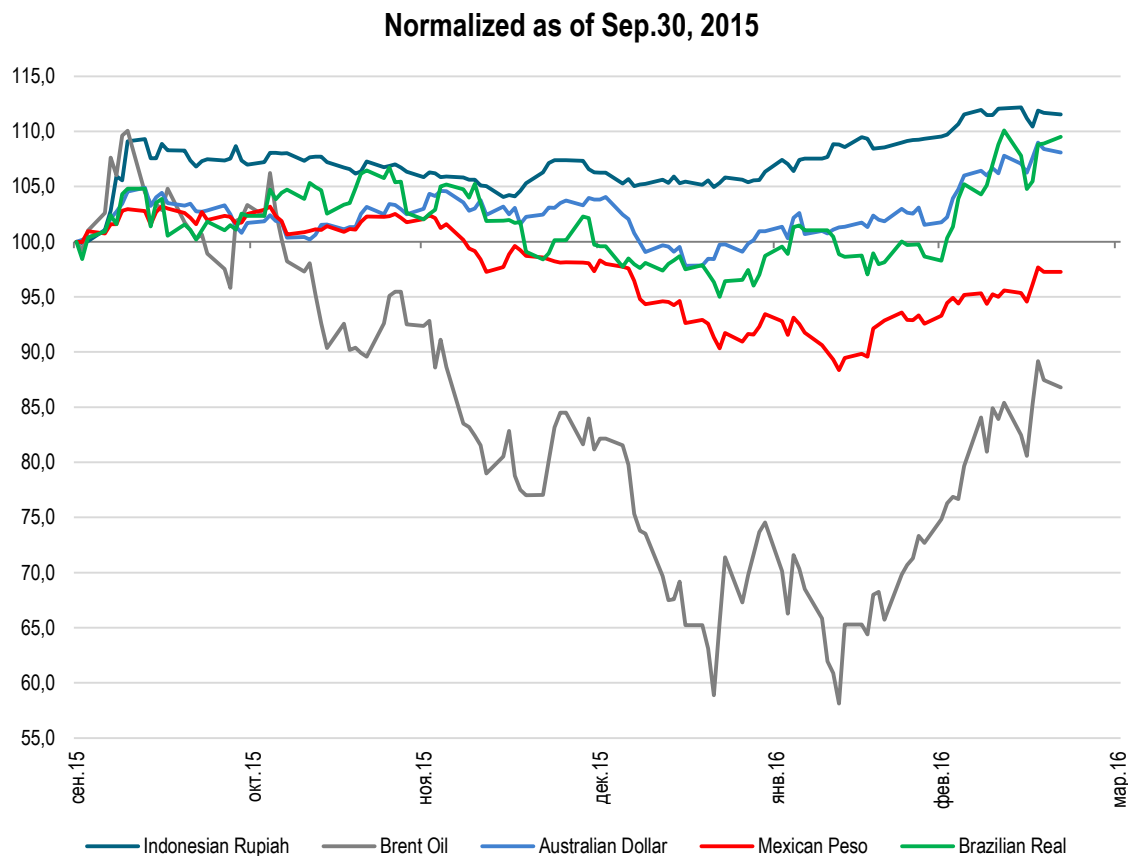
Emerging Market Local Sovereign Index



Source: Bloomberg

Recent Rally on EM: Is It Sustainable?

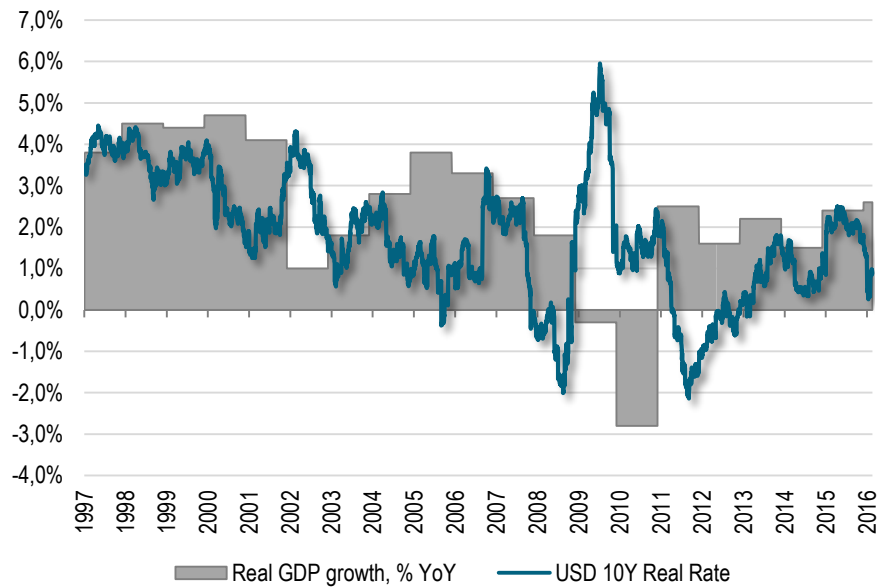
- Slowing expectations regarding US Fed rate hike
- OPEC negotiations on oil output,
- USD retreat triggered EM currencies rebound,
- Investors P&L remain quite lackluster
- ECB new QE initiatives
- China policy gradual easing



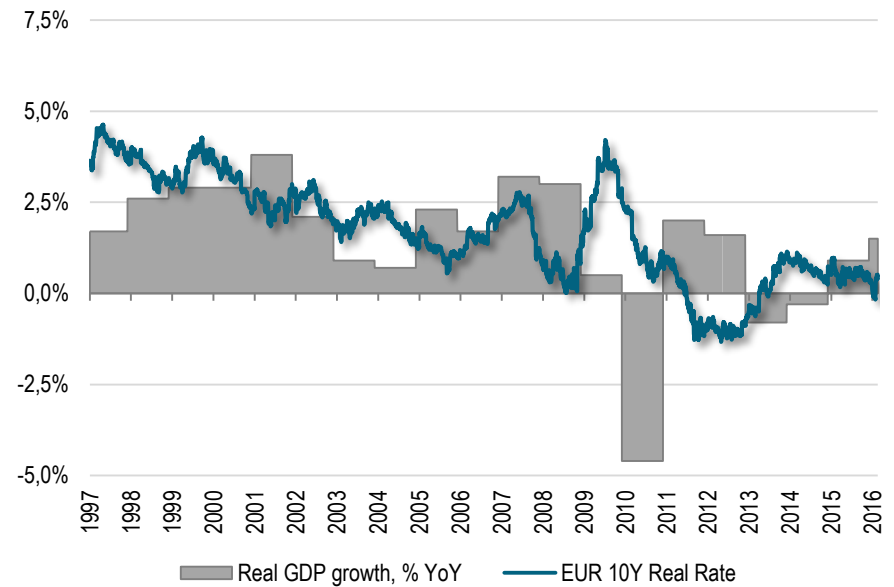
Source: Bloomberg

The Current Cycle Is Not Over Yet

U.S.



Eurozone





Thank you