GLOBAL MACROECONOMIC UPDATE

Macroeconomic Themes & Analysis

Trade Winds and Energy Shifts in the Wake of the U.S. Election

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OUTLOOK

The 2024 U.S. presidential election has delivered a moment of historic consequence, with Donald Trump's return to the White House set to redefine the global economic and political landscape. With promises from his election campaign, and a lens on his first term, markets respond to potential financial deregulation policies, rising tariffs, and a shift in energy policy.

Against this backdrop of heightened uncertainty, this special edition dives into the challenges and opportunities facing the global economy. We explore how Trump's policies might reshape North American and global trade dynamics, how Europe and Asia are adjusting to shifting growth trajectories, and how developing regions balance reform with resilience. With sectors from energy to manufacturing under pressure and geopolitics influencing fiscal decisions, this report uncovers the key drivers that will shape 2025, and how diplomatic adjustments and policy decisions will prove crucial for economic stability.

KEY POINTS

Trump is Back:
The U.S. economy is at a crossroads, with Donald Trump's victory signaling a return to corporate tax cuts, deregulation, and tariff increases, potentially leading to short-term growth but at the cost of higher consumer prices and environmental setbacks. Canada's economic growth is stalling, impacted by declining government spending and weak manufacturing. Mexico is struggling with rising violence and falling investment. How will uncertainty surrounding Trump's trade policies disrupt economic stability in the region?

India and China at a Strategic Crossroads:
Vietnam remains ASEAN's fastest-growing economy, though its reliance on manufacturing and exports remains a concern. India continues its impressive expansion, but it faces the need for skilled labor to ensure future growth. China is facing mounting economic pressures, including a need for targeted monetary easing. How will relationships between economic powerhouses India and China develop under new U.S. leadership?

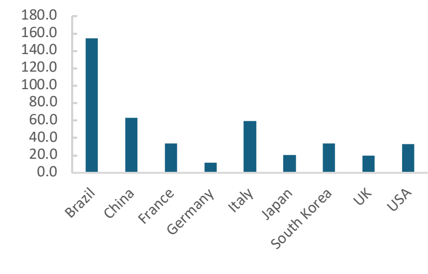
Government Policies Decide Economic Future in Africa:
Algeria's growth is declining, though sectors like agriculture and energy show promise. Meanwhile, Kenya is grappling with reforms, especially concerning tax hikes, which have sparked public discontent but could lead to long-term improvements if passed. South Africa's economy is showing signs of stability. Driven by a more robust financial outlook and an absence of electricity load shedding, could this be a turning point for investor confidence?

Lebanon Faces an Economic Slump and Iran Braces for Trump's Return:
Lebanon's economic outlook remains bleak, facing high unemployment, poverty levels and infrastructure issues. The Middle East is in the throughs of a spreading conflict, with increasing military spending and huge population displacement. Iran's currency reacts to Trump's victory; investor confidence falls with memories of his previous term. Will the Islamic Republic of Iran be able to withstand trade tariffs and shifts in energy markets?

Political Shifts in Latin America Offer New Perspectives
Brazil is tightening its fiscal policies, raising interest rates, and cutting spending to curb inflation. In Uruguay, the presidential runoff between contrasting candidates will shape the future of social programs and foreign investment. How will the return of Donald Trump as U.S. president impact trade relations, especially for countries like Peru, Chile, and Colombia?

Germany Struggles from Low Growth and Energy Crisis:
Germany is struggling to adapt its manufacturing economy after the energy crisis. Greece presents a more optimistic picture, having emerged from fiscal reforms with strong growth and regained investor confidence, though challenges remain. Will a second Trump term threaten peace and stability in the Eurozone or facilitate mutual growth?

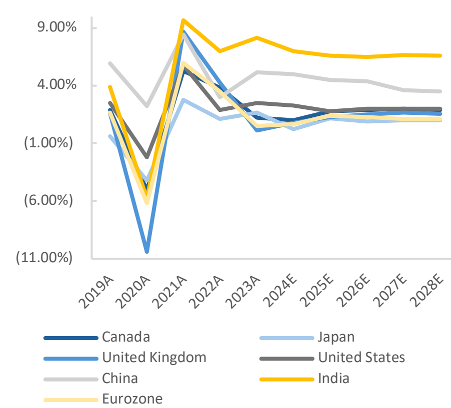
5 YEAR CREDIT DEFAULT SWAPS



REGIONAL ECONOMIC SUMMARY

	Real GDP % YoY	CPI % YoY	Gov Debt % of GDP
China	4.6	0.2	24/7
Eurozone	0.9	2.0	86.9
Japan	0.2	2.4	214.5
United States	2.7	2.6	122.6
United Kingdom	1.0	1.7	100.3
India	6.7	4.2	57.0

REAL GDP GROWTH



Source(s): FactSet Economics, Vertige Research
Data as of November 22, 2024.

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Trade and Stability in the Election Spotlight

REGIONAL OVERVIEW

Donald Trump won all five swing states en route to his historic victory in the 2024 U.S. presidential election. During this second non-consecutive term in the White House, based on Trump's campaign promises and track record from his first term, we can expect to see corporate tax cuts, heightened tariffs, and deregulation of businesses. His tax cuts are likely to lead to temporary economic growth, though they will also add to government debt. Tariffs, on the other hand, are more likely to increase prices for consumers due to higher import costs. Deregulations, aimed at increasing use of oil and gas to enhance energy independence, will help stimulate job growth and lower energy costs. However, this will also contribute negatively to the environment, reversing much of President Biden's clean energy policies. In October, leading up to the election, the U.S. labor market saw the addition of 12,000 jobs — not much compared to the expected 100,000. Though, unemployment remained steady at 4.1%. This is because manufacturing took a temporary hit by Hurricanes Helene and Milton and a strike by Boeing workers, contributing to the loss of 46,000 jobs. Despite a slight PMI increase to 47.8, the sector remains in contraction, threatening investment. In good news, inflation eased closer to pre-pandemic levels, with September's CPI at 2.4%, though the Core CPI rose by 0.3%. A flat Producer Price Index (PPI) hints at stable business costs, even as continuous strikes by workers and geopolitical uncertainty may still push up consumer prices. To provide slight economic support and stability, the Federal Reserve cut rates by 0.25 percentage points.

The Bank of Canada's recent report indicates inflation is stabilizing around 2%, driven by lower energy and housing costs. Expected rate cuts by the BoC are anticipated to aid further economic adjustments. However, Canada's GDP per capita has declined, with third-quarter GDP forecasted to decrease by 0.5 percentage points due to softening government and business spending amid excess supply. This decline is led by the manufacturing sector, impacted by decreased demand and a shift in automotive plants to multi-energy vehicles. Transportation and warehousing have also been affected by the closures of two major railways. A slowed labor market, previous rate hikes, and higher savings rates are curbing consumption, particularly among younger Canadians. Although GDP recovery is projected by early 2025, the federal decision to reduce immigration targets by 120,000 over three years could further strain growth. While the policy aims to ease housing demand, it may also weaken the labor force, lower productivity, and deepen declines in per capita GDP and consumption. US elections might significantly reduce growth projections due to proposed blanket tariffs, however, the USMCA pact might exempt Canada from it. While Trump's proposed economic plan might inhibit a large portion of Canadian exports, it could also bolster asset investment through greater US fiscal stimulus and equity boosts.

Mexico faces challenges in attracting investments as foreign direct investment continues to fall amidst rising violence rates across the country. The unemployment rate has risen slightly from 2.7% to 2.8% and CPI has picked up after achieving a 6-month low last month. GDP growth has fallen to the projected 1.5% and economic activity growth dropped to 0.4%, with retail sales down by 0.8% and consumer confidence sitting at 47.6. These reported numbers, combined with the transformation of Mexico's legal atmosphere and the budget deficit may cause investors to exercise caution. The US election period brought a volatile Mexican peso as investors express concern about the implications of Trump's administration's approach to trade and foreign relations. Sheinbaum aims to strengthen ties with the US, especially as tensions with China increase, making Mexico increasingly dependent on American trade. However, Trump's victory may put a wrench in Sheinbaum's plans as the President-elect's policy on trade will have a resounding impact on Mexico's economic health in the long term, affecting currency, foreign investment and immigration. In response to a slowing economy, rising unemployment rates and low consumer confidence, the Bank of Mexico is expected to continue cutting rates, closing in on 10% by the end of this year.

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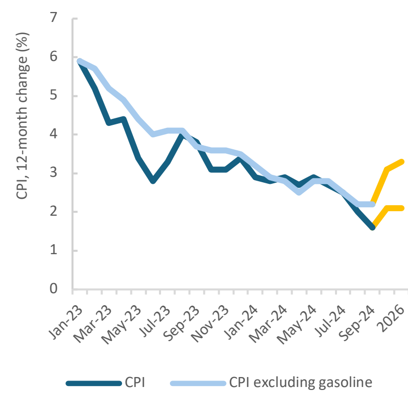
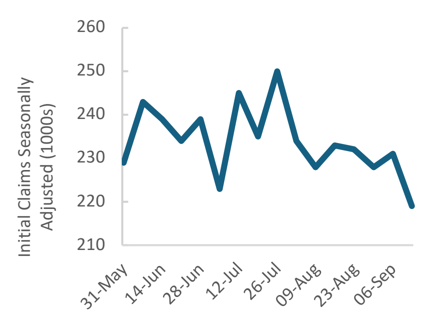
CANADA INFLATION



REGIONAL ECONOMIC SUMMARY

	Real GDP % YoY	CPI % YoY	Gov. Debt % GDP
Canada	0.9	2.0	68.8
El Salvador	4.3	-0.1	59.8
Guatemala	4.1	1.2	12.3
Jamaica	1.0	4.9	72.9
Mexico	1.2	4.8	50.2
United States	2.7	2.6	122.6asi

U.S. UNEMPLOYMENT INSURANCE CLAIMS



Source(s): FactSet Economics, Vertige Research
Data as of November 22, 2024.

UNITED STATES OF AMERICA: BRACING FOR THE RETURN OF TRUMPONOMICS

In response to Trump's victory, the stock market saw an immediate surge, indicating optimism about his pro-business policies like tax cuts and deregulation. Universal tariffs could counter corporate profits by raising costs, leading to inflation. The Federal Reserve's decisions throughout the next 4 years will play a key role in determining the longevity of the economic growth we are currently seeing

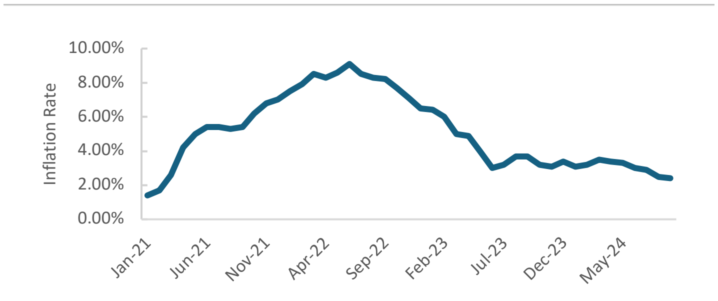
On November 5th, Donald Trump was elected to serve his second non-consecutive term as President of the United States. Though his official term begins in January, financial markets reacted swiftly in anticipation of policies expected under his administration. Stocks surged as the Dow and S&P recorded their biggest single-day gains in two years. Based on his campaign statements and policies from his first term, the U.S. economy under Trump may see business tax cuts, broad tariffs, and deregulation efforts.

Former President Trump plans to make permanent the tax cuts introduced in the 2017 Tax Cuts and Jobs Act (TCJA), which are currently set to expire in 2025. Under the TCJA, the corporate tax rate would remain at 21%, with a reduced rate of 15% for domestic production. According to the Tax Foundation, these cuts are projected to reduce federal revenue by approximately $3.4 trillion over the next decade. In addition to the corporate tax cuts, significant reductions in Social Security funding, deductions for auto loan interest, exemptions on tips, and overtime pay from income tax are expected to contribute an additional $2.5 trillion in federal revenue losses over the same period. To partially offset these losses, proposed tariffs on U.S. imports are estimated to generate $3.8 trillion, while revoking Biden's Inflation Reduction Act (IRA) green energy credits could add $921 billion in revenue. However, Trump's proposed measures will have adverse effects: tariffs lead to increased prices for domestic industries reliant on imports, risking inflationary pressures.

Low- and middle-income taxpayers are expected to bear the brunt of the financial burden, while projections for the top 1% indicate a 4.1% increase in after-tax income by 2034—a full percentage point higher than the next income bracket. Additionally, Trump has suggested implementing a residence-based taxation policy, allowing Americans living abroad to forgo filing U.S. income taxes. This policy, if enacted, could result in an estimated $100 billion federal revenue loss by 2034. These tax reforms are anticipated to incentivize higher-income individuals to increase consumption and domestic investment. Conversely, they are likely to disincentivize consumption among lower-income groups, particularly as cuts to social programs—on which these groups are more reliant—diminish their disposable income.

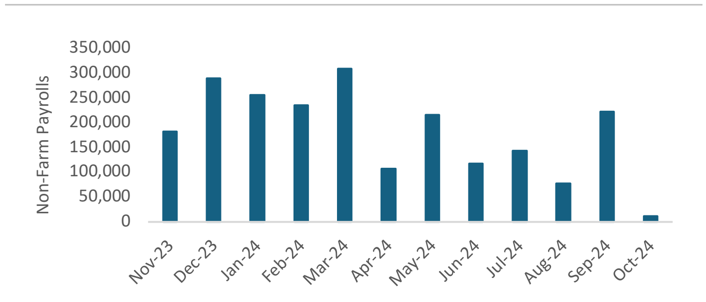
Overall, we expect that the combination of these sudden tax reductions and increased disposable income for certain groups is expected to drive demand-pull inflation while diverting funds from social programs and public infrastructure. It is also important to consider the broader economic context. U.S. credit card debt has reached a record $1.17 trillion, while the federal debt has surpassed $35 trillion. We believe that these policies are likely to exacerbate both consumer and federal debt levels while further straining the federal budget.

Exhibit 1: Inflation Stabilized from Pandemic Levels Under President Biden



Source(s): US Bureau of Labor Statistics, Vertige Research

Exhibit 2: U.S. Sees Lowest Job Growth since Dec. 2020; Only 12k Jobs Added in October



Source(s): Trading Economics, Vertige Research

One of the key factors behind Vice President Kamala Harris's unsuccessful presidential bid was economic concerns from the middle class. While she and President Biden have paved a strong economy, they have faced lingering challenges from pandemic recovery. In 2022, inflation surged up to 9.1%, and voters continue to feel the negative implications. Given her incumbency, this eroded confidence in Harris's ability to lead a strong economy. Along the campaign trail, Trump and his team did a good job capitalizing on these economic concerns, swaying economically vulnerable voters.

October labour market data from the Bureau of Labor Statistics showed modest growth, with only 12,000 jobs added — the lowest since December 2020 and far below economists' projections of 100,000. The unemployment rate remained stable at 4.1%, suggesting resilience in the labor market. It is noteworthy that unlike payrolls, the unemployment rate counts individuals as employed even if they did not receive pay during the reporting month. While the stable unemployment indicates stability, lower payrolls can signal a temporary dip in consumer spending, as spending mainly comes from income. From late September through October, labour disruptions were particularly damaging, with Hurricanes Helene and Milton striking the Southeast U.S. as well as a prolonged Boeing workers' strike.

President Biden is on track to ending his presidency as the only U.S. president to oversee job growth every month of his tenure. While October saw the lowest job gains of his administration, the fact that there were still gains amid the hurricanes and strike reflect the resilience and adaptability of the labor market during his presidency. As the U.S. transitions to the new Trump administration, we expect policies like deregulation of businesses to sustain the momentum of job growth we saw under Biden.

As University of Michigan professor Justin Wolfers estimated, each hurricane may have cost approximately 40,000 jobs, disrupting sectors like agriculture and necessitating increased government spending on recovery. The manufacturing sector was particularly affected, with a 46,000-job decline in October, of which 33,000 losses were attributed to Boeing according to the BLS. Striking workers demanded wage increases and more influence on product safety decisions, with the strike reportedly costing Boeing up to $1 billion per week and causing significant supply chain delays as one of two major aircraft suppliers. Following a seven-week strike, Boeing reached an agreement with the union, including a 38% pay raise over four years. As production resumes, labor and economic activity are expected to normalize.

In October, the Manufacturing Purchasing Managers' Index (PMI) rose slightly to 47.8, exceeding forecasts of 47.5 but remaining below the 50-point threshold that signals expansion. Continued contraction in this index could lead to reduced investments, hindering growth. To boost manufacturing competitiveness, policymakers should invest in tools and resources that increase supply chain efficiency.

The Federal Reserve is likely to face new challenges under Trump's presidency, especially if he pursues further corporate tax cuts and tariffs. At the November meeting, held two days after Election Day, the FED cut rates by a quarter of a percentage point. This decision aims to stimulate consumer and investment spending to counter the sluggishness in the labour market, especially given that inflation is currently nearing pre-pandemic levels, with September's Consumer Price Index (CPI) at 2.4%, the lowest since February 2021. Core CPI, which excludes food and energy, increased by 0.3%, in line with the previous month but slightly above the forecast of 0.2%. The Producer Price Index (PPI) remained flat at 0.0%, suggesting that costs aren't increasing for businesses, which could help keep prices steady for consumers. Nonetheless, risks from Trump's proposed tariffs and potential strikes, similar to Boeing's, could push prices higher. If Trump's promised policies indeed lead to higher prices for consumers, we can expect a series of rate cuts throughout Trump's term to encourage continued spending and investment.

The USMCA free trade agreement was established during President Trump's first term as a substitute for the North American Free Trade Agreement (NAFTA). Sectors range from agriculture to intellectual property. While both the NAFTA and USMCA are fairly alike, the USMCA additionally enforces stricter rules for the automotive industry and the labour market. The USMCA also has a sunset clause for the agreement to expire in 16 years (2036), which NAFTA did not.

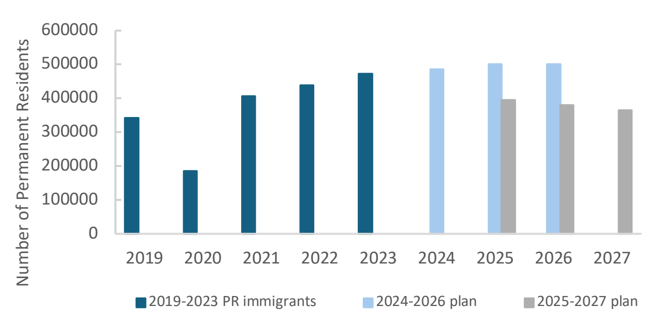
CANADA: NEW POLICIES EXACERBATE POPULATION DECLINE

On October 23rd, the Bank of Canada (BoC) published its Monetary Policy Report, indicating that inflation, measured by the consumer price index (CPI), is currently around 2%. This suggests a strong stabilization, especially after the BoC reduced interest rates by an additional 50 basis points shortly after a similar rate cut in the United States. The decrease in inflation has primarily been driven by lower energy prices, while housing prices have also eased slightly. Housing costs have dropped by 1.4 percentage points, and services—a major contributor to inflation—have declined by 0.7 percentage points. Major banks are predicting further rate cuts, with BMO projecting a quarter-point reduction and CIBC expecting a half-percentage-point cut in December. Our forecast aligns with a quarter-point rate cut by the BoC unless the U.S. implements another 50-basis point cut in early November.

Despite these adjustments, there remains considerable room for improvement, as GDP per capita has been declining over recent months, with overall third-quarter GDP expected to drop by 0.5 percentage points. Although population growth has slightly decreased, GDP per capita continues to decline sharply. Second-quarter GDP growth was largely supported by increased government spending, but third-quarter forecasts suggest declines in both government and business expenditures. This points to softening domestic demand and excess supply. The report attributes weakened consumption to a sluggish labor market and previously elevated interest rates, which have disproportionately affected Canadian youth—a demographic with generally higher consumption rates. These past rate hikes have also raised the savings rate, potentially reducing both investment and consumption. The BoC anticipates that GDP per capita will start rising in the first quarter of 2025, partly due to a predicted 2.5% population decline and anticipated GDP growth recovery in 2025.

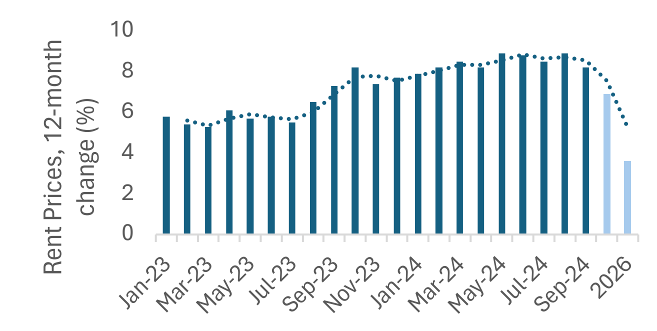
We also anticipate some positive effects in the first quarter, though we expect that the population decline will lead to a greater decrease in consumption than currently projected. Nonetheless, the report remains optimistic about the potential for supply absorption and subsequent GDP growth, especially as per-capita consumption could increase as interest rates decline. The 2025 GDP forecasts may be overly optimistic, however, given the federal government's recent October 24 decision to reduce immigration targets by 120,000 over the next three years. An Alberta Central economist expressed concern over possible negative effects on already sluggish GDP growth. Although this policy aims to reduce housing market pressures, many anticipate significant repercussions for the labor force that could drive the country toward recession. With GDP per capita and consumption already in decline, further downward pressure on these indicators is likely. We also foresee that this decision could exacerbate the decline in business productivity, which has been trending downward for the past seven quarters.

Exhibit 3: New Immigration Plan Deviates from Current Trajectory



Source(s): Statista, IRCC, Vertige Research

Exhibit 4: Rent Prices Stabilizing, Yet Still Elevated



Source(s): Statista, IRCC, Vertige Research

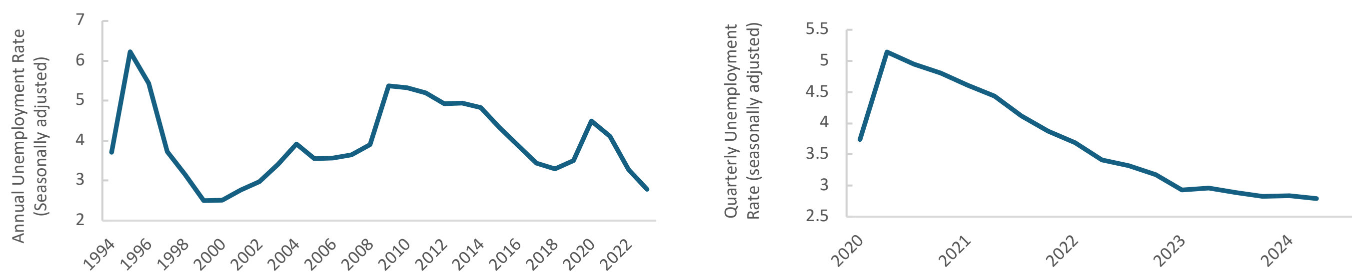
The outcomes of the recent U.S. election are expected to have significant implications for the Canadian economy. TD economists forecast that President Trump's proposed 10% universal tariffs could severely impact Canada's GDP, with a projected decline of 2.4 percentage points over the next two years, as 75% of Canadian exports are US-bound. Although the tariff rate for Canadian goods remains uncertain—it is unclear whether it is 10% or 20%—TD economist Marc Ercolao anticipates a 10% rate. Depending on upcoming U.S.-Mexico-Canada Agreement (USMCA) negotiations, these tariffs could potentially be diminished by 2027. Some Canadian economists predict widespread negative impacts globally due to heightened trade protectionism, while others suggest Trump's policies could spur increased investor interest in Canadian risk assets, particularly equities. We predict that the spillover gains from increased investor interest will be negligible and will depend on trade relations, exchange rates and the magnitude of US company involvement in Canadian operations, which we don't expect to change drastically. Ercolao believes Canada will likely avoid direct retaliatory tariffs, opting instead for a strategic approach, with a negotiated exemption as the best outcome and a reciprocal tariff arrangement as the least favorable. Given that the USMCA was originally established under Trump, we remain optimistic that Canada will receive tariff exemption, though we expect it to be used as leverage in renegotiations.

While the USMCA previously supported Canadian trade growth, it also introduced greater economic policy uncertainty. Given TD economics' predictions and previous USMCA outcomes, we forecast that Canada might secure a tariff exemption in the 2026 renegotiations, though likely coupled with concessions on contentious issues such as dairy tariffs or automobile production as previously observed. TD Securities also anticipates that the Bank of Canada may adjust its monetary policy response, potentially accelerating its easing agenda to implement gradual expansionary policy, though this could elevate inflationary risks. Further adding to this uncertain landscape, Prime Minister Trudeau's anticipated snap election could complicate efforts to stabilize US-Canada trade relations in the near term, as political dynamics shift and influence bilateral negotiations.

MEXICO: CONTROVERSY IN MEXICO CITY: PRESIDENT SHEINBAUM FACES AN UPHILL BATTLE

On October 1st, Mexico swore in its new president Claudia Sheinbaum, the first woman elected as president in Mexico's history. However, investors have expressed concerns regarding her fiscal plans, particularly the risk of overspending and her ability to meet commitments to public investment. Although President Sheinbaum has promised voters a strengthened healthcare system and sizable public infrastructure investments, she is taking on the burden of the largest budget deficit the country has faced since the 1980's, currently sitting at MXN 693,235.6 million. The potential for "crowding out" private investment and downward pressure on economic growth may deter further capital inflows. While Mexico's debt-to-GDP ratio has historically remained below 60%, recent increases in this ratio, as reported by Statista, heighten the risks of diminished investment.

Exhibit 5: Mexican Unemployment has Dropped Below 3%, but Begins to See a Rebound



Source(s): Trading Economics, Vertige Research

Mexico is currently undergoing a complete overhaul of the judicial administration, a process initiated by the previous President Andres Manuel Lopez Obrador. The reform involves dissolving the judiciary's independence from the government, disbanding the Supreme Court and reassembling it next year. This presents an uncertain legal atmosphere, where foreign investors may not feel confident injecting capital into what will temporarily be a No Man's Land. Investors might be wary of authoritarian policies due to Sheinbaum's cooperation with the Lopez administration, and the move to rid the judiciary of its independence is expected to exacerbate it. Beyond attractive profit margins, investor confidence depends on the level of legal protection of assets and a shaky legal infrastructure is likely to deter investment. Despite Sheinbaum's focus on attracting foreign investment to stimulate the slowing economy, the judicial reform could present a significant barrier to achieving this goal.

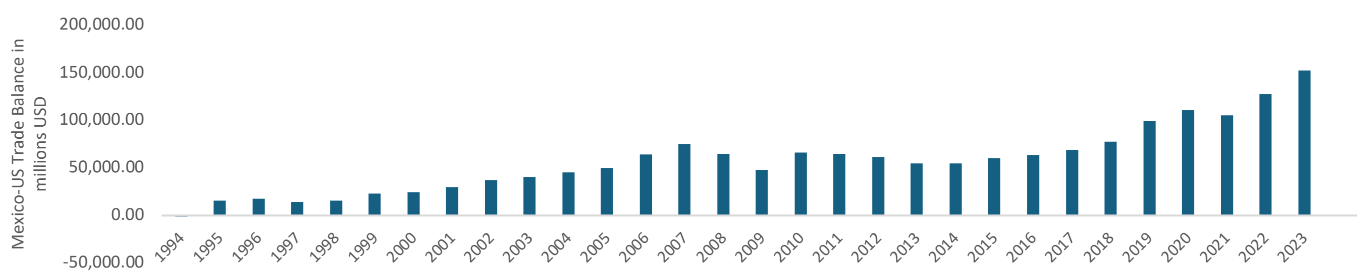
The Federal Economic Competition Commission is the agency which oversees and regulates anti-competitive behaviour in Mexico. The former president proposed to transfer the competition authority to the Ministry of Energy and Ministry of Economy, both under the executive branch of government. Given Sheinbaum's plans for increased investment in Mexico, there are concerns about the inflation in presidential power leading to regulatory capture. This is also in conflict with the terms of the USMCA, stirring further uncertainty surrounding Mexico's trade ties with the US.

According to Bloomberg Economics, Mexico has seen a drop in new investments which is not an optimistic outlook given the expected slowdown in economic growth to about 1.5%. Following the pandemic, Mexico saw a spike in foreign direct investment (FDI) jumping 11.9% amidst a trend in nearshoring (outsourcing business operations), resulting in job creation among other factors which stimulated the economy. Although FDI remains high following the latest quarterly reports, that number has fallen, and the legal risk posed by the reform may threaten FDI. These developments may lead to further underperformance in economic growth. Based on the legal risks, as well as the increasing concern about security as violence rises, we expect to see a further decrease in FDI and an overall drop-in economic activity.

In a statement shared with the Wall Street Journal, the newly elected President Sheinbaum says Mexico will be working with the US to protect their domestic markets against Chinese imported goods. This comes after the US has reinstated their tariffs against Chinese imported goods, particularly semiconductors. Since then, China has adjusted its strategy, placing a primary focus on Mexican markets. The USMCA, the regional free trade agreement, gives preferential trade conditions to signatory states. Within recent years, US lawmakers and politicians have become increasingly wary of China's opportunity to exploit the USMCA and reroute its exports into the US through Mexico. This may be an attempt on Mexico's part to preserve their relationship with Washington, especially as Mexico emerged as the US' largest trading partner earlier this year.

According to Santander Trade, The United States is currently Mexico's largest trade partner with approximately 79.6% of Mexican exports being sent to the US. This triangulation may become an issue as Mexico risks being caught in the crossfire between the US-China trade war, jeopardizing its trade relations with the two superpowers. An increased dependence on American trade may prove risky given the outcome of the US presidential elections. At the top of Sheinbaum's list is to push up foreign investment and she has her eyes set on American investors. President-elect Donald Trump aims to tighten protectionist policies, including on Mexican imports. He proposed a 10% blanket tariff and up to 200% on Mexican vehicle imports. Following these statements, the Mexican peso briefly dropped from 19.98 to 20 against the dollar, and after the election results were announced, the peso slumped further to its lowest in two years, at 20.8 against the dollar. Restricted trade is also expected to drag down GDP growth as investors may pull out of Mexican markets. Although the peso has regained strength in recent days, we expect it to remain volatile as peso holders determine the risks of a Trump presidency on their investments ahead of the new year.

Exhibit 6: Trade Reliance Continues to Grow Between the United States and Mexico



Source(s): FactSet, Vertige Research

A key issue regarding a Trump presidency for Mexico is immigration, particularly mass deportations. It is likely that the President-elect's proposed mass deportations will stifle Mexico's economy as it struggles to support its current population amidst a drowning economy. A significant influx of people into the economic system, amid worsening unemployment, a shaky investment landscape and a volatile currency will likely depress economic performance. Furthermore, a key contributor to Mexico's economy is remittances sent by Mexicans living abroad. Reducing the number of people that can send remittances will not only reduce capital inflows into the economy, but it may also devalue the peso further. Nonetheless, Sheinbaum is pleased with the election results, emphasizing her goal to maintain strong relations with the US.

Following the release of the latest quarter's performance, the unemployment rate has risen from 2.7% to 2.8% over the last two months. This may be the result of slower economic growth seen in the past month as August's economic activity on a year-over-year basis has dropped significantly from 3.8% to 0.4% growth. This is characteristic of the expected slowdown in growth set by the IMF. September's year-over-year CPI was lower than expected at 4.58% and a considerable decrease from the previous months. Earlier this month however, year-over-year CPI was reported to be 4.76%, higher than forecast and still above the 4% upper bound target. This comes after CPI has continuously fallen since July, much of it being changes in non-core CPI. While the direction of CPI in Mexico is unclear, the fluctuating Peso and imposition of tariffs may cause a spike in price levels next year.

According to Reuters, Banxico has lowered its benchmark interest rate by 25 basis points to 10.25%, a further 25 bps since last month in an attempt to stimulate the economy as inflation levels to the 3% target. This may lead to a rise in investment and spending, especially as retail sales have seen a further decline at -0.8%. Consumer confidence has been consistently low with September and October reporting 47.1 and 47.6 respectively, with expectations for the financial conditions of the country remaining low. This does not come as a surprise as the country goes through political restructuring and low overall economic activity. We expect to see further monetary easing predicting a closing rate of 10% by the end of this year, indicating the Bank of Mexico's expectation of price levels recovering as it targets growth.

ASIA-PACIFIC COVERAGE

Global Macroeconomic Research

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Asia-Pacific Economies Surge Forward Through Unpredictability

REGIONAL OVERVIEW

The Asia-Pacific region displays a complex blend of economic growth and challenges, with notable resilience and persistent vulnerabilities. Vietnam leads the area with impressive post-pandemic growth, bolstered by solid policies and infrastructure projects to sustain its position as ASEAN's fastest-growing economy. However, it faces the ongoing challenge of diversifying exports and production. India, now the world's fifth-largest economy, is fueled by robust consumption and manufacturing growth, with favourable conditions such as stable inflation and moderate oil prices.

However, a shift towards more skilled labour is essential to support inclusive development. Meanwhile, Bangladesh faces economic strain with low GDP growth and severe inflation, exacerbated by monsoon-induced disruptions and political instability. External aid will be critical to stabilising the country. Indonesia's growth has slowed due to weakening consumption and manufacturing employment, though policy efforts to boost local production and manufacturing may support future stability, particularly as global factors shift post-U.S. elections. Under pressure from slowing growth, China introduced targeted monetary easing measures, including reverse repos and rate cuts, to mitigate liquidity concerns and stimulate demand amidst a fragile property market. In the Pacific, the Reserve Bank of Australia holds rates steady to combat persistent inflation, while New Zealand's Reserve Bank may ease rates as labour markets soften, signalling cautious optimism. Across the region, common themes of balancing inflation control, stabilising growth through targeted investments, and addressing labour market issues emerge, with policy adjustments poised to bolster both short-term resilience and long-term growth potential amidst evolving global conditions.

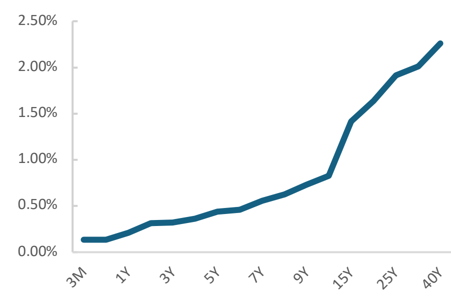
The IMF also weighed in with recommendations for Asia-Pacific countries to upgrade fiscal frameworks, urging these nations to adopt more resilient, risk-based policies capable of absorbing economic shocks and addressing challenges such as ageing populations and climate-related issues. Additionally, regional trade agreements like the Regional Comprehensive Economic Partnership (RCEP) between Asia-Pacific countries continued fostering deeper economic integration, even as rising protectionist trends were evident.

VIETNAM CONTINUES TO DEFY THE ODDS WITH UNWAVERING GROWTH

It has been a period of resounding economic growth for South-East Asian powerhouse Vietnam. At an economic forum co-organized by the United Nations Development Program (UNDP), the Vietnamese Central Institute for Economic Management (CIEM) announced the country has regained its pre-Covid GDP growth levels, a remarkable achievement as growth was uniform across its agricultural, industrial and service sectors. It also puts it on track to be the years' fastest growing nation in the Association of Southeast Asian Nations (ASEAN), which includes members such as Malaysia, Indonesia, and Thailand, showing policy frameworks conducive to long-term growth.

The economic charge has not made Hanoi complacent either. At the same forum, CIEM Director Tran Thi Hong Minh acknowledged that the country needed to address tepid conditions around production and export growth, which has lagged historically. The government has attempted to resolve this by expanding its infrastructural links, such as by launching a nearly $70 billion high-speed railway project in cooperation with China to improve connectivity across the country. It also signed a comprehensive economic partnership agreement with the United Arab Emirates to establish free trade between the nations. Eyes are now set on one-time enemies, the United States of America, who may determine a very different trade policy rhetoric towards Vietnam and the rest of Asia by electing Donald Trump. However, we believe that Washington will not want to dismiss Vietnam's potential in trade on the count of its inexorable economic rise.

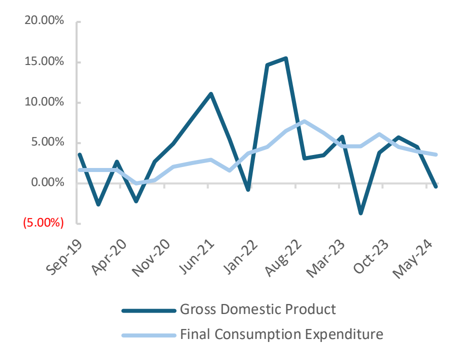
JAPAN YIELD CURVE



REGIONAL ECONOMIC SUMMARY

	Real GDP % YoY	CPI % YoY	Gov. Debt % GDP
Australia	1.0	2.8	33.7
China	4.6	0.2	24.7
India	6.7	4.2	57.0
Japan	0.2	2.4	214.5
Singapore	3.0	1.9	179.3
Thailand	2.9	0.8	54.9

AUSTRALIA GDP QoQ % CHANGE



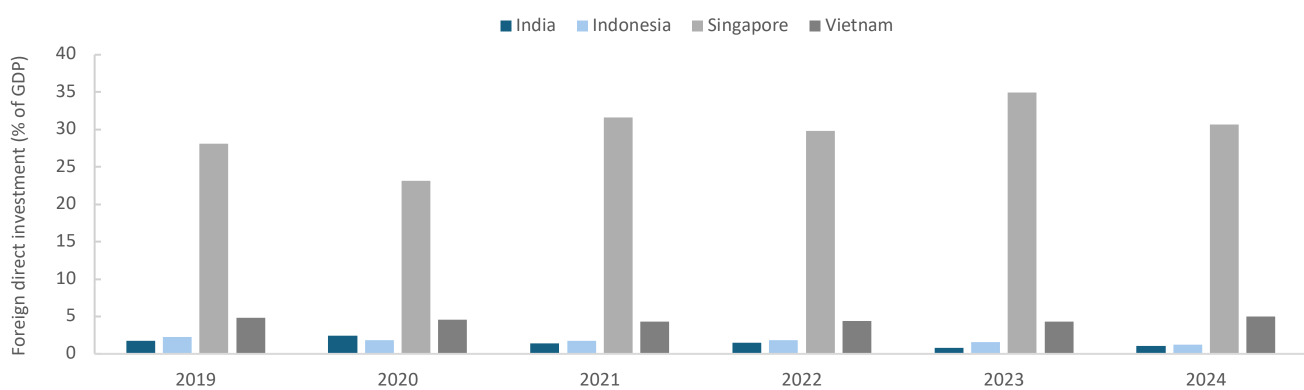
Source(s): FactSet Economics, Vertige Research
Data as of November 22, 2024.

INDIA KEEPS A STEADY HEADING WITH STRONG CONSUMPTION GROWTH

As per the IMF's projections in October, India will move up to being the fifth largest economy in the world, surpassing the United Kingdom and being on track to surpass Japan in fourth place by FY2025. Its GDP rose to $4.3 trillion on the back of strong private consumption, which rose to 7.4%, a seven-quarter high. In addition, manufacturing activities and construction showed surprisingly strong returns at 7%, further fuelling expectations that economic growth will continue well into FY2025.

Economic conditions have also provided a strong tailwind for India. Thanks to heavier-than-expected rainfall, agricultural demand and output rose out of a three consecutive quarter dive. In addition, global oil prices are expected to remain modest and range-bound, which helps reduce the current account deficit and cost of imported intermediate goods and raw materials, bringing down production costs. These factors have put downward pressure on inflation and facilitated a stable growth outlook that further aligns with the Reserve Bank of India's targets.

Exhibit 7: Foreign Direct Investment in Emerging Asia Continues to Lag Behind Developed Partners



Source(s): FactSet, Vertige Research

However, issues persist around India's burgeoning labour market, which dampens economic development. The share of jobs in agriculture and construction has grown post-pandemic. Jobs in construction, agriculture, and allied services are relatively low skill, a significant concern as these two sectors are also the biggest employers in India. India will need more formal and quality jobs to ensure better income distribution as it becomes a US$5 trillion economy and achieves its goal of embodying Viksit Bharat, a fully developed nation, by 2047. Though with favourable market conditions, strong production indicators, and a young population, we expect India to continue growing against global frictions.

BANGLADESHI ECONOMY PLUNGES INTO FREE FALL AS INSTABILITY FESTERS

There has been little respite for the once-fledgling Bangladesh. Though the government has somewhat stabilised under the guidance of Muhammud Yunus, a Nobel Laureate in economics for his contributions to microcredit and microfinance, the indicators are only getting worse. GDP grew 3.9 percent compared with 6.9 percent during the previous fiscal year, a four-year low, and food inflation rose above 12% this October. The economy is facing a lack of stimulus, characterised by the government's plea for $5 billion to foreign investors to make up their dwindling foreign reserves.

Socio-political circumstances have also exacerbated the situation. Flash floods from a heavy monsoon season have disrupted the food supply chain, enabling food hoarding syndicates to take advantage of the ensuing crisis and entrench inflation. In addition, the rise of Islamist groups threatens to destroy the already thin layer of stability present. Emboldened by former Prime Minister Sheikh Hasina's exit, Islamic groups have staged rallies this month, including some calling for the removal of President Mohammed Shahabuddin from office, new elections before the 12 to 18-month range targeted by the government, and the establishment of an Islamic caliphate. Though overall violence has decreased since the days after Hasina's departure, law and order in Bangladesh remains tenuous.

Bangladesh's leaders also face a worsening humanitarian emergency, with intensifying conflict in neighbouring Myanmar sending additional Rohingya refugees into a country already struggling to manage the nearly 1 million already there. We expect the Bangladeshi economy to face strong headwinds through political, social, and environmental instability. However, sufficient stability may arise to address adverse economic conditions with the right aid from foreign investors and policies from the Yunus government.

Indonesia's shrinking middle class threatens its consumption-driven growth, while rising debt and a falling tax base add to economic challenges. Sustainable development will require addressing income inequality and enhancing education, not just relying on population growth.

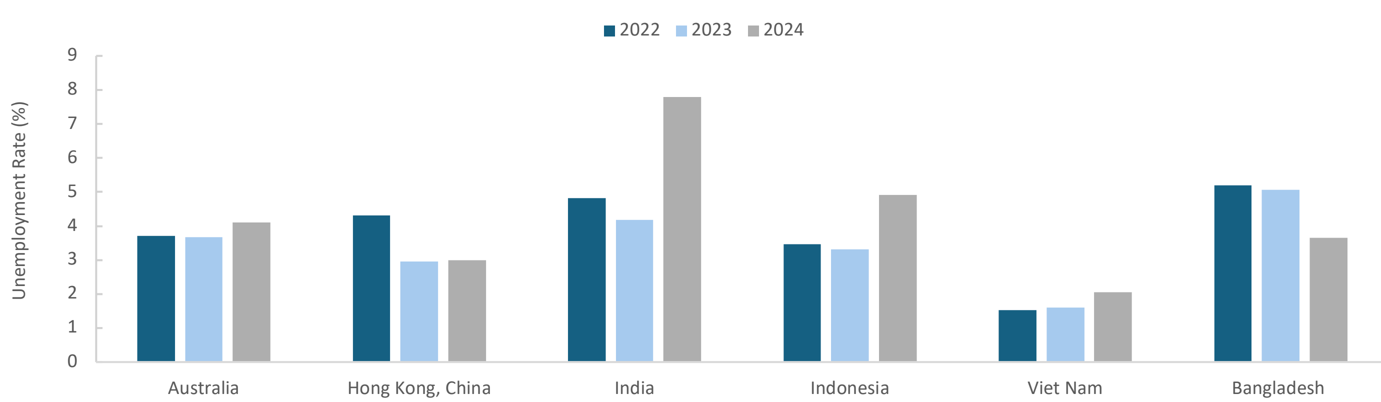
INDONESIAN GROWTH THREATENED BY CONSUMPTION AND LABOUR SLOWDOWNS

As a spate of factory closures and job cuts weakened consumption, Indonesia's economic growth slowed last quarter to 4.95%, trailing the 5% median estimate of 32 economists in a Bloomberg survey and marking the slowest quarterly pace since the 4.94% expansion posted in the same period a year ago. This is despite President Prabowo's aim to boost growth to as high as 8% during his five-year term at the helm of Southeast Asia's largest economy. While Indonesia's growth stands out as among the fastest in the region, the cracks emerging in its manufacturing sector could jeopardise the employment and consumer spending that is critical to its $1 trillion economy.

Job cuts in Indonesia rose by 31% from a year earlier as of October, reaching nearly 60,000, according to previously released labour ministry data. Consumption growth also slowed to 4.91% in the third quarter, dragged by weaker spending on footwear, appliance services, housing and household goods, health and education. That's the fourth quarter in which consumption has struggled to return to a 5% expansion.

It has not just been a period of slumps for Jakarta, however. Manufacturing — the industry with the most significant contribution to GDP — expanded by just 4.72%, led by base metals. This was exemplified by Subianto's government banning the sale of Apple and Google Phones as an interventionist measure, citing the companies' failure to meet requirements for 40 percent of products being made with locally sourced raw materials. Though employment and consumption data show otherwise, strong manufacturing and global macroeconomic windfalls from the US Elections may help Indonesia maintain its growth levels. Without policy redressal, however, its economic potential remains relatively untapped.

Exhibit 8: Whilst Vietnam Excels, Unemployment in Asia-Pacific Remains a Persistent Issue



Source(s): NAR, Vertige Research

CHINA SPENDS BIG TO TAKE ON FOREIGN TRADE PRESSURES

Asia-Pacific economies show mixed signals, with China's manufacturing struggling while services expand, and Japan and South Korea benefiting from tech sectors. Australia remains resilient, balancing inflation and economic growth through careful policy measures.

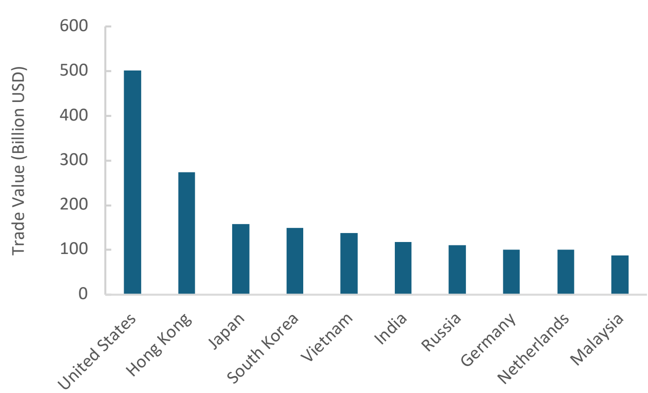
China's economy has been under pressure, with growth rates slowing and a need for increased liquidity to support investment and maintain stability. In October, the People's Bank of China (PBOC) introduced a new tool—a monthly reverse repo operation with primary dealers for a tenure of up to a year—to address a looming year-end liquidity shortfall as around 2.9 trillion yuan in medium-term loans are set to expire by December. Additionally, the PBOC implemented a 10-basis-point cut to the 14-day repo rate to 1.85% just ahead of the Golden Week holiday, aiming to maintain abundant liquidity during high-demand periods. These measures follow September's 20-basis-point cut in the seven-day repo rate to 1.5% and a 50-basis-point reduction in the reserve requirement ratio (RRR), ensuring banks have easier access to credit and helping stabilise the interbank market.

Amid China's economic challenges, including a sluggish property market and weakened consumer confidence, the PBOC's moves are intended to support lending and encourage investment. Analysts anticipate that China may continue to expand its monetary easing measures if growth remains subdued. The central bank's recent efforts to create a policy framework similar to those in Europe and the United States, with more options to manage liquidity and government bond markets, suggest a proactive approach to meeting the government's annual growth target of around 5%. Looking forward, if domestic demand remains weak, we believe further rate cuts and other liquidity-boosting measures could be implemented to help restore economic momentum and build consumer confidence.

To add, Beijing saw a range of impactful tariff and fiscal policy developments amid growing economic pressures. The European Union's decision to implement tariffs between 7.8% and 35.3% on Chinese electric vehicles (EVs), citing subsidy distortions, created immediate trade tensions, as China responded with plans to impose tariffs on European imports like brandy and potentially other goods. This escalation reflects broader concerns in the region about fair market competition, with Indonesia also examining new tariffs on Chinese imports to shield its local industries from an influx of inexpensive goods.

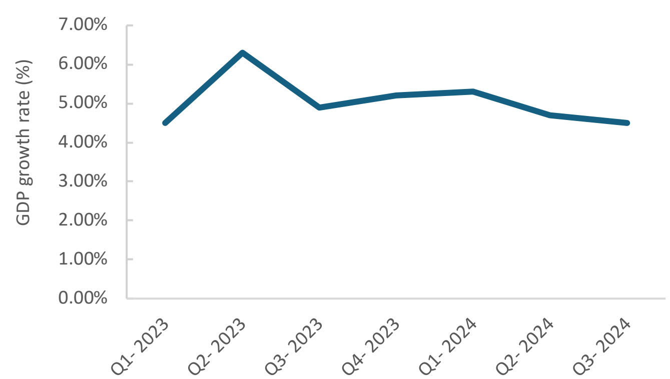
Fiscal policy shifts were equally notable. China signalled a potential fiscal stimulus plan involving over 10 trillion yuan in additional debt over several years to counteract its sluggish property market and boost consumer confidence. This possible injection aligns with China's aim to stabilise its economy, despite mounting debt levels, highlighting its commitment to support sectors like real estate and boost internal demand.

Exhibit 9: Hong Kong and USA Dominate China Exports in 2023



Source(s): Trading Economics, Vertige Research

Exhibit 10: China's Growth Rate Continues to Subside



Source(s): Trading Economics, Vertige Research

PACIFIC ECONOMIES CONTINUE TO FIGHT SOARING INFLATION AND JOBLESSNESS

With underlying inflation still above its target, the Reserve Bank of Australia (RBA) maintained its interest rate at 4.35%. In fact, the RBA projects that inflation is not expected to return to its 2-3% target band until December 2025. Noting that underlying and, in particular, servicing inflation remains too high, the RBA has continued to act with cautious vigilance. This is seen with their downgrading of GDP growth forecasts with consumption recovery expected to begin later than outlined in August. However, aggregate demand growth proved more resilient, and indicators suggest labour market conditions remain tight amid ongoing excess labour demand.

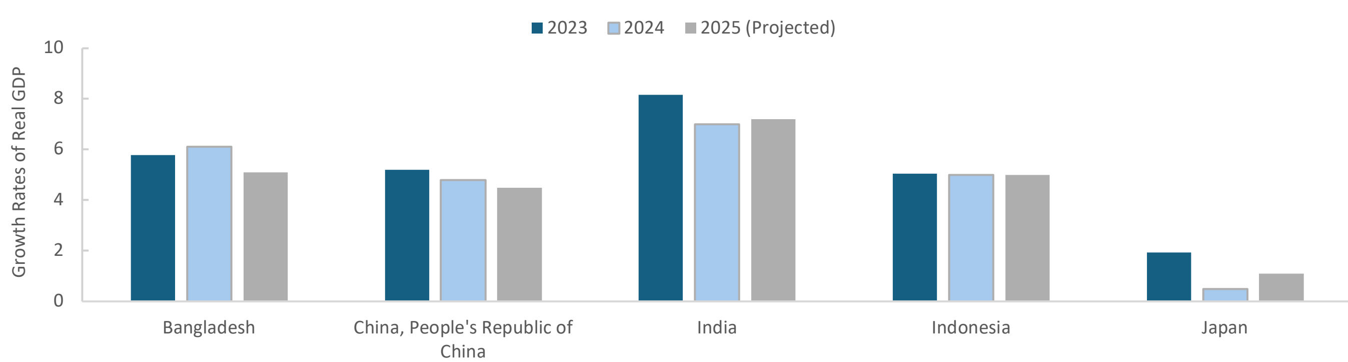
At her press conference, RBA Governor Bullock said the board still needs to be convinced that inflation is returning sustainably to the target. However, she also left the door open for further rate cuts, for example, if consumption turns out weaker than expected. Regardless, with aggregate and labour demand holding fast, we expect that the RBA may be hesitant to curb interest rates in an effort to ground rising inflation.

Australian policy expectations will undoubtedly also be anchored by the economic conditions across the Pacific region as New Zealand grapples with its worst labour crisis in nearly four years. Employment shrunk 0.5% q/q, its biggest drop since 2010. This is corroborated by unemployment rates rising to 4.8% from 4.6%, the highest rate since Q4 2020, well within the throes of the COVID-19 Pandemic.

That being said, New Zealand's labour markets caught up to broader economic weakness, while softening wage growth plays into a broader disinflationary trend. This comes after inflation fell towards the midpoint of the Reserve Bank of New Zealand's (RBNZ) 1-3% target band in Q3. In accordance with market sentiment, we expect the RBNZ to cut interest rates by around 50 basis points in November, having flagged the risk of the labour market deteriorating more than expected and inflation undershooting their 2% target midpoint amid still restrictive policy settings.

Rising tariffs and protectionist policies reflect intensifying global trade tensions, especially between China and Western nations. These moves may disrupt supply chains and push nations to reassess their

Exhibit 11: Growth Rates, Although Dampened, Stand Resilient in The Region



Source(s): NAR, Vertige Research

JAPAN REMAINS CAUTIOUS OVER UNCERTAIN INFLATION AND FISCAL TRENDS

Japan's economy is experiencing a mix of moderate growth, inflationary pressures, and evolving fiscal and monetary strategies amidst political uncertainty. Real GDP growth is forecasted at 0.5% for the year, driven by private consumption and government-backed green and digital investments, though potential supply constraints pose challenges. The Bank of Japan (BOJ) has kept short-term interest rates steady at 0.25% but has signalled future hikes as inflation persists; BOJ Governor Kazuo Ueda reaffirmed plans for gradual normalisation of monetary policy, with potential rate increases expected by December. Japan's inflation rate has been above 2% for 24 consecutive months, marking a shift away from deflation that dominated the past three decades. Meanwhile, manufacturing remains sluggish, with the October PMI dipping to 49.7.

In the fiscal arena, the International Monetary Fund (IMF) has advised Japan to avoid funding new spending plans through additional debt and to focus on fiscal consolidation, especially as BOJ rate hikes take effect. Prime Minister Shigeru Ishiba is considering another large-scale spending package to support households facing rising costs, though details on funding remain unclear.

Political turbulence following the recent Japanese general election, in which the ruling coalition lost its majority, adds further uncertainty to Japan's economic trajectory. This period marks a turning point, as Japan navigates the end of deflation, heightened inflation, and the challenges of sustaining growth amid shifting global and domestic conditions.

Australia's GDP growth remains positive but declining per capita income highlights challenges in sustaining economic growth amidst rapid immigration. Policymakers will need to balance immigration's labor market benefits with the risk of lower individual income gains.

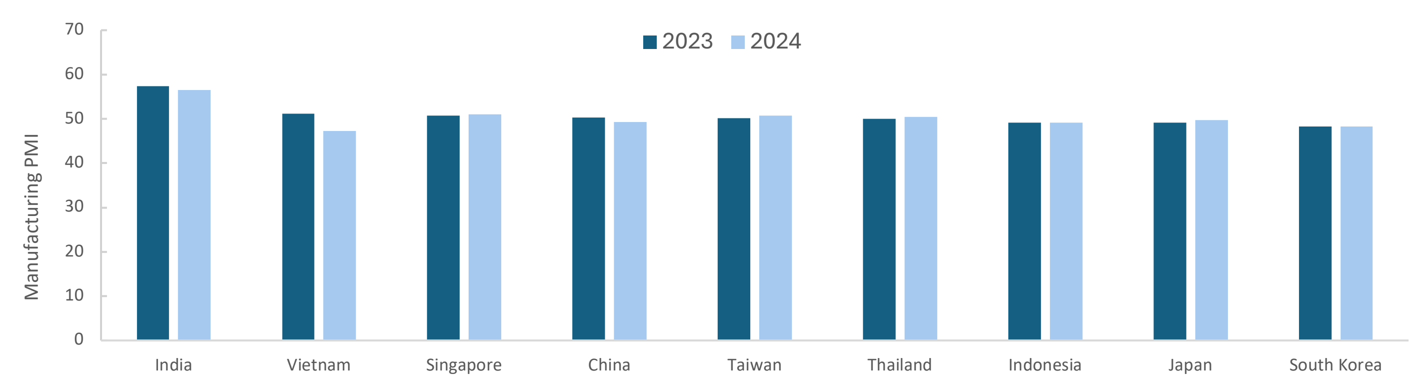
ASIAN ECONOMIC ACTIVITY FACES NEW OPPORTUNITIES AND UNCERTAINTIES

The Asia-Pacific region is a key driver of global economic growth, with diverse economies experiencing robust manufacturing activity, expanding trade, and increasing investments. Japan faced declining production, with a PMI at 49.7, indicating reduced demand both domestically and abroad, which also impacted its export-driven industries.

Vietnam's strategic position in global supply chains has been bolstered by several developments. Companies like SpaceX have encouraged suppliers to relocate production to Vietnam and Thailand due to geopolitical risks, leading Taiwanese firms such as Chin-Poon Industrial and Wistron NeWeb Corporation to move manufacturing operations to Vietnam.

Foxconn subsidiary Shunsin announced plans to invest $80 million in a new plant for producing integrated circuits in Bac Giang, northern Vietnam, aiming to start full-scale operations by December 2026 with an annual production capacity of 4.5 million units.
Chinese solar companies are moving their manufacturing operations to countries such as Indonesia and Laos to evade U.S. tariffs on solar imports from Southeast Asia. This shift has led to reduced production and job cuts at Chinese-owned solar factories in Vietnam. The International Monetary Fund (IMF) projects Vietnam's GDP growth to reach 6.1% in 2024, supported by strong external demand and resilient foreign direct investment.

Exhibit 12: India Stands Alone as the Region Disappoints with Mediocre Manufacturing Indicators



Source(s): NAR, Vertige Research

India's manufacturing sector is steady, with the HSBC Manufacturing PMI at 57.4 for October 2024. Germany is shifting its focus toward India to reduce its economic reliance on China, seeking greater market access and tapping into India's skilled labour and economic growth. Despite China's dominance, German investments in India are expected to rise significantly, potentially doubling by the decade's end. German companies remain optimistic about growth, with many planning expansions. Key firms, such as DHL and Volkswagen, are increasing their investments, driven by India's market potential and economic stability. As Germany's economy faces contraction, it views India as crucial for a diversified and resilient economic future.

Nike has been expanding its manufacturing base in India through partnerships with local firms. Notably, Taiwanese footwear manufacturer Pou Chen, a key supplier for Nike, announced plans in 2023 to invest approximately $281 million to set up a manufacturing facility in Tamil Nadu. This investment is expected to create around 20,000 jobs over 12 years, highlighting India's growing role in Nike's supply chain.

BEIJING AND NEW DELHI FACE UP TO TRUMP 2.0

The return of Donald Trump as the 47th president of the United States has inevitably sent shockwaves across the Asia-Pacific region and their economies. Specifically, we believe attention will be placed on the largest economies of China and India. Chinese Foreign Ministry Spokeswoman Mao Ning quickly asserted that China would continue to approach and handle China-US relations based on the principles of “mutual respect, peaceful coexistence, and win-win cooperation”. However, Chinese economic experts do not harbour the same sentiment. During his first term, President Trump launched what they coined as a major trade war with China, imposing tariffs as high as 51% on Chinese goods for what he said were unfair practices by Beijing, such as theft of US technology and currency manipulation. As part of his campaign mandate, Trump has proposed a 10-20 percent tariff on all imports and wants an even higher rate of 60% on Chinese goods. We expect both sides to accordingly take action to safeguard their economies, with the Trump administration imposing Chinese good duties, and likewise that a major stimulus package set to be unveiled in Beijing this week will be even larger in the event of a Trump tariff wall.

In contrast, India stands to gain from a second Trump term. Prime Minister Modi was quick to congratulate his “friend” for a “historic” victory and went even further to call him to discuss future foreign and economic policy direction. It is expected that the U.S. under Trump will continue a years-long effort to cultivate India as a strategic partner against a more assertive Beijing, an effort that has won India big new investments from U.S. companies like Apple Inc. National defence and security relations will only improve with regard to combating foreign-borne terrorism and the Russia-Ukraine War, though it remains as to whether the good relations will spill over to the benefit of the broader Indian economy and trade. Trump has described Modi as the “nicest human being” while simultaneously criticizing India for being the “biggest charger” of tariffs. Today, the U.S. is India’s biggest trade partner with two-way trade of $119.7 billion in the past fiscal year, up more than a third in five years. Their trade surplus has steadily widened over the years as they shift imports away from China. Trump’s plan to impose a 20% import tariff on all countries would however cost India 0.1% of its gross domestic product by 2028, according to estimates from Bloomberg Economics. In addition, Trump’s push for tighter immigration limits will adversely affect overseas Indians, who are the largest recipients of H-1B visas to the U.S., widely issued to workers in the tech sector. Trump issued limits on H-1B visas during his first term and is widely expected to tighten immigration to the U.S. during his second.

That being said, Trump will continue to view China as the greatest geopolitical challenge and, in that equation, we expect India’s long-term value as a strategic partner for the United States will remain largely unchallenged.

AFRICA & MIDDLE EAST COVERAGE

Global Macroeconomic Research

Rising Economic Stars: Morocco and Rwanda Shine, Botswana's Diamond Dilemma and Shifting Fortunes:

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REGIONAL OVERVIEW

In North Africa, Algeria has experienced a considerable economic slowdown, falling short of its strong growth in 2023. According to the nation's National Statistics Office, economic growth during the second quarter of 2024 declined to 3.6% compared to 5% during the same period last year. Despite growth in key industries such as agriculture and fishing (+3.6%), manufacturing (+4.3%), and electricity and gas (+6.5%), a stark decrease in the growth of extractive industries from 8.0% to 2.7%, along with services (-24.7%) have proven consequential.

On the other side of the continent, following strong backlash faced regarding the proposition of the Finance Bill intended to introduce tax hikes on goods such as fuel and VAT, the Kenyan government seeks to propose some new changes and reintroduce some proposed changes with the Tax Law Amendment Bill. Notably, this bill seeks to increase the value of tax-free meals, the limit of non-taxable benefits, and the limit of tax-free pension—changes which have not been made in 19 years. Overall, this bill aims to streamline compliance with taxes, introduce electronic integration, and provide tax relief options.

Moving to southern Africa, since South Africa's multi-party alliance, the Government of National Unity (GNU) secured power, improved financial markets and investor sentiment has spurred further economic growth. It has been six consecutive months without electricity load shedding, and investors anticipate further stable electricity. Consequently, the government bond yield has plummeted to its lowest value since 2021, the Johannesburg Stock Exchange (JSE) index has climbed 15% in the third quarter, and the Rand has appreciated R18/$. Combined with the Medium-Term Budget policy statement last month outlining plans for tighter fiscal policy, we expect continued investor confidence to result in a modest 2024 YoY RGDP growth rate of around 1.2%, 4 pp. higher than last year.

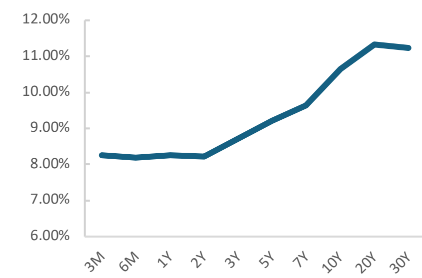
Over in East Africa, the trend of attracting Asian investment and trade partnerships continues. Last month, Malaysian Prime Minister Anwar Ibrahim welcomed Ethiopian Prime Minister Abiy Ahmed to Putrajaya, Malaysia, for a flurry of meetings concerning strengthening bilateral trade. Last year, the two-way trade volumes accumulated to $95 million, with key Malaysian exports being palm oil, rubber and electronics, while coffee, vegetables and cut flowers accounted for the prominent Ethiopian exports. With Real GDP YoY% growth forecasted to settle at its lowest peak since 2017 at 6%, the greater and cheaper medium-term availability of goods due to increased trade should lower the current lofty 23.9% inflation rate and boost Ethiopian consumption and growth from 2027.

In this edition, we focus on developments in Botswana, Rwanda, and Morocco regarding economic performance and investment opportunities.

A THOUSAND HILLS OF OPPORTUNITY: RWANDA SHINES IN B-READY REPORT, REFLECTING HIGH INVESTMENT POTENTIAL

Rwanda has continued to cement its position as one of East Africa's leading investment hubs after emerging as a top performer in the World Bank's inaugural Business Ready (B-READY) report. B-READY is the World Bank's new flagship investment and business report that rolled out its pilot edition in early October aiming to replace the discontinued Doing Business Report (DBR). The DBR was discontinued by the World Bank in 2021 because of methodology weaknesses and ethical issues uncovered during a series of internal audits and reviews, but the long-awaited B-READY report is poised as a more holistic and reliable method of assessing the business and investment climate of global economies.

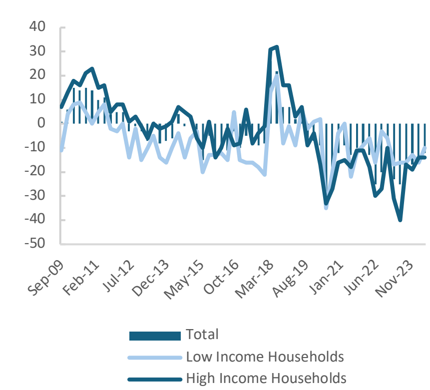
SOUTH AFRICA GDP QoQ % CHANGE



REGIONAL ECONOMIC SUMMARY

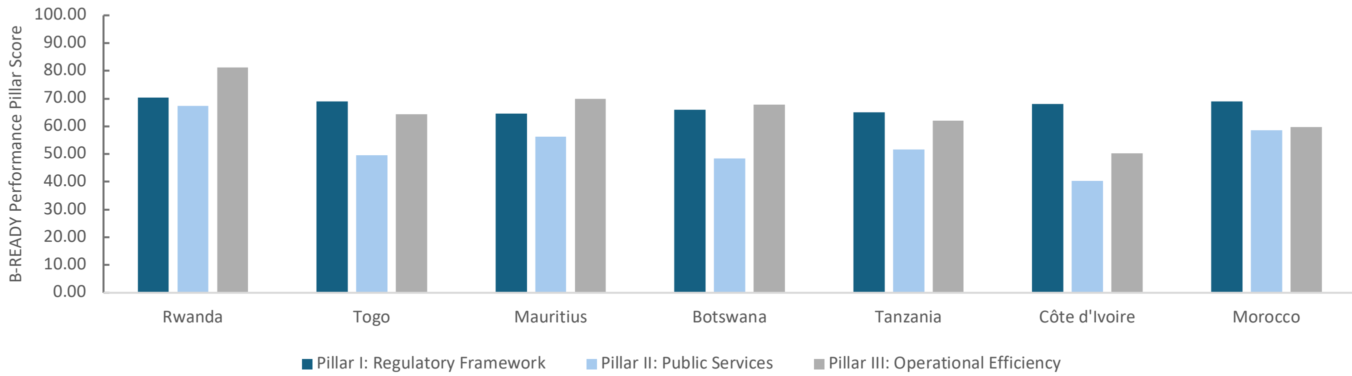
	Real GDP % YoY	CPI % YoY	Gov. Debt % GDP
Egypt	5.0	25.7	91.0
Israel	-1.2	3.2	63.3
Nigeria	2.8	33.4	59.0
Kuwait	-2.7	2.8	0.5
South Africa	0.6	5.1	76.1
Qatar	1.2	0.2	31.5

SOUTH AFRICA CONSUMER CONFIDENCE



Source(s): FactSet Economics, Vertige Research
Data as of November 22, 2024.

Exhibit 13: Rwanda's Top B-Ready Score Among Africa's Top Performers



Source(s): World Bank, Vertige Research

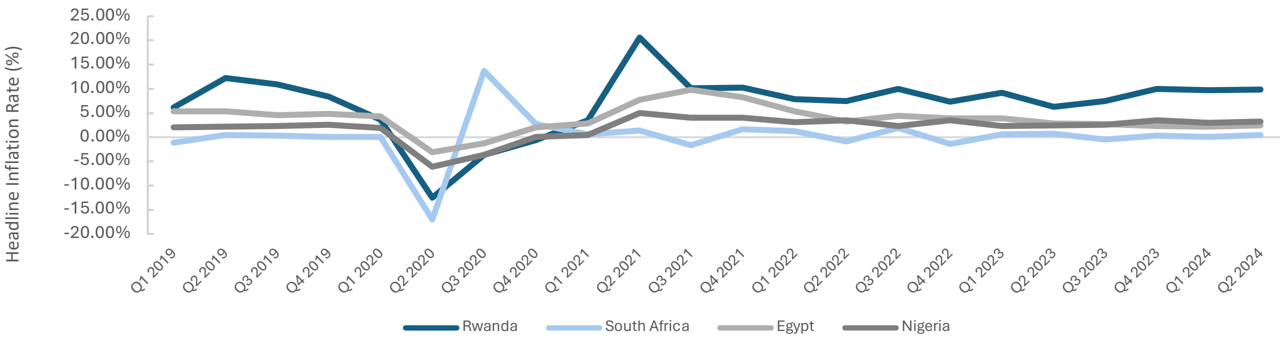
The 2024 B-Ready report scores 50 economies out of 100 across 10 topics that each fall under one of the three pillars: regulatory framework, public services, and operational efficiency. In all three pillars, The Land of a Thousand Hills was second to no African nation, placing itself in the second quintile for the regulatory framework pillar with a score of 70.35, and serving as the sole African nation in the first quintile for public services and operational efficiency, boasting scores of 67.37 and 81.31 respectively. Rwanda's score for operational efficiency is particularly impressive, as the rapidly developing nation was only bested by Georgia (84.75) and Singapore (87.33), finding itself in good company. The nearest African nation to Rwanda in this area was Botswana, which trailed by 13.58 points, highlighting the East African country's drastic advantage in the continent. Having said that, other African nations were no slouches, with impressive performances coming from Togo, which placed itself in the second quintile for the regulatory framework (69.03) pillar, and Mauritius, which was in the second quintile for public services (56.28) and operational efficiency (69.79).

Rwanda's impressive performance in the B-READY report is further evidence of a nation on an economic roll. The Rwandan economy experienced strong growth in the first half of the year with real GDP growing by 9.7% having grown by an average of 8.2% the prior year.

The nation seems poised for continued growth in the near future, projected to grow by 7.7% over 2025-26 according to the World Bank. Rwanda's current economic performance can be attributed to recoveries in global tourism as well as success in construction and manufacturing activities. Notably, the agriculture sector experienced a considerable growth of 7% credited to a successful harvesting season where corn production surged by 30%. The industry sector also grew by 10%, driven by considerable increases in mining and querying activities of around 22%, followed by construction activities, which grew by 16%. The services sector also grew by 11%, with wholesale and retail trade (21%) telecommunication services (28%) and air transport (29%) leading the way. Rwandan inflation is also looking very manageable, standing at 2.5% YoY as of September, falling on the lower side of the 2-8% range targeted by the nation's central bank.

As reflected in the B-Ready report, optimizations in operational efficiency and regulatory frameworks have been key for Rwanda. In terms of operational efficiency, Rwanda is a leading African nation in company registrations, which can take a swift 6 hours as opposed to the 32-day global average. For regulatory frameworks, legal reforms in the nation such as the 2021 Investment Promotion Law and the Insolvency Law have led to a more seamless business environment. Broadly speaking, rapid industrialization and effective government policy have been instrumental in the development of the Rwandan economy over the past decade, and this development seems to have begun to bear its fruits. With that said, it's not all flowers and rainbows, or rather, not every coffee bean ripens in the Rwandan sun! Despite a 3.4% decline in unemployment over the first quarter of 2024 to 12.9%, the Rwandan economy has struggled to create sufficient jobs. In May, labour underutilization was estimated at a whopping 53.9%. A comparable statistic for the U.S of labour underutilization (U-6 unemployment) was 7%. Rwanda's public debt, which stood at 62.1% of GDP in 2023 is also problematic, though this figure fell from 73% in 2022.

Exhibit 14: Rwanda's Elevated Inflation Compared to Major African Nations



Source(s): Trading Economics, Vertige Research

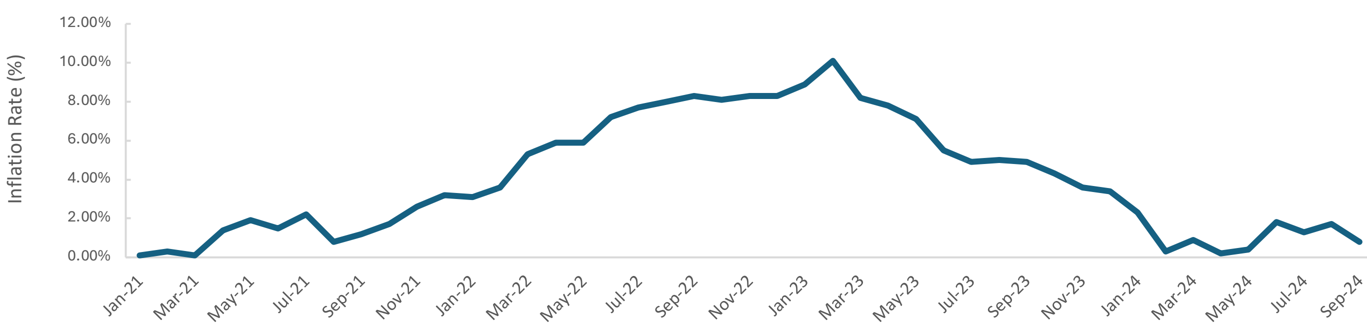
Despite challenges in job market outcomes and debt, the positive economic tailwinds as seen from real GDP growth, manageable inflation, and positive indications from the B-REPORT may signal continued sustained growth in the short-to-medium term. Correspondingly, similar to the World Bank, though slightly more conservative, we predict a 7.5% growth in real GDP in Rwanda for the next year due to concerns of volatility in the agriculture industry which comprises 25% of the nation's GDP. As such, overall, we prime Rwanda as an ideal location for medium to long-term investments in Africa.

Rwanda is the only African country to score in the top quintile of any of the pillars of the B-READY report, highlighting its growing potential as an African investment hub.

MOROCCO's PATH TO PROSPERITY: RISING INVESTMENTS, COST CONTROL, AND DIVERSIFICATION — IS GREEN THE FUTURE?

Following a challenging 2023 for investments, the Moroccan economy has experienced a reversal in fortunes in 2024. According to the Office des Changes, the North African giant's regulatory body on foreign exchange controls and capital flows, foreign direct investment (FDI) surged by 50.7% (approx. $1.6 billion) in the first 9 months of the year. This investment flurry is in stark contrast to the dismal 51.7% (the equivalent of $1.1 billion) decrease in foreign direct investment (FDI) the North African country experienced during the same period last year. Simultaneously, Morocco's expenditure also dropped by 12.4% over this same period, highlighting a more optimal budget balance.

Exhibit 15: Volatile MoM Moroccan Inflation Since Early 2021



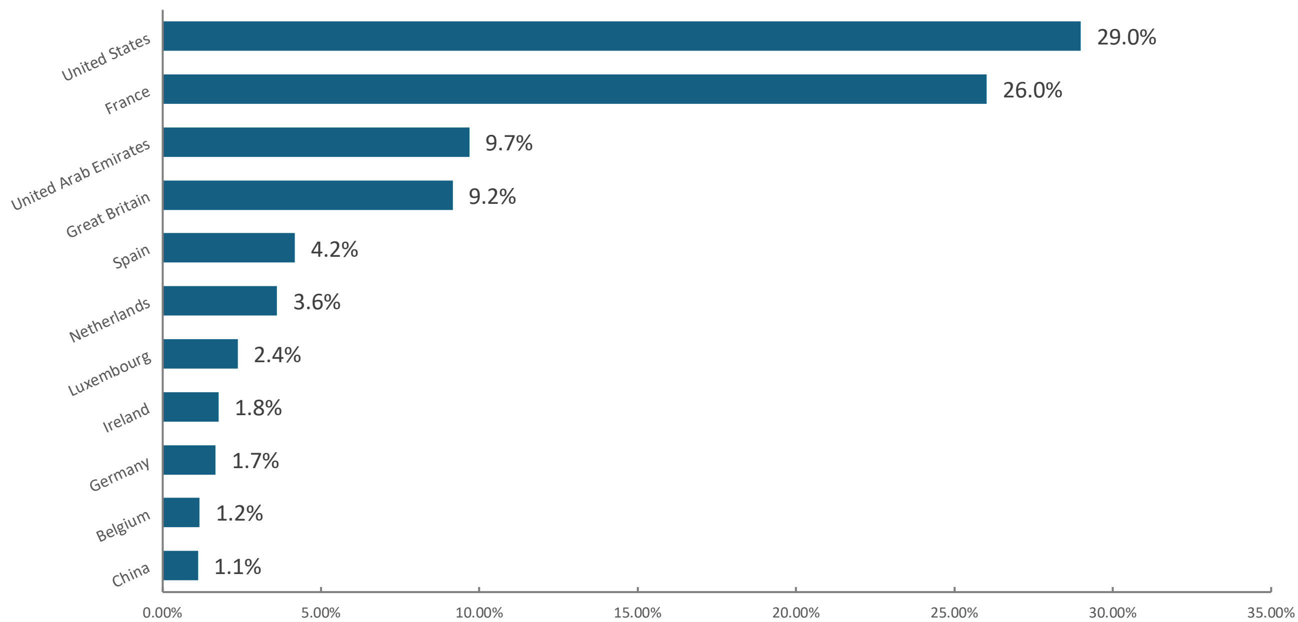
Source(s): Trading Economics, Vertige Research

The growth in investments in Morocco can be attributed to lowered costs. The 51.7% FDI decline from 2022 to 2023, constituting a drop in valuation from $2.3 billion to $1.1 billion, was primarily a result of increasing business costs, which grew by 36% from 2022-2023. Overall, this dissuaded investors, leading to a significant drop in net debt instruments and equality flows. This rise in costs can be attributed to soaring inflation, which stood at 6.64% in 2022, a more than 4x increase from the 1.37% inflation in 2021. Throughout 2023 and 2024, MoM inflation has steadily decreased from a peak of 10.1% in February of 2023 to 0.8% in September of this year. With dropping inflation, investors are incentivized to invest in Morocco again, likely a reason for the economic resurgence.

Morocco's strategic diversification and investment growth strengthen its regional influence but may also pose potential socio-political tensions due to economic dependencies and external shocks.

Morocco's economic resurgence can be seen in a flurry of announced projects such as the notable $5 billion investment by the French energy company MGH Energy into renewable hydrogen energy. Renewable energy as a whole is a strong venue for growth in the nation. Currently, renewables account for 40% of Morocco's energy capacity, well above the 28% reported for the United States in 2023, and slightly below the respective 45% and 53% values for Europe and Asia respectively in the same period. Morocco's Prime Minister Aziz Akhannouch is confident that this value will rise to 52% by 2030, highlighting a strong commitment to investment in this sector. With current renewable electricity generation for 2024 projected at 8.74 billion kWh, with a promising expected compounded annual growth rate of 4.73% from 2024-2029, the future of energy investments in Morocco appears to be green.

Exhibit 16: U.S and France Dominate in Morocco Foreign Investment by Country (As of Latest Data from 2022)



Source(s): Statista, Vertige Research

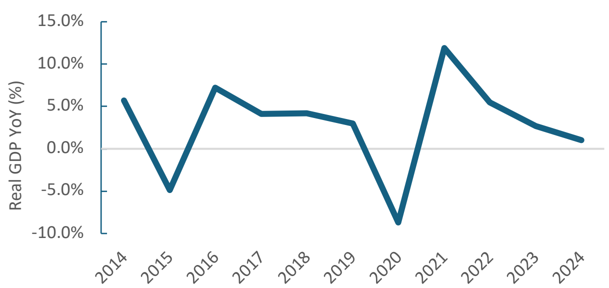
In addition to commitments to renewable energy, Morocco's resurgence has also been facilitated by a commitment to long-term growth. Notably, the Moroccan Minister of Industry and Trade Ryad Mezzour has outlined goals to double employment to 40,000 in the growing aerospace sector. Mezzour emphasized that strengths in the nation such as improving infrastructure and political stability have made the nation very appealing to international partners. This serves as an example of further diversification attempts in the nation supported by foreign investment as the nation's economy continues to develop. Morocco has focused on attracting investment through its free-trade agreements and blossoming mining and tourism industries, which together account for around 15% of GDP, as a strategy for long-term growth. As the nation which has inordinately relied on agriculture, contributing to around 12% of GDP in 2023, aims to diversify we expect to see substantial increases in FDI. In 2023, Morocco's FDI to GDP percentage stood at around 0.78%, but we expect that this figure could rise to 5% in the next 5 years if accompanied by sustained GDP growth.

DIAMONDS AREN'T FOREVER: BOTSWANA ELECTION AMIDST FALLING DEMAND FOR MINERALS

Following an uninterrupted 58 years in power, the Botswana Democratic Party (BDP), spearheaded by President Mokgweetsi Masisi, conceded power to the Umbrella for Democratic Change (UDC). The shock result is owed to frustration about the country's escalating economic woes, driven by plummeting diamond export revenue. Due to decreased Chinese and US demand, diamond sales had dropped 73% from nearly $350 million at its March peak to $100 million by August, with a $100 million fall recorded in the third economic quarter alone. The economic complications rife in the Southern African like high unemployment country present the new president-elect, Duma Boko, with a complicated start to his 5-year tenure. Diamond export revenue constitutes around 30% of Botswana's GDP so economic diversification will be a vital policy to spur a recovery.

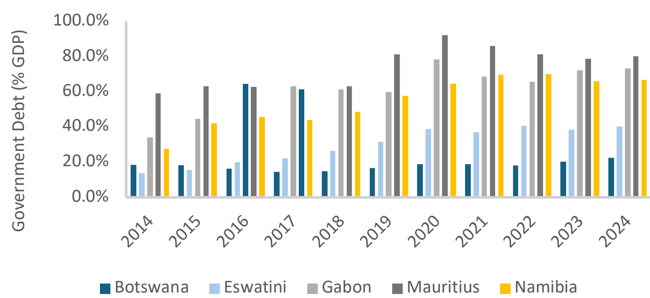
Inflation declined in the first half of 2024 to 3.3%; it stood at 7.8% after the first six months of 2023. Given the disinflation, since December 2023, the Bank of Botswana has lowered the policy rate by 75 bps to 1.9%. Despite the rate cuts, worryingly, 2024 real GDP growth is predicted to fall 1.6 percentage points from 2.7% in 2023 and unemployment is 27.6% which is comparatively higher than other similar economies like Gabon, Mauritius and Eswatini which are 18%, 7.4% and 23% respectively. The recessionary characteristics of the Botswana economy are primarily driven by the reduced diamond export revenue. Diamond exports constitute 90% Botswana's total exports and 25% of GDP. In 2024, naturally, mined demands experienced a 10-15% slump in price. The US and China contribute to most of the global demand, and their consumers have had a shift in preferences. In China, the economic uncertainty has created a substitution effect with gold as it is a safer asset.

Exhibit 17: Rwanda's Elevated Inflation Compared to Major African Nations



Source(s): IMF, Vertige Research

Exhibit 18: Distinctive Decade-Long Favorable Debt-GDP Ratio for Botswana



Source(s): IMF, Vertige Research

The Bank of America forecast that gold will rise up to $2400 per ounce by the end of the year. Comparatively, in the US, although the economy is in a much superior condition relative to respective expectations, lab-grown diamonds (LGDs) have skyrocketed in appeal. LGDs are 90% cheaper than natural diamonds. Given the similarity in visual resemblance, for US consumers, the notably cheaper alternative is a worthy substitute. In just the last 2 years, the YoY rise in market share for LGDs has escalated to 8.5%; they now claim a 25% market share stake in the US. Presently, there is an excess supply of natural diamonds due to greater inventories carried into 2024 by major diamond producers De Beers and Alrosa because of poor 2023 Q4 sales. Thus, the price received for diamond exports has tanked, and the export revenue gained by Botswana has followed.

However, there are some positives for the Botswana economy. The potential prosperous new leadership and low fiscal debt could provide timely relief for the economy. Botswana's 22.6% and -5.9% respective debt-GDP and net lending-borrowing ratios provide ample room for more borrowing and public spending. With the increased funds the untapped potential for renewable energy production should be a priority.

Botswana has a comparative advantage over most countries in producing solar power because of the favorable climate. Estimates by Carbon Tracker think-tank suggest the solar energy potential supply is 5000 times greater than the immediate demand. Earlier this year, an $88 million loan was granted by the World Bank in accordance with the Botswana Renewable Energy Support and Access Accelerator (RESA) project. This loan will facilitate the construction of Botswana's first 50 MW battery energy storage system which will integrate solar and wind energy into the national grid. We believe that Duma Boko must secure extra funding to finance the expansion of this sector through investment outlays on additional grids and batteries. The benefits of such would be threefold. Firstly, less import dependency. Electricity imports from the surrounding Mozambique, Zambia, South Africa and Namibia comprise roughly two-thirds of Botswana's electricity usage. Shifting away from this will internalize a lot of expenditure and will culminate in greater GDP and significant job creation, another key advantage. Lastly, a more sustainable energy production climate in Botswana will boost foreign direct investment (FDI) inflows. Subsequently, more grandiose infrastructure projects can be undertaken with the by-product of leveraged expertise from the contributing developed nations. More FDI will be a driver of economic development, and we believe the renewable energy sector in Botswana is a suitable avenue for African investment.

Diamond exports are responsible for 80% of Botswana's export revenue and a third of GDP, the government has been trying to alleviate the over reliance on diamond mining by subsidizing the tourism industry and other service-based sectors which account for roughly 65% of Botswana's GDP.

We expect a trend reversal in the LGD market; estimates indicate a ten-p.p. fall in revenue growth next year. Botswana's diamond export sector will be the beneficiary. We affirm the World Bank forecast of real GDP rising from 1% to 5.2% in 2025. Furthermore, Duma Boko and the UDC have pledged to generate up to 500,000 jobs via agricultural and diamond sector infrastructure investments. Also, President Boko is keen to direct fiscal expenditure towards 5G networks and AI development projects. Coupled with greater financing and human capital from foreign investors and the continuation of the solar energy production projects in alliance with the World Bank, we expect a medium-term hold of the forecasted 5.2% real GDP and a long-term upheaval to as high as 11%.

War Rages on and Iran Prepares for Trump's Second Term

REGIONAL OVERVIEW

Earlier this month, the chief economist of the Middle East and North Africa (MENA) region, Roberta Gatti, announced macroeconomic projections for the Middle East region. A moderate GDP YoY growth rate of 2.2 percent, 0.4 pp higher than 2023, is estimated. The rise in economic output is primarily attributed to the strong performance of the Gulf Cooperation Council (GCC), consisting of six countries: Kuwait, Oman, Bahrain, United Arab Emirates (UAE), Qatar, and Saudi Arabia. For the GCC, growth is forecasted to rise from 0.5 percent last year to 1.9 and 4.2 percent, respectively, in 2024 and 2025.

The UAE, Qatar and Saudi Arabia are the ringleaders of the six GCC countries. In October, the UAE was crowned as the most economically stable country in the world by a ranking published by the US News and World Report. The impressive average score of 85.5% for the UAE's physical and digital infrastructure highlights the commendable productivity of the country's leading sectors, such as oil and gas, aviation and real estate. Furthermore, the country was placed fifteenth in entrepreneurship and received a flawless mark of 100 for tax environment leniency, underscoring the country's status as a favorable private investment hub. The IMF predicts an increased UAE GDP YoY growth rate of 5.1 percent in 2025 from the current projected 4% for 2024.

As for Qatar, forecasts indicate a stagnant rate of around 3%. Key importer China has demanded lower oil for seven consecutive months. However, Qatar's non-oil sector has contributed to the economy's resilience. The sector's Purchasing Managers' Index (PMI) escalated to 52.8 in October from 51.7 the previous month. The measured salary hikes have boosted the sector's labor force and productivity. Not only has the non-oil sector employment rate peaked at its highest ever rate, but the tally of new firms has grown every month since December 2023.

The Saudi powerhouse, Saudi Aramco, responsible for nearly half of the country's GDP, reported declining Q3 profits by around 15% YoY. However, sales volumes rose during the period. Resultantly, profits for the quarter settled at a substantial $27.6 billion, and available cash flow trumped its equivalent value from Q3 2023. Nonetheless, improved investor confidence portrayed by $3.0 billion issued as international sukuk depicts strong investor confidence amidst the turbulent oil demand market. Such is vital to lift the Saudi Arabian economy from the underwhelming successive -0.8% YoY GDP growth rate in 2023 and an estimated 1.5% 2024 growth rate.

HOW GEOPOLITICS AND SANCTIONS ARE FUELING IRAN'S CURRENCY CRISIS

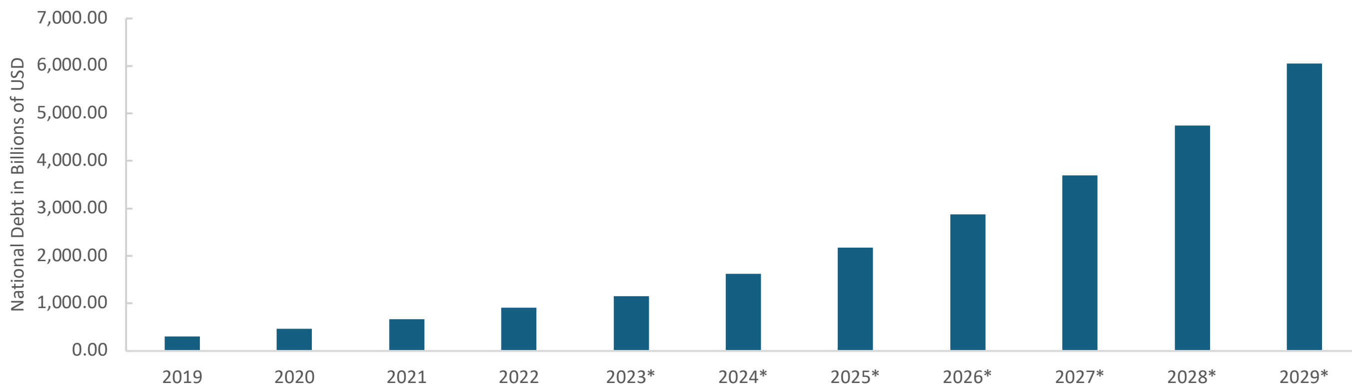
With the victory of the conservative party in the US, the Iranian rial has faced a severe devaluation, hitting record lows against the U.S. dollar as investors speculate on Donald Trump's firm stance on the Islamic Republic of Iran. Although Donald Trump's victory has played a significant role and will continue to affect the rial in the coming weeks, the Rial's devaluation has been a long-standing trend due to economic issues within the country, hitting an all-time low of 700,000 rials to the dollar. Substantial inflation of over 30% throughout 2023 and the government's growing debt have steadily weakened the currency.

Moreover, the recent escalations between Israel, Palestine and Lebanon, and their recent military exchanges have significantly contributed to the pressures on the Rial, pushing Iranians to safeguard their savings. The Iranian public has reacted to this decline by converting their income to dollars or gold as their traditional-safe haven goods in the "informal" or "parallel market". The increase in exchanges in these markets are primarily due to official restrictions on regulated foreign currency exchanges. With the recent announcement of a 200% increase in military expenditure due to heightened tensions and missile exchanges between Iran and Israel, Iran's oil revenue has gone toward defensive spending which adds more concerns to the country's budget deficit. Iran's currency faced further devaluation following the news of Trump's potential return to power, which many see as an imminent return of the "maximum pressure" strategy Trump applied during his first term, including harsh economic sanctions.

According to IRGC Missiles such as Fath, Zolfaghar, and Qadr were used in the attack. Costs of such missiles were confidential but are to range between $500,000 to $1.5 million each. With the government officials of Iran indicating that 200 missiles were launched, the operation likely cost Iran over $800 million. To put this in perspective, the costs of this operation equal the combined average monthly wage of 4 million Iranians.

During Trump's last presidency, over 90% of Iran's $120 billion in reserves became inaccessible and secondary sanctions which were imposed in 2018 devalued the country's currency by 60%. During Trump's presidency, the contraction of the economy was significant with rising poverty levels, inflation growth from 9% in 2017 to 34.69 in 2019, decline of per capita income and worsening living standards across the country. Despite Biden's maintenance of sanctions, the administration has somewhat permitted indirect oil exports to China. During Trump's last presidency, oil exports plummeted. Hence, we predict that a return to his policies could have similar impacts that could significantly worsen Iran's growth prospects and poverty issues. We believe that the likelihood of the sanctions getting loosened is minimal as Iran continues to avoid military and nuclear cooperation.

Exhibit 22: Iran's National Debt Growth Shows No Signs of Slowing



Source(s): Central Bank of Chile, FRED, Vertige Research

Due to foreign economic sanctions, Iran remains under the blacklist of the Financial Action Task Force (FATF) mainly because of its failure to address money laundering and terrorism financing issues. As such, this isolates the country's economy even further from international financial systems, impeding economic recovery. In addition, Iran's shadow economy generates 35-50 billion annually; crude oil production has risen to 1.8 million barrels per day and an additional 15 to 20 billion from petrochemicals, much of which is sold at significant discounts. The country employs evasion techniques; with China receiving 90% of Iran's oil exports, leveraging layered front companies to manage the logistics of oil shipping payments. Such oil smuggling is made possible by companies disguising oil origins, commonly labeling them as Malaysian, Iraqi or Omani. While Iran sells crude oil at a discount of $10-30 per barrel to compete in the market, China indirectly supports the country with plausible deniability.

To manage international payments for its oil trade and other activities, Iran uses local exchanges and accounts in global financial hubs such as Hong Kong, providing the country with a shadow banking system that manages transactions from fintech platforms and unknowingly involving major banks. The adaptability of Iran's financial network is significant as when the accounts are exposed or frozen, they are quickly replaced. We believe that with the upcoming return of the republican party in the US coupled with Iran's heavy reliance on its "shadow economy" the country's economic troubles will go further as the current struggles go beyond the imposed sanctions and require structural reforms within the country.

Islamic Revolutionary Guard Corps, a branch of Iran's armed forces established after the 1979 Islamic Revolution. IRGC created to protect the revolution's ideals and operates independently of the regular military, has extensive influence within Iran, including economic, political, and military spheres.

The Islamic Revolutionary Guard Corps (IRGC), a major player in the economy, has extensive stake with its ability to exploit sanctions vulnerabilities in the country's economy, and dominate the black market. Such dominance is highlighted through controlling essential goods distribution prices such as fuel, food, and medicine among the population. The shadow banking networks continue to facilitate sanction evasion tactics for the country even after the highlight of sanction breaches by the US Treasury office of foreign assets control.

The IRGC and MODAFL continue to consolidate power, distressed assets at lower prices and persist dominance over the key economic sectors. Moreover, the issue of economic mismanagement is further highlighted by transparency international ranking Iran as the 149th out of 180 countries on its corruption perception Index showcasing the extent of misallocation of the resources.

In November and October 2024, the capital of Iran, downplayed the effect of the U.S. election on the economy, with officials stating that America's policies will remain consistent regardless of a democratic or conservative party taking over of the white house. However, the intent of the response is to reassure Iranian citizens as further rial devaluation could follow a worsening of the situation amid economic turmoil.

THE TOLL OF REGIONAL CONFLICT AND PROLONGED INSTABILITY ON GROWTH AND RECOVERY IN LEBANON

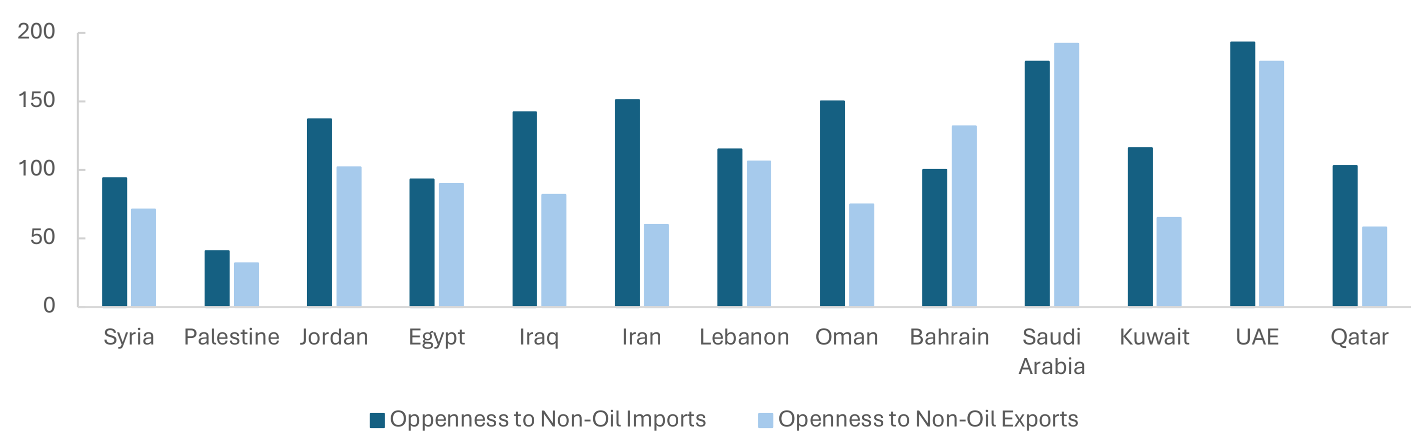
Since 2019, the local currency, the Lebanese pound, has lost more than 95% of its value, unemployment has surged to almost 14%, with more than half the population below the poverty line. The banking sector has stopped lending and attracting deposits, and severe fuel shortages have occurred.

The economic outlook for Lebanon remains bleak as it has undergone the compounded impact of prolonged economic crises, mostly due to the escalation of regional conflict with Israel. The recent estimates from the world bank signify the cost of the ongoing conflict with $5.1 billion in economic losses and $3.4 billion in physical damages throughout the period of October 2023-october 2024. Such losses significantly concentrated in the sectors of tourism, hospitality, agriculture and commerce have further exacerbated the preexisting economic hardships.

The destruction of around 100,000 homes in the southern districts bordering Israel underscores the significant toll on infrastructure, resulting in curtailing local economic activities. Such devastation coupled with a sharp decline in tourism rates and consumer spending undermine growth prospects for the economy in the upcoming year. The cessation of tourism, a sector which constitutes 20% of GDP has created a significant gap in foreign exchange earnings. Meanwhile, the losses in the agricultural industry, particularly the tobacco industry, are estimated at $30 million even before the Israel ground offensive in September 2024.

In 2024, macroeconomic indicators showcase a worsening trajectory for the country. The 9.2% contraction of the country's GDP credited to ongoing conflicts highlights the cumulative economic contraction of over 34% since 2019. Although inflation has receded from its peak of 229.8% in 2023 to 35% in August 2024, the decline showcases a base effect rather than substantive improvement. Moreover, the broader economic landscape remains dire, with the country losing its 15 years of economic growth ever since the financial crisis. The agriculture sector, which is vital for local livelihood, has been damaged by the destruction of arable land, further compounding food insecurity and undermining a key source of export revenue.

Exhibit 22: Middle Eastern Economies Far Less Open to Non-Oil Exports than Imports (Index where 1=Least Open, 195=Most Open)



Source(s): Central Bank of Chile, FRED, Vertige Research

Since October 2023, when regional war began, Lebanon has suffered over $5 billion in economic losses with large scale displacement of its population and claiming over 2,300 lives, compounding Lebanon's pre-existing structural vulnerabilities. The Institute of International Finance (IFI) forecasts a 7% contraction in GDP for 2024 in case the hostilities persist until mid 2025 and a sharper 20% construction likely in a protracted and escalated conflict scenario. As more than 12% of the population including both Lebanese citizens and Syrian refugees has been displaced, we forecast a collapse in domestic consumption, which will further the severe disruptions to the agricultural and tourism sectors. The IFI further warns that a mixture of reduced investor confidence mixed with the cost of rebuilding could exacerbate Lebanon's fiscal deficit and delay the economic stabilization. Such data further highlights the urgent need for a ceasefire for Lebanon and the robust international financial support to overcome its economic freefall and mitigate the growing humanitarian crisis.

Agriculture plays a minor role in Lebanon's economy despite the high proportion of arable land with 139,300 hectares as of 2021. It accounts for a mere 5% of Lebanon's GDP and employing only 8% of its active workforce.

In the upcoming year 2025, we believe that Lebanon's economic recovery will hinge on resolving its political and structural challenges and stabilizing the regional conflict. Although the prolonged nature of this crisis showcases a slow rebound due to damaged infrastructure and huge population displacement, we see the recovery of investor confidence for Lebanon as a task that will take considerable time and care. The strained fiscal capacities will likely impede growth and efforts to rebuild infrastructure will require external financial support from international organizations. Additionally, without structural reforms to address fiscal mismanagement, Lebanon risks falling deeper into economic stagnation.

TRUMP PRESIDENCY MEANS GROWTH PARTNERHSIPS FOR SOME, ECONOMIC SQUEEZE FOR OTHERS

Looking back at Donald Trump's first term, bold steps were taken to reshape the U.S. approach to the Middle East, aiming to challenge adversaries and strengthen alliances. Donald Trump's decision to make Saudi Arabia the destination for his inaugural overseas visit marked a significant moment in his foreign policy signalling a close partnership with the Gulf states. Trump's administration also brokered the Abraham Accords, facilitating the normalization agreements between Israel and multiple Arab nations, displaying the regional landscape shift. Moreover, his approach to the Israel-Palestinian conflict was focused more on fostering deals beneficial to Israel rather than a two-state solution, such as recognizing Jerusalem as Israel's capital and endorsing Israel's sovereignty over the Golan Heights. On the other hand, the "maximum pressure" strategy posed on Iran included withdrawing from Iran's nuclear deal and harsh sanctions aimed at curbing Tehran's influence. This led to a year-on-year CPI increase of 42% by late October 2019, with food and beverage prices climbing 61% and meat products rising by 116% year-on-year in April 2019. The assassination of Iran's Quds Force leader Qaseem Soleimani was also another instance which highlighted Trump's assertiveness and unpredictability. We believe Trump will maintain a similar, if not stricter, trade strategy with Iran, putting immense pressure on the Islamic Republic and their economy. We will likely see a repeat of high inflation and supply shortages.

The Abraham Accords are a series of agreements brokered by the United States in 2020 that normalized diplomatic relations between Israel and several Arab countries, including the United Arab Emirates (UAE), Bahrain, Sudan, and Morocco.

The Middle East has gone through significant changes while Trump prepares for a possible second term, specifically due to rising tensions in the recent years. It is most likely that Trump's administration will focus on leveraging economic activities with Isreal and the Arab states, especially Saudi Arabia. Trump's desire for economic agreements and swift peace may not align with gulf leader's interest in de-escalation since their priorities are set on security over confrontation. When considering Trump's "America First" energy policy, focused on making the U.S. energy independent through shale oil productions, the possible upcoming concerns regarding fluctuation in the global oil prices arise for middle eastern countries with large oil export reliance. Specifically, we view Saudi Arabia's oil export and pricing strategies to be vulnerable due to Trump's support for a market driven approach to energy which could pressure Saudi Arabia to adjust its output policies. We also predict that in Turkey, if they continue their support for Hamas, failing to halt military operations against the U.S.-backed Syrian Democratic Forces and its S-400 missiles, the existing tariff sanctions could potentially intensify by the U.S.

LATAM COVERAGE

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Uruguay's Runoff, Brazil Tightening, and Trump's Sequel in Latin America

REGIONAL OVERVIEW

Latin America continues to surprise the world with solid macroeconomic fundamentals in the wake of COVID-drivem inflation and worldwide monetary tightening. As per usual, the region's path continues to be shaped by domestic political processes, with Argentina and Uruguay experiencing fiscal reform, and by external factors, with commodity price trends and the Trump victory in the US being potential (de)stabilizing forces to watch out for.

Uruguay is heading toward an important presidential runoff on November 24. The two candidates, Yamandú Orsi of the Broad Front, a left-wing coalition focused on social welfare and progressive reforms, and Álvaro Delgado of the National Party, a center-right party emphasizing economic liberalization and security, offer very different visions for the country. Orsi is pushing for expanded social programs in areas like healthcare, education, and pensions to reduce inequality, while Delgado emphasizes fiscal responsibility and policies to attract foreign investment. The result will shape how Uruguay manages public spending and economic growth in the years ahead.

Brazil is now focusing on tightening its monetary policy. The central bank recently raised interest rates to combat inflation. These efforts are accompanied by spending cuts, signaling a shift in President Lula's administration toward fiscal discipline. While these measures stabilize markets and the currency, they could dampen economic growth in the short term.

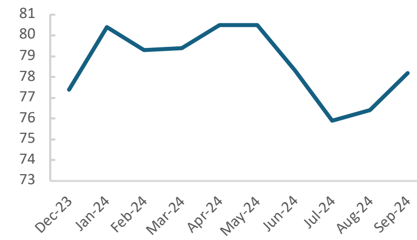
Donald Trump's return to the U.S. presidency adds uncertainty to Latin America. Countries with close trade ties to the U.S., like Peru, Chile, and Colombia, might also feel the ripple effects of stricter trade policies and financial market shifts. Latin America continues to evolve, and the interaction between domestic reforms and external shocks will define its economic trajectory in the coming years. As the region adapts to shifting global conditions, its diverse economies offer both risks and opportunities for policymakers and investors alike.

ARGENTINA: NUMBERS CONTINUE TO IMPROVE

Milei's radical economic liberalisation experiment continues to show promise via large improvements in Argentina's key economic and financial indicators. On the monetary side, the inflation rate has continued to drop from its late 2023 peak of 306% annualised to a more comfortable 42% this September, stemming purely from overarching fiscal austerity measures. Consumers and firms appear to find the government's inflation-reducing measures credible, as inflation expectations have dropped to 40.9% for the next 12 months, their lowest level since early 2020.

On the fiscal side, the country's debt burden shows considerable improvement since last year, with gross public debt dropping from a critical 157% of GDP in 2023 to 111% in 2024Q2. External debt as a percent of GDP has also nearly halved during the same period. The public sector achieved its sixth consecutive month of budget surpluses in July. Fiscal improvement is expected to continue as Milei's fiscal surplus policies continue, but critics consider that the pace of fiscal adjustment must necessarily slow down as the largest possible spending cuts have already been performed. This will not stop Milei's supporters from trying, however, especially since domestic opposition has been fairly muted considering the size and scope of the reforms.

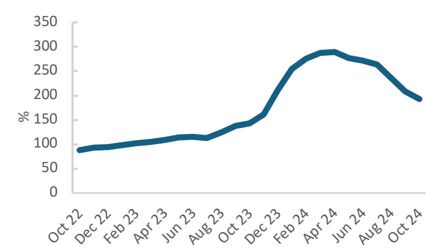
SELIC INTEREST RATE



REGIONAL ECONOMIC SUMMARY

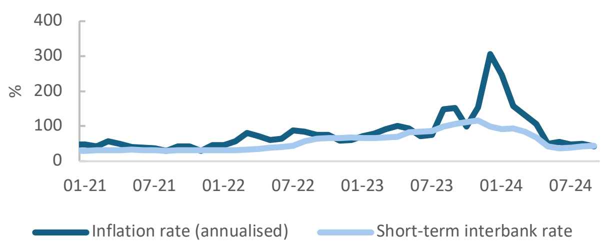
	Real GDP % YoY	CPI % YoY	Gov. Debt % GDP
Argentina	-4.0	197.3	74.1
Brazil	2.8	4.8	76.0
Peru	3.6	2.0	31.5
Venezuela	186.6	25.8	243.2
Uruguay	3.8	5.0	55.6
Chile	2.3	4.7	39.3

ARGENTINA INFLATION



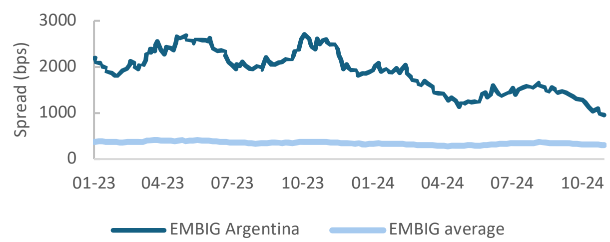
Source(s): FactSet Economics, Vertige Research
Data as of November 22, 2024.

Exhibit 21: Inflation And Credit Markets in Argentina Stabilizing from Q1 Spikes



Source(s): Central Bank of Argentina (BCRA), Vertige Research

Exhibit 22: Argentina Sovereign Spread Slowly Converging to Emerging Markets Average



Source(s): JP Morgan Chase, Vertige Research

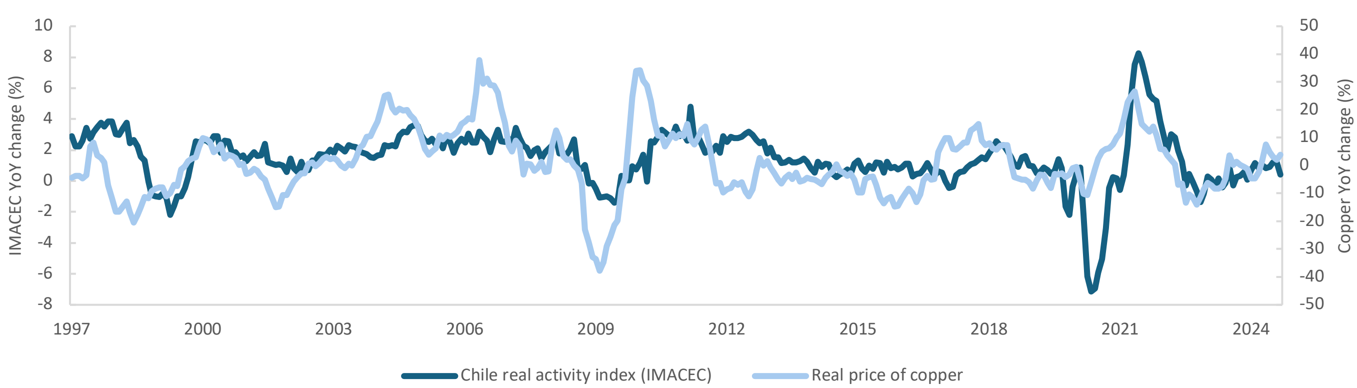
Foreign investors seem particularly happy with Argentina's progress, with Argentinian USD-denominated sovereign bonds now trading at a 960bps spread compared to the 2500+bps spread observed 12 months ago. The S&P Merval index reflects improving earnings expectations, exhibiting solid real returns. This is the case despite some concerns related to the country's poverty rate, which due to the slashing of public spending programs and the rise in public sector layoffs has increased to more than 50%. We expect Argentina's numbers to see continued improvement over the next few months, but the Milei government must start thinking about how to escape the recession that they have purposefully generated.

COPPER GIANTS: COMMODITY PRICE RISK THREATENS GROWTH, BUT OTHERWISE STABLE PROSPECTS

Peru and Chile are known for their remarkable macroeconomic stability compared to their regional peers. However, with copper and other industrial metals forming a large part of their export base, they are exposed to international cyclical risk.

Cochilco (Chile's copper council)'s medium term outlook for copper forecasts weak demand and strong supply in the medium term, stemming from decreasing manufacturing shares in the developed world, weakening demand from East Asia, and strong ore production in South America as determining factors. Steadily decreasing copper prices could pose a real threat to Chile's (and to a lesser extent Peru's) growth over the medium to long run. Foreign investors do not appear concerned about commodity price risk, however, as sovereign spreads for both countries display remarkable stability, potentially driven by their excellent fiscal position.

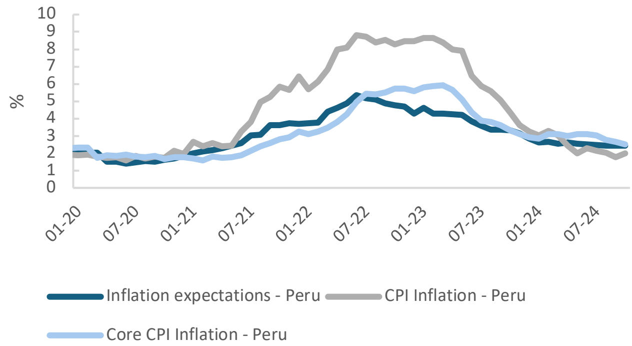
Exhibit 22: Chile's Real Activity Comoves with The Copper Cycle; A Leading Variable

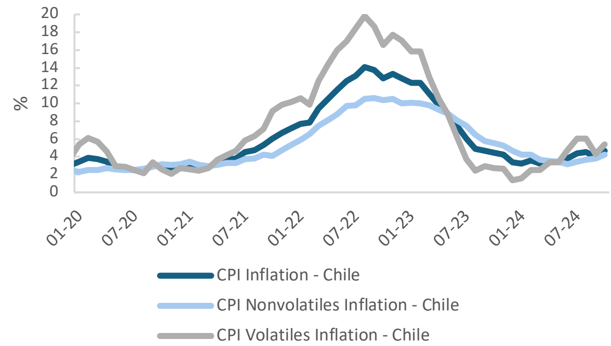


Source(s): Central Bank of Chile, FRED, Vertige Research

Inflationary pressures remain neutral in Peru, with the latest CPI print solidly at the 2% target range and are forecasted by the Central Reserve Bank to remain this way in the near future. Inflation expectations also seem solidly anchored. The inflation picture for Chile is somewhat concerning compared to its healthier neighbour, with annualized inflation having reaccelerated to above 4% in September due to large increases in local energy costs, after the unwinding of a 5-year long consumer electricity price freeze. In certain populous regions, consumers have faced sudden electricity price increases of up to 36%.

Exhibit 24: Inflation Cooling Down Despite Chile Setback



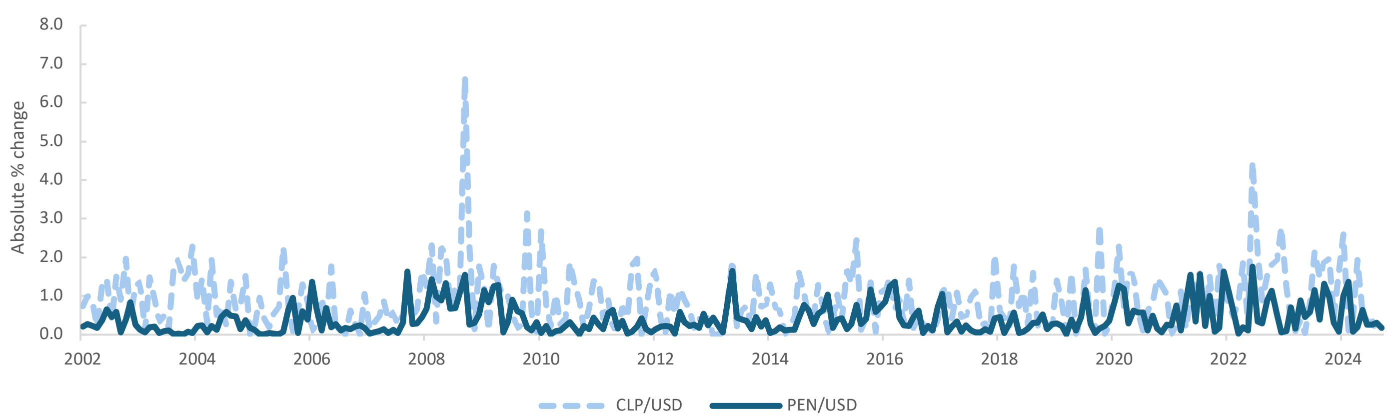


Source(s): Central Bank of Chile, Central Reserve Bank of Peru, Vertige Research

Due to the transitory nature of this issue, the Central Bank of Chile expects inflation to slowly return to the 3% target range over the next 12-24 months absent any major external shocks.

External factors currently play a major role in shaping the path of emerging economies, and Chile is no exception, having experienced changes across the sovereign yield curve due to the Trump boost to UST yields. The Chilean peso's free float, a facilitator for foreign direct investment into the country, also represents a vulnerability to external shocks which may make the result of US elections the determining factor in the country's short-term performance. In Peru, targeted FX interventions by the Central Reserve Bank have the potential to smooth currency movements, so the impact may be more muted.

Exhibit 25: FX Volatility Historically More of a Concern for Chile



Source(s): Central Reserve Bank of Peru, Vertige Research

URUGUAY: PRESIDENTIAL RUNOFF AND SOCIAL REFORM

The November 24, 2024, runoff between Yamandú Orsi (Broad Front, center-left) and Álvaro Delgado (National Party, center-right) represents two distinct visions for Uruguay's economy:

Yamandú Orsi: Focuses on expanding social programs in healthcare, education, and pensions to reduce inequality. He plans to avoid tax hikes, aiming to address the fiscal deficit through economic growth driven by innovation, technology, and investment in skills. This approach will likely lead to higher public spending, which will affect the deficit.

Álvaro Delgado: Emphasizes fiscal responsibility and supports business-friendly policies to attract foreign investment. He has expressed concerns about potential pension reforms, noting risks to economic stability if state pensions increase significantly. On the fiscal side, he focuses on conservative spending to maintain stability.

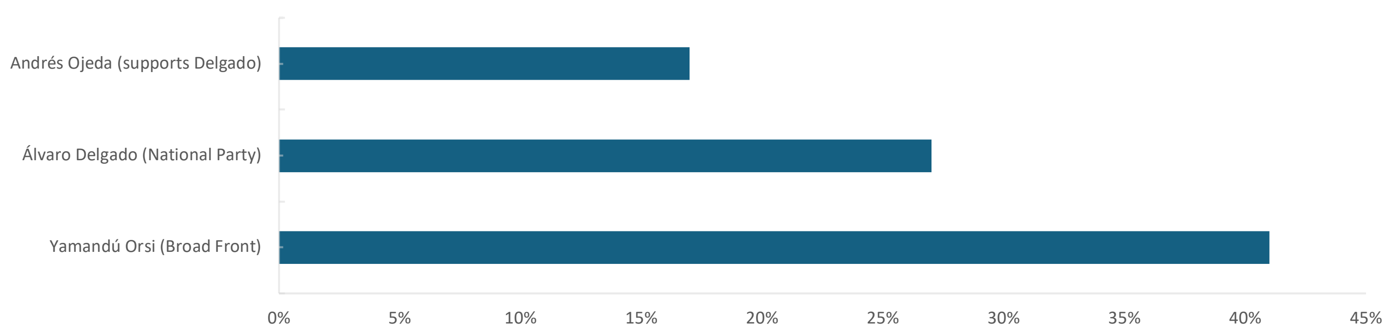
In Uruguay's recent election, voters rejected a major pension reform proposal. The reform aimed to lower the retirement age from 65 to 60 and eliminate private pensions in favor of a public system. About 61% of voters opposed it, showing support for maintaining the current pension structure, which many feel is more financially sustainable.

Both presidential candidates, Yamandú Orsi and Álvaro Delgado, had reservations about the proposed reform. Orsi supports improving social programs but emphasizes that pension changes should be financially responsible. Delgado warned that this reform could destabilize the economy and prefers keeping the existing system to avoid increased public spending. Polls suggest Orsi is still in the lead, but undecided voters could tip the scales. In the November 17 debate, both candidates laid out their plans: Delgado highlighted fiscal stability and security, while Orsi pushed his vision for expanding social programs and driving growth through innovation.

As the campaigns heat up in the final days, undecided voters will play a crucial role. Orsi's focus on social programs and inequality seems to resonate with many, hinting at a possible win for the center-left. Still, Delgado's emphasis on economic stability might attract those more concerned with managing the country's finances.

Uruguay's decision to reject the pension reform helps keep the country's finances stable. If the reform had passed, it could have added around $1.1 billion a year in government spending and increased public debt, potentially jeopardizing Uruguay's investment-grade credit rating. This vote reflects that Uruguayans value fiscal stability and aim to support retirees within a sustainable economic framework.

Exhibit 26: Slim Margins in Uruguay Run-off Between Broad Front and the National Party



Source(s): AP News, Vertige Research

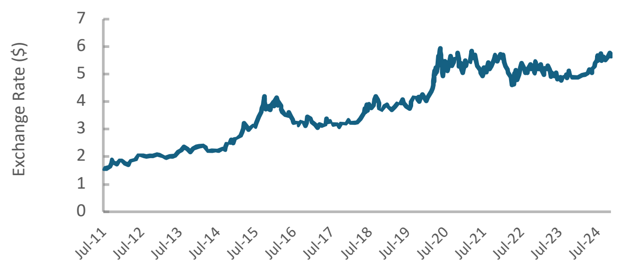
BRAZIL'S RECENT INTEREST RATE HIKES

On November 6, 2024, Brazil's central bank raised its main interest rate, known as the Selic, to 11.25%. This movement was aimed to curb inflation, as prices have been going up, mostly due to a prolonged drought and a weaker Brazilian real. The term Selic for "Sistema Especial de Liquidação e de Custódia," or Special System for Settlement and Custody in English, is Brazil's benchmark rate for overnight borrowing on government bonds. It's set by the central bank, Banco Central do Brasil, and plays a huge role in the economic stability.

This latest increase was implemented with the goal of getting inflation back to the 3% target. Inflation is currently at 4.42%, and the central bank is pushing to control rising costs, especially for food and energy, which have been hit by external pressures and the depreciation of the Brazilian real against the U.S. dollar. This higher interest rate is aimed at cooling demand by making loans more expensive, which can stop prices from rising. This can help curb inflation in the long run. The government is also working on spending cuts to support these monetary policies. Finance Minister Fernando Haddad recently shared that they're preparing a budget plan that includes cuts to help restore investor confidence. This is a shift from the government's recent focus on raising wages and boosting social support. These cuts are meant to stabilize Brazil's finances, but they might cause some unfavorable public reaction, especially since President Lula's administration has prioritized support for lower-income groups.

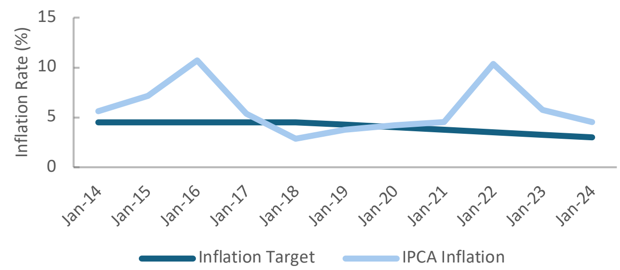
These rate hikes also aim to support the Brazilian real, which has depreciated this year. A stronger real could make imports cheaper and help with inflation. However, for that stability to last, Brazil needs to ensure its spending policies align with its monetary goals. A stable real might attract more foreign investment, but ongoing doubts around fiscal policy continue to put pressure on the currency.

Exhibit 27: Brazilian Real Continues to Weaken Against the US Dollar



Source(s): Central Bank of Brazil, Vertige Research

Exhibit 28: Inflation Continues Familiar Trend, Moving Back Towards Target



Source(s): Central Bank of Brazil, Vertige Research

Higher interest rates can stabilize financial markets, but they also make borrowing more expensive. This could slow down Brazil's projected 3.1% growth for 2024, as businesses might delay expansion plans and reconsider hiring.

Brazil's economic stability will likely depend on how well government spending aligns with the central bank's inflation goals. If fiscal and monetary policies are well-coordinated, inflation could stabilize, and investor confidence could grow. However, if inflation remains high, the central bank may have to keep raising rates, which would put more pressure on economic growth and financial markets.

POTENTIAL EFFECTS OF THE TRUMP VICTORY ON LATIN AMERICA

We expect a continuation of the historical trend of US political events having large effects on Latin American countries. Higher long-term US interest rates, regardless of the (mostly) politically independent short-run interest path, as well as the expectation of higher future stock returns, are likely to lead to large capital outflows, as investors reposition their funds into higher yielding US assets, depreciating emerging-market currencies relative to the US dollar, which is generally bad news for LATAM consumers. An aggressively protectionist US trade policy, if implemented, is likely to negatively affect LATAM exports, potentially negating whatever positive effects currency depreciation entails.

Moreover, loose fiscal discipline in the US could reaccelerate inflation worldwide. Investors seem to hold similar beliefs, as downward jumps in many LATAM currencies were observed shortly after the announcement of Trump's victory. We expect the most affected countries to be large exporters with strong trade links to the US, such as Peru, Chile, and Colombia. Countries looking to prop up their exports, such as Argentina probably will in the near future, may also face some difficulties with the new Trump trade policy regime.

EUROZONE COVERAGE

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GROWTH, GRIDLOCK, AND GRIT: THE UNIQUE CASES OF GEORGIA, GERMANY, AND GREECE

REGIONAL OVERVIEW

The European economy is gradually recovering with GDP growth projected at 0.9% for the EU in 2024, rising to 1.8% by 2026, alongside easing inflation. Unemployment remains historically low at 5.9%. However, investment is subdued, and structural challenges, geopolitical risks, and uncertainty loom, impacting energy prices and productivity. Consumption and exports are picking up, supported by resilient households and falling inflation, but continued fiscal discipline and innovation are essential for sustained growth. This section explores the different challenges faced by Georgia, Greece, and Germany, along with the distinct strategies each has employed to address them.

Georgia is at a crossroads, balancing economic aspirations with political complexities. The country's liberal economic policies and strategic location offer significant opportunities, but achieving sustained growth will require navigating internal divisions and external pressures. As protests continue and calls for fair governance grow louder, Georgia's leaders face a defining moment in determining the country's legacy and alignment on the global stage.

Germany, meanwhile, faces structural challenges as its reliance on Russian energy and exports to China falters. The 2022 energy crisis and decommissioning of nuclear plants exposed weaknesses in its manufacturing-led economy, leading to slow growth and inflationary pressures. Despite strides in electrification, such as a 60% surge in electric vehicle exports, Germany must overhaul its bureaucratic processes, invest in high-tech sectors, and adapt to a shrinking workforce to secure long-term growth.

Greece offers a contrasting success story. Following stringent fiscal reforms, it has achieved robust growth, reduced unemployment, and regained investment-grade status. However, challenges like high current account deficits and limited access to growth capital for businesses could temper its outlook, despite strong political leadership and progressive social reforms.

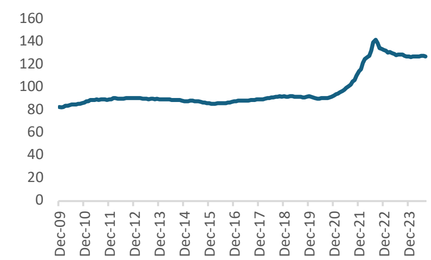
GEORGIA: TAX HAVEN INVESTMENT AND ELECTION FRAUD

Georgia is at a critical turning point, with its recent parliamentary election deepening divides over the country's future direction. Georgian Dream (GD), the ruling party, has maintained its hold on power amidst accusations of election irregularities and mounting protests. While GD officially supports EU membership, its recent pro-Russian shift, coupled with restrictive laws like the "foreign agents" legislation, has strained EU relations, leading Brussels to freeze Georgia's EU candidacy. This political backdrop has cast uncertainty over the nation's aspirations to balance Western economic integration with domestic policy shifts.

Georgia's economy continues to show impressive growth, with a projected GDP increase of 6.6% in 2024, supported by a decade of above 5% yearly GDP growth and bolstered by strategic location advantages as well as investor-friendly policies. Ranked as the 35th freest economy globally, and 7th on the World Bank's ease of doing business index; Georgia's low corporate tax rate (ranked 3rd least tax-burden country), streamlined regulations, and free-market orientation make it an attractive destination for foreign direct investment. In 2023 alone, FDI inflows surged by 30%, highlighting confidence in Georgia's stable and accessible business environment. The Georgian economy depends extensively on exports, with the main driver for GDP growth (and degrowth) has been led by increasing exports followed by gross capital formation.

Georgia's progress is not without challenges. Rising political tensions, the GD party's authoritarian leanings, and closer ties to Russia have triggered domestic unrest and international scrutiny. Additionally, with a significant portion of debt denominated in foreign currency, 70%, Georgia remains vulnerable to external economic shocks.

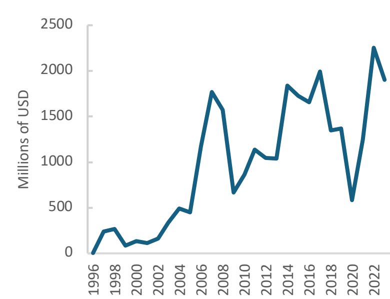
GERMANY PRODUCER PRICE INEX



REGIONAL ECONOMIC SUMMARY

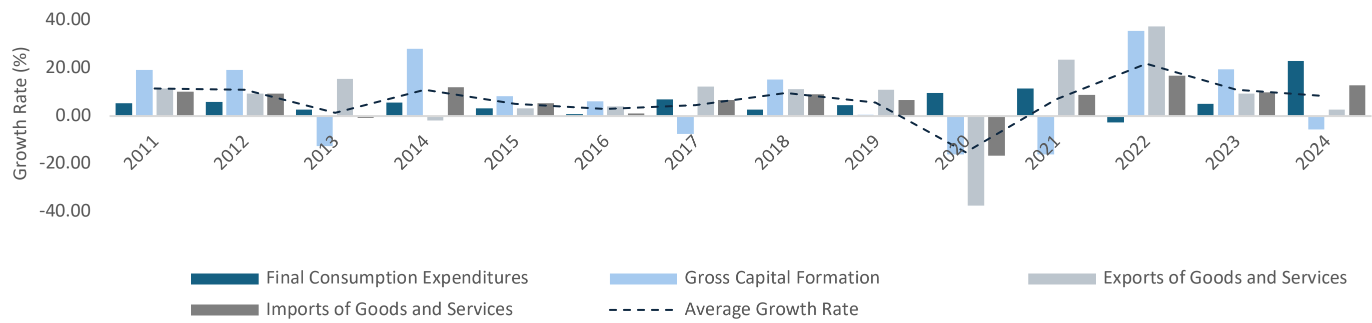
	Real GDP % YoY	CPI % YoY	Gov. Debt % GDP
France	1.3	1.2	82.1
Germany	-0.2	2.1	62.1
Italy	0.4	0.9	136.7
Netherlands	1.9	3.5	42.2
Spain	3.4	1.8	103.1
United Kingdom	1.0	1.7	100.3

GEORGIA FOREIGN DIRECT INVESTMENT



Source(s): FactSet Economics, Vertige Research
Data as of November 22, 2024.

Exhibit 29: Lesson From Turkey —How Stubborn Low Interest Rates Boost Inflation



Source(s): Central Bank of Turkey, Vertige Research

Investors may also face heightened risks if political instability continues, potentially undermining confidence in Georgia as a secure investment destination.

Unemployment has reached its lowest level in recent years, standing at 13.7% in the second quarter of 2023, reflecting gradual improvement but still high by regional standards. Inflation has also stabilized, dropping to 2.2%; slightly increasing after it plummeted to around 0% following the pandemic-induced peak — aligning with Georgia's goal of maintaining a 3% rate.

With projected GDP growth averaging around 5% toward 2027, Georgia's economic outlook is optimistic. The government's Law on Economic Freedom enshrines low taxes and fiscal responsibility, aiming to secure long-term stability and investor confidence. As the country navigates political challenges, its focus on reducing foreign currency debt and expanding domestic financing should help manage external pressures. However, Georgia's path forward will largely depend on its political stability and ability to restore relations with the EU.

Georgia's controversial foreign agent law, enacted on August 1, 2024, by the Georgian Dream Party, mandates NGOs receiving 20% or more of their funding from abroad to register as "foreign agents." Critics argue the law mimics Russian tactics to suppress dissent and threatens Georgia's democratic aspirations, jeopardizing its EU candidacy and Western alignment. The EU has suspended Georgia's membership candidacy and frozen aid, while the U.S. imposed visa restrictions on Georgian officials and paused millions in assistance. Massive protests erupted, reflecting public frustration over democratic backsliding.

GERMANY: IS THERE A WAY OUT OF THE ENERGY CRISIS?

Germany's economic model has been under increasing strain in recent years. Traditionally anchored in manufacturing, fueled by Russian energy and exports to China, the abrupt loss of cheap Russian gas in 2022 and China's growth slowdown highlighted major deficiencies of Germany's growth model, which was already losing competitiveness due to a heavy regulatory burden. The loss of Russian energy supplies was accentuated by the government's decision to decommission the existing nuclear plants (Atomausstieg). Even though energy prices have somewhat stabilized in 2024, the two-year energy disruptions forced a rapid and costly adaptation in Germany's industrial sector further undermining competitiveness in a rapidly evolving global landscape.

Therefore, it should not come as a surprise that Germany was the only G7 economy to contract in real terms in 2023 and is set to be among the slowest growing this year. The energy crisis also contributed to inflationary shocks which led to lower consumer spending and necessitated interest rate hikes by the European Central Bank, which in turn created problems in interest-sensitive sectors such as utilities, telecommunications, and housing.

Worldwide, there has been a shift in consumer demand from goods to services — in part as a catch-up after the pandemic-related lockdowns. As the region's largest manufacturing-based economy, this shift has disproportionally impacted Germany compared to the rest of the Eurozone. Despite German authorities' efforts to adapt to the evolving economic landscape, energy-intensive sectors like chemicals, metals, and paper have experienced contractions. In contrast, the automobile industry has defied this trend, achieving an 11% growth over the past year. This success is largely due to a 60% surge in electric vehicle (EV) exports, underscoring the German auto industry's strategic shift towards electrification.

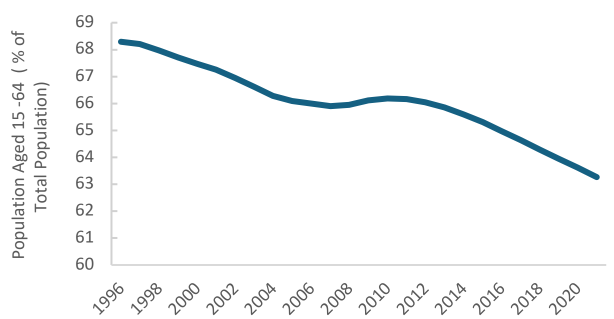
German manufacturers have also been able to somewhat adjust to the supply shocks and energy crisis via the higher utilization of value-added products, steadying the output of the manufacturing sector amidst the 5.5% dip in industrial production in the first half of 2024. Unfortunately, such changes alone won't be able to fully offset the multiple headwinds in Germany's industry.

Another issue plaguing Germany is its aging population. As baby boomers begin to retire, the workforce is expected to shrink significantly. The migration that has been able to maintain Germany's workforce thus far has also fallen off. This means that there will be fewer workers to support a growing retiree population. This poses significant future social security risks, compounding the already ballooning budget crisis. If decisive action isn't taken, Germany's long-term productivity could collapse under the weight of inaction.

The German economy has also been hampered by low levels of investment in infrastructure and innovation. Compared to other economies in the Eurozone, the country's investment in both public and private sectors have lagged. This has constrained modernization efforts and slowed Germany's shift towards sectors such as technology and renewable energy. This stagnation in these sectors has worsened the effects of the energy crisis. Various bureaucratic restrictions and heavy regulations slow innovation and delay the completion of high-demand projects in the housing and renewable energy markets. The experience of many countries, including emerging markets, showed that digitizing government services could expedite such procedures and reduce pressure on the government's budget by improving effectiveness and transparency. Germany falls behind the European Union in delivering online services to businesses, including tax filing and registration. Notably, only 43% of government agencies in Germany pre-fill information on online forms, significantly below the EU average of 68%.

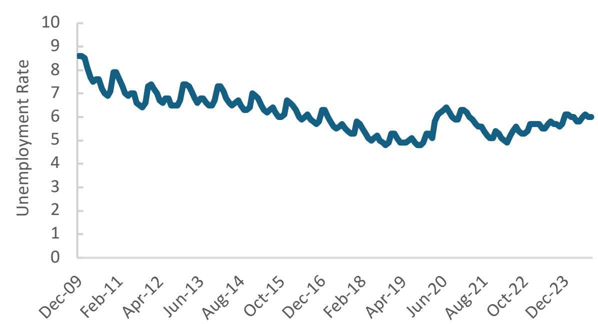
Chancellor Olaf Scholz introduced a €200 billion Energy Relief Package in October 2022, featuring the "Gaspreisbremse" (gas price brake) to cap soaring gas prices for households and businesses, effective from January 2023. This short-term solution was critical as energy prices had risen 35% following the loss of Russian gas imports. Furthermore, Germany aims to address its overreliance on fossil fuels by accelerating renewable energy adoption, targeting an 80% renewable electricity mix by 2030 through reforms to the Renewable Energy Sources Act (EEG).

Exhibit 30: Working Age Population Continues to Decrease



Source(s): World Bank Group, Vertige Research

Exhibit 31: Unemployment on Track to Stabilize



Source(s): Statistisches Bundesamt (Destatis), Vertige Research

While we expect Germany to regain some near-term stability as the energy market stabilizes and China's growth outlook improves on the back of a major stimulus policy, Germany's long-term growth model remains uncertain — improvements are contingent on structural reforms. All evidence points to the need to simplify stagnant bureaucratic processes, increase investment in high-tech sectors, and enact policies to better accommodate a rapidly aging population. We view such reforms as critical for Germany to retain its position as a leading Eurozone economy and adapt to the rapidly shifting global landscape.

FROM CRISIS TO COMEBACK: HOW GREECE TRANSFORMED ITS ECONOMY INTO A EUROPEAN SUCCESS STORY

Following its economic crisis starting in 2009, one of the biggest economic recessions in recent European history, Greece has reemerged as a success story demonstrating the benefits of strict and disciplined fiscal reforms. Going from an economy that shrank by 25%, with unemployment at above 25% and around 60% among youth, the country's GDP has recovered and grew by nearly 6% in 2022, by 2% in 2023, a projected 2024 growth of around 2.1%, with unemployment down to 12%.

From 2010 to 2018, the IMF created a series of bailout programs to get the country out of the debt crisis, establishing the foundation for further reforms. This is the key reason why since 2022, the country has been free from the EU's Enhanced Surveillance after fulfilling its bailout commitments. Today, Greece is committed to budget surpluses, which reduce debt servicing costs. The IMF's reforms also improved the banking sector's stability, which helped to reduce financial sustainability risks.

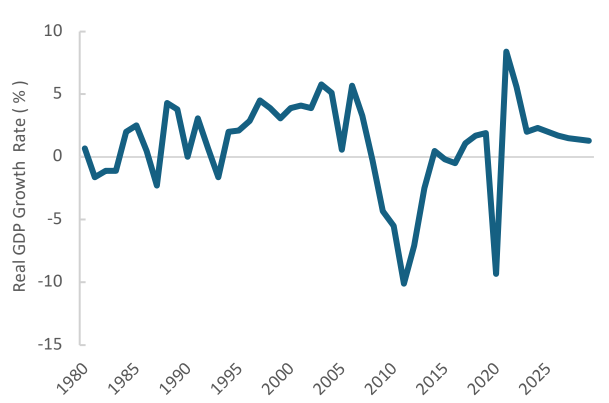
Greece's successful reforms and especially its effective fiscal policy, helped the economy to outperform its peers. The government has repaid its debt early and it maintains large cash buffers. Importantly, the banking industry continues to thrive with a reduction in nonperforming loans (NPLs) down from 40% in 2016 to around 10-12% in recent years, providing credit to the economy. A lower debt ratio explains why, compared to other countries in the Eurozone, the Greek economy is less susceptible to rising interest rates. It also helps that the majority of government debt, 82%, is owed to institutions like the EU or IMF rather than to private investors. On top of this, the debt has an average maturity of 20 years. This reduces the need for near-term refinancing, which can be costly if interest rates are high.

During Greece's past crises, credit origination was limited since the private sector wanted to avoid taking on a lot of new debt, thus limiting overall debt levels. The flip side of the coin is that access to growth capital for private companies is now limited, stunting growth - despite the relatively healthy banking sector. As the banking sector stabilizes, we could expect an uptick in business lending. Unfortunately, a lot of businesses in Greece are still hesitant to incur debt based on the Crisis. So, businesses will need to be able to access growth capital through alternative means or banks will need to be able to support them with favorable credit terms. Smaller and medium-sized firms may struggle to secure funding unless additional support or incentives are offered. The current Greek government, led by the New Democracy Party, has demonstrated a pro-business stance with an openness to similar reforms. Recently, they have reduced corporate taxes and attracted foreign investment. However, the government's current strategies focus on streamlining the private sector, which could reduce public-sector employment. Greece has managed to bring down its unemployment rate by growing its tourism, infrastructure, and energy sectors. This growth has diversified job opportunities and reduced reliance on more traditional industries.

Greece's reforms improved its credit metrics contributing to its low-risk profile in the bond markets, helping to keep interest rates low. This new low-risk environment has aided the country greatly in reducing its debt-to-GDP ratio and in attracting foreign investment.

Prime Minister Kyriakos Mitsotakis has positioned himself as a reformist leader, steering Greece through a new era of economic and social transformation. Since 2019, his administration has passed over 400 legislative measures, regained investment-grade status, secured €36 billion in EU recovery funds, and achieved above-average euro-zone GDP growth. Mitsotakis' focus on digitization, such as streamlining government services and boosting foreign direct investment, underscores his goal of modernizing Greece and aligning its living standards with the rest of Europe.

Exhibit 32: Toward Sustainable Growth



Source(s): IMF, Vertige Research

A healthy banking sector is a key beneficiary of reforms. On average, Greek banks now have double-digit returns on equity, low costs, an average CAR (capital adequacy ratio) of 19%, and a declining NPL ratio (nonperforming loans vs total loans). This high CAR signals that Greek banks are highly capitalized, with a strong buffer to absorb potential financial shocks. Greece historically had one of the highest NPL ratios in Europe, a legacy of the financial crisis. A declining NPL ratio shows that banks are successfully managing and reducing the volume of bad loans, which means less risk on their balance sheets.

Despite the recent overperformance (2022 GDP growth of 5.9% compared to the EU average of 3.4%, 2023 growth of 2% compared to the EU average of 0.4%, expected 2024 growth of 2.9% compared to the EU average of 0.8%), there are several concerns about the outlook of the economy. We predict that the economy could be at risk of overheating, which could lead to rising inflationary pressure. Greece still has a high current account deficit of about 6.3% of its GDP. This could affect Greece's long-term debt issuance plans.

Beyond economic reforms, Mitsotakis has made bold strides in social policy, such as legalizing same-sex marriage in February 2024—making Greece the first Orthodox Christian nation to do so. This progressive move was made despite opposition from the influential Greek Orthodox Church and parts of his own New Democracy Party. His socially liberal but fiscally conservative stance reflects a "new triangulation" strategy, blending pro-growth policies with inclusivity. This approach has strengthened Greece's international reputation and fostered a sense of optimism, even as the country grapples with challenges like underfunded healthcare, infrastructure concerns, and lingering economic scars from the 2009 crisis.

WILL THE EU BE FORCED OUT OF THE AMERICAN MARKET? TRUMP SAYS SO.

Donald Trump's re-election presents significant implications for the European Union across trade, defense, energy, and climate policy. His "America First" agenda emphasizes tariffs and protectionism, with plans to impose sweeping tariffs on European goods. Trump's policies could trigger a transatlantic trade war, with the EU targeted by tariffs and pressured to align with U.S. trade measures against China. This comes at a fragile time for Europe, with slow economic growth, high inflation, and political instability in key states like Germany and France.

In defense, Trump's skepticism of NATO and conditional support for European security place additional pressure on EU nations to increase defense spending and enhance their military capabilities. This shift may accelerate efforts toward a stronger European defense pillar to reduce reliance on the U.S., though such initiatives will require substantial investment and coordination.

Trump's potential shift in U.S. support for Ukraine could push the EU to take a leading role in financial and military aid, risking further destabilization on its eastern borders if not managed effectively. On energy and climate, Trump's focus on fossil fuels and his likely withdrawal from global climate agreements may slow international climate efforts, leaving the EU to fill leadership gaps in promoting renewable energy and sustainability.

Additionally, Trump's stance on U.S.-China relations may pressure the EU to reduce economic ties with China, posing challenges for industries reliant on Chinese trade. To mitigate these risks, the EU must foster unity among member states, adapt to Trump's transactional policies, and safeguard its strategic and economic interests.

GLOBAL FACTORS TO WATCH

Global Macroeconomic Research

LOOKING FORWARD

Looking forward to the final month of 2024, we continue to watch as the US economy braces for Trump's inauguration in January. Trump's cabinet appointees in the coming weeks will define his administration and hint at future policy changes. Billionaire hedge fund manager Scott Bessent, nominated for Treasury Secretary, advocates deficit reduction but supports extending the expensive 2017 Tax Cuts Act, raising concerns about fiscal contradictions. Russell Vought, tapped for the Office of Management and Budget, is a hardline conservative focused on slashing government programs. Meanwhile, Trump's labor secretary pick, Lori Chavez-DeRemer, stands out as a pro-union Republican. Trump's stance on cutting government spending and services echo his first term, and it will remain to be seen whether this succeeds in reducing national debt and inflation without harmful ripple effects for US consumers.

In a similar lens, The US faces critical decisions in managing its relationships with China, Russia, and India, as each presents unique challenges in a period marked by energy crises, war, and trade disruptions. Navigating tensions with China over Taiwan and trade policies, addressing Russia's actions in Ukraine and evolving sanctions, and deepening economic and technological ties with India will test the administration's strategic priorities. Additionally, ongoing conflict and instability in the Middle East, particularly involving the U.S., Israel, Palestine, Lebanon and Iran, will continue to drive volatility in regional markets. If former President Trump's "maximum pressure" policy is reinstated, imposing harsher sanctions on Iran, it could further strain the Iranian economy, leading to additional currency devaluation. Investor panic and geopolitical tensions will likely cause significant fluctuations in the Iranian rial and other regional currencies, especially those tied to oil-exporting nations, as markets react to increased uncertainty and risk.

As we enter the New Year, many countries will begin to roll out fiscal policies for 2025, including tax revisions and spending strategies, especially in the Eurozone and Latin America. These, along with revised OECD, IMF and World Bank projections, will prove critical for understanding near-term economic dynamics. Much remains to be seen as we enter 2025, particularly regarding economic stability and growth in emerging markets. Will Trump adopt a more aggressive stance toward rivals like China and Russia, or shift to a more conciliatory approach to ease tensions?

2025 will be a crucial year in sectors like energy, where geopolitical tensions and policy shifts can directly influence prices and technology, where trade policies and regulations will affect innovation and competitiveness. Finally, will markets continue to rally in view of Trumps financial deregulation agenda, and how will a more crypto friendly administration affect coin prices and adoption of crypto currency? We remain committed to delivering the most relevant and actionable analysis to help you stay ahead of these developments, and hope you have a great end to the year.

Please read disclosures/risk and liability information beginning on page 37, including Analyst information on page 38.

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By considering these general risk factors, investors can better understand the uncertainties and potential challenges that may impact the macroeconomic environment and the analyses and projections in Vertige Investment Group's research.