Goldman Sachs | Economics Research

10 April 2025 | 4:00PM BST

The EM Trader

Pricing Trade War and Peace

- **EM local rates outperform in the tariff rollercoaster.** EM local rates have been able to sustain their rally through a volatile week, despite the sell-off in USTs. But even as the reciprocal tariffs are postponed and some near-term reversals are occurring, we think prohibitive tariffs on China and an increase in policy uncertainty are likely to weigh on global growth pricing moving forward. For the EM rate complex, this should still support lower rates, which might have an easier time pricing growth headwinds given reduced US Dollar pressures and tailwinds from materially lower commodity prices. Domestic policy pivots have also supported recent outperformance, with examples in Poland, where we have preferred steepener expressions, in India, where we continue to recommend receiving 2Y NDOIS, and in China, where we like being long 2Y CGBs.
- **Local rates preferred EM asset if recessionary fears come back.** If the market shifts back towards pricing more negative growth concerns, we think that EM local rates would be poised to outperform other EM assets. Looking back at previous recession pricing episodes, safer EM low-yielders have typically fared better (China, Korea, Czech, Chile, and Thailand), rallying more consistently and across the curve, whereas for more sensitive EM high-yielders (high-yield in LatAm, South Africa and Indonesia), recessionary pricing has tended to come with bouts of underperformance. Still, we tend to observe consistently this follow-through in lower EM rates once the market settles at a lower level of growth pricing. The recessionary EM local rate rallies tend to also come with a steepening bias, and relatively elevated real rates compared with prior recessionary episodes suggest significant room for adjustment in the event of a pivot.
- **EM FX: Tactical relief, but a more negative skew than in G9 if recession concerns pick up again.** We expect the "exceptional" positioning that underpins the Dollar's current overvaluation signal to reverse through the year and think that this will be more supportive of G9 rather than EM FX returns, where growing downside risks to global growth present a more challenging backdrop. When it comes to EM FX returns versus the Dollar, we think that will largely depend on how the market prices relative growth between the US and emerging markets. In our analysis of EM FX returns and relative equity performance, we find that if both US and EM equity indices are selling off, EM equity outperformance cushions EM FX from the fall in the S&P 500 to a significant

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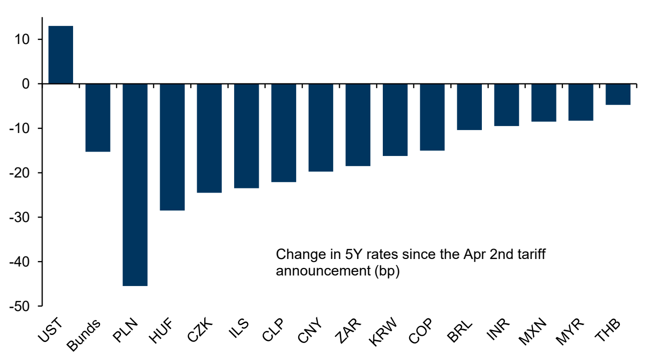
extent. More broadly, we think that if markets are more clearly trading USD underperformance rather than global risk-off, then EM FX returns can still be marginally positive versus the Dollar. But we expect volatility to be high as expectations switch around between those two regimes. Going into this week, recession risks were particularly elevated. This led EM FX to underperform sharply, though we find that moves were still far from the historical underperformance seen in prior sharp downgrades to US growth pricing. After the 90-day pause was announced, EM currencies rallied strongly versus the Dollar and there is likely room for further tactical relief in the coming days if risk sentiment continues to recover.

- **EM equity cyclicals see a sharp 'catch down' to the US, but still not pricing a typical recession.** MSCI EM has fallen 7% since the 'reciprocal' tariff announcement on April 2 (in-line with the SPX) and 10% from its highs, with cyclical EM pockets correcting the most. Despite the shifts in the cyclical pricing, as growth worries have risen, we note that EM equities are still not pricing in a 'typical' recession. While the extent of further equity downside will likely depend on the depth of the economic downturn, past US bear markets have historically been associated with larger EM drawdowns (26% median fall), deeper earnings cuts (21% median during the past four recessions vs. flat EPS revisions currently) and lower trough valuations (7-10.5x P/E vs. 11x currently).
- **Further equity downside likely, but EM outperformance case stronger; Stick to quality bias near term.** In a US recession, we see further risks to our earnings and targets, but expect EM equities to outperform given their relatively better domestic growth backdrop, deeper-than-average valuation discount vs. the US, a likely weaker dollar and already-light EM investor positioning. With likely elevated market volatility near term, we prefer domestically exposed EM stocks **(GSEMDOME)** over US-exposed stocks **(GSEMAMER)** and expect quality stocks with Stronger Balance Sheets and Stable Growth to outperform in coming months.
- **EM Sovereign Credit – Bracing for wider spreads.** The unattractive asymmetry in credit spreads is crystallising, with the recent deterioration in the US growth outlook and risk sentiment reflected in EM sovereign credit spreads widening significantly from tight levels. While this is consistent with predictions from our EM sovereign credit model, this recent widening falls short of pricing a US recession. Taking into account our US economics team's baseline forecast, which now includes weaker growth and a 45% probability of a recession, we revise our 12-month EM hard currency sovereign spread forecast 150bp wider, from 350bp to 500bp. In terms of hedges against growth and volatility, we still like Angola, Brazil, Colombia, the Dominican Republic, Mexico and South Africa as high-spread-beta hedges. We also recommend hedging against oil risks, with Bahrain and Oman being our preferred sovereigns at this juncture.

EM Local Rates: Pricing Trade War and Peace

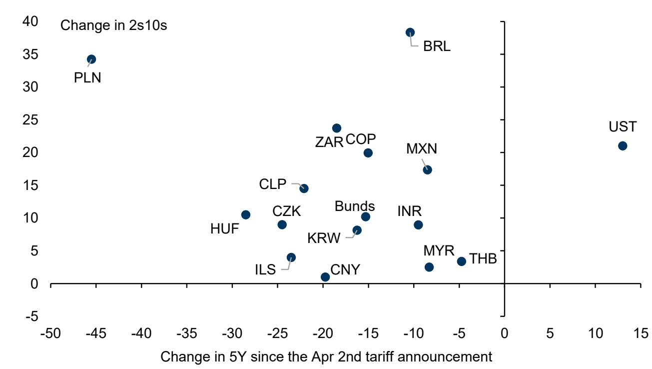
- **EM local rates outperform through the tariff rollercoaster.** Market gyrations over the past week have seen exceptionally high volatility across global equities, FX and rates, as the market wrestled with gauging the extent of the downside to growth and escalation in tariffs. The 90 day pause to the reciprocal tariffs has brought relief to risk assets, both in and outside of the US. But while the direct effect of reciprocal tariffs is avoided (at least for the time being), high tariffs on China, as well as a hit from an increase in broader policy uncertainty, are still likely to leave an imprint on both the real economy and markets. As the market grapples with these rapid changes, we have seen more consistent price action within EM local rates, with a relatively broad-based rally over the past week (Exhibit 1), even as US rates have sold off. The rally was front-end led, featuring increasingly more steepening over the week (Exhibit 2). This price action has also been supported by more dovish pivots by EM central banks, most notably in Poland, which we have flagged previously as our preferred market to play for curve steepening, but also more dovish signaling from the RBI that has supported a further front-end led rally in INR rates, where we maintain our receiver recommendation to be long 2Y NDOIS. More broadly, while the market will need to recoup and digest the developments over the past week, we continue to think that in the current environment, global growth pricing is likely to continue to be tested. This, together with a more benign US Dollar environment, as well as still weaker commodity price action, should remain supportive for front-end local rates in EM, even if there are risks of a near-term pullback.

Exhibit 1: EM Local Rates Have Mostly Rallied Through Recent Market Volatility, with the CEE Region Outperforming
Change in EM 5Y IRS rates vs. 5Y USTs and Bunds



Source: Goldman Sachs Global Investment Research, Bloomberg

Exhibit 2: EM Local Rates Have Been More Front-End Led
Change in EM 5Y IRS rates vs. 5Y USTs and Bunds, versus change in 2s10s

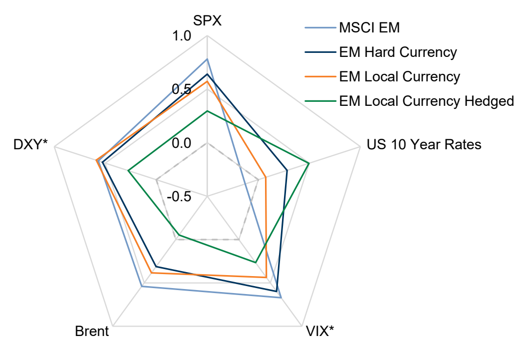


Source: Goldman Sachs Global Investment Research, Bloomberg

- **Local rates during recessions— a better long within EM, with scope for front-end outperformance.** While the market has pared back some of the immediate recession concerns, the risk that the policy uncertainty scars the macro economy and a renewed escalation in trade tensions occurs further down the line is not out of the question. If the more recessionary pricing resumes, we think that within EM assets, EM local rates would likely fare better. Unlike EM FX, equities or EM hard currency credit, EM local rates tend to feature much less sensitivity to risk asset pricing, while seeing more follow-through from core rate relief and benefiting from lower commodity prices (Exhibit 3). At the same time, more demand-side driven recessionary episodes tend to see more follow-through in EM local rate performance. Looking back at the last 6 recessionary pricing episodes[1] (Exhibit 4), we find that EM rates, especially for low-yielders, tend to rally as the growth hit is priced. For high-yielders, we see more consistent performance in front-end rates, whereas back-end rates tend to be more at risk of a sell-off (Exhibit 5). In general, however, we find that rates for both low-yielders and high-yielders tend to trade with a steepening bias during recessionary episodes. One feature that distinguishes EM local rates from other EM assets is that while EM local rates may sell off amid a repricing of more disruptive recessionary concerns, once we reach a trough in recession pricing, we tend to see more broad-based follow-through, such that we still end up seeing lower yields, even for high-yielders. We show this in Exhibit 6, where we plot, for each recessionary episode, the peak underperformance versus US rates (on a 5Y local spread basis) and the extent of the rally in absolute levels from the start of recession pricing to two months after a recession pricing trough is reached. From this point of view, we think that recession fears are best expressed as front-end longs among EM low-yielders, although we would also fade excessive steepening among the low-yielders if the growth fears materialise. By contrast, high-yielders might be more vulnerable to market stress pricing that leaves them at risk of more disruptive sell-offs, but which we would ultimately think represents attractive opportunities to engage as the growth market pricing finds a more solid footing.

Exhibit 3: FX-Hedged Local Currency Fixed Income Is More Insulated from Equity and Risk Sell-Off, But Benefits from US Rate and Commodity Price Relief

Correlations of EM benchmarks to key macro assets

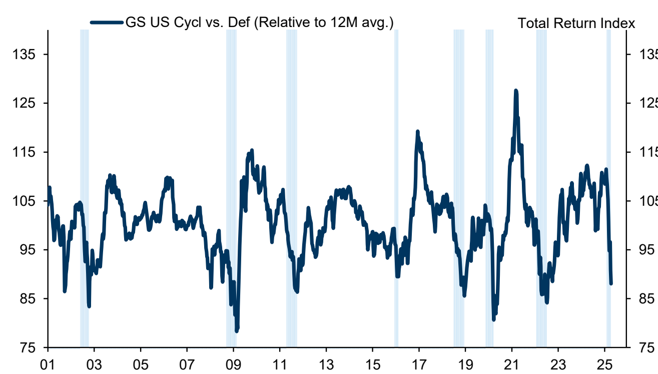


Correlations based on sample since 2008. *For DXY and VIX, we flipped the sign to match the direction of pro-cyclical fixed-income assets. The dotted grey line represents the zero-correlation line.

Source: Goldman Sachs Global Investment Research, Bloomberg

Exhibit 4: The Recent Sell-Off in Cyclical US Growth Pricing is One of the Sharpest We Have Seen

12M rolling GS US Cyc vs. Def index (relative to 12M rolling avg.)

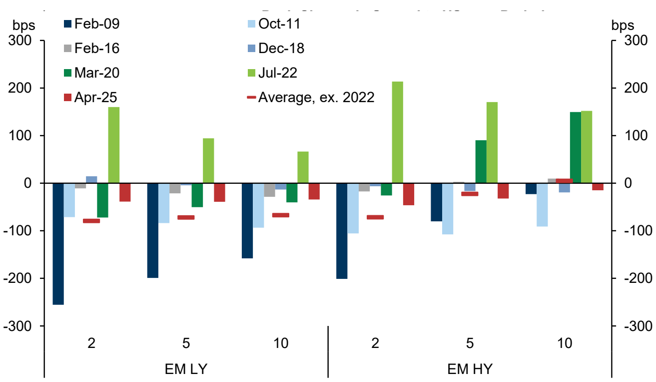


Source: Goldman Sachs Global Investment Research, Bloomberg

[1] Episodes we focus on are: Sep 2008 to Feb 2009, Apr 2011 to Oct 2011, Dec 2015 to Feb 2016, Jun 2018 to Dec 2018, Feb 2019 to Mar 2020, Jan 2022 to Jul 2022

Exhibit 5: EM Low-Yielders Tend to Rally More Consistently Across The Curve During Recession Pricing, Whereas EM High-Yield Front-Ends Tend to Outperform

Performance of 2Y, 5Y, and 10Y IRS in different recessionary market pricing environments

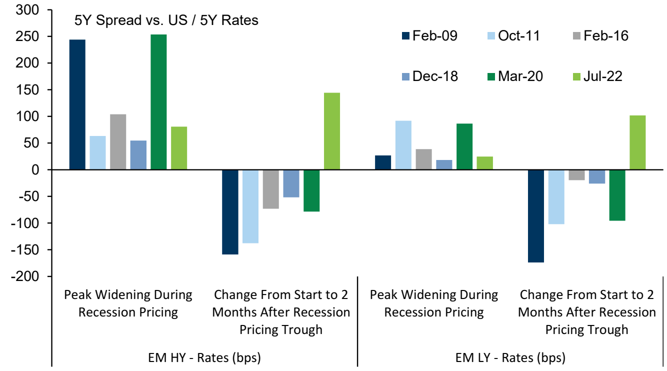


EM LY: CZK, CLP, CNY, KRW, THB; EM HY: MXN, BRL, COP, ZAR, IDR

Source: Goldman Sachs Global Investment Research

Exhibit 6: While EM Rates Experience Underperformance to US During Recession Pricing, After a Stabilisation We See EM Local Rates Typically Rallying More Forcefully

Peak widening in 5Y IRS vs. US rates during recession pricing episodes, versus performance of 5Y IRS during the full recession pricing and two months after a trough is reached

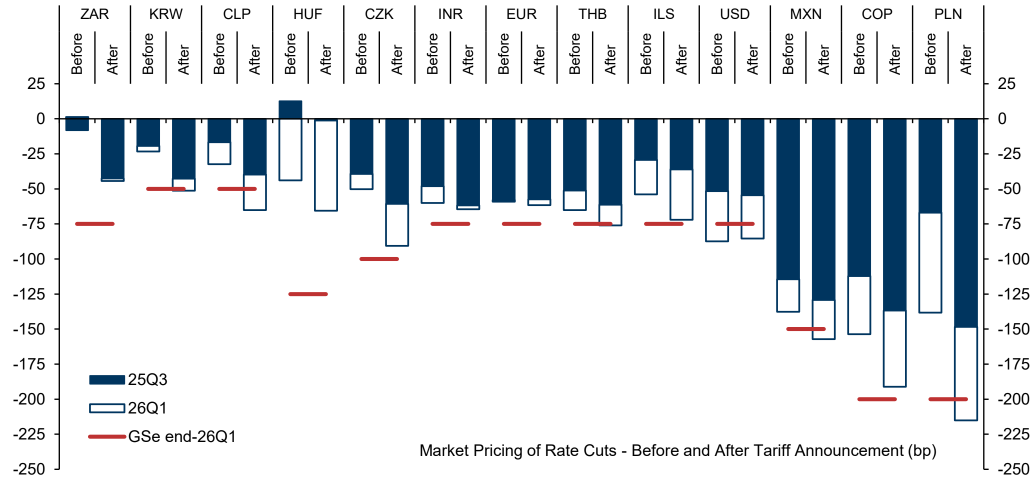


EM LY: CZK, CLP, CNY, KRW, THB; EM HY: MXN, BRL, COP, ZAR, IDR

Source: Goldman Sachs Global Investment Research, Bloomberg

- **Front-end rates at risk of some consolidation after tariff relief, but EM CBs have ample room to pivot in a more recessionary environment.** Over the past week, the market has added more rate cuts into the near-term central bank pricing across both EM and core markets (Exhibit 7). That said, for most it was more about adding a rate cut in the short run, but without significant revisions to the rate path further down the line. The few notable exceptions to this have been Poland, Colombia and Hungary, where more rate cuts were also kept and priced into the tail end of the 12M horizon, similarly as for the US. While some consolidation after the severe recession pricing is possible, we continue to think that EM front-end will remain well positioned to do well in case any future growth scares resurface. The combination of a benign US Dollar backdrop that we foresee even as more growth concerns may come back, alongside the disinflationary impulse from lower commodity prices (even after yesterday's rally, oil is still meaningfully down year-to-date), should provide more room for front-end EM rates to perform and for EM central banks to also respond to their domestic economies. Likewise, if we were to enter a more recessionary environment, EM central banks have a lot of room to pivot, given the still relatively high real yields compared with previous recession periods (Exhibit 8). This is true amongst the high-yielders, but also low-yielders in the CEE region, and including China, where we think that front-end rates can perform amidst a more hawkish tariff scenario for China, and where we recommend being long 2Y CGBs.

Exhibit 7: The Market Has Significantly Scaled Up Rate Cut Pricing in Poland and Colombia, and Prices More Rate Cuts in Mexico Than in the US

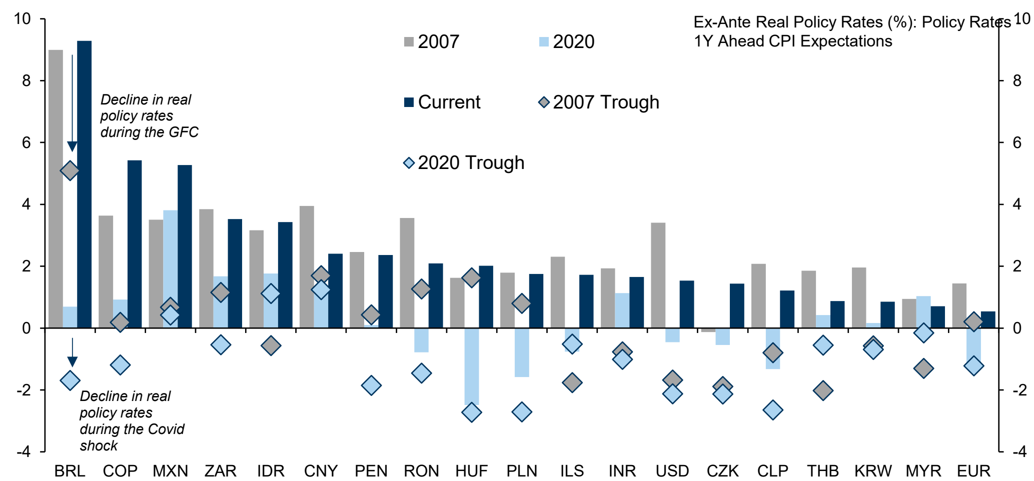


As of Apr 9 close

Source: Goldman Sachs Global Investment Research, Goldman Sachs FICC and Equities

Exhibit 8: Real Rates in EMs Stand Higher Than During Previous Recessionary Shocks

EM policy rates vs. 1Y consensus ahead expectations before 2007/8 recession and 2020 Covid shock vs. latest



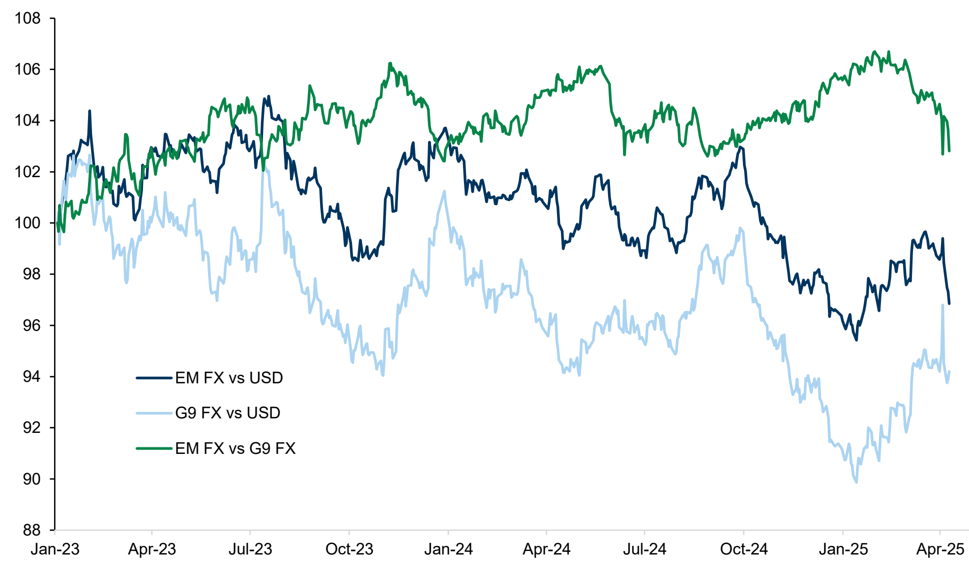
Source: Goldman Sachs Global Investment Research, Haver Analytics, Consensus Economics

EM FX: Tactical Relief, But A More Negative Skew of Risks than in G9 Further Out

- **We now forecast the broad USD to depreciate but think that this will benefit G9 currencies more than EM FX.** Coming into this year, we expected that EM FX total returns would continue to outperform G9 as the backdrop of a strong Dollar and superior US asset returns would stay in place. However, with US equities underperforming other markets and the Dollar depreciating, this trend has reversed over the last few months: G9 FX has appreciated by more than EM FX versus the Dollar and thus outperformed (Exhibit 9). We expect recent moves to extend and for the "exceptional" positioning that underpins the Dollar's strong valuation to reverse through the year. We think this is a more supportive backdrop for G9 FX where safe-haven demand and declining US exceptionalism have a larger impact, whereas a trade war and growing downside risks to global growth present a challenging backdrop for the more cyclical EM FX. To be sure, carry differentials are still supportive of EM relative to G9 FX, and we think this will be an important buffer in places like Brazil (Exhibit 10). However, this is likely insufficient to offset the relative skew for spot returns between the two sets of currencies. In a related point, when we look at past episodes of longer-lasting joint US equity and USD selloffs, this benefits more G9 than EM FX (Exhibit 11).

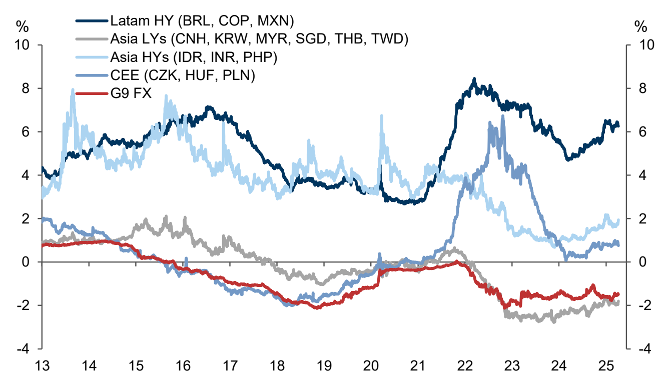
Exhibit 9: EM FX total returns versus G9 FX have been moving lower as G9 has appreciated by more than EM versus the Dollar

Total returns indexed to 100 on Jan 1, 2023



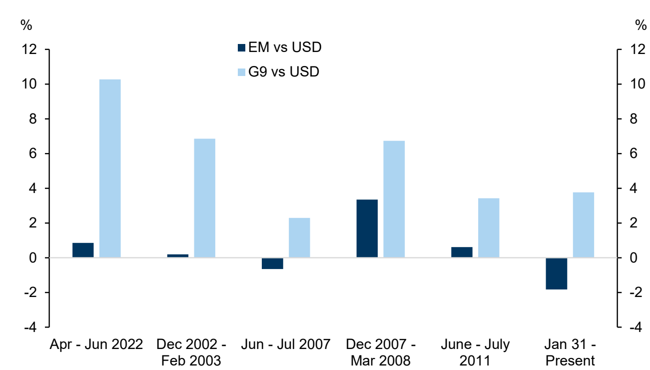
Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

Exhibit 10: Carry differentials are still supportive of EM relative to G9 FX



Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

Exhibit 11: On average, longer-lasting USD and SPX down episodes come together with G9 appreciation vs the Dollar but EM moves are more mixed

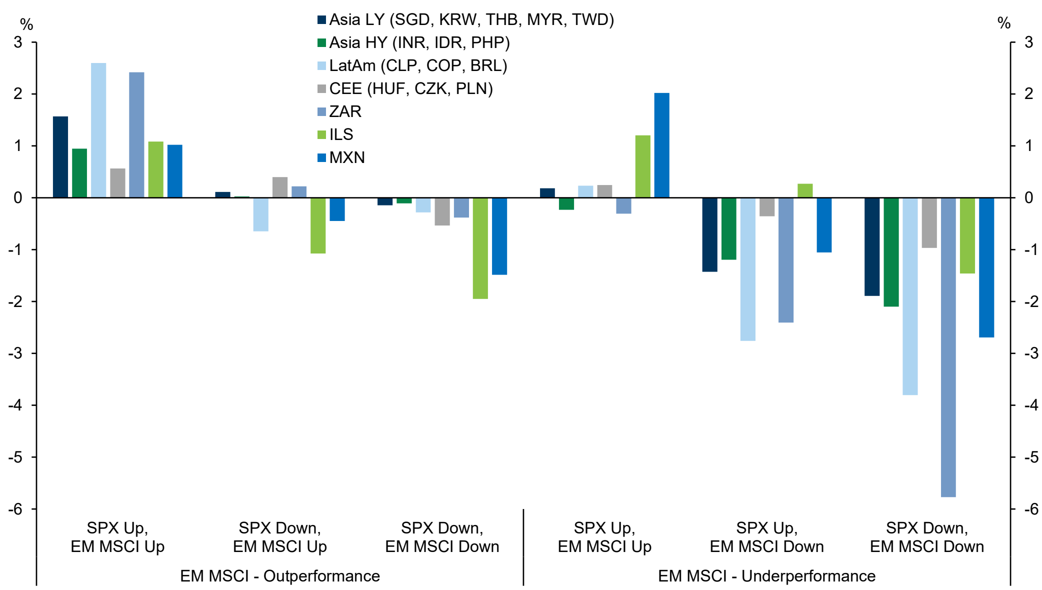


Source: Bloomberg, Goldman Sachs Global Investment Research

- **EM FX returns vs USD will depend on the relative growth outlook...** When it comes to EM FX returns versus the Dollar, we think that will largely depend on how the market prices the relative growth hit between the US and emerging markets. In our recent deep-dive on the relationship between EM FX and relative equity performance, we found that the best (worst) environment for EM FX is when both the MSCI EM and S&P indices are going up (down) and MSCI EM is out-(under-)performing. And, perhaps most relevant for today, when both equity indices are selling off, EM equity outperformance cushions EM FX from the fall in the S&P 500 to a significant extent. The exceptions here are MXN and ILS, where we consistently find that US equity returns screen as more important than EM equity returns (Exhibit 12)

Exhibit 12: The best environment for EM FX is when both the MSCI EM and S&P indices are going up and MSCI EM is outperforming; the upside is more limited when both indices are rallying but the EM MSCI underperforms the S&P

Monthly returns of EM FX vs. USD (CEE vs EUR), in periods of out/underperformance of MSCI EM vs S&P, conditioning on different equity return scenarios



Source: Bloomberg, Goldman Sachs Global Investment Research

- **... where Chinese growth is an important anchor.** One key component of EM growth expectations is Chinese growth where our economists have noted that while policy stimulus is likely to step up, there will still be a negative impact on growth from US tariffs (though at some point, the marginal impact of further tariffs on growth is limited). They have revised lower their 2025 and 2026 real GDP growth forecasts by 50bp with 2025 growth now at 4%. Our market-based measure of Chinese growth expectations has declined sharply over the last few days, together with the broader risk-off price action (Exhibit 13 does not have data for April 9). And together with this, the CNY fix has been gradually moving higher, suggesting that policymakers are allowing for more flexibility in the exchange rate, though with a focus on a gradual approach. More broadly, we think that if markets are more clearly trading USD underperformance (as on Thursday, April 3) rather than global risk-off (as on Friday, April 4), then EM FX returns can still be marginally positive versus the Dollar. But we expect volatility to be high as expectations switch around between those two regimes. And, while going into this week, recession risks were particularly elevated and leading EM FX to underperform, after the 90-day pause was announced, EM currencies rallied strongly versus the Dollar and there is likely room for further tactical relief in the coming days.

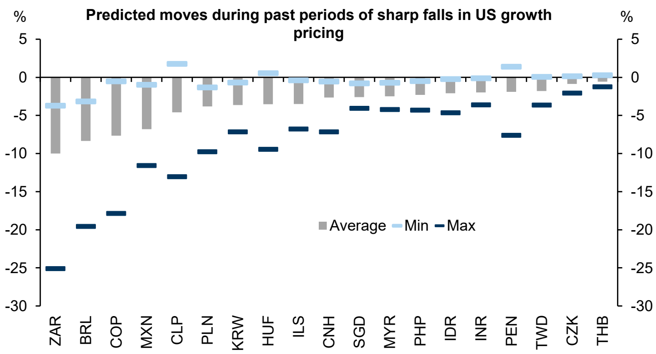
Exhibit 13: Our proxy for market pricing of Chinese growth has declined sharply in recent days

Here we display cumulative changes in our proxy for Chinese growth expectations relative to January 2024 up to April 8, 2025. This series is the first principal component of A- and H-shares, copper and the trade-weighted AUD.

Source: Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

- **Looking at past sharp declines in cyclical pricing points to EM HY underperformance and suggests that YTD moves would have further to run in a typical recessionary outcome.** We look back at 7 prior episodes when US growth pricing (as measured through the relative performance between cyclical and defensive equities) declined by more than 10% relative to the prior year's average. For the most recent 6 periods, we estimate the sensitivity of FX returns to the S&P Index, US 10-year yields and oil prices over the one-year before the start of the period and then calculate what the predicted return for each EM currency would be during the peak-to-through move in US growth pricing. In Exhibit 14, we display the average 'predicted' return together the minimum and maximum. This shows that moves in global macro markets during sharp US growth downgrades point to EM FX depreciation across the board with EM high-yielders (BRL, COP, MXN and ZAR) predicted to underperform. Finally, in Exhibit 15, we look at the maximum 'actual' drawdown across currencies in these episodes and again display the average across the 7 episodes together with the smallest and largest moves. We also include a bar showing currency returns from peak FX strength YTD (for example, CLP is now ~7% weaker relative to its strongest level YTD in late March). While EM currencies have already depreciated in response to the decline in global risk sentiment, this historical benchmarking suggests that there would be further to go in the higher-beta currencies relative to the average drawdown in growth pricing. Still, the YTD moves have already been larger than the least severe historical scenario in most currencies, which for most crosses is the 2016 episode. This would argue that risks of a less severe downturn are already well reflected and EM currencies can appreciate versus the Dollar if risk sentiment continues to recover.

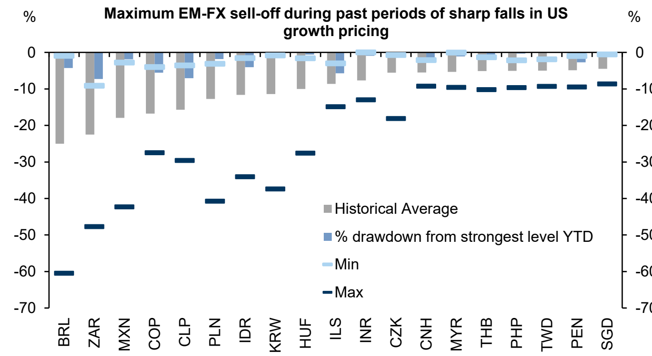
Exhibit 14: Moves in global macro markets during sharp US growth downgrades point to EM FX depreciation across the board with EM high-yielders (BRL, COP, MXN and ZAR) predicted to underperform



Spot returns vs USD (vs EUR for CEE)

Source: Bloomberg, Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

Exhibit 15: EM currencies have already depreciated in response to the decline in global risk sentiment, but historical benchmarks would suggest that there would be further to go in a recessionary outcome



Spot returns vs USD (vs EUR for CEE)

Source: Bloomberg, Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

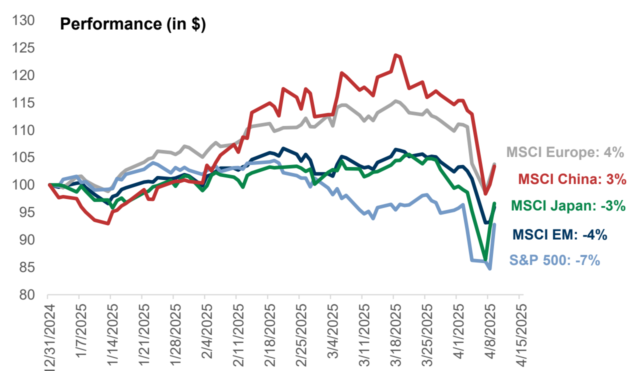
- **Across regions, we think there is scope for relative resilience in CEE, whereas EM HY currencies' higher beta to global risk makes them the most vulnerable.** Across currencies and regions, we think there is scope for CEE FX returns versus the Dollar to be relatively more resilient given the potential for meaningful Euro appreciation (though there are still domestic headwinds to keep in mind). Asia is likely to bear the brunt of the reciprocal tariffs with small open-economies particularly vulnerable, but the extent of any FX move will depend on the extent of the adjustment in the CNY fix, which we expect to remain gradual. As our analysis suggests, EM high-yielding currencies are the most vulnerable to a recessionary outcome given their high sensitivity to risk. Within that, we expect BRL total returns to be most insulated given higher carry, whereas a dovish central bank reaction function in Mexico argues for more limited pushback against currency depreciation and large drops in oil prices are most impactful for COP. Elsewhere in EM HY, in addition to the Rand's high beta to global risk, local political developments argue for additional caution.

EM equities: Further downside to price a recession, but relative outperformance likely; Stick to quality bias near term

- **EM equity cyclicals 'catch down' to US, as recession worries rise; Regional dispersion helps modest EM index outperformance.** Following last week's larger-than-expected tariff announcements and the subsequent retaliatory rhetoric between the US and China, global equity markets 'caught down' to the sell-off in the US equities up until the reversal in SPX on Wednesday (4/9). MSCI EM is down ~7%

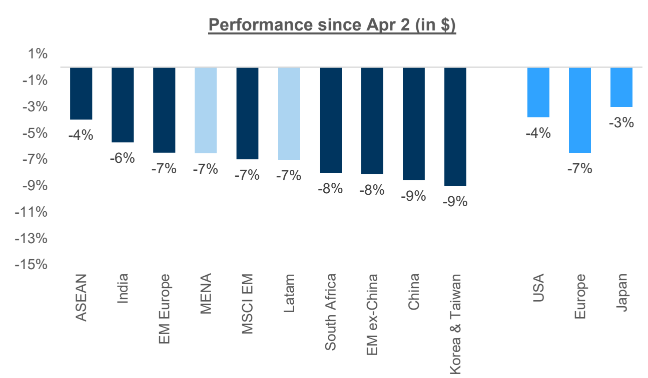
(vs. S&P 500 -4%) since April 2 and has outperformed SPX by 3pp ytd. Under the hood, China (offshore) and cyclical EM pockets (North Asia, South Africa) have corrected the most in USD terms since April 2, while the relatively defensive markets of MENA and South Asia have held up better, underscoring the regional diversification of the EM equity complex. Having said that, the market has priced a broad-based worsening of global growth with rising US recession concerns. While market pricing of US growth has continued to see downgrades, pricing of Europe and China growth has also come under pressure in recent weeks. This also shows in the relative market pricing of cyclicals vs. defensives. While US cyclicals have sharply underperformed defensives by more than 20% from the January peak (vs. -13% in EM), the recent cyclical underperformance since April 2 is in line between the US and EM.

Exhibit 16: Global equity markets 'caught down' to the sell-off in the US equities, following the recent tariff announcement on April 2
As of April 10, 2025 (9am GMT)



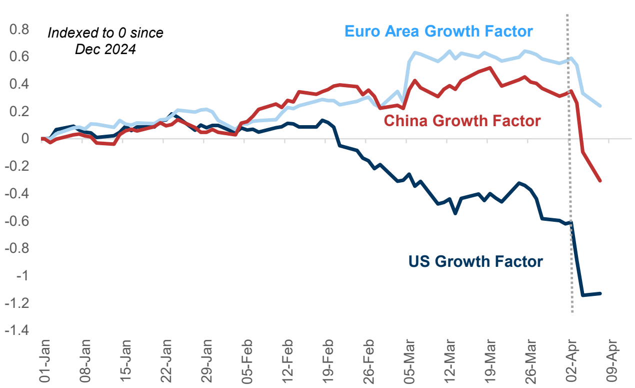
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 17: MSCI EM is down ~7% (in-line with SPX) since April 2; China and cyclical EMs (North Asia, South Africa) have lagged, while defensive markets (MENA, South Asia) have held up better
As of April 10, 2025 (9am GMT)



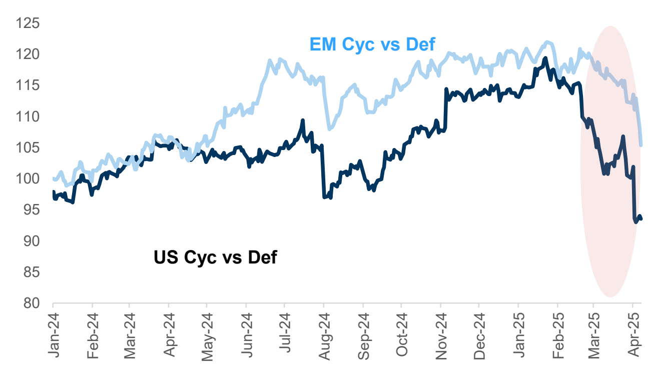
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 18: Growth concerns have intensified - Market pricing of growth outlook outside of US has also come under pressure since 'reciprocal' tariff announcement on April 2
As of April 8, 2025



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 19: After staying resilient in 1Q, market pricing of EM growth, as reflected by the relative performance of cyclicals vs. defensives, has fallen in line with the US since April 2
As of April 8, 2025



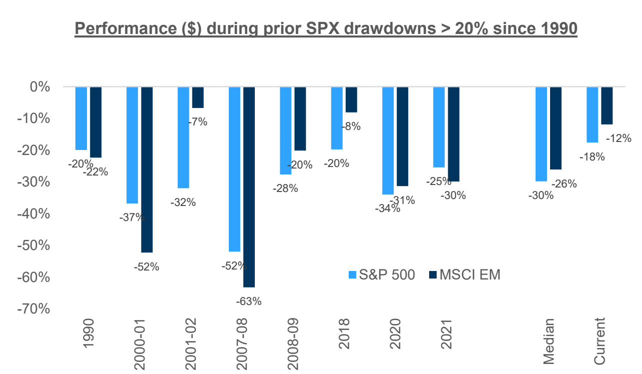
Source: Bloomberg, Goldman Sachs FICC and Equities, Goldman Sachs Global Investment Research

- **Further equity downside likely if US recession materializes; stronger case for EM outperformance.** Despite the large shift already in the cyclical pricing and the

US equities, in particular, standing on the cusp of a bear market, we think equities are still not priced for a 'typical' recession. In the US, our strategists note that our cyclicals vs. defensives pair appears to be pricing an economic growth outlook slightly below our economists' current base case forecast (0.5% US GDP vs. fwd. 4Q GDP forecast of 1.3%) but not an outright recession and the S&P 500 P/E of 18x remains well above previous recessionary market troughs (13-15x). Similarly, in EM, we note that historically EM equities have posted larger drawdowns during US bear markets (SPX corrections of 20% or more), with a median correction of 26%, and with cyclical markets of North Asia and EM Europe down 30-40% from peak-to-trough. Additionally, in a recession scenario, MSCI EM 12m fwd EPS has dropped by a median of 21% during the past four recessions since the 1990s, while fwd EPS have been relatively flat over the past three months. Moreover, MSCI EM P/E valuations at nearly 11x are below the long-term average (11.4x over 20yr, 13x since 1990), but are still above prior recession troughs (7-10.5x). While the extent of further equity downside will likely depend on the severity of the economic downturn, the above metrics suggest that there is still room to price a typical recession. This, in turn, would suggest further cuts to our earnings and return forecasts, if our macro baseline moves to a US recession forecast.

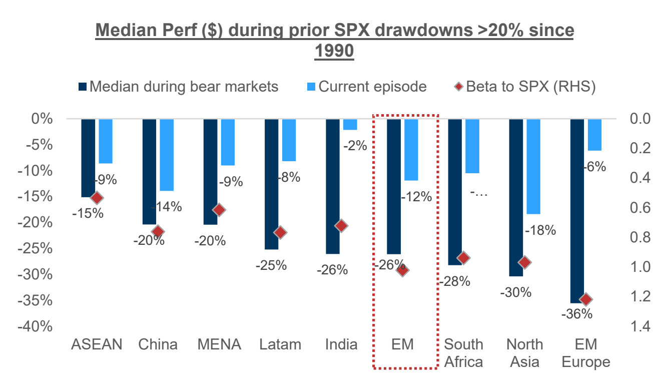
While we believe that medium-term risks for EM equities remain skewed to the downside as long as recession risk remains elevated, we note that EM equities could continue to outperform US equities, given EMs' relatively better domestic growth backdrop, deeper-than-average valuation discount vs. the US (nearly 50% vs. 30% historically) and a likely benign US dollar environment (compared to a stronger dollar in prior downturns). Additionally, allocation to EM equities remains low among global investors (vs. overweight allocations in US), suggesting the potential for rotation as US exceptionalism continues to diminish.

Exhibit 20: US bear markets have historically been associated with larger drawdowns in EM equities, with a median correction of 26% (vs. 12% currently)...
Current prices as of April 8, 2025



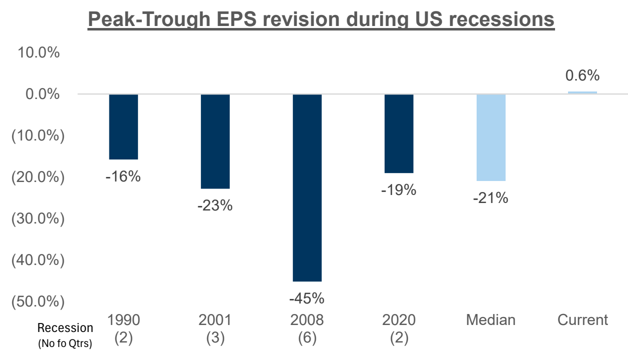
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 21: ...with cyclical markets of North Asia and EM Europe down 30-40% from peak-to-trough, in prior US bear markets
Current prices as of April 8, 2025



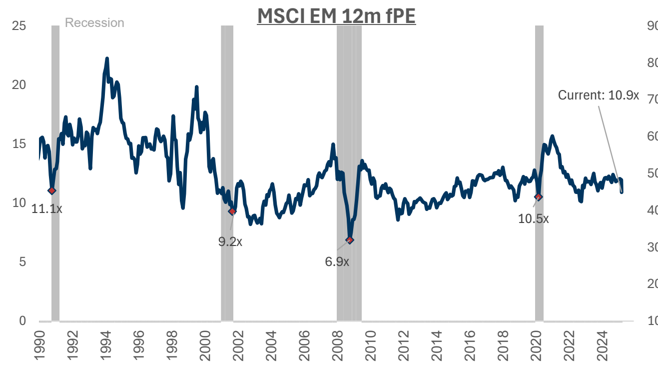
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 22: MSCI EM 12m fwd EPS has dropped by a median of 21% during the past four recessions since the 1990s



Source: FactSet, Haver, Goldman Sachs Global Investment Research

Exhibit 23: MSCI EM valuations are inexpensive vs. history, but are still above prior recession troughs



Source: FactSet, Haver, Goldman Sachs Global Investment Research

Exhibit 24: EM outperformance vs SPX in US bear markets has been associated with lower starting relative valuations, relatively better EM domestic growth expectations, and contained USD upside

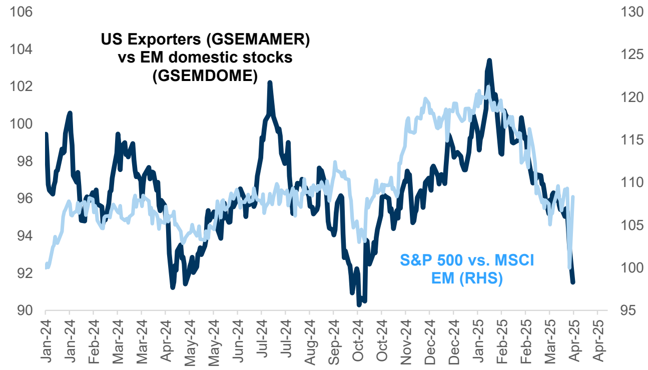
MSCI EM equity returns during prior SPX drawdowns of 20% or more since 1990

			Performance				Growth			Valuation			FX	
Bear market regime	Start	End	SPX return	MSCI EM (MXEF) return	MXEF relative returns vs. SPX	Downside sensitivity	US 1y Fwd Cons GDP Chg	EM 1y Fwd Cons GDP Chg	EM vs US	MXEF / SPX rel. starting fPE (X)	SPX PE Chg	MSCI EM PE Chg	USD TWI	MSCI EM Out-perform ?
Cyclical	16-Jul-90	11-Oct-90	-20%	-22%	-2%	1.1	-1.4	0.3	1.7	1.2	-20%	-16%	(4.3%)	0
Structural	24-Mar-00	21-Sep-01	-37%	-52%	-15%	1.4	-1.4	-2.0	-0.7	0.7	-24%	-42%	8.3%	0
Structural	04-Jan-02	23-Jul-02	-32%	-7%	25%	0.2	2.3	1.6	-0.8	0.5	-36%	-12%	(2.8%)	1
Structural	09-Oct-07	20-Nov-08	-52%	-63%	-11%	1.2	-2.7	-2.1	0.7	0.9	-43%	-51%	12.7%	0
Structural	06-Jan-09	09-Mar-09	-28%	-20%	8%	0.7	-0.4	-1.6	-1.3	0.7	-15%	5%	7.6%	1
Cyclical	20-Sep-18	25-Dec-18	-20%	-8%	12%	0.4	-0.1	-0.2	-0.1	0.7	-21%	-6%	2.4%	1
Event-driven	19-Feb-20	23-Mar-20	-34%	-31%	3%	0.9	-0.2	-0.3	0.0	0.6	-34%	-4%	8.2%	1
Event-driven	03-Jan-22	12-Oct-22	-25%	-30%	-4%	1.2	-3.6	-0.9	2.6	0.6	-28%	-18%	11.4%	0
	19-Feb-25	**08-Apr-25**	**-18%**	**-12%**	**6%**	**0.7**	**-0.2**	**-0.1**	**0.1**	**0.5**	**-16%**	**-9%**	**(0.7%)**	**1**
	Avg		**-31%**	**-29%**	**2%**	**0.9**	**-0.9**	**-0.7**	**0.3**	**0.7**	**-28%**	**-18%**	**5.4%**	**50%**
	Median		**-30%**	**-26%**	**0%**	**1.0**	**-0.9**	**-0.6**	**-0.1**	**0.7**	**-26%**	**-14%**	**7.9%**	**50%**
	EM outperformance episodes													
	Avg		**-28%**	**-17%**	**12%**	**0.6**	**0.4**	**-0.1**	**-0.5**	**0.6**	**-26%**	**-4%**	**3.8%**	
	Median		**-30%**	**-14%**	**10%**	**0.6**	**-0.2**	**-0.2**	**-0.4**	**0.6**	**-27%**	**-5%**	**5.0%**	

Source: FactSet, Goldman Sachs Global Investment Research

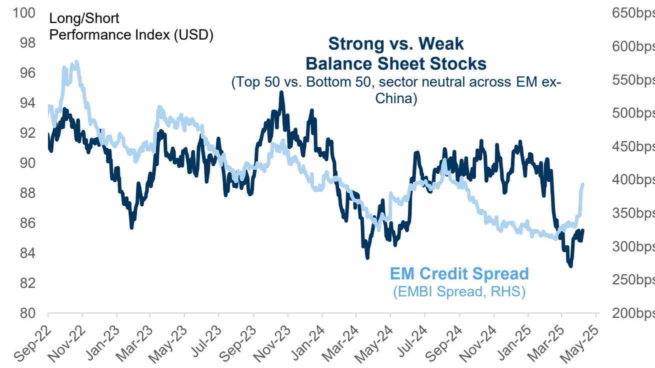
- **Prefer domestic exposure, strong balance sheets and stable growth.** We continue to prefer exposure to domestically exposed EM pockets over those with revenue exposure to the US given the ongoing tariff headwinds. Our basket of US-exposed stocks, i.e., stocks with high revenue exposure to the US (**GSEMAMER**), could continue to lag domestically exposed EM stocks (**GSEMDOME**). The challenging macro setup and elevated volatility should also aid quality companies with **Stronger Balance Sheets** to outperform. We also like domestically oriented companies that exhibit Stable Growth, as proxied by companies with the least variable revenue and earnings growth during the past decade.

Exhibit 25: In recent months, US exporters (GSEMAMER) have lagged domestically exposed EM stocks (GSEMDOME) amid heightened trade risks; we expect this trend to continue in the near term
As of April 8, 2025



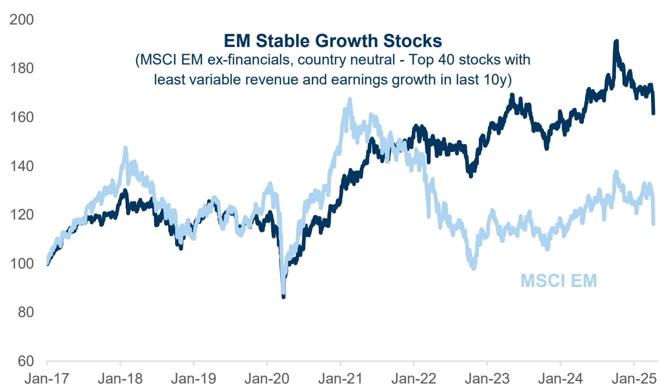
Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 26: Companies with Stronger balance sheets are likely to outperform amid slowing growth, heightened tariff risks and likely elevated market volatility
As of April 8, 2025



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 27: Stable Growers have outperformed the broader MSCI EM index over the long term and during past market drawdowns
As of April 8, 2025

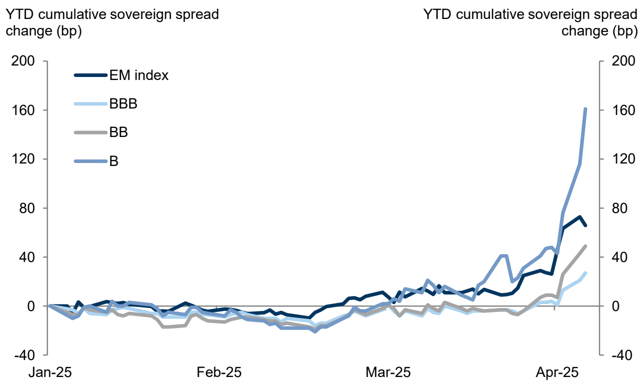


Source: FactSet, Goldman Sachs Global Investment Research

EM Sovereign Credit — Bracing for wider spreads

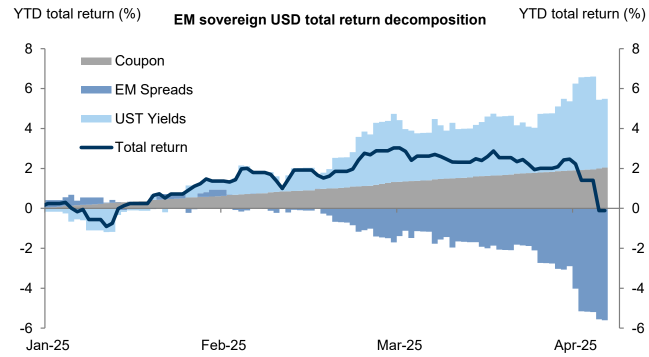
- **Significant EM sovereign spread widening amidst a deteriorating US growth outlook ...** The unattractive asymmetry in credit spreads is crystallising. The recent deterioration in the US growth outlook and risk sentiment means we expect spreads to widen meaningfully beyond our moderate spread widening view going into the year. Spreads have widened across rating buckets, with more widening in lower rated groups (Exhibit 28), and unlike earlier in the year when US yields and coupon accumulation were sufficient to offset the negative impact of spreads on total returns, spreads have now widened enough to bring year-to-date total returns near negative levels, erasing all gains in a very short time frame (Exhibit 29). Total returns therefore require more support from the US rates channel — perhaps once the market becomes more confident in a deeper Fed cutting cycle— in the current environment to recover their resilience that is often seen during growth slowdowns.

Exhibit 28: EM sovereign credit spreads have widened recently, with more widening in the lower rated buckets ...



Source: Bloomberg, Goldman Sachs Global Investment Research

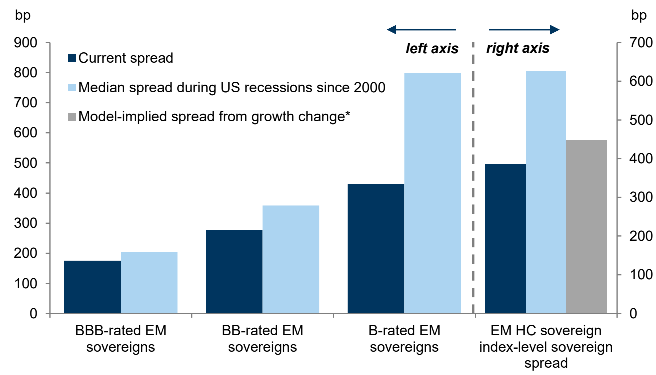
Exhibit 29: ...And this widening has been sufficient to erode all year-to-date total return gains



Source: Bloomberg, Goldman Sachs Global Investment Research

- **... But the market is not yet pricing a recession; raising our 12-month EM hard currency sovereign spread forecast from 350bp to 500bp.** Despite the recent widening, we find that EM sovereign spreads are not consistent with levels typically observed during a US recession, the probability of which has been increasing. Comparing current spread levels to the median spread during US recessions since 2000 shows that spreads still have room to widen towards recession-consistent levels. That is true across rating buckets and at the index level, with the EM hard currency index-level sovereign spread typically exceeding 600bp during recessions, versus a current level of around 390bp (Exhibit 30). Further, inputting a global growth downgrade consistent with our economists' recent forecast changes as well as the current VIX level in our EM sovereign credit model implies around 60bp of widening of the index-level spread fair value. This exercise, however, does not take into account a deterioration of other macro fundamentals, especially on the fiscal and external front, which would also push the fair value wider. This suggests that a 60bp spread widening from current levels is a lower bound for the amount of widening we would expect in the event of a US recession. **Balancing this historical analysis and the model predictions, we revise our 12-month EM hard currency sovereign spread forecast 150bp wider, from 350bp to 500bp** (Exhibit 31).

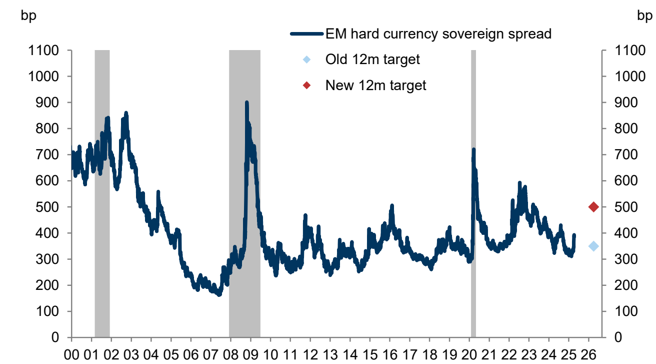
Exhibit 30: Despite the recent widening, EM sovereign credit spreads have not reached levels typically seen during US recessions or implied by our model when incorporating weaker fundamentals



*Obtained by inputting a global growth downgrade consistent with our economists' recent forecast changes as well as the current VIX level in our EM sovereign credit model.

Source: Bloomberg, Consensus Economics, Haver Analytics, IMF, Goldman Sachs Global Investment Research

Exhibit 31: We revise our 12-month EM hard currency sovereign spread forecast 150bp wider, from 350bp to 500bp

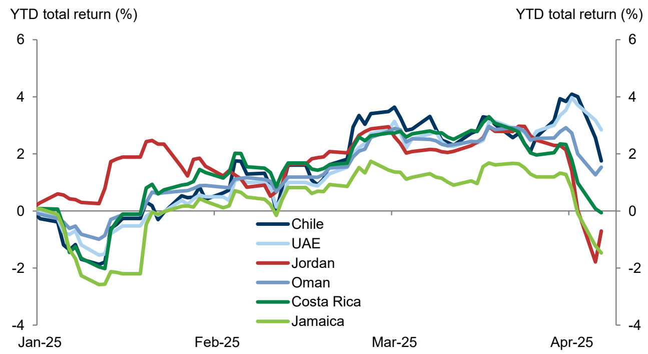


Shading indicates US recession.

Source: Bloomberg, Goldman Sachs Global Investment Research

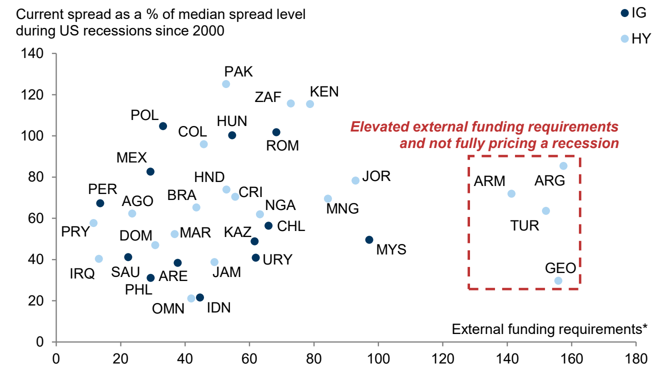
- **Turning even more defensive and only focusing on hedges.** Given the broad-based weakening we expect, we recommend investors adopt an even more defensive approach. Specifically, we have closed our long 'quality carry' basket trade recommendation for a positive potential return of +0.4%, as spreads have begun to widen across the board, pushing total returns downwards (Exhibit 32). We now focus squarely on identifying hedges against growth and volatility risks. The names we identified as hedges against global volatility a few weeks ago are still attractive, in our view. Our top hedges given elevated spread sensitivity to US growth pricing and US rate volatility are **Mexico** in IG, which is also among the most heavily exposed EMs to tariff uncertainty, as well as **Angola**, **Brazil**, **Colombia**, **the Dominican Republic** and **South Africa** in HY. We would also note the weaker fundamentals in the Dominican Republic and the recent political uncertainty in South Africa. We also study current spread levels relative to typical US recession levels across IG and HY. Among the high-beta names we like as hedges, we would note that the current spreads of Angola, Brazil, the Dominican Republic and Mexico are only at a fraction of the median spread level reached during US recessions since 2000, suggesting room for significantly more spread decompression (Exhibit 33). Sovereigns that have elevated external funding requirements, defined as the sum of the current account deficit and short-term external debt, both expressed as a percentage of FX reserves, include **Argentina**, **Armenia**, **Georgia** and **Turkey**, although Argentina's financing needs could be relieved considerably in the near term by a new IMF programme.

Exhibit 32: After posting positive total returns in the beginning of the year, the countries in our 'quality carry' basket saw a sharp decline in total returns recently



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 33: We like hedging against a US recession with sovereigns with high external funding requirements and whose spreads are not pricing a recession



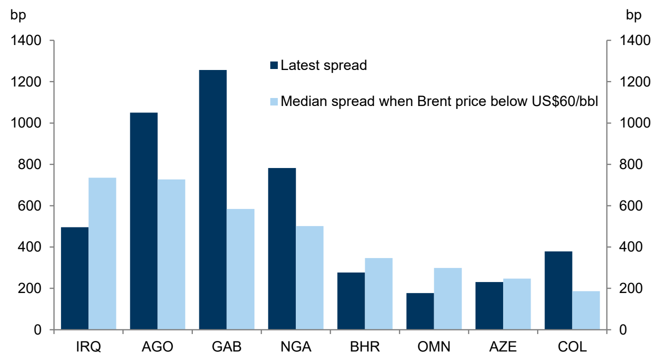
*External Funding Requirements = CA Deficit + Short-Term External Debt (all as % of FX Reserves).

Source: Bloomberg, Haver Analytics, Goldman Sachs Global Investment Research

- **Refining our oil hedges.** Our previous work had also identified hedges to further downside in oil prices, specifically Angola, Bahrain and Colombia. Since then, Brent prices have moved from the US$70/bbl region to below US$65/bbl, coinciding with significant spread widening in Angola and Colombia. In fact, the spreads of these two sovereigns now exceed their historical median levels when Brent prices were below US$60/bbl (Exhibit 34). Given our oil strategists expect Brent prices to be well below US$60/bbl by the end of 2025 in the event of a US recession or a larger global growth slowdown, we think there is still room for a widening of **Bahrain** and **Oman** spreads.

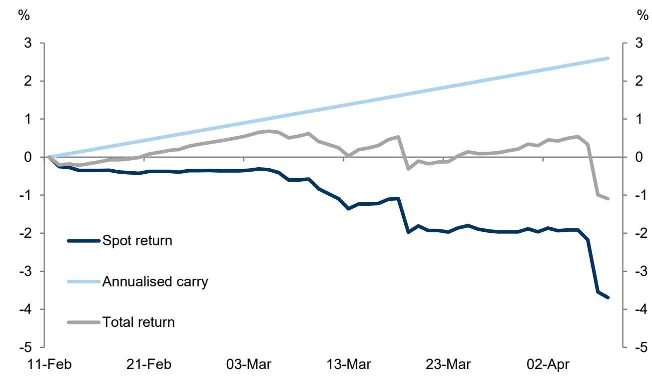
- **Frontier FX — closing our long basket trade recommendation.** We have closed our trade recommendation to go long an equally weighted basket of Frontier currencies including EGP, KES, NGN and TRY, for a potential return of +0.5%. While this trade idea benefitted from carry accumulation, the recent spot depreciation of the Egyptian Pound, the Nigerian Naira and the Turkish Lira broke the pattern of stability of these exchange rates, bringing the potential total return of that basket down (Exhibit 35). We would also flag that risks point towards a depreciation of the Kenyan Shilling, given (i) little to no valuation buffer according to our GSDEER model, (ii) the central bank recently narrowed the interest rate corridor and (iii) elevated external financing needs and (iv) our economists expect FX reserves to be on a downward trajectory from here. While we still like Frontier local, and specifically these four currencies, as an investment proposition given (i) solid macro fundamentals and encouraging reform trajectories, (ii) low correlation to global growth, trade and volatility risks, and (iii) elevated carry, we think recent and future near-term spot dynamics alongside the global risk-off tone warrant waiting for more clarity on the global growth and trade backdrop and for more attractive entry levels before re-engaging.

Exhibit 34: Angola's and Colombia's spreads are wider than the median levels reached when Brent prices were below US$60/bbl, while they remain tighter in Bahrain and Oman



Source: Bloomberg, Goldman Sachs Global Investment Research

Exhibit 35: While the potential total return of our recommended FX basket containing EGP, KES, NGN and TRY was supported by carry accumulation, it has come down recently given recent spot depreciation



Source: Bloomberg, Goldman Sachs Global Investment Research

The authors would like to thank Emilia Illinger for her contribution to this report. Emilia is an intern in the Markets team.

Macro forecasts and outlook

Market values in the exhibits that follow are as of 08 April, unless otherwise stated.

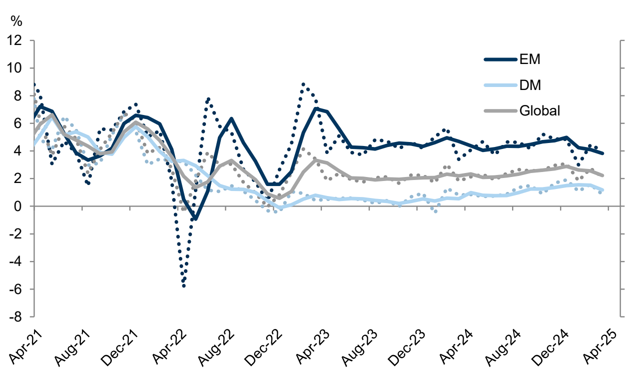
Goldman Sachs macro forecasts for major EMs vs. consensus

	GDP growth					Inflation					Policy rate				
	2024	2025		2026		2024	2025		2026		Current	2025		2026	
	Actual*	GS	Cons	GS	Cons	Actual*	GS	Cons	GS	Cons		GS	Cons	GS	Cons
Brazil	3.4	1.7	2.0	1.7	1.6	4.8	5.5	5.4	4.3	4.3	14.3	14.5	14.9	11.8	12.3
Chile	2.6	2.4	2.3	2.1	2.3	4.5	3.9	4.4	3.3	3.1	5.0	4.5	4.9	4.5	4.4
China	5.0	4.5	4.5	4.0	4.2	0.2	0.4	0.5	1.4	1.2	1.9	1.1	1.5	0.9	1.5
Colombia	1.7	2.7	2.5	2.8	2.9	5.2	4.4	4.6	3.3	3.5	9.5	8.0	8.0	7.0	6.7
Czech Republic	1.0	1.9	2.1	2.8	2.4	2.4	2.0	2.4	1.9	2.1	3.8	3.0	3.2	2.8	3.0
Hungary	0.5	1.4	2.1	3.0	3.2	3.7	3.7	4.8	3.1	3.5	6.5	5.8	5.9	4.0	5.0
India	7.0	6.2	6.5	6.1	6.5	6.7	4.7	4.2	4.0	4.3	6.3	6.3	5.7	5.5	5.7
Indonesia	5.0	4.7	5.0	4.8	5.0	2.3	1.7	2.1	2.8	2.7	5.8	4.8	5.3	4.8	5.1
Israel	0.3	2.3	3.6	4.7	3.9	3.1	3.2	2.9	2.1	2.3	4.5	4.0	3.9	3.3	3.2
Malaysia	5.1	3.8	4.7	3.9	4.6	1.8	1.9	2.4	2.1	2.3	3.0	2.8	3.0	2.8	2.9
Mexico	1.5	0.0	0.4	1.6	1.4	4.2	3.7	3.7	3.4	3.6	9.0	7.8	8.1	7.3	7.4
Peru	3.3	3.3	3.1	2.6	2.7	2.0	2.4	2.0	2.3	2.3	4.8	4.5	4.5	4.5	4.3
Philippines	5.7	5.7	5.9	5.7	5.9	3.2	2.5	3.0	2.8	3.2	5.8	5.0	5.1	5.0	4.9
Poland	2.8	3.4	3.5	3.6	3.4	3.8	4.0	4.3	2.4	3.2	5.8	4.3	5.0	3.5	4.0
Romania	0.9	2.5	2.2	3.4	3.0	5.6	4.8	4.4	2.7	3.3	6.5	6.0	5.7	4.0	4.6
Russia	4.0	1.0	1.6	2.1	1.4	8.5	9.7	9.0	7.0	5.5	21.0	20.0	17.9	11.0	11.4
South Africa	0.6	1.4	1.7	2.1	1.8	4.4	3.6	3.8	4.3	4.5	7.5	7.0	7.2	6.5	7.0
South Korea	2.0	1.0	1.5	2.1	1.9	2.3	1.6	2.0	1.8	1.9	2.8	2.3	2.3	2.3	2.2
Thailand	2.5	1.5	2.8	1.8	2.6	0.4	1.0	1.0	0.8	1.2	2.0	1.3	1.9	1.3	1.7
Turkey	3.2	3.2	2.9	3.8	3.5	58.5	32.0	32.3	21.4	20.0	42.5	33.0	30.3	24.0	21.0

Light blue cells indicate GS forecast above Bloomberg (median) consensus, grey cells indicate GS forecast below Bloomberg (median) consensus. For GDP and inflation, annual average data are used for GS forecasts and consensus. For India, GDP and inflation data are referred to fiscal year (2025 is India FY2025). For policy rates, end of year data are used for GS forecasts and consensus. * We take GS forecast if actual not available.

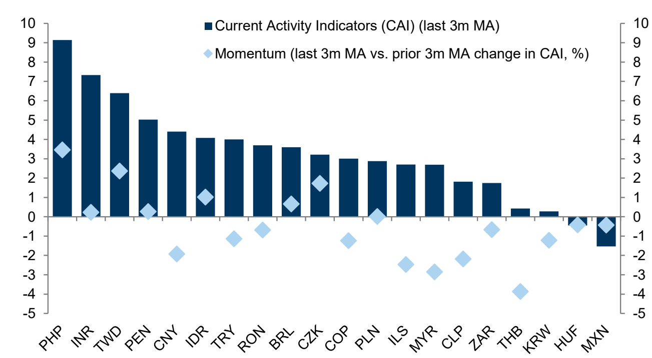
Source: Bloomberg, Goldman Sachs Global Investment Research

GS Current Activity Indicators (CAI)



Source: Goldman Sachs Global Investment Research

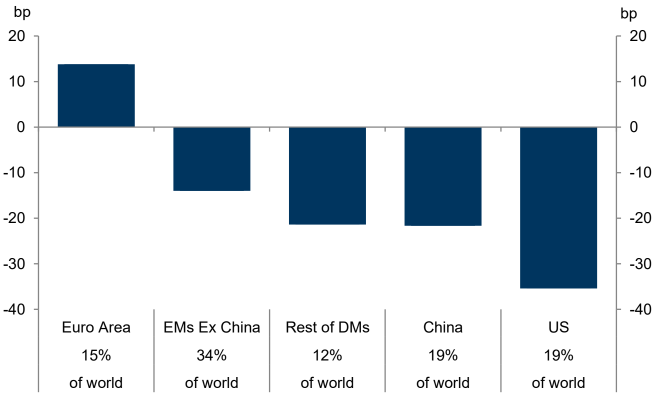
GS Current Activity Indicators (CAI) - latest level and momentum



Momentum calculated between Dec-24 and Mar-25.

Source: Goldman Sachs Global Investment Research

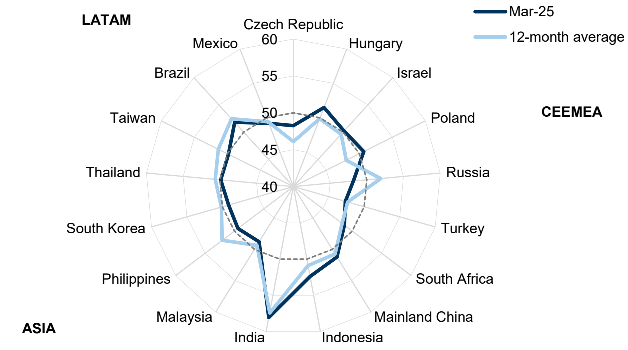
Regional contributions to change in global CAI (Dec-24 - Mar-25)



Regional contributions are weighted by the respective PPP GDP world share.

Source: Goldman Sachs Global Investment Research

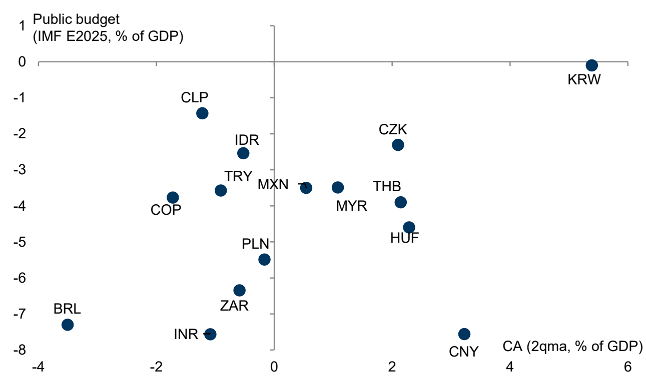
Manufacturing PMI



*For Mexico IMEF Business Climate Index and for Israel global PMI are shown.

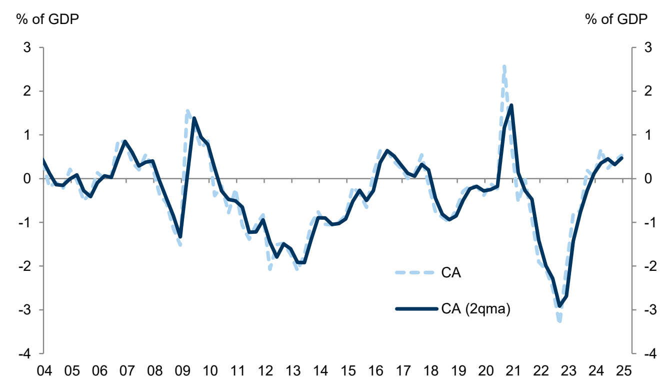
Source: Markit, Haver Analytics, Goldman Sachs Global Investment Research

External and fiscal balances



Source: Haver Analytics, Goldman Sachs Global Investment Research

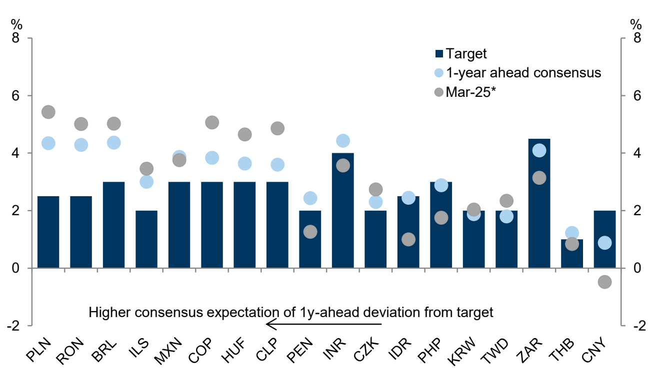
EM average current account balance



Average of BRL, CLP, CNY, COP, CZK, HUF, IDR, INR, KRW, MXN, MYR, PLN, THB, TRY and ZAR.

Source: Haver Analytics, Goldman Sachs Global Investment Research

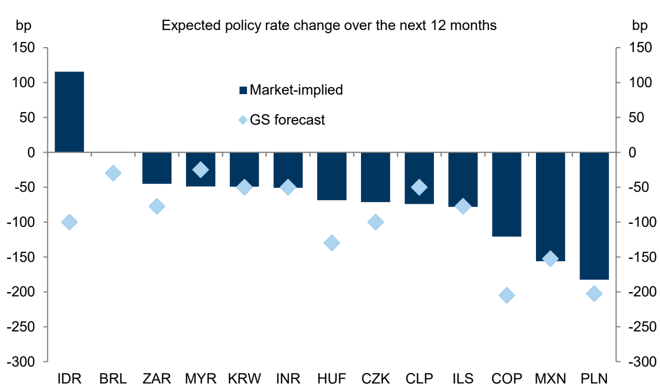
Consensus inflation expectations vs. 1-year realised and Central Bank's targets



*Feb-25 for BRL, CNY, INR, ILS, MYR, MXN, PLN, ZAR, RON.

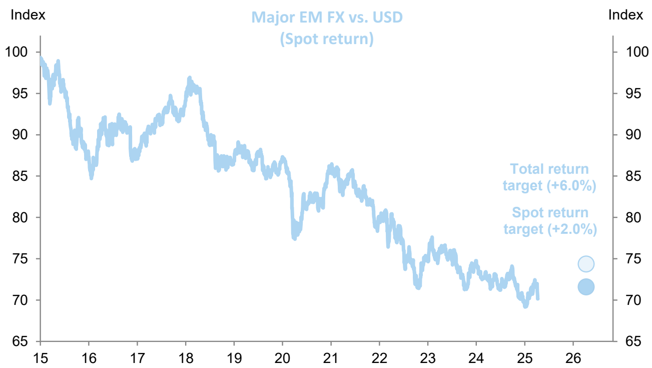
Source: Consensus Economics, Haver Analytics, Goldman Sachs Global Investment Research

GS and market-implied policy rate change on a 12-month horizon

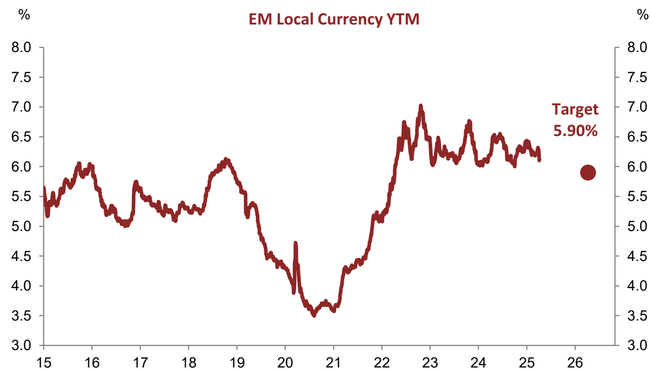


Source: Bloomberg, Goldman Sachs Global Investment Research

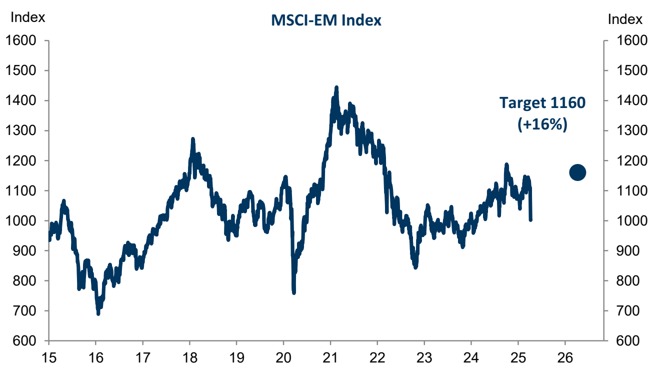
Market forecasts and valuations



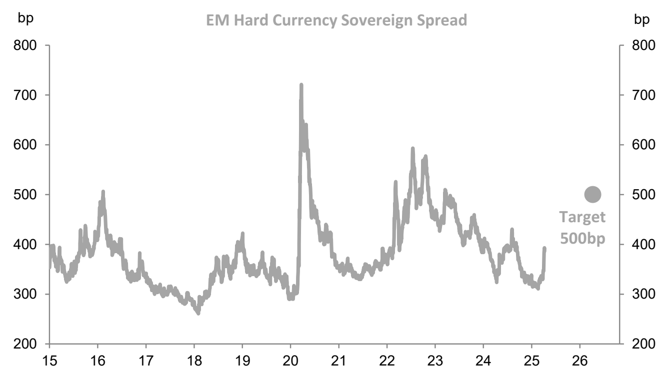
Source: Goldman Sachs, Goldman Sachs Global Investment Research



Source: Bloomberg, Goldman Sachs Global Investment Research

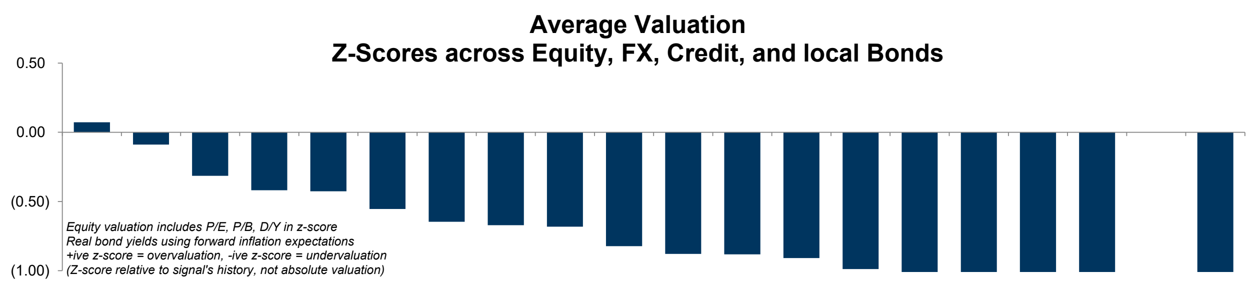


Source: Datastream, Goldman Sachs Global Investment Research



Source: Haver Analytics, Goldman Sachs Global Investment Research

EM cross asset valuation

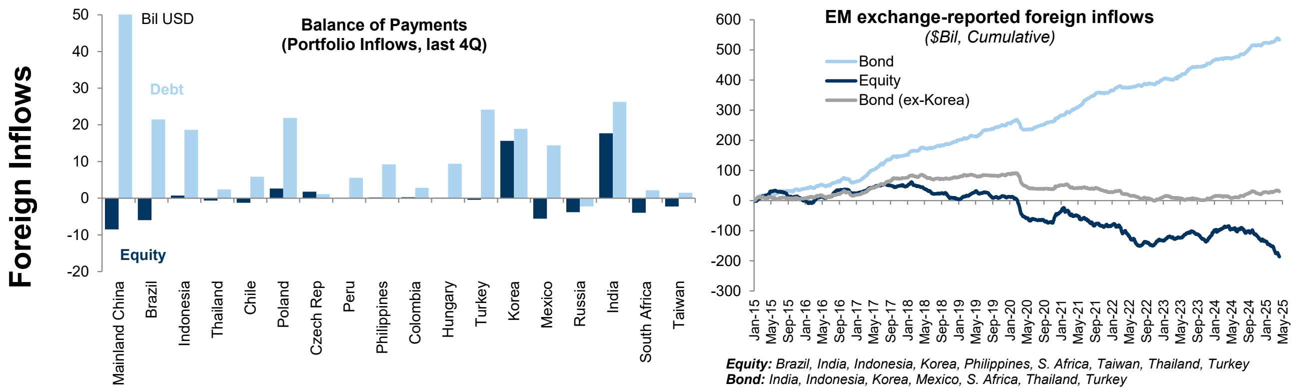


		INR	CZK	CNY	PLN	TWD	THB	MYR	PHP	TRY	HUF	PEN	CLP	KRW	ZAR	IDR	BRL	MXN	COP	EM
Equity	**PE (NTM)**	19.7x	15.4x	8.1x	13.5x	9.7x	9.6x	13.1x	5.9x	12.1x	5.3x	9.7x	9.9x	7.7x	10.7x	9.2x	7.2x	10.3x	6.9x	10.9x
FX	**vs GS FV**	(13%)	(3%)	(3%)	(11%)	(25%)	(1%)	(22%)	(14%)	(21%)	(32%)	(16%)	(26%)	(22%)	(19%)	(30%)	(23%)	(7%)	(14%)	(17%)
Credit	**Spread**	61bp	34bp	76bp	58bp	61bp	81bp	-	135bp	63bp	320bp	107bp	67bp	40bp	103bp	251bp	200bp	153bp	262bp	829bp
Bonds	**Real 10yr**	2.6%	2.0%	0.7%	1.5%	-0.2%	1.3%	1.5%	3.3%	-	3.0%	4.6%	2.1%	1.0%	7.0%	4.8%	10.5%	7.0%	8.1%	2.9%
Equity	Z-Score	0.28	0.50	(1.15)	(0.73)	(0.58)	(1.82)	0.54	(1.25)	(1.98)	(0.89)	(0.82)	(1.10)	(1.42)	(1.82)	(0.99)	(1.10)	(1.73)	(1.45)	(0.49)
FX	Z-Score	(0.95)	(0.13)	(0.12)	(0.84)	(1.98)	0.17	(2.31)	(1.04)	(1.56)	(1.46)	(1.30)	(2.10)	(2.09)	(1.26)	(1.64)	(1.08)	(0.74)	(0.83)	(1.18)
Credit	Z-Score	1.08	0.66	0.34	0.56	0.50	0.46	-	0.44	0.65	(0.12)	0.18	0.40	0.49	0.50	(0.58)	(0.09)	(0.44)	(1.45)	(2.13)
Bonds	Z-Score	(0.13)	(1.39)	(0.32)	(0.67)	0.35	(1.03)	(0.16)	(0.83)	0.16	-	(1.57)	(0.73)	(0.61)	(1.37)	(0.98)	(3.01)	(3.12)	(3.67)	(1.48)
AVG	**Z-Score**	**0.07**	**(0.09)**	**(0.31)**	**(0.42)**	**(0.43)**	**(0.55)**	**(0.65)**	**(0.67)**	**(0.68)**	**(0.82)**	**(0.88)**	**(0.88)**	**(0.91)**	**(0.99)**	**(1.05)**	**(1.32)**	**(1.51)**	**(1.85)**	**(1.32)**

Source: FactSet, Datastream, Goldman Sachs Global Investment Research

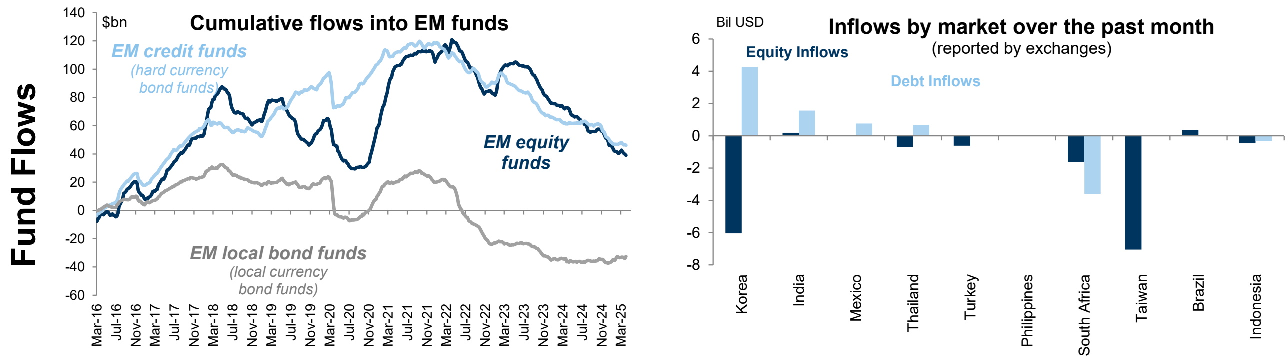
Flows and Positioning

EM portfolio investment and exchange-reported foreign flows



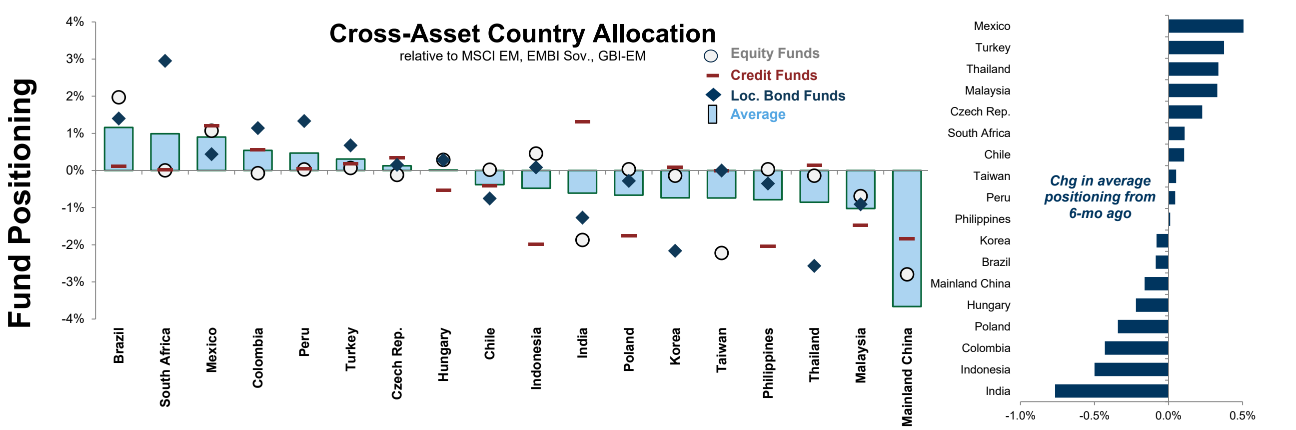
Source: Haver Analytics, Bloomberg, Goldman Sachs Global Investment Research

Cumulative flows into EM mutual funds



Source: EPFR, Bloomberg, Goldman Sachs Global Investment Research

Cross-asset mutual fund positioning



Source: EPFR, Goldman Sachs Global Investment Research

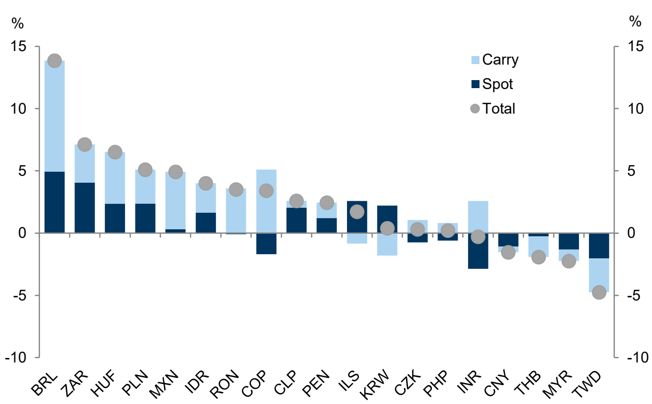
EM Currencies

		Spot	L3M spot return (%)	Forecast 3M	Forecast 6M	Forecast 12M	12M return forecast (%) Spot	12M return forecast (%) Carry	12M return forecast (%) Total	Fair value GSDEER	Fair value GSFEER	Fair value 60/40 Avg	Valuation* (%) GSDEER	Valuation* (%) GSFEER	Valuation* (%) 60/40 Avg
vs. USD	ARS	1075.7	-3.6	1080.0	1110.0	1350.0	-20.3								
	BRL	5.98	2.0	5.80	5.70	5.70	4.9	8.9	13.9	4.17	5.19	4.58	-30.3	-13.2	-23.5
	CLP	1000	1.2	970	975	980	2.1	0.5	2.6	681	775	719	-31.9	-22.6	-28.2
	CNY	7.27	-1.0	7.30	7.35	7.35	-1.1	-0.4	-1.5	5.18	5.68	5.38	-28.8	-21.9	-26.0
	COP	4424	-1.8	4400	4450	4500	-1.7	5.1	3.4	3372	3836	3558	-23.8	-13.3	-19.6
	CZK	23.11	6.0	22.50	22.09	21.25	8.7	-0.9	7.9	24.97	19.00	22.58	8.0	-17.8	-2.3
	HUF	374	8.0	366	352	333	12.2	2.2	14.3	333	315	326	-10.9	-15.8	-12.9
	IDR	17077	-4.7	16700	16800	16800	1.6	2.4	4.0	14240	12749	13643	-16.6	-25.3	-20.1
	ILS	3.80	-2.7	3.80	3.70	3.70	2.6	-0.8	1.7	3.49	3.03	3.31	-8.0	-20.2	-12.9
	INR	86.5	-0.3	87.5	88.0	89.0	-2.9	2.6	-0.3	77.4	69.3	74.2	-10.4	-19.9	-14.2
	KRW	1487	-0.9	1450	1455	1455	2.2	-1.8	0.4	1181	1144	1166	-20.6	-23.1	-21.6
	MXN	20.81	-0.5	21.25	21.00	20.75	0.3	4.6	4.9	19.90	18.18	19.21	-4.4	-12.6	-7.7
	MYR	4.49	0.5	4.50	4.55	4.55	-1.3	-0.9	-2.2	3.34	3.82	3.53	-25.7	-14.8	-21.3
	NGN	1622	-5.1	1600	1500	1400	15.9								
	PEN	3.75	0.7	3.70	3.70	3.70	1.2	1.2	2.4	3.11	3.22	3.15	-17.0	-13.9	-15.8
	PHP	57.7	2.4	57.5	58.0	58.0	-0.6	0.8	0.2	58.5	54.9	57.1	1.5	-4.7	-1.0
	PLN	3.93	6.1	3.84	3.70	3.50	12.2	0.8	12.9	3.96	3.45	3.75	0.8	-12.0	-4.4
	RON	4.55	6.2	4.44	4.35	4.17	9.1	2.0	11.1		4.55			0.0	
	RUB	85.9	19.1	100.00	105.00	110.00	-22.0	17.4	-4.5	77.9	84.9	80.7	-9.3	-1.1	-6.0
	THB	34.91	-0.5	34.00	34.50	35.00	-0.3	-1.7	-1.9	30.94	29.65	30.42	-11.4	-15.1	-12.8
	TRY	37.98	-6.7	37.00	39.00	42.00	-9.6	43.8	34.2	25.90	30.46	27.73	-31.8	-19.8	-27.0
	TWD	33.1	0.0	33.5	33.7	33.8	-2.0	-2.7	-4.8	26.5	24.9	25.9	-19.8	-24.8	-21.8
	UAH	41.18	2.6	42.00	43.00	46.00	-10.5	11.5	1.0						
	ZAR	19.77	-3.3	19.50	19.25	19.00	4.1	3.1	7.1	12.71	14.27	13.33	-35.7	-27.8	-32.6
vs. EUR	CZK	25.31	-0.9	25.20	25.40	25.50	-0.7	1.1	0.3	29.93	25.01	27.96	18.3	-1.2	10.5
	HUF	409	1.0	410	405	400	2.4	4.2	6.5	399	414	405	-2.5	1.1	-1.0
	PLN	4.30	-0.7	4.30	4.25	4.20	2.4	2.7	5.1	4.74	4.55	4.66	10.3	5.7	8.5
	RON	5.00	-0.5	4.97	5.00	5.00	-0.1	3.6	3.5		5.98			19.7	
	RUB	94.0	11.4	112.00	120.75	132.00	-28.8	19.7	-9.1	93.4	111.7	100.7	-0.7	18.8	7.1

*A positive value signals overvaluation.

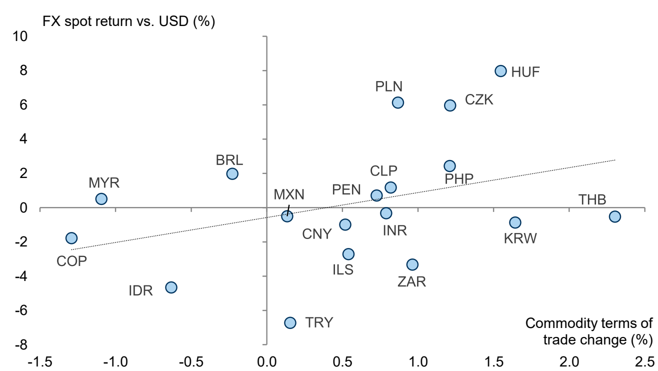
Source: Goldman Sachs, Goldman Sachs Global Investment Research

12-month return forecasts vs. USD
CEE currencies vs. EUR



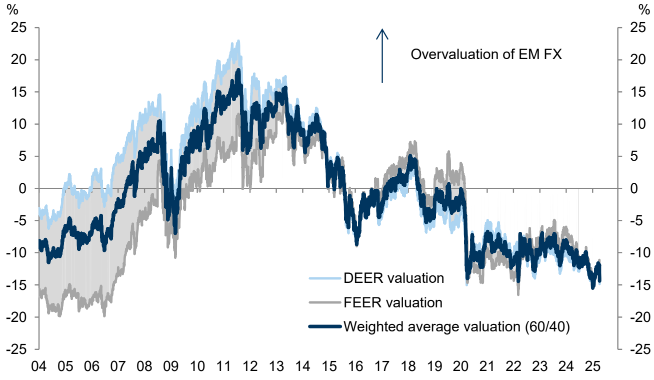
Source: Goldman Sachs, Goldman Sachs Global Investment Research

Last 3-month commodity terms of trade change and spot return vs. USD



Source: Goldman Sachs, Goldman Sachs Global Investment Research

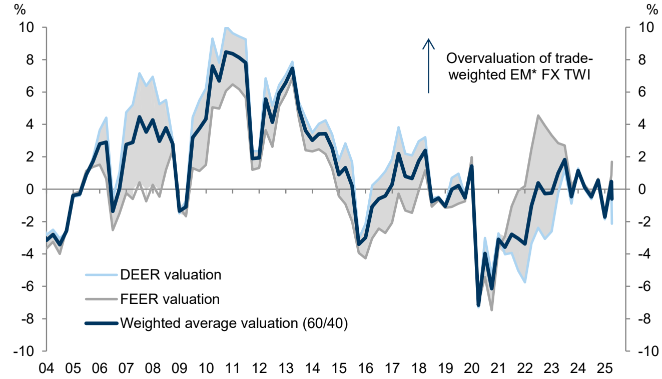
Valuation of EM* FX vs. USD
CEE currencies vs. EUR



*Average of 15 countries.

Source: Goldman Sachs, Goldman Sachs Global Investment Research

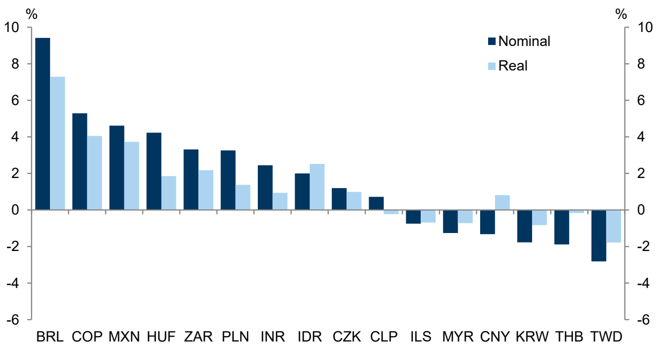
Trade-weighted valuation of EM* FX



*Average of 15 countries.

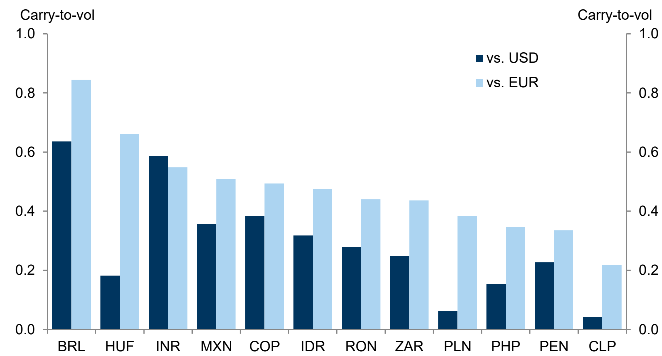
Source: Goldman Sachs, Goldman Sachs Global Investment Research

Nominal and real 1-year carry vs. USD
CEE currencies vs. EUR



Source: Consensus Economics, Goldman Sachs, Goldman Sachs Global Investment Research

Carry-to-vol
12-month carry to 3-month annualized realized volatility



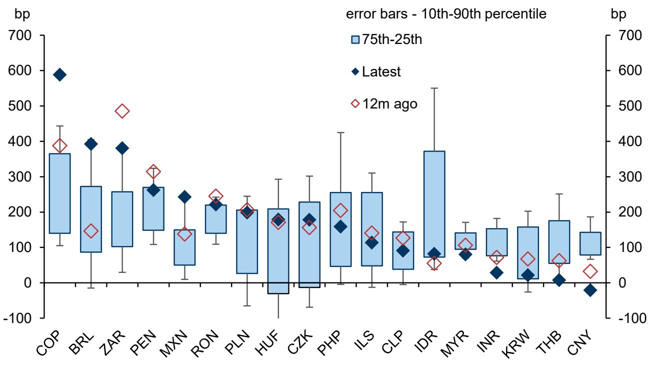
Source: Goldman Sachs, Goldman Sachs Global Investment Research

EM Local Rates

	Nominal swap rates						Slopes						Real swap rates						Bloomberg Barclays EM Local Currency	
	Spot (%)			L3M change (bp)			Spot (%)			L3M change (bp)			Current (%)			Hist. percentile			Yield	L3M USD
	2Y	5Y	10Y	2Y	5Y	10Y	2s5s	5s10s	2s10s	2s5s	5s10s	2s10s	2Y	5Y	10Y	2Y	5Y	10Y	(%)	return (%)
BRL	14.26	14.49	14.69	-103	-55	10	0.23	0.20	0.43	48	65	113	9.55	10.53	11.22	96	97	98	14.0	7.2
CLP	4.45	4.63	5.01	-76	-90	-76	0.18	0.39	0.57	-14	14	0	0.76	1.23	1.81	54	49	51	5.4	5.1
CNY	1.47	1.47	1.54	1	-2	-7	0.00	0.07	0.06	-2	-5	-8	0.61	0.12	-0.14	64	9	3	1.6	-0.1
COP	8.10	8.45	9	-17	-16	-9	0.35	0.62	0.96	1	8	8	4.16	4.91	5.79	91	95	96	11.3	-1.5
CZK	3.19	3.31	3.60	-45	-40	-27	0.13	0.29	0.41	5	13	18	0.91	1.16	1.52	90	90	91	3.7	7.4
HUF	6.23	6.36	6.72	-32	-34	-24	0.13	0.36	0.49	-2	9	8	1.93	2.61	3.35	72	76	81	6.6	8.8
IDR	6.69	6.89	7.10	-25	-17	-7	0.20	0.21	0.41	8	9	17	4.35	4.47	4.63	99	96	86	7.0	-2.1
ILS	3.99	3.95	4.21	-19	-19	-11	-0.03	0.26	0.23	0	9	8	1.29	1.50	1.93	92	87	79	4.3	-1.5
INR	5.69	5.77	5.88	-53	-43	-34	0.07	0.12	0.19	10	9	19	1.39	1.59	1.80	65	56	45	6.6	2.9
KRW	2.36	2.37	2.50	-22	-24	-19	0.02	0.13	0.14	-1	5	3	0.45	0.42	0.52	73	65	63	2.6	1.5
MXN	7.68	7.86	8.32	-134	-123	-96	0.18	0.46	0.64	11	26	38	4.05	4.50	5.14	76	84	87	9.0	5.0
MYR	3.28	3.33	3.49	-25	-21	-25	0.05	0.16	0.21	4	-4	0	1.02	1.18	1.41	74	60	50	3.6	2.4
PLN	4.27	4.16	4.46	-93	-86	-73	-0.12	0.31	0.19	7	13	20	0.46	0.91	1.59	49	62	66	4.8	9.9
THB	1.31	1.39	1.74	-63	-61	-57	0.08	0.35	0.43	1	4	6	0.08	-0.17	-0.04	61	18	14	2.0	3.3
ZAR	7.23	7.69	8.89	-21	-19	-2	0.45	1.20	1.65	2	17	19	3.19	3.45	4.52	94	91	91	10.6	-3.7
EM (10% Cap)																			6.17	2.5

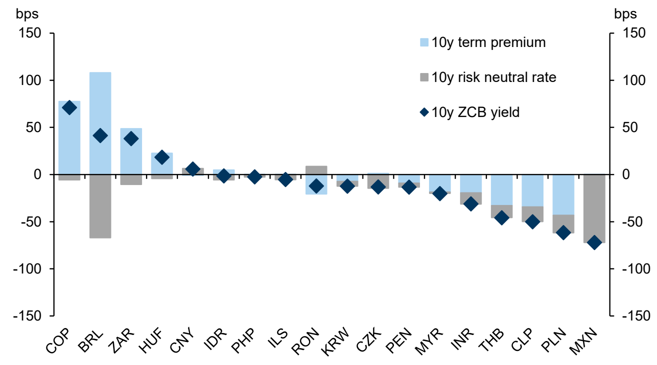
Source: Bloomberg, Goldman Sachs, Goldman Sachs Global Investment Research

Current 10-year local bond term premia estimates vs. historical interquartile range



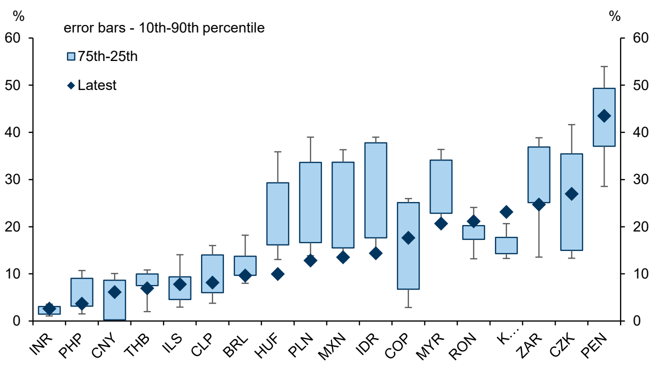
Source: Bloomberg, Goldman Sachs Global Investment Research

Decomposition of last three-month 10y rate changes in risk-neutral rate and term premium



Source: Bloomberg, Goldman Sachs Global Investment Research

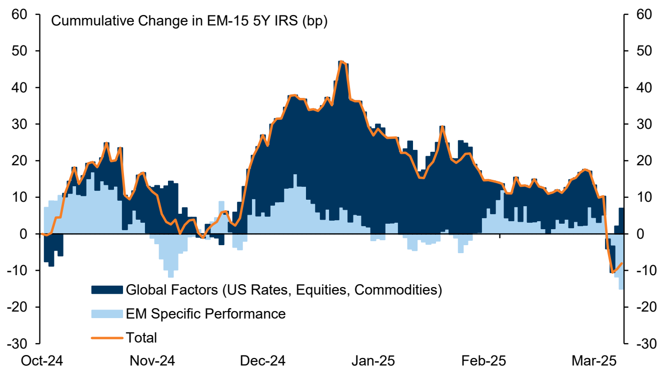
Local government bonds foreign ownership vs. last 16-year range



Source: Haver Analytics, Goldman Sachs Global Investment Research

Contribution of local and global shocks to aggregate 5Y IRS performance

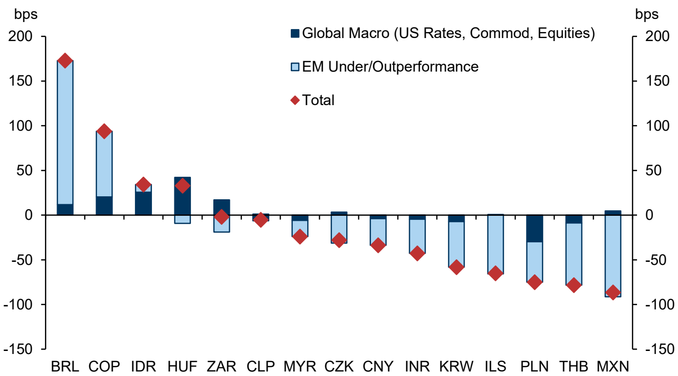
Performance over the past 6 months



Source: Goldman Sachs Global Investment Research, Bloomberg

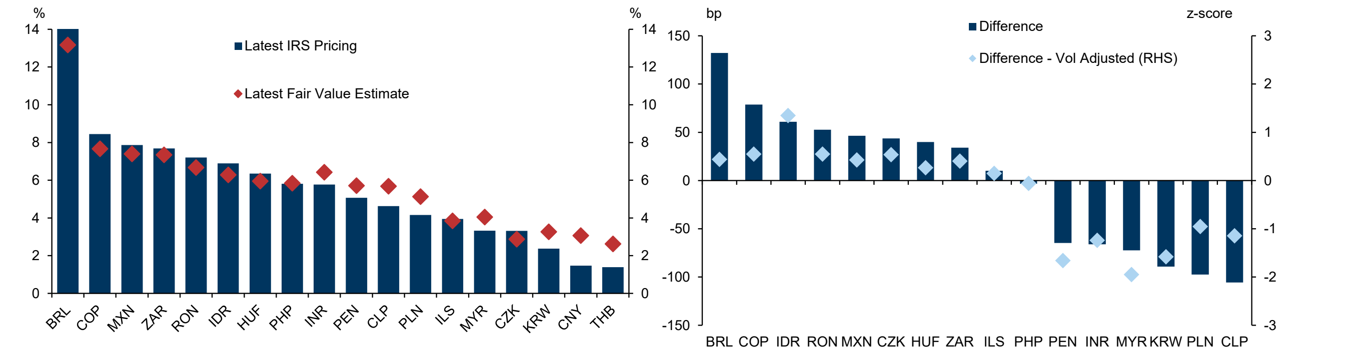
Contribution of local and global shocks to country specific 5Y IRS performance

Performance over the past 6 months



Source: Goldman Sachs Global Investment Research, Bloomberg

Latest fair value estimate vs. IRS pricing (LHS); Valuation gap (RHS)



Source: Goldman Sachs Global Investment Research, Bloomberg

EM Equities

					Equities Performance (%)						EPS % change (NTM)						Consensus	
				GS Target	Local		USD	P/E	P/B	D/Y	Local			USD			EPS Growth	
	wgt	Index	Current	12-mo	1w	ytd	ytd	NTM	LTM	NTM	1m	3m	12m	1m	3m	12m	2025E	2026E
Colombia	0.1%	COLCAP	1610	1450	**1.4**	21.4	22.2	6.9	1.0	8.3	3.0	6.0	9.7	1.4	11.4	1.1	2.3%	0.9%
Indonesia	1.4%	JCI	5996	7000	**0.0**	-9.4	-12.3	10.7	2.0	6.0	0.7	-1.4	-2.2	0.8	-4.1	-6.4	-0.7%	8.2%
Turkey	0.6%	XU100	9477	10500	**-2.4**	-5.2	-12.7	5.3	1.0	4.5	3.9	-2.3	-2.3	-0.1	-9.0	-16.8	44.0%	45.1%
Thailand	1.3%	SET	1075	1120	**-3.5**	-17.3	-17.6	13.5	1.6	4.0	-1.2	-2.7	0.5	-0.5	-2.2	8.1	17.2%	8.6%
Malaysia	1.4%	FBMKLCI	1444	1620	**-4.9**	-12.9	-13.1	12.1	1.3	4.2	-0.4	1.1	7.4	0.2	1.8	14.6	13.2%	6.7%
Qatar	0.8%	DSM	9897	11200	**-5.0**	-9.0	-9.0	10.0	1.4	4.7	-0.2	-1.9	-1.0	-0.2	-1.9	-1.0	5.8%	6.5%
Mexico	2.0%	MEXBOL	50285	51000	**-5.0**	2.5	3.3	10.3	1.8	4.4	2.1	0.8	12.4	2.4	2.4	-8.7	24.8%	11.8%
Brazil	4.5%	IBOV	123909	128000	**-5.4**	0.0	4.9	7.2	1.5	6.7	-0.4	-2.7	-5.3	2.1	5.0	-17.2	24.1%	10.3%
Philippines	0.5%	PCOMP	6006	7000	**-5.5**	-8.6	-7.8	9.6	1.6	3.1	-0.4	0.8	12.0	1.0	1.8	10.0	13.4%	10.0%
Egypt	0.1%	EGX30	30649	32700	**-5.7**	-1.4	-2.5	4.7	1.8	5.9	1.8	6.8	30.6	1.9	7.4	22.4	28.6%	4.5%
India	19.1%	NIFTY	22162	25000	**-5.8**	-8.9	-9.1	19.7	3.5	1.4	3.0	2.6	10.1	5.4	2.8	7.4	17.8%	15.2%
Chile	0.5%	IPSA	7151	8150	**-6.5**	4.8	5.2	9.9	1.3	3.9	-1.0	-0.5	-8.6	-0.6	3.9	-5.8	26.1%	9.6%
Saudi Arabia	5.4%	SASEIDX	11303	13500	**-6.9**	-5.0	-5.0	14.7	2.2	3.7	-0.5	0.7	7.7	-0.6	0.9	7.7	18.9%	9.9%
Czech Rep	0.2%	PX	1974	2100	**-7.7**	12.3	17.3	15.4	2.0	4.7	-1.7	1.5	-3.0	2.5	6.7	-1.9	-7.1%	37.5%
South Africa	3.0%	JSE 40	77246	89000	**-8.5**	1.8	-1.9	9.2	1.7	3.5	-1.1	0.9	16.1	-0.1	3.5	19.5	31.6%	12.6%
UAE	1.4%	DFMGI	4890	5500	**-9.1**	-7.2	-7.2	8.3	1.5	5.0	4.3	8.7	22.6	4.3	8.7	22.5	5.6%	6.4%
Korea	9.2%	KOSPI	2334	2600	**-10.1**	-3.2	-2.9	7.7	0.9	2.6	2.2	-2.9	17.6	1.6	-2.9	7.5	23.8%	19.7%
Hungary	0.3%	BUX	85695	89500	**-10.7**	1.9	7.8	5.9	1.0	4.6	0.9	3.9	12.1	4.0	10.6	9.6	-0.3%	7.7%
Taiwan	17.3%	TWSE	18460	21000	**-10.9**	-17.9	-18.8	13.1	2.5	2.9	0.3	4.4	35.5	-0.8	3.1	30.6	29.3%	15.6%
Peru	0.3%	SPBLGPT	27936	32500	**-11.4**	-8.8	-7.0	9.7	1.8	4.0	0.7	1.1	21.7	1.0	3.7	23.6	10.4%	10.5%
Poland	1.0%	WIG	90412	99000	**-11.8**	11.1	15.8	8.1	1.2	6.0	0.0	0.6	21.3	3.0	7.2	24.7	21.2%	2.4%
Mainland China	29.5%	HSCEI	7263	9250	**-14.9**	-1.4	-1.6	9.7	1.4	2.6	0.4	2.1	9.7	0.8	2.8	9.4	23.7%	11.5%
Greece	0.5%	ASE	1571	1700	**-17.0**	2.3	7.5	6.6	1.0	5.8	1.2	2.7	10.6	5.1	7.1	10.6	5.9%	5.9%
EM (USD)	-	MSCI EM	1001	1160	**-10.3**	-6.8	-6.9	10.9	1.7	2.9	0.8	1.7	10.4	1.1	1.9	7.4	21.2%	13.3%

Source: FactSet, Goldman Sachs Global Investment Research

EM Regional performance

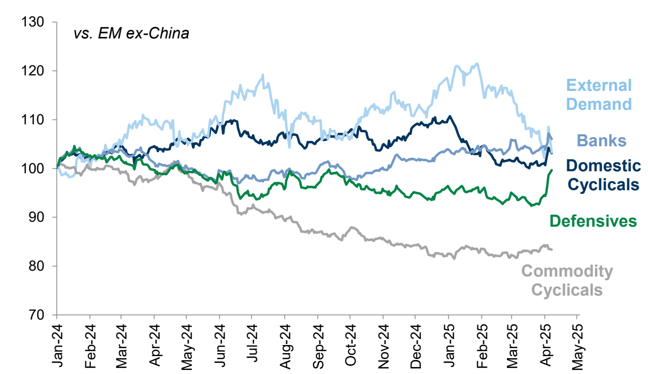
Annual Returns (USD Terms)

	MSCI China	Korea & Taiwan	EM Europe & ZA	India	LatAM	ASEAN	MENA
2011	(20%)	(18%)	(25%)	(38%)	(22%)	(1%)	(23%)
2012	19%	17%	21%	24%	5%	15%	7%
2013	0%	5%	(11%)	(5%)	(16%)	(10%)	21%
2014	5%	(4%)	(2%)	22%	(15%)	5%	8%
2015	(10%)	(11%)	(29%)	(7%)	(33%)	(21%)	(24%)
2016	(1%)	10%	8%	(3%)	28%	6%	4%
2017	51%	36%	35%	37%	21%	24%	1%
2018	(20%)	(18%)	(26%)	(9%)	(9%)	(10%)	12%
2019	21%	20%	6%	6%	15%	3%	5%
2020	27%	40%	(8%)	14%	(16%)	(9%)	(6%)
2021	(23%)	6%	1%	25%	(14%)	(5%)	30%
2022	(24%)	(32%)	(8%)	(9%)	(0%)	(3%)	(7%)
2023	(13%)	24%	8%	20%	25%	(5%)	2%
2024	16%	7%	2%	11%	(30%)	(2%)	1%
YTD	0%	(16%)	5%	(8%)	3%	(17%)	(5%)

Source: FactSet, Goldman Sachs Global Investment Research

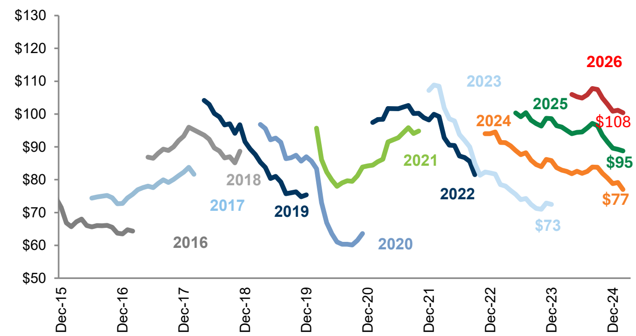
EM Macro Slices performance

Perf vs EM



Source: Goldman Sachs Global Investment Research, FactSet

Earnings revisions for MSCI EM have been negative in recent weeks



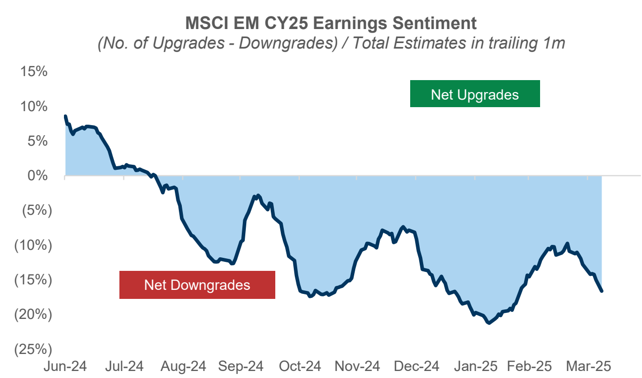
Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Global Investment Research

Korea, Turkey, and Poland saw downgrades, while Peru and China saw upgrades

	EPS Growth		EPS Revision (1 Week)		EPS Revision (1 Month)	
	2024	2025	2024	2025	2024	2025
Brazil	2%	9%	0.3%	-0.3%	-1.3%	-0.7%
Chile	-14%	37%	-0.3%	0.8%	-1.1%	1.9%
China	14%	8%	-0.3%	-0.9%	-0.4%	-1.5%
Colombia	4%	1%	0.0%	-0.6%	0.0%	-0.4%
Czech Republic	6%	-8%	2.8%	-0.4%	2.1%	-0.9%
Egypt	86%	15%	0.0%	-0.3%	1.7%	0.4%
Greece	8%	4%	0.7%	-0.1%	1.4%	-0.1%
India	11%	14%	-0.1%	-0.2%	-0.1%	-0.3%
Indonesia	2%	0%	-0.4%	-0.1%	-0.1%	-1.9%
Korea	85%	18%	-0.1%	0.3%	0.1%	1.4%
Kuwait	3%	-3%	0.0%	-0.2%	-4.0%	-5.3%
Malaysia	9%	7%	0.0%	-0.1%	0.0%	-0.5%
Mexico	23%	19%	0.0%	0.0%	-0.3%	-1.0%
Peru	38%	6%	0.0%	-0.7%	0.0%	-0.8%
Philippines	18%	10%	0.0%	0.1%	-0.2%	-0.1%
Poland	-6%	28%	-0.1%	-0.8%	3.3%	-0.3%
Qatar	6%	0%	0.0%	0.3%	0.0%	-0.1%
Saudi Arabia	16%	9%	0.0%	-0.3%	-0.4%	-2.8%
South Africa	22%	32%	0.9%	2.3%	-1.4%	3.4%
Taiwan	40%	18%	0.0%	-0.4%	-0.3%	-1.1%
Thailand	7%	10%	0.0%	-0.2%	0.0%	-1.1%
Hungary	4%	-5%	0.0%	-0.2%	-0.4%	1.2%
Turkey	-35%	71%	0.3%	-0.6%	0.2%	-1.8%
UAE	11%	2%	0.0%	0.3%	0.0%	1.0%
MSCI EM	**17%**	**10%**	**-0.1%**	**-0.3%**	**-0.3%**	**-0.6%**

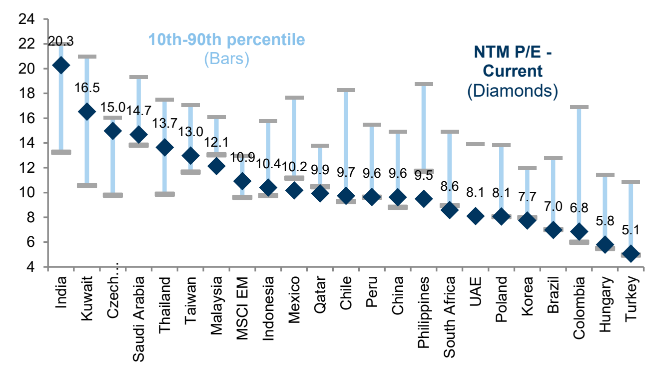
Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Global Investment Research

CY2024 earnings sentiment remains soft



Source: FactSet, I/B/E/S, MSCI, Goldman Sachs Global Investment Research

Valuation dispersion persists across EM markets



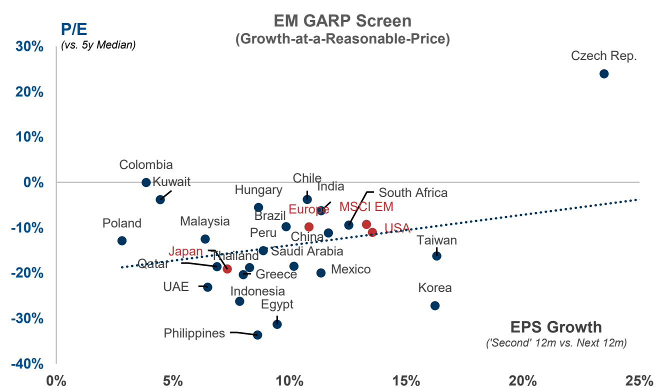
Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Valuation Z-score Markets

MSCI Markets	Current P/E (NTM)	Current P/B (LTM)	Current DIV YLD (LTM)	Z-Score (10-years) P/E (NTM)	Z-Score (10-years) P/B (LTM)	Z-Score (10-years) DIV YLD (LTM)	Avg Z-Score
Indonesia	10.4	2.0	5.6	-2.9	-1.7	-2.4	-2.3
Philippines	9.5	1.7	3.1	-2.3	-1.0	-3.1	-2.1
Thailand	13.7	1.6	3.7	-1.2	-1.8	-2.5	-1.8
Malaysia	12.1	1.3	4.2	-2.2	-1.8	-1.5	-1.8
Qatar	9.9	1.4	4.7	-1.7	-1.4	-1.3	-1.5
Mexico	10.2	1.8	3.7	-1.7	-1.2	-1.2	-1.4
Hungary	5.8	1.0	3.7	-1.2	-0.8	-1.7	-1.2
Korea	7.7	0.9	2.4	-1.5	-0.9	-1.2	-1.2
UAE	8.1	1.5	5.7	-1.5	0.0	-1.7	-1.0
Peru	9.6	1.9	3.9	-1.5	-0.5	-0.9	-1.0
Poland	8.1	1.2	5.2	-1.2	0.2	-1.7	-0.9
South Africa	8.6	1.7	3.5	-1.2	-1.0	-0.5	-0.9
Colombia	6.8	1.0	8.0	-1.0	-0.6	-1.2	-0.9
Brazil	7.0	1.5	7.8	-1.2	-0.6	-0.7	-0.9
Turkey	5.1	1.0	3.0	-0.9	-0.9	0.2	-0.5
Chile	9.7	1.4	3.8	-1.0	-0.6	0.1	-0.5
China	9.6	1.6	2.1	-1.0	-0.2	0.1	-0.3
Saudi Arabia	14.7	2.3	3.6	-0.9	0.7	-0.2	-0.1
India	20.3	3.6	1.2	0.3	0.7	0.1	0.4
Kuwait	16.5	2.2	3.1	0.0	1.0	0.4	0.5
Taiwan	13.0	2.8	2.5	-0.7	1.3	1.3	0.6
Czech Republic	15.0	2.1	5.9	1.0	1.6	0.5	1.0
MSCI EM	**10.9**	**1.8**	**2.7**	**-1.1**	**0.7**	**-0.1**	**-0.1**

Source: FactSet, MSCI, Goldman Sachs Global Investment Research

P/E vs Earnings Growth



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

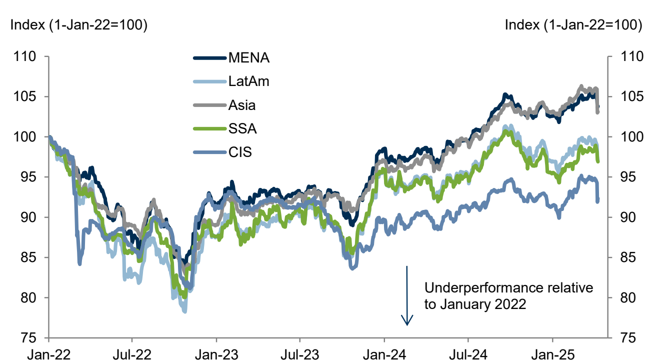
EM Sovereign Credit

Rating	Currency Code	Country	Duration	Sovereign Spread (bp) Spread	Pct. Rank	2wk ch.	YTD ch.	Return (%) 2wk	YTD	Valuations (~5-year) Generic sovereign spread	Model-implied signal	Misalignment (Actual minus implied)
Medians		LatAm	7.5	226	53%	26	20	-2.6	0	329	401	-72
		CEE/Balkans	7.1	151	36%	26	17	-1.5	1	126	153	-27
		CIS	6.4	319	53%	46	40	-2.7	1	1063	316	728
		SSA	4.8	978	97%	311	408	-8.5	-6	454	566	-112
		Asia	5.3	331	0%	147	164	-2.4	0	204	341	-95
		MENA	5.4	191	3%	35	35	-1.5	1	558	524	99
		A	7.2	100	0%	16	8	-0.5	2	55	107	-50
		BBB	8.0	165	83%	29	23	-1.4	1	113	171	-58
		BB	5.9	241	15%	33	19	-2.0	1	237	270	-33
		B	5.0	714	87%	177	196	-6.6	-5	472	593	-121
		IG	7.8	195	74%	33	39	-1.0	1	169	155	-56
		HY	4.8	714	87%	177	196	-4.1	-2	377	407	-49
		EM Hard Currency	-	392	8%	61	3	-	-	341	393	-49
A	CLP	Chile	9.2	100	6%	5	8	-0.7	2	64	130	-66
	PLN	Poland	7.7	107	92%	24	15	-1.6	2	48	83	-35
	SAR	Saudi Arabia	6.7	110	-	23	17	-1.9	1	72	-	-
BBB	HUF	Hungary	7.1	190	46%	41	34	-3.0	0	120	148	-27
	IDR	Indonesia	7.6	118	66%	28	36	-2.5	-1	72	138	-66
	MXN	Mexico	8.4	211	75%	18	12	-1.7	2	121	175	-54
	PEN	Peru	9.4	140	31%	17	13	-1.6	1	96	186	-90
	PHP	Philippines	7.9	109	61%	27	25	-2.3	0	72	144	-72
	RON	Romania	6.3	281	87%	55	48	-3.4	-1	196	236	-40
BB	BRL	Brazil	7.2	219	59%	20	-15	-1.0	4	177	154	22
	COP	Colombia	7.6	360	56%	36	41	-2.7	0	245	260	-15
	CRC	Costa Rica	8.7	226	10%	26	33	-2.2	0	150	213	-63
	DOP	Dominican Republic	7.5	243	-	26	32	-1.9	0	181	242	-62
	GTQ	Guatemala	6.0	220	27%	27	15	-1.5	2	166	187	-21
	XOF	Ivory Coast	5.4	524	82%	142	167	-7.3	-5	204	423	-219
	JOD	Jordan	4.1	463	82%	139	121	-4.6	-2	314	243	71
	MAD	Morocco	6.6	191	10%	35	35	-2.3	0	124	180	-56
	OMR	Oman	5.4	178	-	47	38	-2.5	0	120	203	-83
	ZAR	South Africa	5.9	358	82%	90	101	-3.9	-2	218	244	-25
	TRY	Turkey	4.9	321	7%	45	82	-1.5	-1	224	294	-69
B	AOA	Angola	4.6	1060	99%	363	418	-13.5	-13	630	488	142
	BHD	Bahrain	5.4	269	-	56	53	-2.8	0	179	269	-90
	EGP	Egypt	5.3	714	14%	140	193	-6.0	-5	427	620	-194
	KES	Kenya	4.8	817	63%	236	291	-9.7	-8	498	547	-49
	MNT	Mongolia	3.7	544	75%	265	294	-8.7	-7	242	236	6
	NGN	Nigeria	5.1	749	49%	212	232	-9.1	-7	471	491	-20

Valuations as of 1st February. For more details, please visit the latest update of the EM sovereign credit model by clicking on the table above.

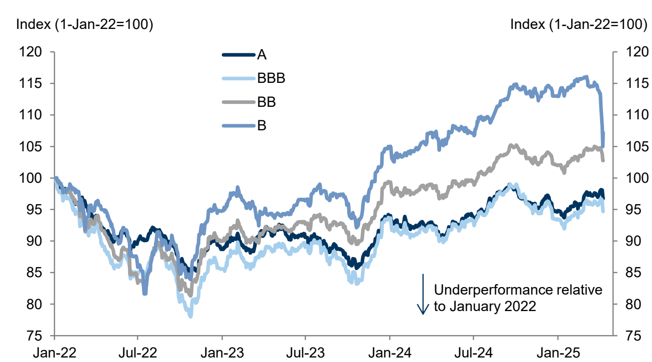
Source: Bloomberg, Haver Analytics, Goldman Sachs Global Investment Research

Median regional relative performance to January 2022



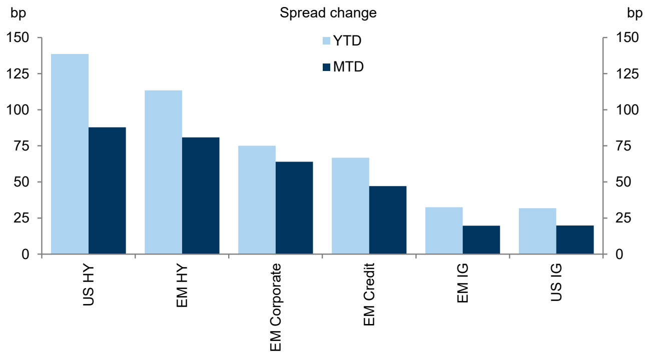
Source: Bloomberg, Goldman Sachs Global Investment Research

Median ratings relative performance to January 2022



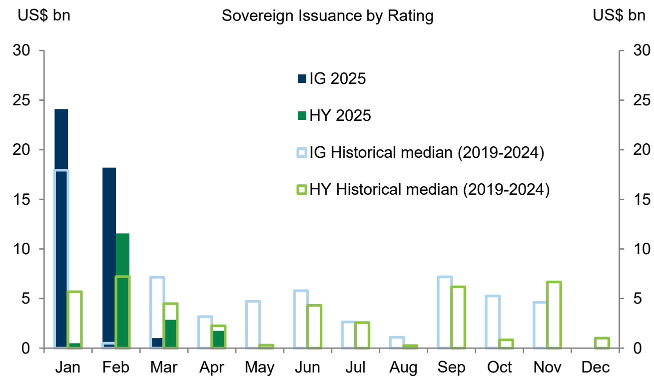
Source: Bloomberg, Goldman Sachs Global Investment Research

YTD and MTD spread performance



Source: Bloomberg, Goldman Sachs Global Investment Research

EM sovereign USD issuance by rating



Source: Bloomberg, Dealogic, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

We, Kamakshya Trivedi, Danny Suwanapruti, Sunil Koul, Tadas Gedminas, Tarun Lalwani, CFA, Teresa Alves, Jolene Zhong and Victor Engel, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

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