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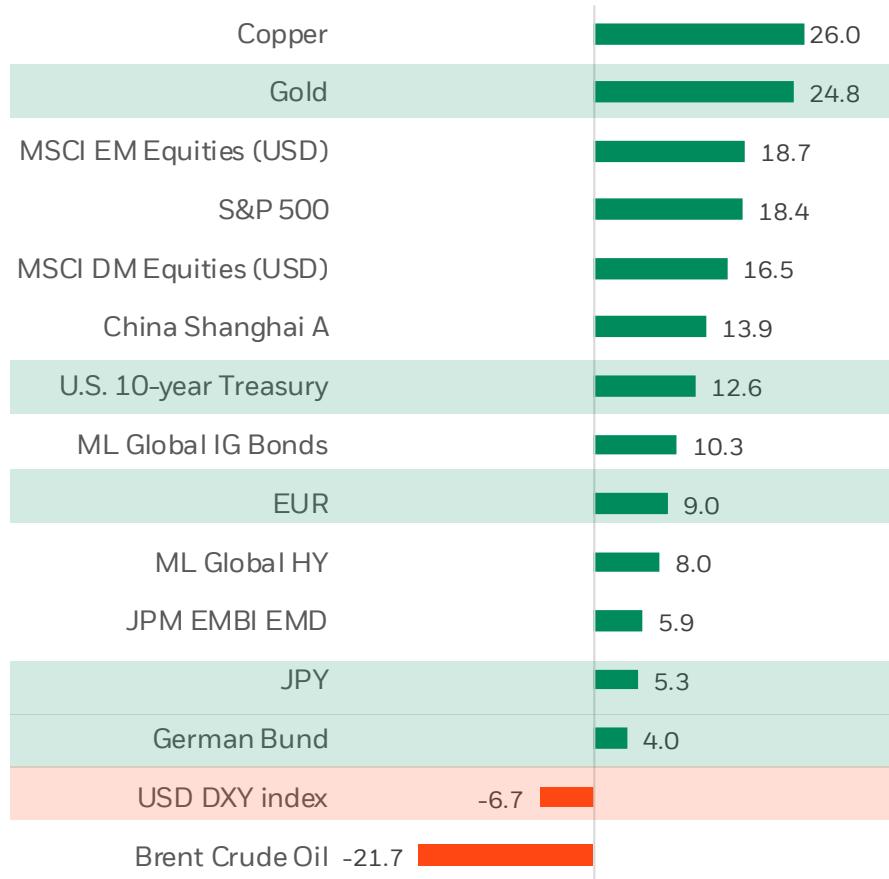


2021 Global Market Outlook for International Reserves Managers: A Latin America Perspective

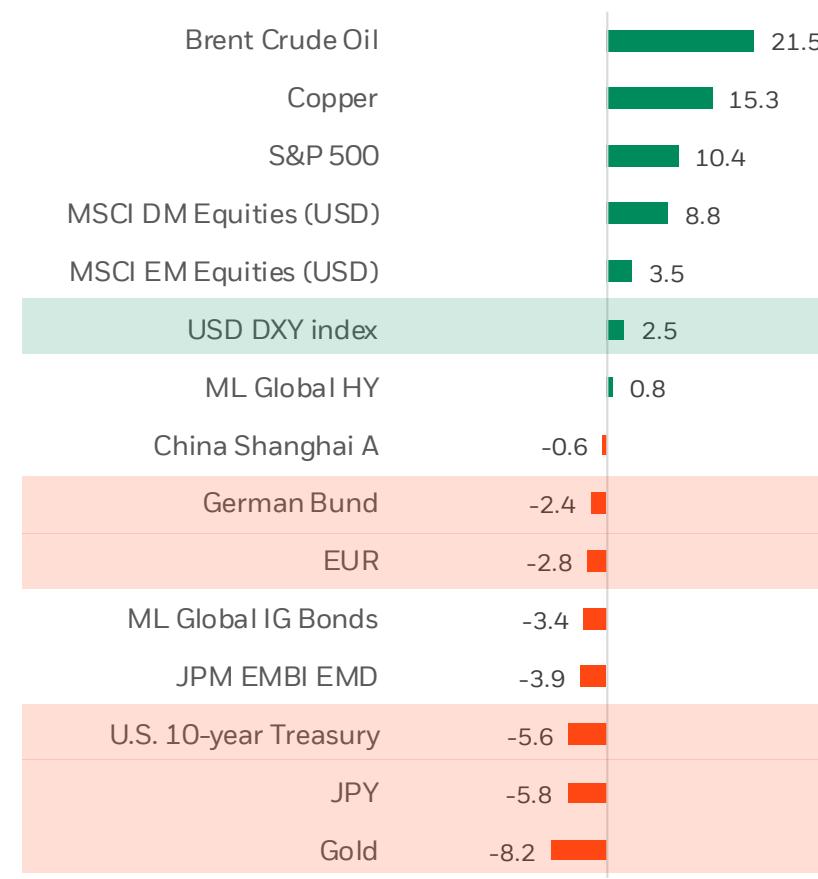
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Financial markets look towards the future, not the present

Despite COVID, 2020 was a good year for International Reserve Management...



... however, 2021 not so much....

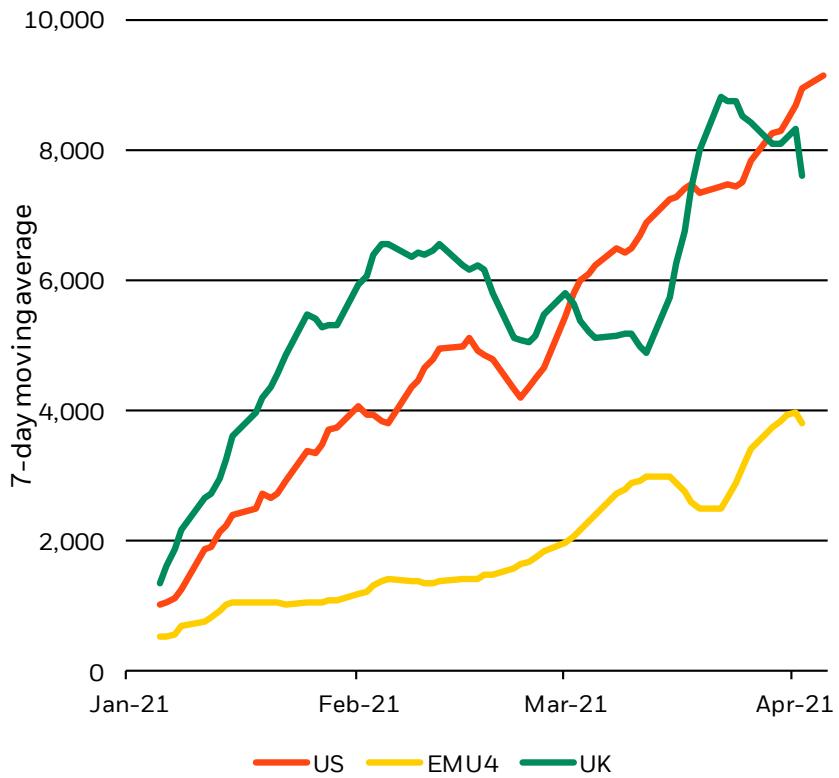


Source: BlackRock Investment Institute, with data from Refinitiv Datastream, Dec 31, 2020 and Apr 9, 2021. Note: The bars show the total return in local currency terms, except for currencies and commodities, which are spot returns. Government bonds are 10-year benchmark issues. RO-191915

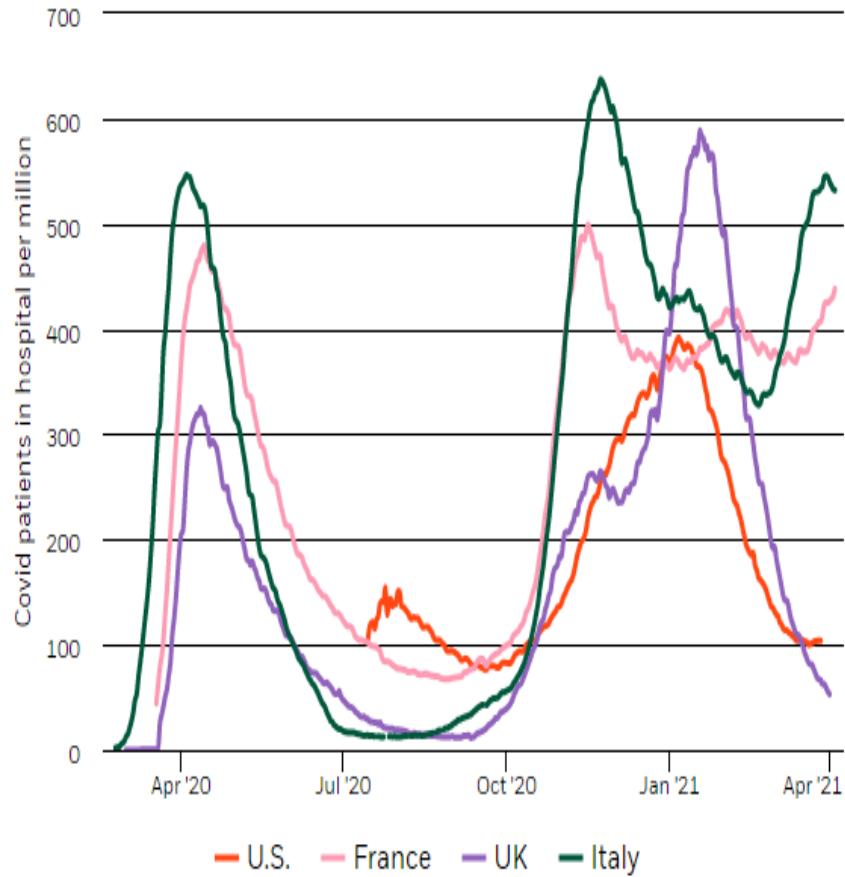
Vaccination is key in in the economic restart

The UK and U.S. vaccination rollouts are above or close to the 50% threshold covering the vulnerable population. Europe's lag however, increases the risks of a third wave.

New vaccinations per million people



Hospitalizations dropping off in U.S. and UK

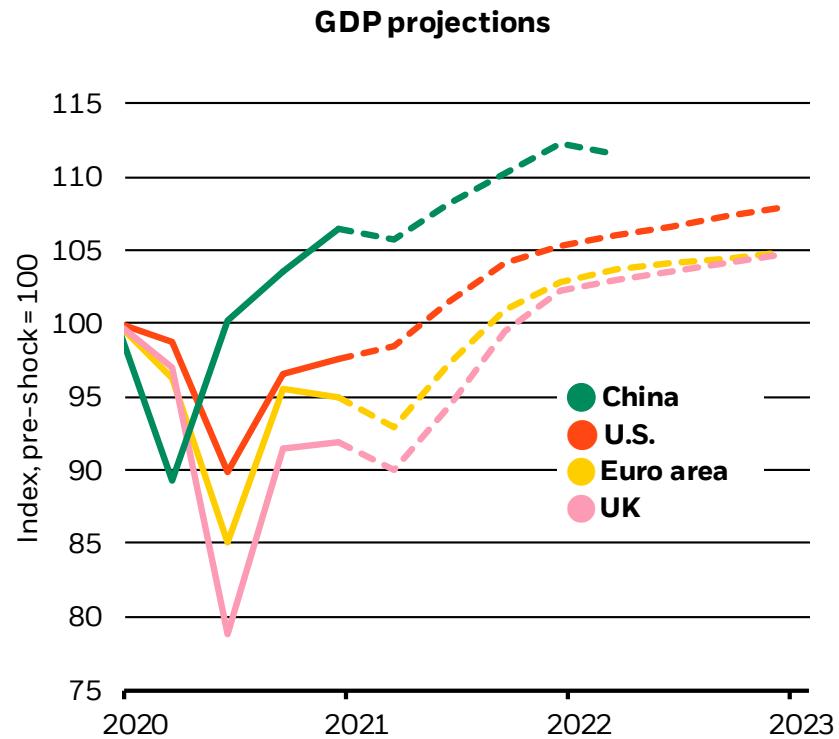
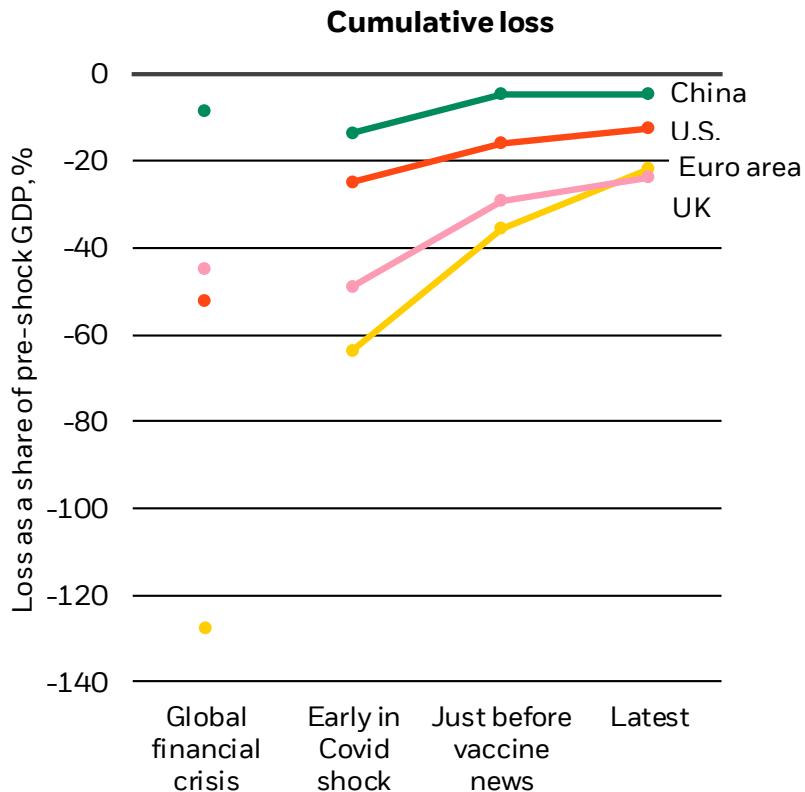


Sources: BlackRock Investment Institute, Our World in Data, with data from Haver Analytics, April 07, 2021. Notes: The left chart shows the number of Covid-19 vaccination doses administered per million people within a given country or region. EMU4 refers to Germany, France, Italy and Spain. Note that this does not measure the total share of people that have been fully vaccinated. For most vaccines, full vaccination requires two doses. The right hand chart depicts hospitalized Covid patients per million in each country.

Reduced estimates of Covid-19 activity impact

Consensus expectations of the size of the shock have been revised down materially, particularly for the euro area. We believe vaccine rollouts are likely to stoke a sharper-than-anticipated rebound.

Estimated cumulative loss from the Covid-19 shock and GDP estimate, February 2021



Forward looking estimates may not come to pass. Sources: BlackRock Investment Institute, with data from Refinitiv Datastream and Reuters News, February 2021. The left chart tracks the evolution of consensus estimates for the cumulative loss in GDP due to the Covid shock. The standalone dots on the left show the total cumulative loss as a result of the global financial crisis. Lines show the evolution of the most pessimistic estimates of the cumulative loss in GDP arising from the Covid shock, based on data and consensus forecasts available at each point in time. The numbers change over time due to the publication of GDP data and updated consensus forecasts of future GDP growth. Early aftermath forecasts were dated from April for China, and June for the U.S. and Euro area, reflecting the fact that the Covid shock hit China GDP most in 2020Q1, but in other countries in 2020Q2. The middle estimates 'Just before vaccine news' are dated from early November 2020, prior to the first announcement of an effective globally available vaccine in mid-November. The 'Latest' forecasts are based on GDP data up to 2020Q4 in all economies, and consensus forecasts of GDP growth as of late January 2021.

2021 investment themes

The new nominal – We see a more muted response of government bond yields to stronger growth and higher inflation than in the past, as central banks lean against any sharp yield rises. We believe this should support risk assets, even as the restart takes shape.

Strategic implication: We favor inflation-linked bonds amid inflationary pressures in the medium term.
Tactical implication: We prefer to take risk in equities over credit amid low rates and tight spreads.

Globalization rewired – Covid-19 has accelerated geopolitical transformations such as a bipolar U.S.-China world order and a rewiring of global supply chains, placing greater weight on resilience.

Strategic implication: We favor deliberate country diversification and above-benchmark China exposures.
Tactical implication: We like Asia ex-Japan equities, and see UK equities as an inexpensive, cyclical exposure.

Turbocharged transformations – The pandemic has added fuel to pre-existing structural trends such as an increased focus on sustainability, rising inequality within and across nations, and the dominance of e-commerce at the expense of traditional retail.

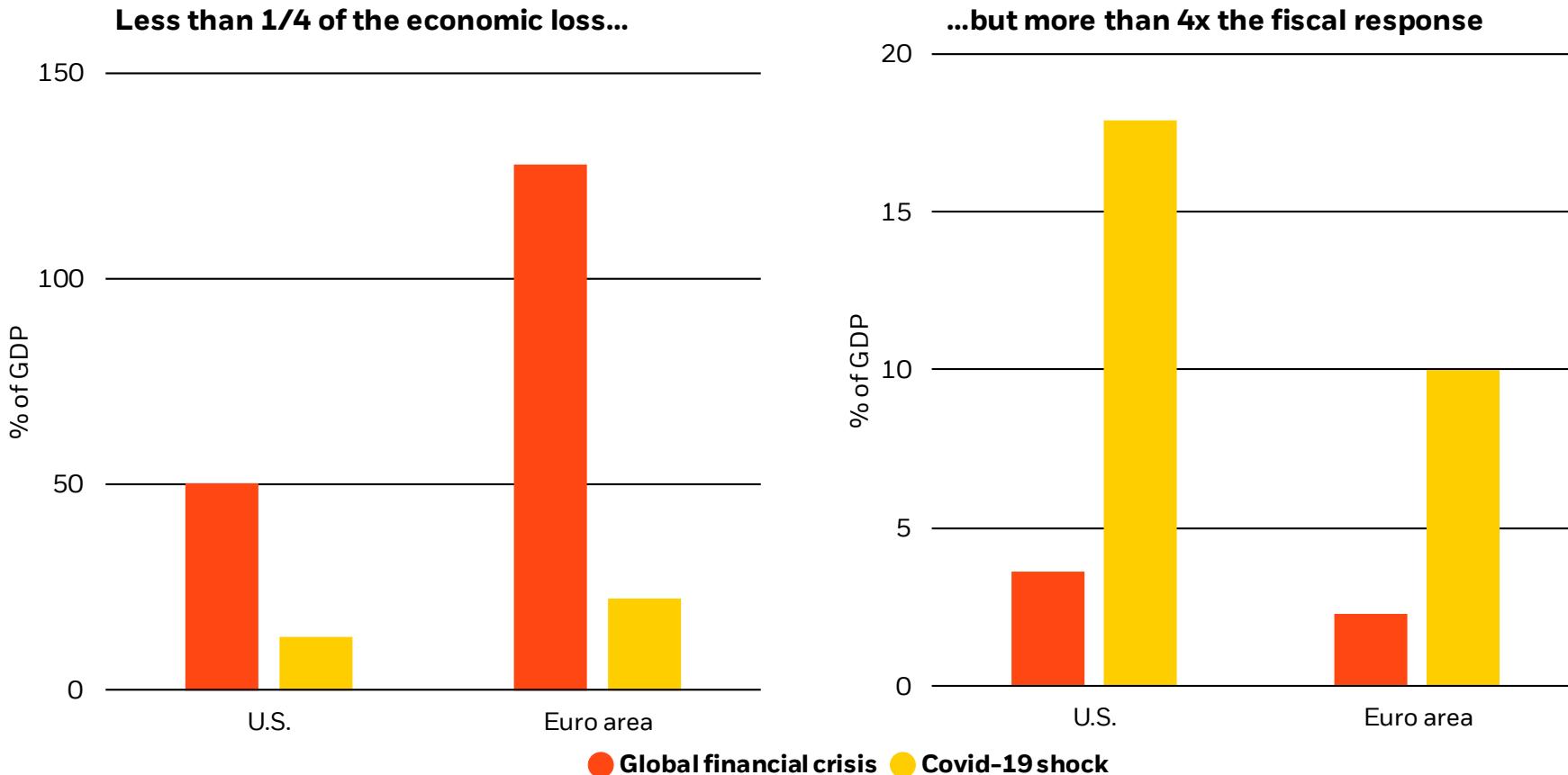
Strategic implication: We prefer sustainable assets amid a growing societal preference for sustainability.
Tactical implication: We favor tech and healthcare as well as selected cyclical exposures.

The opinions expressed are as of April 2021 and are subject to change at any time due to changes in market or economic conditions. Strategic implications refer to long-term views, tactical implications refer to asset views on a 6-12 month horizon.

Huge fiscal support: 1/4 the shock, 4x times the fiscal impulse

This is a huge fiscal impulse relative to the size and the nature of the Covid-19 shock. And it is not about stimulating activity – a large share of activity will restart on its own as vaccines are rolled out.

Estimate of Covid-19 shock and discretionary fiscal support compared vs the GFC, Feb 2021

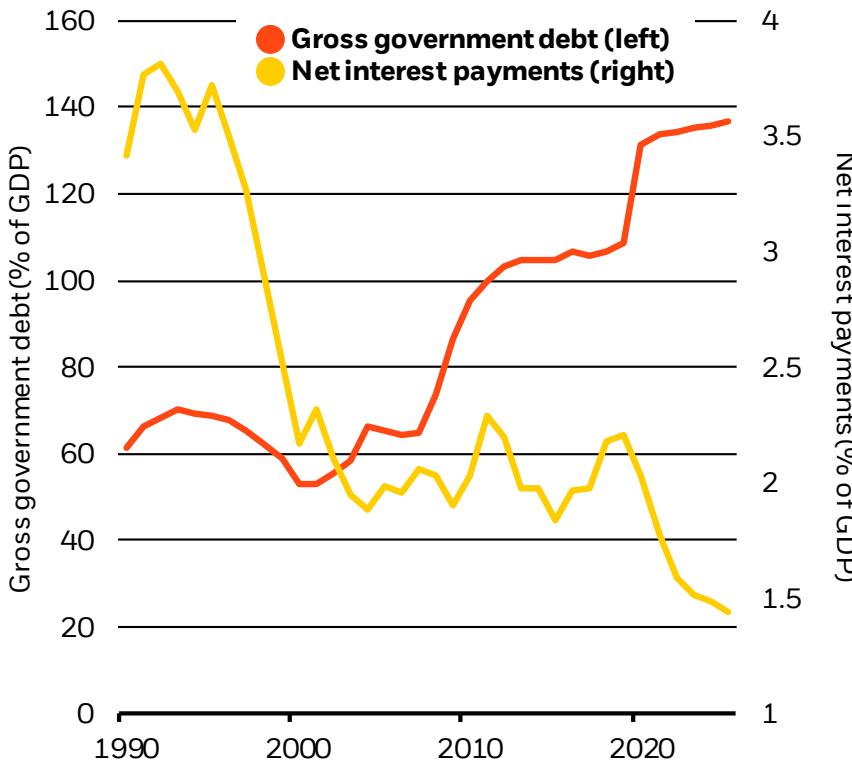


Sources: BlackRock Investment Institute, with data from Haver Analytics, February 2021. Notes: The charts show our estimate of the cumulative GDP loss from the GFC (2008-2009) and our expectation for the Covid-19 (2020-2021) and the discretionary fiscal support for the US and euro area during each period.

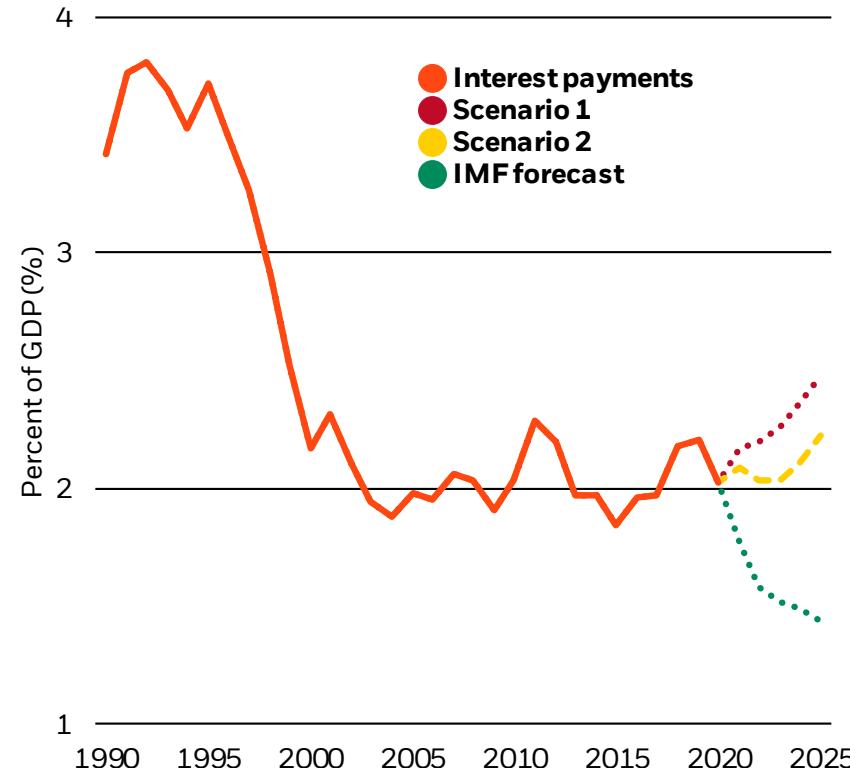
U.S. debt: double the level, half the cost

Debt levels have risen to record highs as fiscal stimulus has driven the recovery. Markets do not appear overly concerned so far but perceptions and sentiment could shift – the equilibrium is fragile.

U.S. debt and interest cost, 1990–2025



U.S. interest cost estimates, 1990–2025

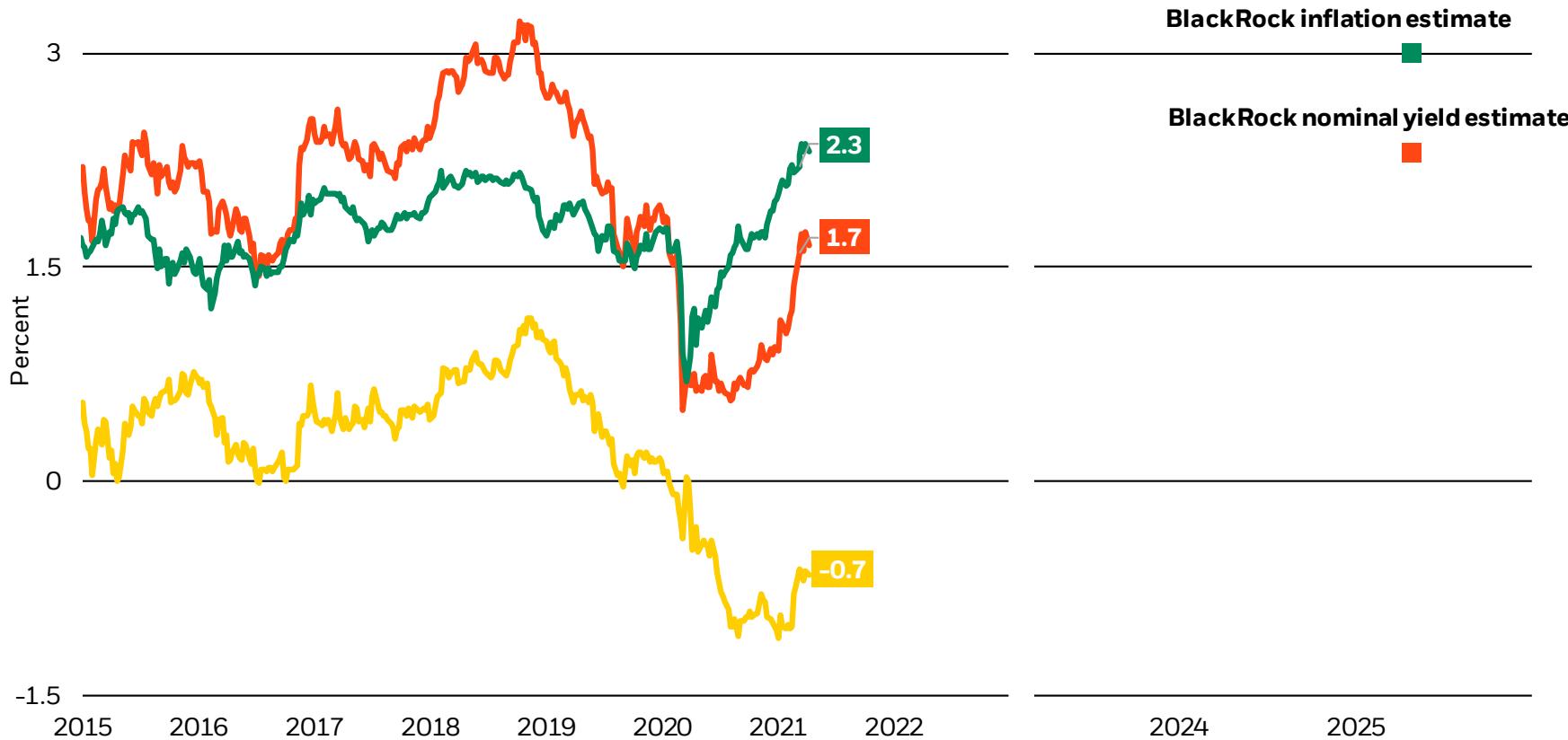


Forward-looking estimates may not come to pass Sources: BlackRock Investment Institute, IMF and OECD using data from Haver Analytics. Note: the left chart shows U.S. government debt and net interest costs. Net interest cost is calculated as the difference between U.S. general government net borrowing and U.S. general government primary deficit, and expressed as a share of nominal GDP. For the period 1990–2000 data are from the OECD, and for 2001 data are from the IMF. For the period 2021–2025 projections are provided by the IMF October 2020 World Economic Outlook. The right chart shows Interest payments are calculated as the difference between U.S. general government net borrowing and U.S. general government primary deficit, and expressed as a share of nominal GDP. The first scenario in red shows hypothetical interest costs assuming that the effective interest rate on the existing debt stock rises quickly to 2.5% and holds there over the next four years. The second scenario shows the hypothetical impact of a more gradual rise to 2.5% by 2025. The green line shows the IMF's October 2020 projections.

The new nominal accelerates

U.S. real yields have stayed low – a positive for risk assets – even as nominal yields have risen to reflect the sharp repricing higher of inflation expectations as reflected in breakeven inflation rates.

U.S. 10-year Treasury yield, breakeven inflation and real yield vs. BlackRock estimate, Apr. 2021

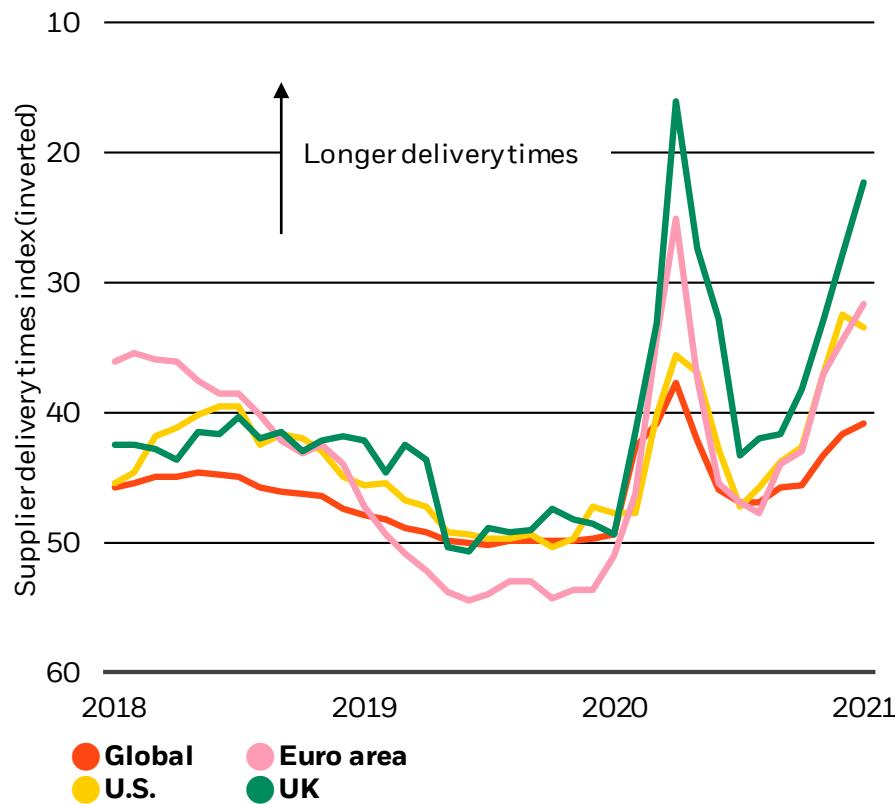


Sources: BlackRock Investment Institute and Refinitiv Datastream, data as of 7 April 2021. Notes: The chart shows the U.S. 10-year Treasury yield and the pricing of Treasury inflation protected securities – the 10-year TIPS yield, or real yield, and the breakeven inflation rate, or the future rate of inflation being priced by markets in TIPS. The chart also shows our 5-year ahead expected values for U.S. 10-year nominal yields using the Bloomberg Barclays U.S. Government bond index as a proxy and our estimates for 10-year average inflation from Dec 2026-2036. Forward looking estimates may not come to pass. Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index.

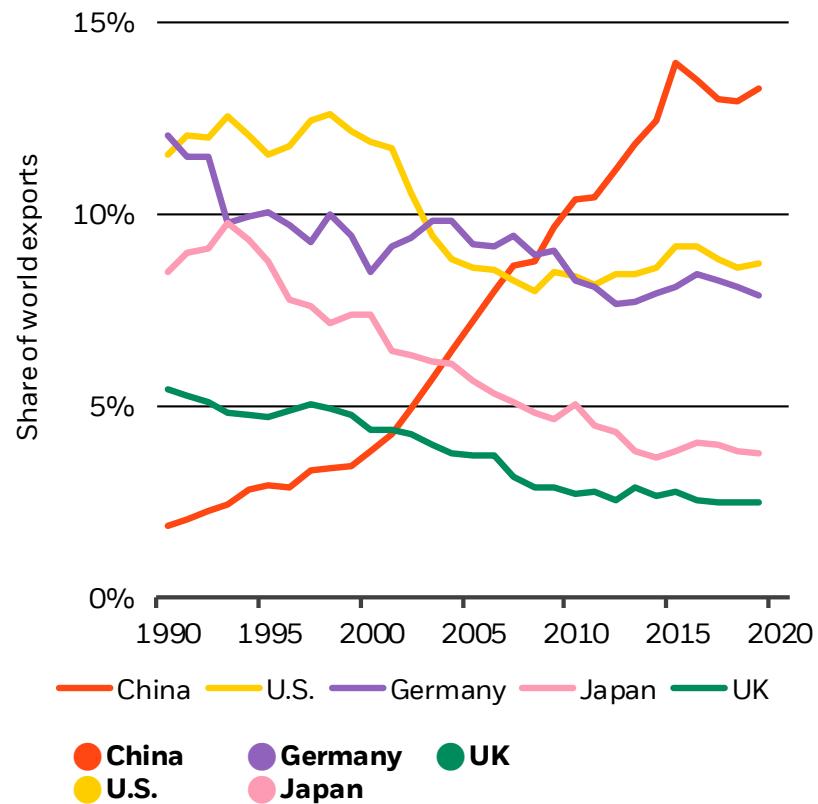
Supply chain pressures underscore globalization rewiring

Purchasing manager surveys indicate longer delivery times, partly on shipping capacity shortages. Longer-term, trade relations are likely to become concentrated around two poles – U.S. and China.

PMI supplier delivery index, 2018–2021



Global export share by country, 1990–2020

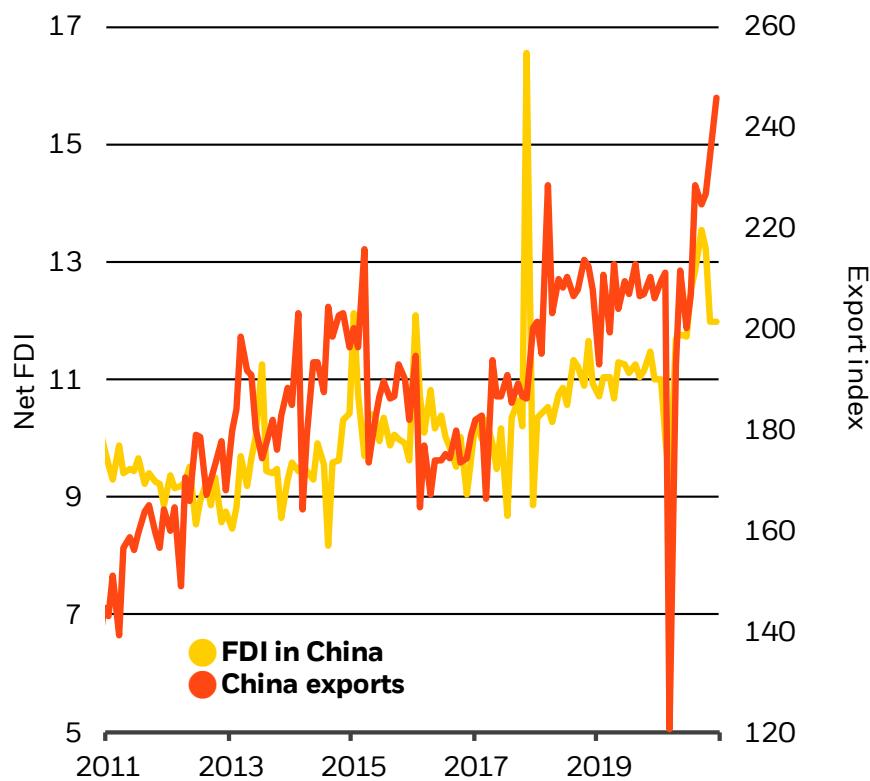


Sources: BlackRock Investment Institute, Markit, with data from Refinitiv Datastream and Haver Analytics, February 2021. Notes: Chart on the left shows an index of delivery times for items used in the production process, for manufacturing firms. As delivery times lengthen (for example due to capacity constraints) the level of the index falls (note the Y-axis is inverted). The right-hand chart shows the export market share of selected large economies, expressed as a share of total world exports.

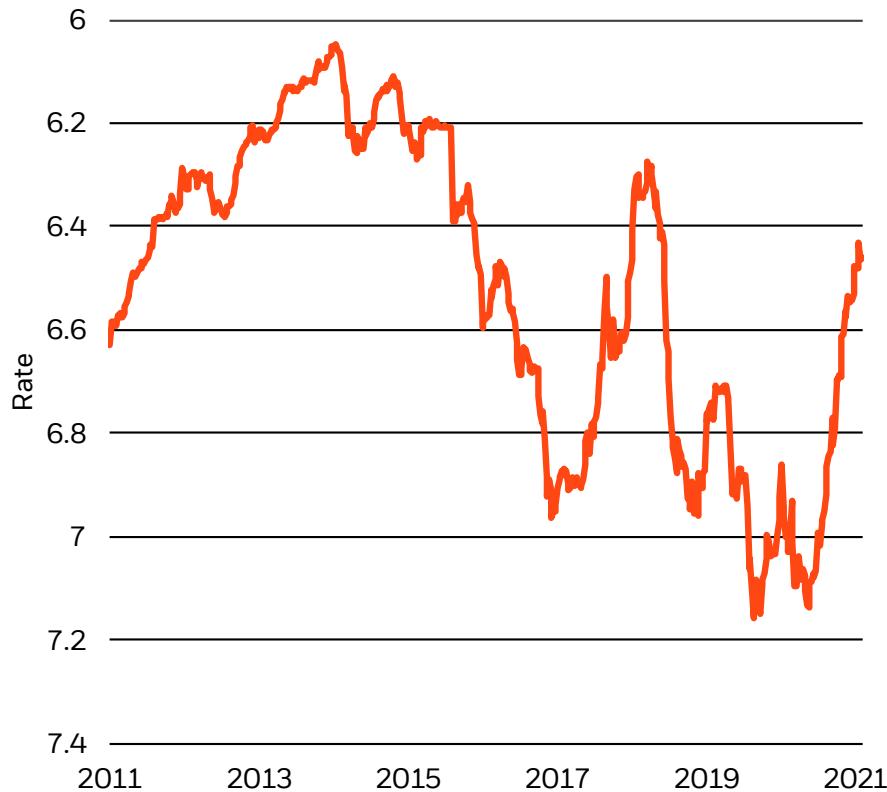
China has weathered trade tensions relatively well

Foreign direct investments into China and its exports have rebounded sharply. That strength has translated into currency strength.

China FDI and exports, 2011–2021



China U.S. dollar exchange rate, 2011–2021

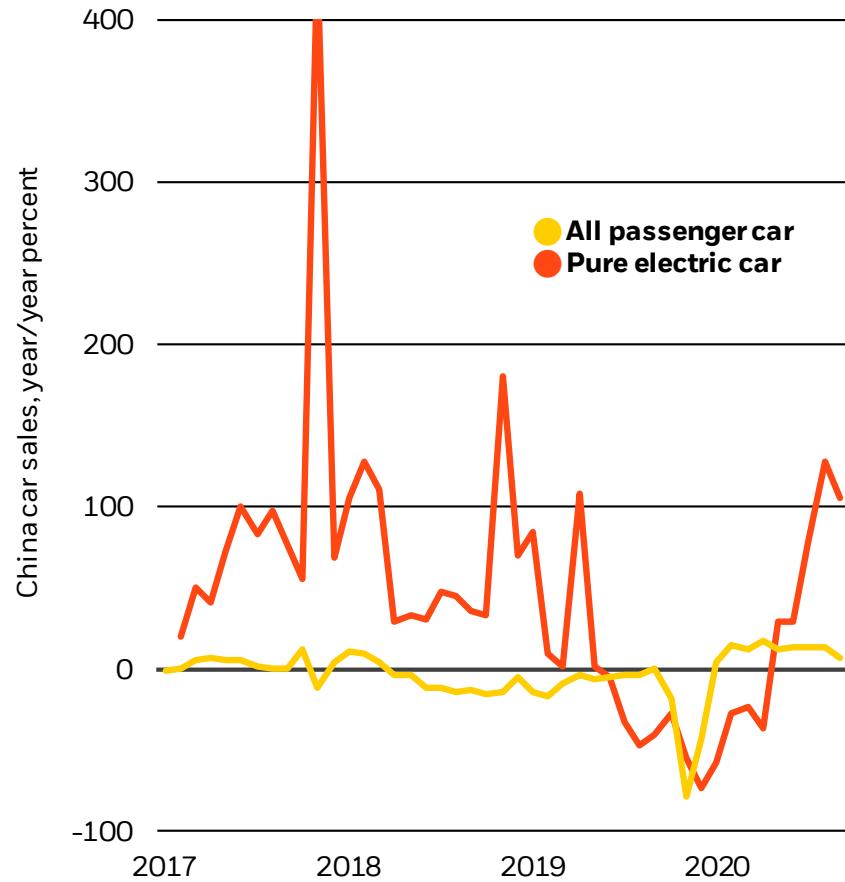


Sources: BlackRock Investment Institute, with data from CEIC and Haver Analytics, February 2021. Notes: Chart on the left shows China's FDI and export index. The chart on the right shows the yuan's exchange rate against the U.S. dollar.

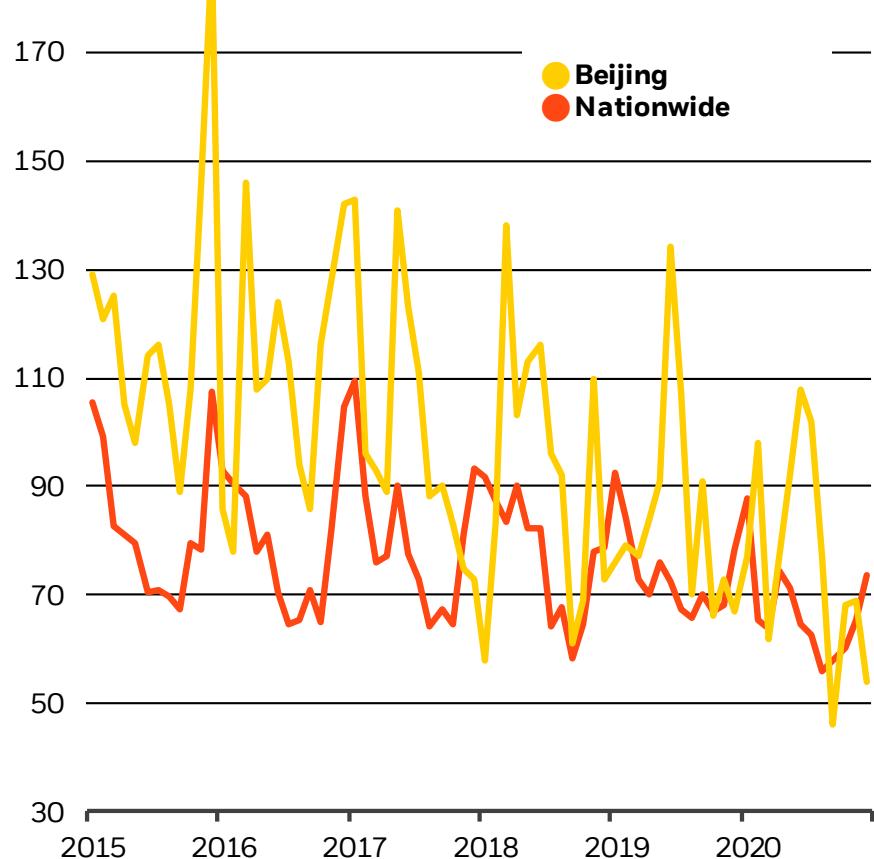
China is focusing on quality – not quantity – of growth

Policymakers are focused on improving the composition of growth – with sustainability a key pillar.

China: car sales, 2017–2020



China: air quality index, 2015–2020

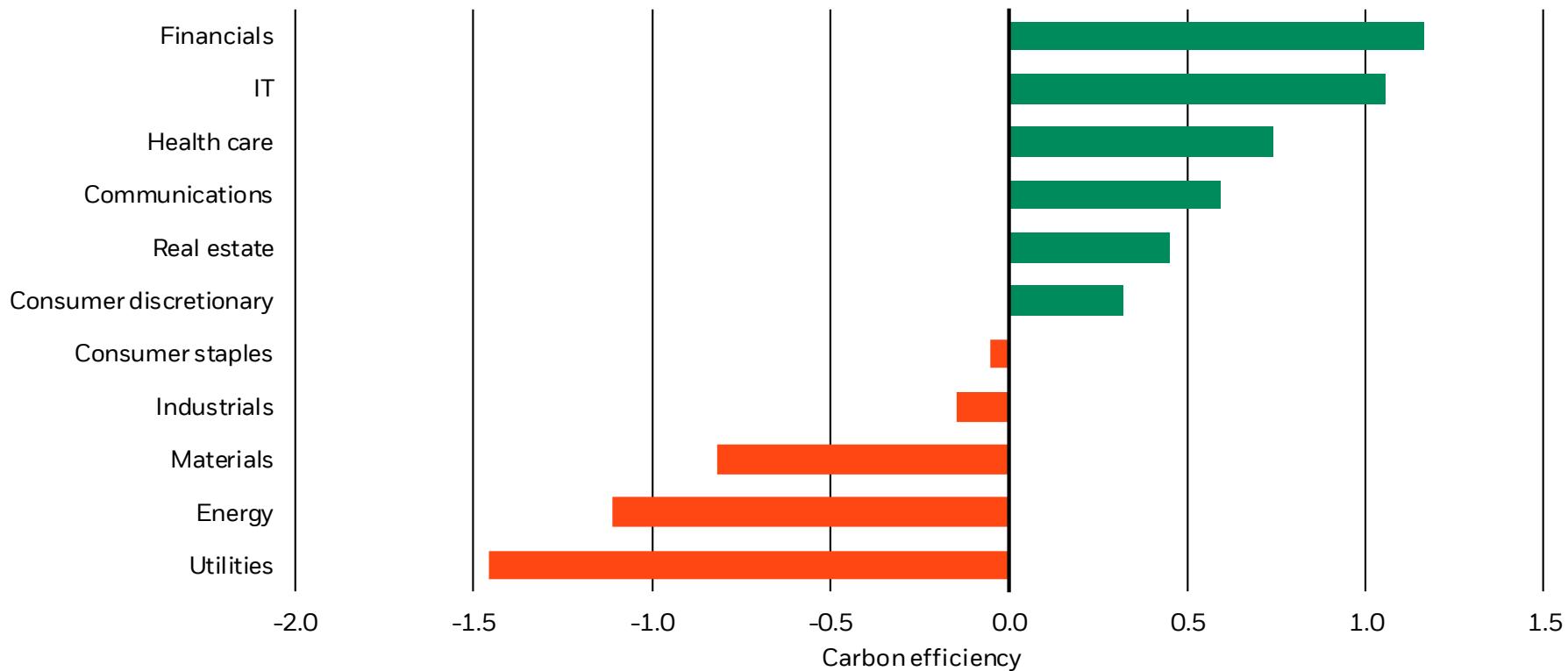


Sources: BlackRock Investment Institute with data from CEIC, February 2021. Notes: The chart on the left shows year/year annual China car sales. The right chart shows CEIC's China air quality index for Beijing and nationwide. See [here](#).

Granular views are key to taking sustainable exposures

Sustainability is likely to be an increasing driver of returns as investors allocate toward perceived ESG-friendly assets. Yet differentiation will be greater at the stock and sector level, in our view.

Estimated carbon efficiency for MSCI sectors, November 2020



Indexes are unmanaged and do not account for fees. It is not possible to invest directly in an index. Sources: BlackRock Investment Institute with data from Refinitiv Datastream and MSCI, December 2020. Notes: The chart shows the carbon efficiency measured as total carbon emissions relative to the aggregate firm value for the sectors of the MSCI USA index. The carbon efficiency measure is shown in Z score terms. Both Scope 1 (direct emissions from owned or controlled sources) and Scope 2 (indirect emissions from electricity purchased) are considered. These can help gauge the exposure of companies to carbon pricing initiatives as part of climate change mitigation policies.

2021 Outlook: Portfolio Positioning

Asset class	Underweight	Neutral	Overweight
Equities			
Credit (Corp, EM)			
Govt bonds (DM)			
Cash			
Granular positions	<ul style="list-style-type: none"> Japan equities 	<ul style="list-style-type: none"> European equities 	<ul style="list-style-type: none"> US equities UK equities EM equities Asia ex Japan equities
	<ul style="list-style-type: none"> U.S. Treasuries 	<ul style="list-style-type: none"> Global investment grade 	<ul style="list-style-type: none"> Treasury Inflation-Protection Securities TIPS Global high yield Asian fixed income

Past performance is not a reliable indicator of current or future results. It is not possible to invest directly in an index. Note: Views are from a U.S. dollar perspective. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast or guarantee of future results. This information should not be relied upon as investment advice regarding any particular fund, strategy or security.

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