TURNING THE PAGE

THE STREET VIEW

MARCH 2024

IN THIS EDITION

Office building at night

THE YEAR AHEAD

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WATCH VIDEO

Turning over the calendar page to a new year should have little relevance for real assets investors. Long time horizons and idiosyncratic project dynamics mean that a single year is often no more than a moment in time.

2024, though, may be the exception. There are numerous turning points. Nominal interest rates clearly peaked in recent months and inflation adjusted rates will follow suit in 2024. Nominal rates affect valuations through discount mechanisms, real rates through activity. Politics offers dramatic twists and turns with landmark elections in Taiwan, Mexico, India and the United States. Fiscal dynamics continue to raise the supply of long duration bonds. And the supposedly inexorable march forward of responsible/sustainable/ESG investing is hitting speed bumps. To borrow from 19th century British Prime Minister Disraeli, 'What we anticipate seldom occurs: but what we least expect generally happens'.

> "WHAT WE ANTICIPATE SELDOM OCCURS: BUT WHAT WE LEAST EXPECT GENERALLY HAPPENS."

The Turning Point for rates may be too late for some

Since the global nadir for interest rates in mid-2021, Central Banks have been reining in inflation and countering the effects of enormous monetary stimulus. As an example, the Federal Reserve balance sheet has dropped by over US$1.2 trillion from peak, US money supply growth is now negative, and rates have climbed from zero to 5.25%. With the notable exception of the Bank of Japan, the other main central banks followed suit. And even in Tokyo, policy adjustment to higher, but not high, rates is now underway.

EXHIBIT 1: RATE CUTS AND RATE RISES IN 2024 (%)

Candidates for Rate Cuts 2024

Country	Real Rate	Inflation Trend
BRAZIL	7.1	Lower
CHILE	4.4	Lower
CHINA	3.8	Lower
MEXICO	6.6	Lower
USA	2.1	Lower

Candidates for Rate Rises 2024

Country	Real Rate	Inflation Trend
EGYPT	(14.5)	Lower
JAPAN	(2.7)	Lower
TÜRKIYE	(22.3)	Higher

Source: Bloomberg LP, data as of 31 December 2023

More recently the tide has begun to slow. Forward rate expectations have shifted to a downward trajectory over the next 12-24 months, at least in nominal terms. Central banks are now fighting a rearguard action to justify today's rates, a sea change from trying to get ahead of rising inflation.

Assets and investment styles which most benefitted from low rates and easily available leverage are now challenged. The wall of rollovers for commercial property, buyout capital and early-stage venture capital have only just begun to expunge equity in these areas. The IMF estimates that US$15 trillion of private sector debt rolls over in 2024/5, all at materially much higher rates. Underlying corporate cash flows may remain strong, judging by public company announcements, but debt loads and transaction famines bite deep into returns. 35-45% discounts for private equity funds listed on the London Stock Exchange and the 10-15% discount for buyout secondaries suggests pain to come, albeit not so severe as six months ago when they were at 80.

Who will cut, who will hike in 24?

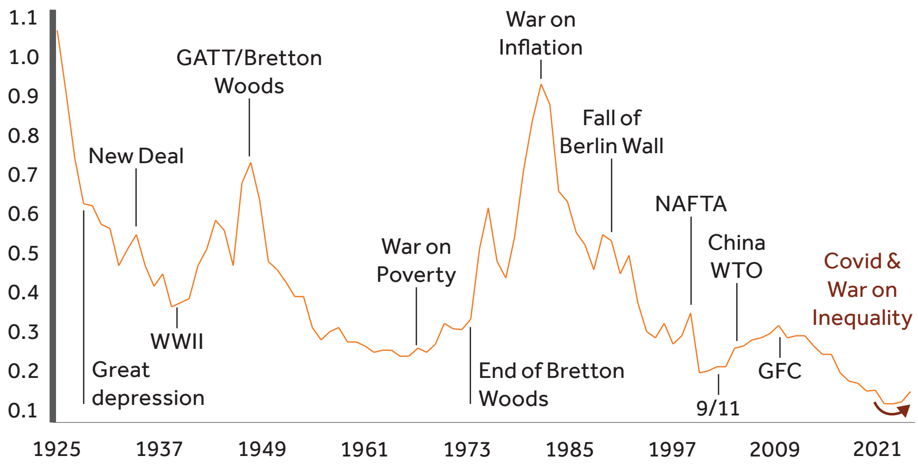
Obvious candidates are countries with high real rates and a downward inflation trend. Countries in this category include Brazil, Chile, China, Mexico and the US (see Exhibit 1).

Duration sensation

A combination of rising deficits and Central Banks moving from buyer to seller as inflation is reined in mean that US Treasury bonds suffered their third year of losses in 2023, the longest losing streak since 1928. The traditional 60-40 model that underpins strategic allocation models for longer term investors has come under scrutiny. We suspect that losses in 2024, if they emerged, would pose an even greater challenge since short term rates will be falling. While much analysis has focused on the US, a far greater risk exists in Europe where there is no fiscal anchor and recession will eat into revenue collection.

EXHIBIT 2: LONG REAL ASSETS, SHORT FINANCIAL ASSETS

Real Assets relative to Financial Assets since 1925



Source: BofA Global Investment Strategy, Global Financial Data, Bloomberg, USDA, Savills, Shiller, ONS, Spaenjers, Historic Auto Group. Note: Real assets (Commodities, Real Estate, Collectibles) vs. Financial Assets (Large Cap Stocks, Long-term Govt. Bonds)

Why does this matter for real assets?

The rubber hits the road in four ways:

1. Portfolio losses and low realisations affect appetite for risky assets in leveraged wrappers.
2. If duration equals losses, the search for cash flow matching strategies without endless supply headaches leads straight to infrastructure.
3. As governments struggle to make ends meet fiscal support available to back up private sector capital wanes. Well-funded projects with long duration cash flows will attract plenty of attention.
4. Lastly an era of higher rates rewards higher IRR strategies. The 2022 G20 Infrastructure Monitor reports historic returns in developed markets in the low teens and with low volatility. An IRR of 12.5% net held for 5 years is a MOIC of 1.8x, comfortably above the 1.5x commonly assumed for listed equities, thus compensating for illiquidity risk.

And it is not as if real assets are expensive to judge from this chart, courtesy of Bank of America. (There are of course two sides to this as the main driver is the extraordinary performance of NASDAQ over the last 15 years).

The inflation related returns of infrastructure will clearly remain attractive as government bond oversupply mounts.

Politics to the fore

Major elections come thick and fast in 2024. Some – the US for instance – have the potential to change long term outlooks. Others, India for instance, are expected to underpin policy continuity. Commentators will swarm over the various events. We do not make predictions as to outcomes, but the stakes in 2024 and beyond could be likely to raise longer term risk potential, which in itself, is already unusually high. The Middle East, Ukraine, and the South China Sea remain potential flash points.

EXHIBIT 3: GLOBAL ELECTIONS CALENDAR 2024 (SELECTED COUNTRIES)

Taiwan, APAC

Presidential elections,
Legislative elections

January 2024

Indonesia, APAC

Presidential elections,
Legislative elections

February 2024

South Korea, APAC

Legislative elections

April 2024

South Africa, SSA

Presidential elections,
Legislative elections

May 2024

India, APAC

Legislative elections

May 2024

Mexico, LatAm

Presidential elections,
Legislative elections

June 2024

United States, N. America

Presidential elections,
Legislative elections

November 2024

Romania, ECIS

Presidential elections

November 2024

Romania, ECIS

Legislative elections

December 2024

Ghana, SSA

Presidential elections,
Legislative elections

December 2024

Some Surprises

China exceeds current pessimistic growth expectations. In recent months the People's Bank of China ("PBOC") has injected over 7 trillion RMB into domestic money markets. The visit in late 2023 by President Xi to the PBOC has been compared in some circles to Deng Xiaoping's famous trip to Shenzhen in 1992 which kick started the 30-year private sector wealth boom. Even if this is an exaggeration the point is clear – Chinese policy is now addressing the balance sheet recession brought on by the collapse of Evergrande. This doesn't need to be dramatic to add to the global economy – a 3% growth rate to the end of the decade adds another India to the world.

"THE TRADITIONAL 60-40 MODEL THAT UNDERPINS STRATEGIC ALLOCATION MODELS FOR LONGER TERM INVESTORS HAS COME UNDER SCRUTINY"

This push deflates the RMB and further pulls down the North Asian currencies which have tracked the RMB/USD cross rate. In passing this probably involves holding fewer Treasuries than in the past. Notable too that for other reasons the Saudi Arabian Monetary Authority and other GCC SWFs are increasing their emphasis on investing at home and thus reducing their recycling of surpluses into lower risk assets.

Protectionist policies such as the Inflation Reduction Act boost demand for green energy in the US and further enhance the exposure of South American economies to the American economy. Mexico, for instance has surpassed China as the largest exporter to the US.

The US escapes a recession. In so doing Latam currencies catch a bid because of high real rates and diminished currency volatility. This is a lower conviction view than a year ago in particular because Labour dynamics, whilst positive, are losing some steam.

Commodities, in particular those backing energy transition, continue to be a focus for strategic acquisition.

The drought of private assets fundraising begins to recede. Peaking nominal rates and thus unfavourable discounting mechanisms for illiquid assets could help. Equally the realisation that 8 mega cap tech stocks apart the US equity market made no money in 2023 may drive more diversification. In this respect, return levels and their concentration matter a lot to strategic asset allocators. The author can attest to this from his long experience in this arena.

Taken together an action-packed calendar looms ahead. Your analyst has been writing these pieces for (too) many years. He always tries to imagine one critical variable which he would like to know a year in advance. This time there are two - the spread between long and short term dollar rates and the identity of the next President of the United States.

ACTIS ATLAS – IS IT WORKING?

DR. JOONAS TARAS
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In short, it is. The granular characterisation of country buckets we introduced in a Street View Special (June 2023) has aligned to differential FX outcomes since then. We argue this will continue.

These buckets are Global Influencers, Big Middles, Supply Chain Heroes, Stable but Small, Natural Resource Winners, and Structurally Challenged (see Exhibit 1).

In the interests of simplicity we confined countries to a single bucket. The unifying theme is investment risk – using currency performance and volatility for floating regimes and fiscal credibility for fixed rates.

This is not a framework for rejection or selection, but a series of working titles to assist effective investment and portfolio management. It does not determine the best places to invest – the variables employed are easily observable and therefore discountable.

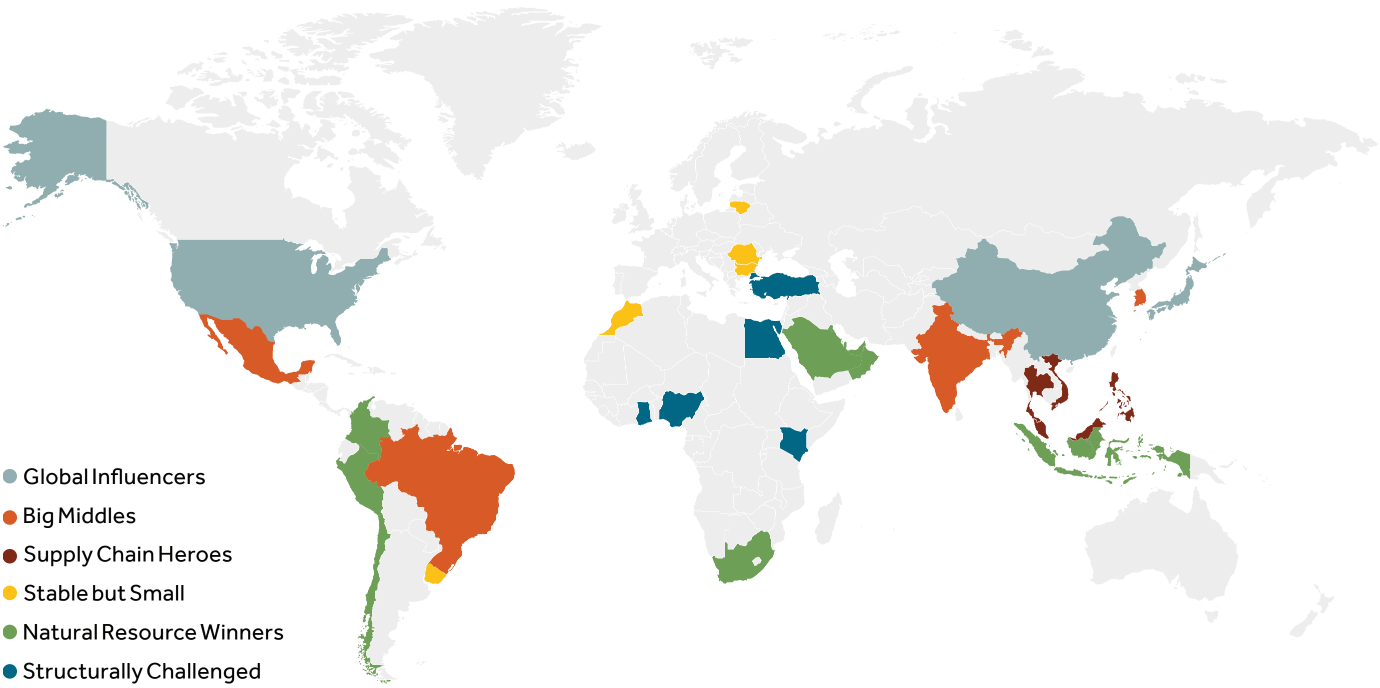
Segmenting risk allows for potential mitigation strategies. Understanding what you're addressing and why is above all the stock-in-trade of portfolio management excellence. What looks too risky can become rewarding with good financial and operational risk management, as well as purchase price levels.

Have our categories delivered different currency outcomes of late? They have (see Exhibits 2 and Exhibit 3).

Big Middles (MXN, BRL, INR, KRW) was clearly the best performing group last year (up +5%). The currencies of **Stable but Small** (RON, BGN, UYU, MAD) also performed decently in 2023 (as a group, up +3%). **Global Influencers** (DXY, CNY, JPY, EUR) and **Natural Resource Winners** (CLP, ZAR, PEN, IDR, COP) saw more mixed results, reflecting divergences in domestic factors and commodity prices, respectively. The currencies of **Supply Chain Heroes** (VND, MYR, THB, PHP, BDT) were more cyclically challenged last year by declining global trade momentum (as a group, down -2%) but as demonstrated by their low volatility in 2023, they remain embedded in sound fundamentals and there's no regime change risk. Finally, the currencies of **Structurally Challenged** (TRY, EGP, GHS, KES, NGN) performed the worst last year (down -28% using official exchange rates and down by more than 50% in parallel markets).

Just as important as short-term outcomes are the longer term balance of risk. Leopards do change spots in FX markets and there are plenty of examples of rapid snap backs. That said, we note that having sound fiscal and monetary policies and some reasonable domestic savings base are essential to prevent the workings of Gresham's Law (good money is hoarded, bad money spent rapidly). As long-term investors in illiquid assets this belief is critical. There will be months or years where these fundamentals do not work, but rarely, or ever, decades.

EXHIBIT 1: ACTIS ATLAS: A COUNTRY TAXONOMY



Source: Actis

Global Influencers

Global Influencers are givers rather than takers of global investment risk. Domestic factors – starting with monetary policy decision (e.g. interest rate decisions, liquidity management, yield curve control) – account for most of the currency variation in this subset (see Exhibit 4).

These dynamics continued to play out last year. These economies continue to drive global outcomes in growth, inflation and interest rate space. Within this group currency performance heterogeneity was also the largest across Atlas buckets (together with Natural Resource Winners). This goes back to divergences in domestic monetary policy decisions (e.g. Japan vs US) and economic conditions (e.g. China vs US) that tend to drive these currencies.

The persistency of strong dollar through most of 2023 reflects slowing global growth against a backdrop of relative US economic resilience as well as higher US yields. The most pessimistic forecasts for 2023 in the **United States** failed to be met. Whereas most commentators had expected a recession last year full employment and pandemic savings drawdowns have supported consumption. At this stage there is only a moderate probability of a full-scale recession in 2024. If this turns out to be too optimistic and/or US rates decline steeply then some dollar weakness against Asian currencies may emerge.

China has struggled under the weight of property losses and diminished household confidence. Chinese government policy is focused on combatting the impact of a property led balance sheet recession. Such policy influences have worked in the past – 2024 is set up for an acid test of the efficacy of official policy. The Chinese renminbi is also under some pressure both from Japan and South Korea weaponising their currencies to compete and may weaken further against the dollar as a result.

EXHIBIT 2: EXCHANGE RATE PERFORMANCE, 2023 AND HISTORICAL

	Exchange rate (Dec 31, 2023)	2023 performance	2022 performance	Annual average change, last 5yrs	Annual average change, last 10yrs
Global Influencers		-2%	-4%	-1%	-1%
US dollar (DXY)	101.2	-2%	8%	1%	3%
China	7.11	-3%	-8%	-1%	-2%
Japan	141	-7%	-12%	-5%	-3%
Euro	0.90	3%	-6%	-1%	-2%
Big Middles		5%	-4%	-2%	-3%
India	83.2	-1%	-10%	-3%	-3%
Brazil	4.86	9%	-7%	-5%	-5%
Mexico	17.0	15%	5%	2%	-2%
South Korea	1,288	-2%	-6%	-3%	-2%
Supply Chain Heroes		-2%	-8%	-2%	-2%
Vietnam	24,250	-3%	-3%	-1%	-1%
Malaysia	4.61	-4%	-5%	-3%	-3%
Thailand	34.1	1%	-4%	-2%	-1%
Philippines	55.5	1%	-9%	-1%	-2%
Bangladesh	109.6	-6%	-17%	-5%	-3%
Stable but Small		3%	-3%	-2%	-3%
Romania	4.49	2%	-6%	-2%	-3%
Bulgaria	1.77	3%	-6%	-1%	-2%
Uruguay	39.1	2%	12%	-3%	-4%
Morocco	9.9	6%	-11%	-1%	-2%
Natural Resource Winners		4%	-5%	-4%	-4%
Chile	885	-3%	0%	-5%	-4%
South Africa	18.5	-7%	-6%	-5%	-4%
Peru	3.70	3%	5%	-2%	-2%
Indonesia	15,420	1%	-9%	-2%	-2%
Colombia	3,855	25%	-15%	-4%	-5%
Structurally Challenged		-28%	-24%	-11%	-8%
Türkiye	29.5	-37%	-29%	-16%	-9%
Egypt	30.9	-20%	-36%	-8%	-8%
Nigeria	896	-49%	-8%	-12%	-8%
Ghana	12.0	-15%	-39%	-12%	-8%
Kenya	156	-21%	-8%	-7%	-5%

Note: + = appreciation against USD, - = depreciation against USD. For DXY (U.S. Dollar Index), + = appreciation, - = depreciation. Bucket performance = simple average of members. Saudi Arabia and UAE (Natural Resource Winners) are pegged to US dollar and not included in this analysis. For performance, local currency is the base. For all currencies (including Structurally Challenged) official exchange rates are used due to data availability reasons.
Source: Bloomberg LP. Data as of Dec 31, 2023.

Europe gradually slipped towards recession as last year progressed. ECB tightening has helped euro though as a counterforce. Any pronounced dispersion between bond yields brought on by deteriorating fiscal dynamics and private sector balance sheets puts the euro at risk against the dollar. The EU aims to reintroduce the Maastricht Criteria on debt and deficit levels in 2024 with the almost certain outcome that few member states can meet targets of 3% deficits and 60% debt to GDP for the very long-term foreseeable future. 2024 will be a year when the ECB has to kick the can very hard to keep it on the road, potentially risking inflation fighting credibility.

In **Japan** the yen has been primarily driven by the large yield differential with the US and its outlier YCC policy. It has also mimicked the RMB and won tracking lower against the USD. For this to change, either China succeeds in reflation, capital flows into China reverse their declines of the last 2 years, YCC is abandoned and/or US rates decline steeply. Many of these conditions are self-contradictory.

Big Middles

Big Middles are G20 members with substantial financial resources and resilience. Their resilience derives from savings not credit flows. These are natural investment destinations – given low or declining currency volatility, high real rates and Central Bank credibility – provided inappropriate policy does not dilute opportunity. Their currencies have limited exposure to a single factor and are rather driven by a mix of drivers (trade balances, energy prices, US activity).

Their currencies, as a group, were the best performing last year, well above the ten or even five-year historical performance figures (e.g. average annual depreciation at group level is -3% over last ten years). This outcome against global headwinds (strong dollar, high US yields, oil price surges) supports the idea of an increasing institutional maturity and resilience.

EXHIBIT 3: EXCHANGE RATE VOLATILITY (ANNUALISED), 2023 AND HISTORICAL

	2023 performance	2022 performance	Last 5 years to date	Last 10 years to date
Global Influencers	7%	9%	9%	7%
US dollar (DXY)	7%	9%	8%	7%
China	4%	6%	6%	5%
Japan	9%	12%	11%	9%
Euro	8%	10%	9%	7%
Big Middles	9%	11%	10%	11%
India	3%	5%	4%	5%
Brazil	12%	18%	15%	16%
Mexico	11%	10%	11%	13%
South Korea	9%	11%	11%	8%
Supply Chain Heroes	6%	7%	7%	5%
Vietnam	2%	3%	3%	2%
Malaysia	6%	5%	6%	5%
Thailand	9%	9%	10%	7%
Philippines	6%	6%	7%	5%
Bangladesh	7%	11%	10%	6%
Stable but Small	6%	9%	8%	7%
Romania	7%	10%	9%	8%
Bulgaria	7%	10%	9%	7%
Uruguay	6%	8%	6%	7%
Morocco	4%	7%	6%	5%
Natural Resource Winners	11%	13%	12%	11%
Chile	13%	21%	16%	15%
South Africa	14%	16%	15%	15%
Peru	6%	9%	6%	7%
Indonesia	5%	4%	6%	6%
Colombia	15%	17%	16%	14%
Structurally Challenged	17%	15%	20%	14%
Türkiye	12%	10%	11%	19%
Egypt	11%	24%	18%	12%
Nigeria	35%	6%	32%	17%
Ghana	24%	29%	33%	18%
Kenya	3%	6%	3%	4%

Note: Historical vol (annualised) = typical deviation from mean over one year. Bucket figure = simple average of members. Saudi Arabia and UAE (Nat. Resource Winners) are pegged to US dollar and not included in this analysis.
Source: Bloomberg LP. Data as of Dec 31, 2023.

Mexico's peso and **Brazil's** real are particular standouts. Mexico is benefitting from supply chain repositioning with the US policy resulting in growing exports. The Mexican peso is also clearly supported by prudent monetary policy (high real rates) and low public debt-to-GDP. Brazil survived political transition unscathed and worst fears around fiscal policy have been averted. Similarly to Mexico, real GDP growth has surprised to the upside, with real rates still around 5-7% in both countries, policy setting could ease further without excessive currency risk.

Under the slow global growth circumstance outliers such as **India** stand out. Private and public sector balance sheets are healthy. Private sector credit is growing steadily and there is sufficient budgetary headroom for a genuine capital investment cycle to emerge. These positive dynamics have fed into rupee's performance in recent times (roughly flat last year and one of the lowest currency volatility in 2023 across our 27 economies studied).

South Korea is the fourth largest economy in Asia with considerable financial depth and resilience. A trade-exposed economy means the won has struggled under the weight of weak demand from China and Europe. A pickup in electronics exports would help, tentative signs of which have been seen in recent months' data (a rebound in South Korean exports). However, for as long as Japan allows depreciation against the RMB so South Korea is highly likely to follow suit – both are vulnerable to RMB depreciation versus the dollar.

Supply Chain Heroes

Supply Chain Heroes are materially exposed to non-resources targeted FDI, so-called China Plus One, and generally operate orthodox policies. These countries vary in attractiveness with their ability to absorb capital and the global economic cycle. However, for those who succeed, investment opportunities can be multiyear. Their currencies are primarily driven by FDI flows and trade balances, with the importance of these factors increasing in recent years.

Trade sensitive economies struggled last year, as reflected in the weakening trend of Supply Chain Heroes' currencies in 2023. These are cyclical pressures and global trade would respond positively to any successful stimulus from China and/or turnaround in the electronics cycle – which has yet to properly materialise.

Underlying fiscal and monetary policies supported low currency volatility even last year (despite depreciation pressures) and continue the trends of the last 5 and 10-years. One question mark though, is whether already cheap currencies could cheapen further if the RMB continues to depreciate. We cannot rule out this possibility.

Stable but Small

For Stable but Small economies size means these countries, despite having sensible policy mixes import risk from larger economies in particular larger neighbours. The currencies in this bucket are primarily sensitive to the economic activity, monetary policy and flows of Global Influencers.

Central and Eastern Europe tracks mainstream Europe and the euro. As a group, their currencies were slightly up last year, reflective of similar performance for the euro (against which BGN is pegged, MAD semi-pegged and RON bound-managed). The region has also benefitted from EU's bolstered structural investment fund flows and commitments on the back of the Ukraine crisis.

Declining inflation has allowed some headroom to cut interest rates although the example of **Poland**, where recent cuts led to a material currency sell-off, is discouraging. Political risks, though, are rising as proxied by the recent election of a pro-Russia leaning government in **Slovakia** and the impossible to predict but draining effects of the Ukraine war.

EXHIBIT 4: WHAT DRIVES CURRENCIES

Currency Drivers (in %)	Global Influencers	Big Middles	Supply Chain Heroes	Stable but Small	Natural Resource Winners	Structurally Challenged
Capital Flows	15.3					
Domestic Economic Activity	19.1	7.3				
Trade Balance	18.4	17.9	13.9	26.5	15.3	23.0
Monetary Policy	40.6	9.5	12.9	13.8	13.1	
Inflation	6.5					
Agricultural Prices			17.5			
Precious Metal Prices		7.4	10.4		11.1	4.2
Industrial Metal Prices		12.0	10.4		13.9	9.2
Energy Prices		18.7	9.4		25.3	14.9
FDI		6.3	21.2	35.5		
US Activity		16.3	4.5	18.1	14.7	6.7
Global Sentiment		4.6		6.1	6.7	8.9
FX Reserves						23.8
Remittances						9.2

Note: Percent figures represent the share of variation in the subset's indexed currency explained by a given factor.
Source: Cross Border Capital, June 2023.

Natural Resource Winners

Natural Resource Winners are materially net exporters of one or more commodities. These economies vary enormously, not least in the cycles for their product. Energy transition has the potential to alter the landscape in this bucket as demand for associated materials soars relative to fossil fuels. This group is highly sensitive to commodity prices, with energy and metals prices driving more than half of their currency movements.

Natural Resource Winners' currencies excluding USD pegged (i.e. the Gulf region) remain characterised by highly volatile outcomes, with divergences in commodity prices last year playing an important role. Agricultural prices have fallen as the worst supply side disruptions from the Ukraine war dissipated. The copper price has declined by nearly 15% as China cools and zinc too was weak until recently. The standout is oil where production cuts, more robust than expected demand and geopolitics have supported prices until recently. Worth noting here that after an initial spike in the wake of the October 7th Hamas attacks that the oil price failed to hold on to immediate gains suggesting demand side dynamics are paramount.

As a group, performance was roughly flat last year. Whilst Natural Resource Winners are arguably generally in a good shape, close up there is a more varied picture. Domestic factors such as rate cutting played a role last year (see CLP vs PEN divergence), or leftist labour reform rejection in Colombia (partially behind COP's strong run). Characteristically, and aligned with the last 5 and 10-year trends, their currencies were the most volatile in 2023 across our Actis Atlas buckets excluding Structurally Challenged.

That said we distinguish between commodities closely linked to Chinese capital investment and those more exposed to energy transition needs. In general, this should help Andean countries. Economic slowdown will most probably block material upside in the oil price from the mid US$80's (bar a major regional war in the Middle East). This hardly dents budget surpluses in Saudi Arabia and the adjoining GCC countries. It is hardly a surprise that these countries increasingly are exercising influence abroad through supporting struggling neighbours and are also the main global source of new investment funds.

Structurally Challenged

Structurally Challenged are countries where past policy decisions and low income and fiscal revenue levels have created material macroeconomic and currency volatility. Investment is best concentrated in sectors with strong risk protection including credit enhancement, political risk insurance and FX/inflation indexation. This bucket's currencies are particularly sensitive to FX reserve levels and remittance flows.

As a group, Structurally Challenged currencies performed the worst last year (down -28% using official exchange rates). Tighter global financial conditions hardly help countries with financing issues. It is not a coincidence that severe dollar shortages currently characterise most of the countries in this bucket (as seen in the increasing recent divergence between parallel and official exchange rates in **Nigeria** and **Egypt**). The immutable Law named after 16th century policymaker Thomas Gresham has played out again. Given the choice between a constantly declining currency and a store of value people hoard the latter. Parallel rates 30-50% different from official rates usually end in the official rate losing out, domestic recessions and wholesale import substitution.

As examples **Kenya** abandoned efforts to refinance maturing Eurobonds and availability of dollars in **Nigeria** remains problematic. **Egypt** can rely on GCC and IMF financial support, but an unofficial rate of 55 plus and an official level around 31/US$ takes a lot of bridging. Rates in **Türkiye** may have plateaued at 45% but are still 20% negative once adjusted for inflation. The new economic team is talking a good game but has some way to go before any real stability can be predicted. FDI, though, has picked up and a seasonal boost to the current account surplus helps. But after falling more than 90% versus the dollar over the last decade a lot of work still needs to be done to restore its credibility as a source of value. Türkiye though is a significant manufacturing economy on the edge of a major economic bloc. A replay of Mexican and ASEAN recovery after their respective 1995 and 1998 crises remains possible (in both cases a pick-up in FDI as Türkiye is seeing now was an early sign of recovery).

Looking ahead, currencies, rates and economic resilience will largely depend on whether a global recession will materialise. Forecasts suggest more mixed fortunes on a 12–24-month basis but still favour Big Middles, Supply Chain Heroes and Stable but Small as a whole. US activity remains a key factor looking forward.

Our view is that there will not be a major global recession in the next 6-12 months absent a material increase in geopolitical risk although some regions and countries will struggle to grow. We base this view on the combined effects of the prevalence of fixed-rate mortgages in the US (shielding the vast majority of their homeowners) and policy action in China. Albeit having declined to pre-pandemic averages, there is still enough fuel in the tank of US household savings and full employment to offset the impact of rate rises. We also believe China pessimism has become excessive at this point. The risks to our view are that we underestimate the degree of monetary tightening and/or that severe asset quality risks arise in the US commercial real estate market. A further risk would be an accentuation of global political risk with a near term focus on the Israel-Gaza war escalation and the Russia/Ukraine conflict.

Wind turbines at Serena's Delta Maranhao wind farm in Brazil

Actis Production Team

ELLEN DICKINSON
Knowledge

SARAH DOUGLAS
Communications

HELEN JOHNSON
Production

DEBBIE MINCHINGTON
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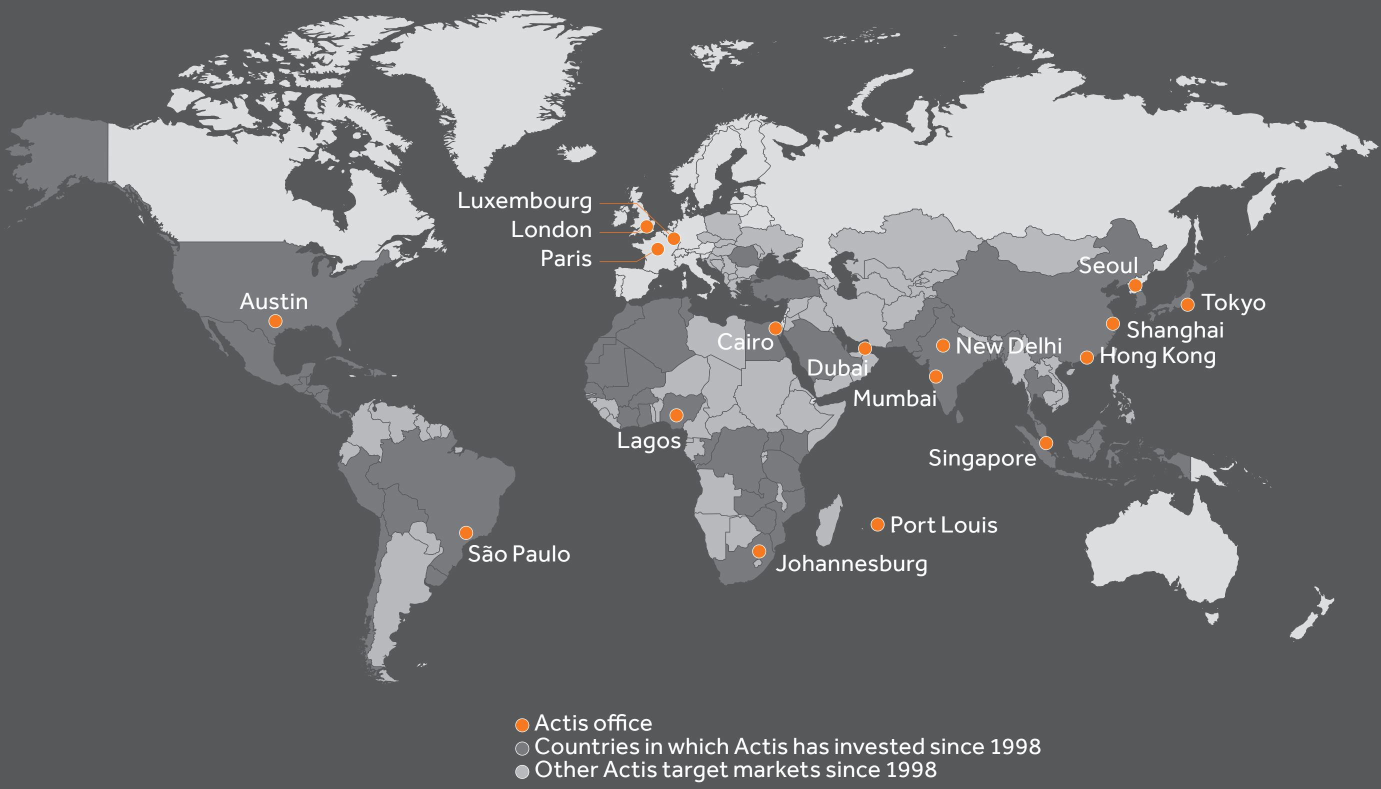

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