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**LISA ABRAMOWICZ, BLOOMBERG:**

Joining us now to parse through some of these concerns, some of these dissonances, Lupin Rahman, out of EM, Sovereign Credit and Portfolio Manager at PIMCO. I'd love to start there, Lupin. How concerned are you as someone who focuses on the developing world about a stronger dollar?

**LUPIN RAHMAN, PIMCO:**

So the stronger dollar is an effect for emerging markets, which can be quite negative. But I think this time around, there are good reasons to think that emerging markets are going to be a bit more sheltered than before. One of the key factors is what's driving the dollar strength and part of that is this soft landing narrative in the US. So markets and the real economy are a lot stronger than people had originally expected. And I think for emerging markets, that is really playing out in terms of where the growth outlook for EM is, it is slightly softer given the drag that we're seeing from China. But the strength from the US is keeping many EMs, particularly in LATAM, buoyed and growing stronger than they had expected.

**ABRAMOWICZ:**

So we'll get to that in a minute. I do want to touch on China though, because that's kind of the elephant in the room, particularly for Southeast Asia. And it seems as though whatever message the Chinese Communist Party wants to put out there, the economy is struggling to perform, even with the expectations that have already been brought in. How much does it have a bleed through effect that was unanticipated to the entire region and the debt and equities therein?

**RAHMAN:**

So I think China's struggle is a concern given that we are in a multipolar world right now. What is slightly different about this cycle, is that it was expected to be a lot more services driven, so a lot more internally focused than being driven by the manufacturing cycle, which would have the larger impact for the rest of EM, and East Asia in particular. I think that what is different now is we're seeing the PPI deflation, and that can have an impact on prices going forward for EM in a positive sense, really continuing some of that disinflationary trend. But I do think that having a China that is weakening more than expected without government authorities really having an all-in type of narrative is quite negative for EM sentiment.

**ABRAMOWICZ:**

So let's just pick through some of these ideas, because you're saying that disinflation or deflation in China might be positive, it might allow for disinflation or deflation in other nearby regions. Are you saying that on the margins it may be more of a positive than a negative for some of these nations?

**RAHMAN:**

I think that on the margin it can be a positive factor, in terms of really allowing that disinflation process to ride through for the rest of emerging markets. And essentially EM’s are in a kind of Goldilocks type of scenario where growth is still reasonably positive. They're not in deep recessions, but you're still seeing this “immaculate disinflation” if you want to call it, where headline and core inflation is coming down, and that's really allowing EM central banks to ease well ahead of the Fed.

**ABRAMOWICZ:**

Where does the strength come from, though? And this is coming at a time where we do see signs of weakness in Europe, we do see signs of weakness in a pretty significant way from China, and yet the US has technology, it has the fact that US consumers love to spend and travel, et cetera, et cetera. Where does the strength outside of the US come from?

**RAHMAN:**

A lot of the strength comes from some of the reforms that emerging markets have really undertaken throughout the last couple of years. So many emerging markets have focused on trying to get their fiscal house in order. The COVID shock was a big shock, which meant that many, many countries had to really tighten their belts and really see where further structural reforms on the fiscal side, whether it's revenue mobilization or expenditure controls can take place. We can see that in a country like Mexico, which really has a very tight fiscal, but it's growing extremely well, given the policies that it implemented over the last couple of years.

**ABRAMOWICZ:**

So you've mentioned Latin America several times, and you think that that is an area that has unappreciated benefits that have not yet been priced in from the US strength, from the proximity, from some of this inflation. Where specifically, at a time, where we're focused on some of the headline risk in places like Ecuador, Argentina, the mass evaluation; where are you seeing the opposite story?

**RAHMAN:**

So I think that each country is very idiosyncratic. So one of the countries where you are seeing positive developments is a country like Brazil, where you are seeing a central bank that is able to cut and is able to really take its path through the disinflation process with an economy that's still relatively strong. And a political dynamic, which is much more stable than it has been in the recent past. So those are some of the countries that are looking to be on a much more positive trajectory than in the past.

**ABRAMOWICZ:**

How concerned are you, just in a broader sense, of tourist flows, of people who kind of dabbled in emerging markets in the, you know, “FOMO era" that was two months ago. And now might be rethinking that in an era of American exceptionalism evidently, which may last, I don't know, another three days. But my point is, you know, how much are there fast flows that are going in and out of emerging markets that make it very difficult if you're looking in the short term and making some sort of tactical bet?

**RAHMAN:**

So I think the technicals in EM are extremely clean. So we've had such a large outflow last year when we saw the Fed hikes that this year really the technicals have been a lot cleaner than going into other cycles. So that really limits some of the fast money flows that you're speaking of. So from that perspective, I'm less concerned. What we are seeing in some EMs are institutional clients looking to take advantage of the cheapness and the sell-off and really increase their structural allocations.

**ABRAMOWICZ:**

What kind of yields do you need to go into some of these countries at a time where you can get 4.3% on a 10-year treasury?

**RAHMAN:**

I think that's a fair point. And I think that we, it's not only just a matter of yield, but really you're expected to return once you adjust it for volatility over the longer term. I think emerging markets have a role to play in global portfolios, which is quite distinct from the old EM story. And that is a risk diversifier, particularly in investment grade emerging markets. So these are emerging markets that have solid balance sheets, are doing the right things from a macro policy framework perspective and they're offering you excess yield over the US treasuries or bunds. And those are the countries that we like to focus on.

**ABRAMOWICZ:**

From an EM perspective, what are you listening for next week at Jackson Hole? How closely will you be listening to how Fed Chair Powell guides?

**RAHMAN:**

I think the key factor will be to what extent the US economy is going to continue to be data dependent in terms of the Fed cycle or whether there is an extent to which there may be concerns about the hard landing scenario coming back into question.

**ABRAMOWICZ:**

What does data dependent mean? And we ask this all the time because you can focus on any data and craft whatever story you want. What does it mean for you to be truly data dependent?

**RAHMAN:**

I think it really depends on how the inflation trajectory is going to develop in the US as well as the labor market. We have seen reasonable strength in the labor market, but also some signs that there is slack emerging. So I think continuation of both of those trends are going to be what's important for the US.

**ABRAMOWICZ:**

Lupin Raman of PIMCO, thank you so much for being with us.