

Hot Wars, Cold Wars, Trade Wars: Geoeconomic Risks, Challenges and Opportunities



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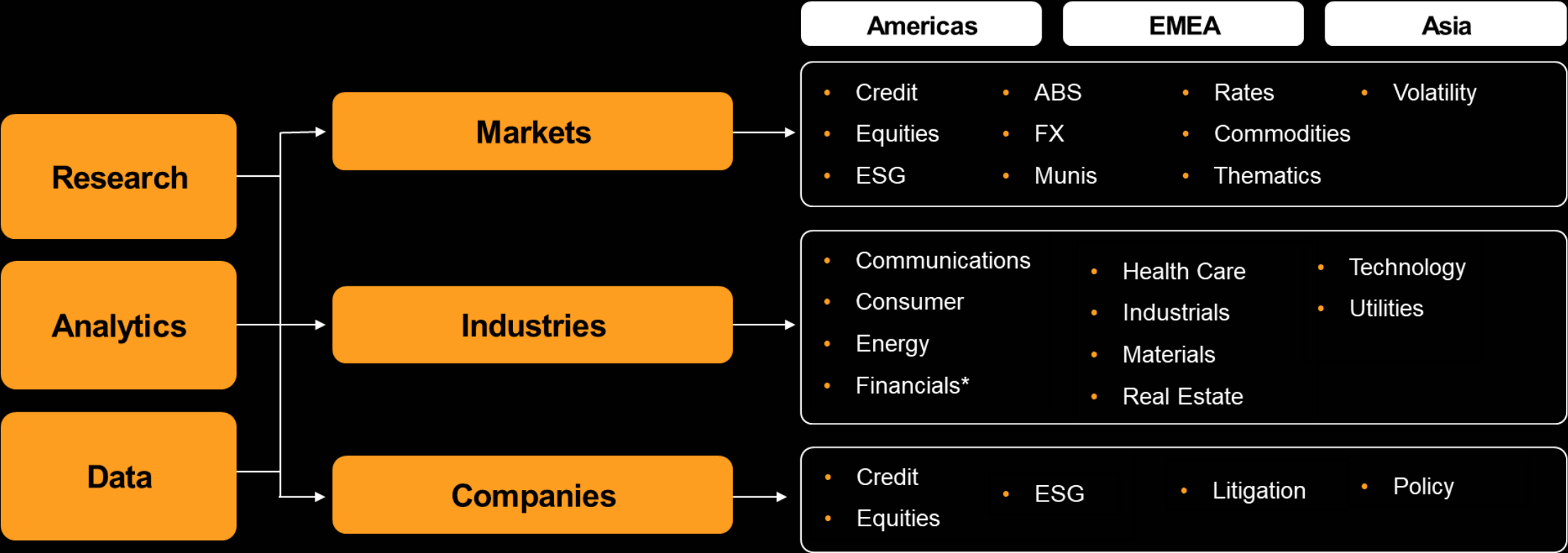
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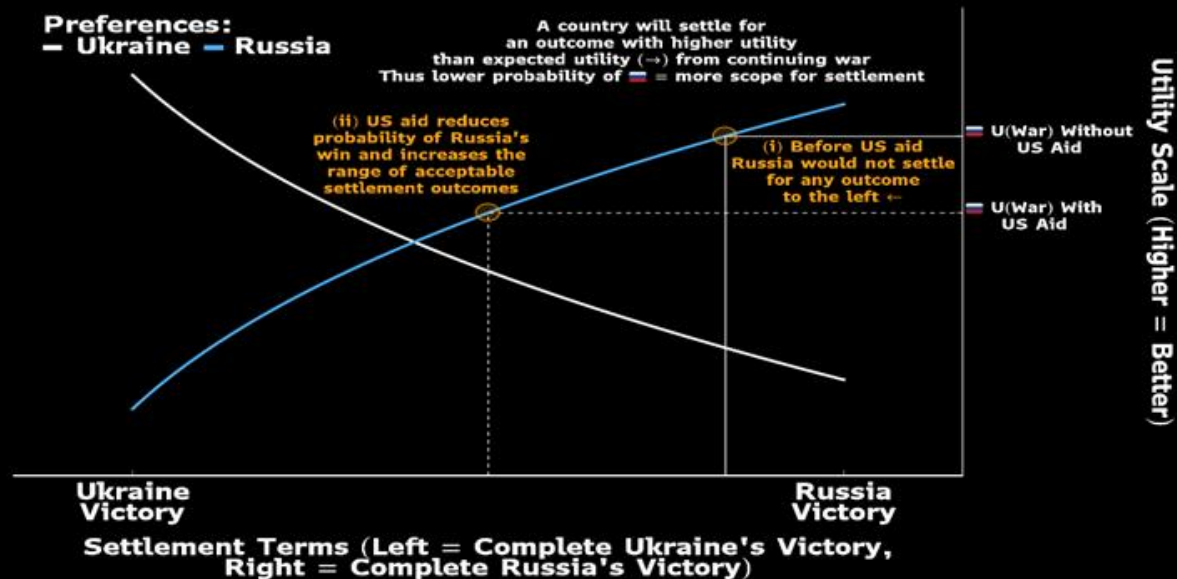
Research, analytics and data tools to help you make informed investment decisions



**Includes Market Structure Research*

1. New Aid Delivers Hope for Ukraine, But Peace Remains Distant

US Aid Lowers Odds of Russia of Win, Encourages Settlement



Source: Bloomberg Economics

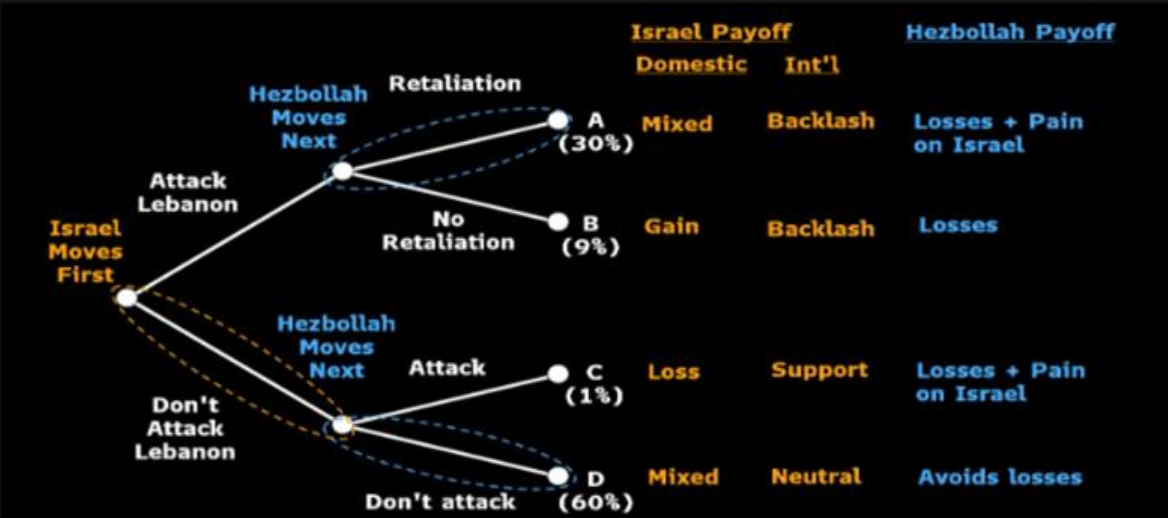
- \$60 Billion US aid will help Ukraine stave off further losses but will unlikely give Kyiv decisive victory

- Inflation shock is now a past and the war is no longer shifting the global economy

- the US election could be a pivot point, with the Republican nominee having questioned Ukraine support limiting Moscow's incentive to negotiate

2. Israel-Iran War Could Spark Broader Global Economic Risks

Game Theory Shows Israel-Lebanon War Unlikely



Source: Bloomberg Economics. Note: Dotted ovals indicate optimal response, given the other opponent's move. Numbers in parentheses represent our subjective probability of each outcome occurring.

Source: Bloomberg Economics

Economic Impact of War

Global growth and inflation impact of three scenarios for how the Israel-Hamas conflict could evolve

Scenario	Details	Impact on oil prices and VIX*	Impact on global GDP and inflation**
Confined war	- Ground invasion of Gaza - Limited broader regional conflict - Lower Iranian crude output	Oil: +\$4/barrel VIX: No impact	GDP: -0.1 ppts. Inflation: +0.1 ppts.
Proxy war	- Multifront war in Gaza, West Bank, Lebanon, Syria - Unrest in wider Middle East	Oil: +\$8/barrel VIX: +8 points	GDP: -0.3 ppts. Inflation: +0.2 ppts.
Direct war	- Israel and Iran in direct conflict - Unrest in wider Middle East	Oil: +\$64/barrel VIX: +16 points	GDP: -1.0 ppts. Inflation: +1.2 ppts.

Source: Bloomberg Economics

*Impact calibrated based on 2014 Gaza War, 2006 Israel-Lebanon War, and 1990-1991 Gulf War. **Impact on year on year change in global GDP and inflation for 2024, estimated using Bayesian Global VAR

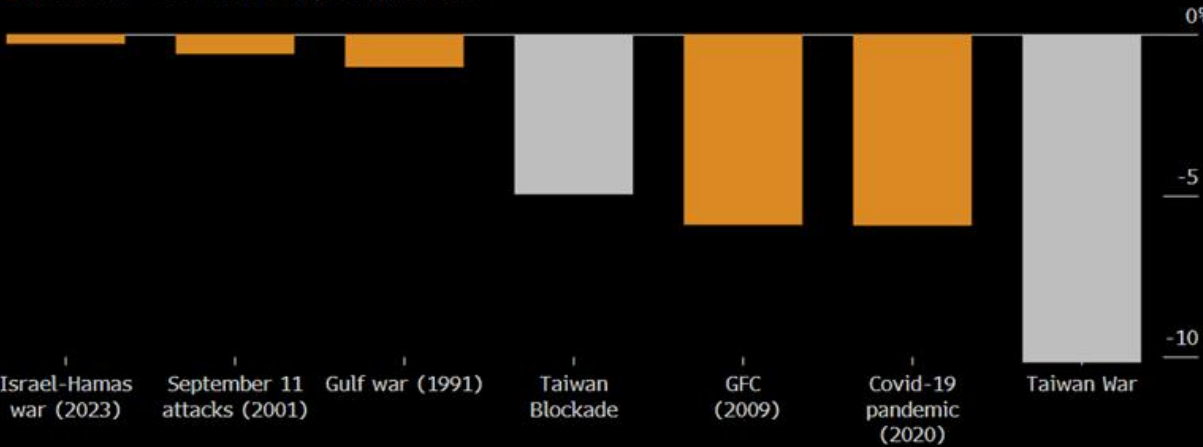
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3. Cross-Strait Tensions to Increase Risks to Global Supply Chains

The Global Risk of a Taiwan War

Model estimates show a Taiwan war could have a bigger impact on global GDP than other recent shocks

■ Global GDP - deviation from pre-crisis trend



Sources: Bloomberg Economics, IMF
Note: Israel-Hamas war, Taiwan blockade, and Taiwan war are Bloomberg Economics estimates.

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Source: Bloomberg Economics

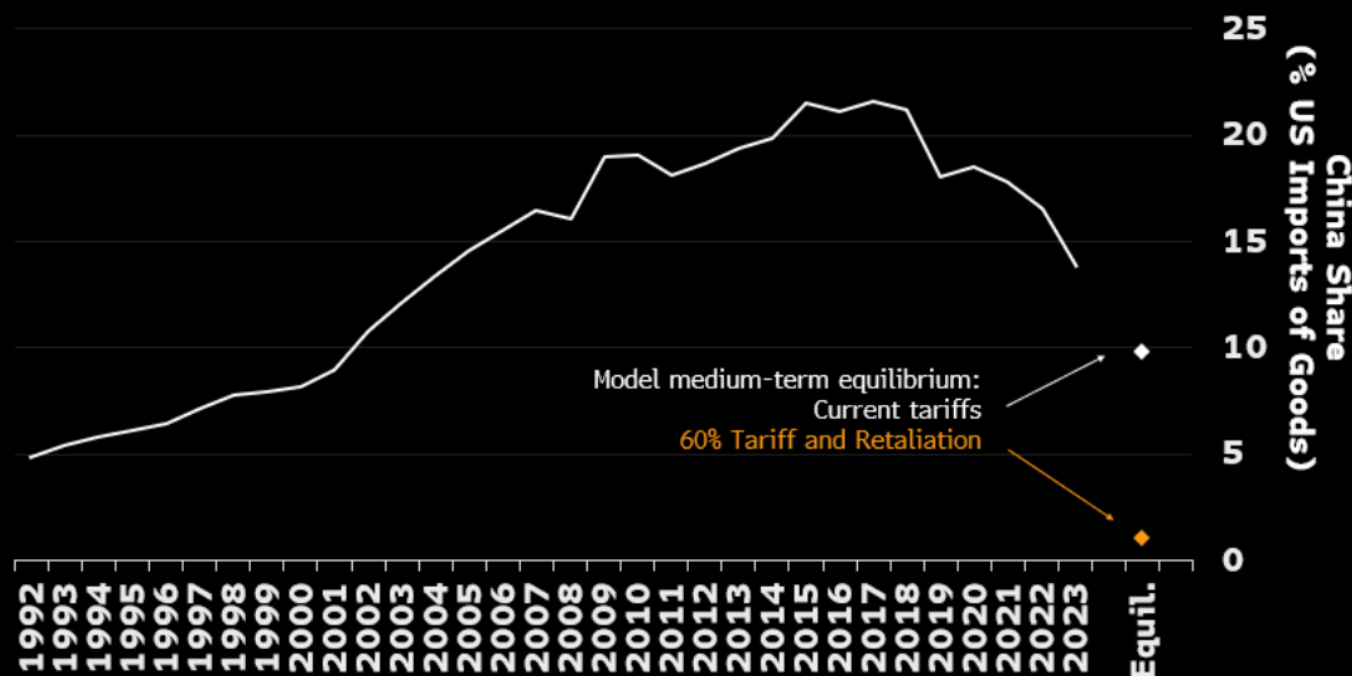
Scenario	Modeling Assumptions (Year One)	GDP Impact (Year One)
Chinese invasion draws US into local conflict	100% Cut in Taiwan trade Near 100% Cut in US-China trade 50% Tariffs between US allies and China 40 point Spike in VIX 80% Cut in trade to and from Japan, Korea, ASEAN	-40% Taiwan -16.7% Mainland China -6.7% US -10.2% World
China blockades Taiwan	100% Cut in Taiwan trade 50% Tariffs between US and China 25% Tariffs between US allies and China 16 point Spike in VIX	-12.2% Taiwan -8.9% Mainland China -3.3% US -5% World

Source: Bloomberg Economics

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4. US – China Trade Tensions Set to Intensify

Drop in China's Share of US Import Market



- Raising tariffs to 60% from their current level would reduce trade flows by 90%. A \$575 billion trade pipeline would shrink to zero

- by 2030, assuming tariffs are implemented in 2025, the total US imports gap would be close to 9% - of which half would be covered by imports from other countries

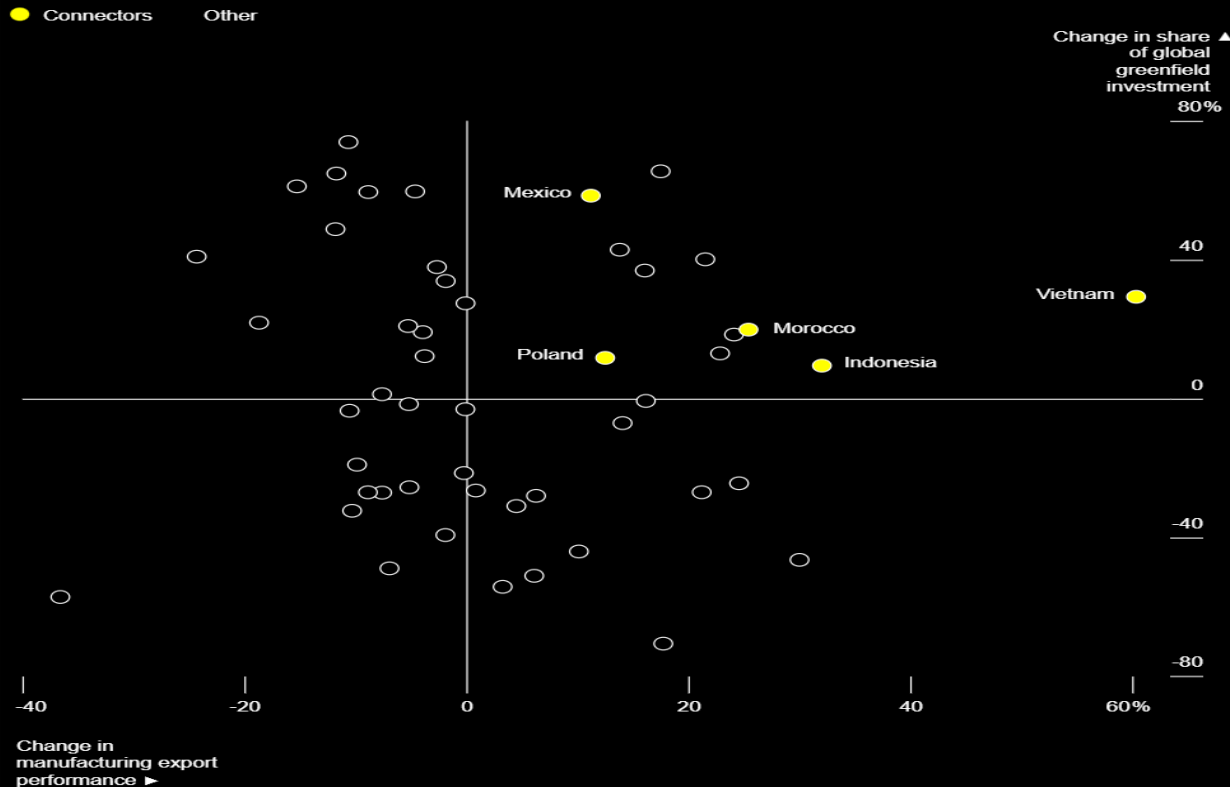
- Southeast Asia (mostly Asean countries), Mexico and the EU would be expected to pick up the largest share of the slack

Source: US Census Bureau, Bloomberg Economics (results from CGE model, five years after tariffs shock)

Source: Bloomberg Economics

5. Connector' Economies Are Winners From Global Fragmentation

Picking Winners: How We Found Our Five



Source: Bloomberg Economics analysis of UN Comtrade & UNCTAD World Investment Report data
Change in share of global greenfield investment shown is 2013-22 relative to 2003-12. 2022 manufacturing export

Source: Bloomberg Economics

- Vietnam, Poland, Mexico, Morocco, Indonesia share opportunistic desire to seize the economic windfall to be had by positioning themselves as new links between the US and China or China and other Asia economies

- These connectors are proof that talk of the end of globalization is overwrought – goods and capital still move across borders – even more of them

- the five connectors represent 4% of global gross domestic product and attracted 10% or \$50 billion of greenfield investments

Is 2024 a Year of EM?

Emerging–Market Potential in 2024



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1. From Brazil to Taiwan, EM Investment Themes Come Into Focus

Contributing Analysts [Salome Skhirtladze](#) (Financials)

Emerging markets are among the most overlooked asset classes globally, with expected US monetary easing a key catalyst for 2024, according to our analysis. While China grapples with a gravitational pull in anticipation of policy support, India's share in the MSCI EM index may grow from 18%, with premium consumption and capital spending among five key trends to drive market gains. EM earnings growth may rebound to 18%, based on consensus, with a recovery in semiconductors pushing South Korea and Taiwan well ahead of peers. Demand for EM credit triggered record-high issuance in January, with currency diversification set to exacerbate relative performance. Brazil stands out, with one of the world's highest real rates.

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EM is Not Bucket of Idiosyncratic Risks

Negative Price Return	Return	Positive Price Return
Best Performing		
MSCI Egypt	67.71%	
MSCI Turkey	40.41%	
MSCI Hungary	34.91%	
MSCI Poland	30.19%	
MSCI Brazil	27.11%	
MSCI Korea	24.04%	
MSCI India	19.74%	
MSCI Emerging Markets	7.07%	
MSCI South Africa	6.82%	
Worst Performing		
MSCI Qatar	-0.42%	
MSCI Malaysia	-1.81%	
MSCI UAE	-3.67%	
MSCI Kuwait	-10.05%	
MSCI China	-13.22%	

Source: MSCI, Bloomberg Intelligence

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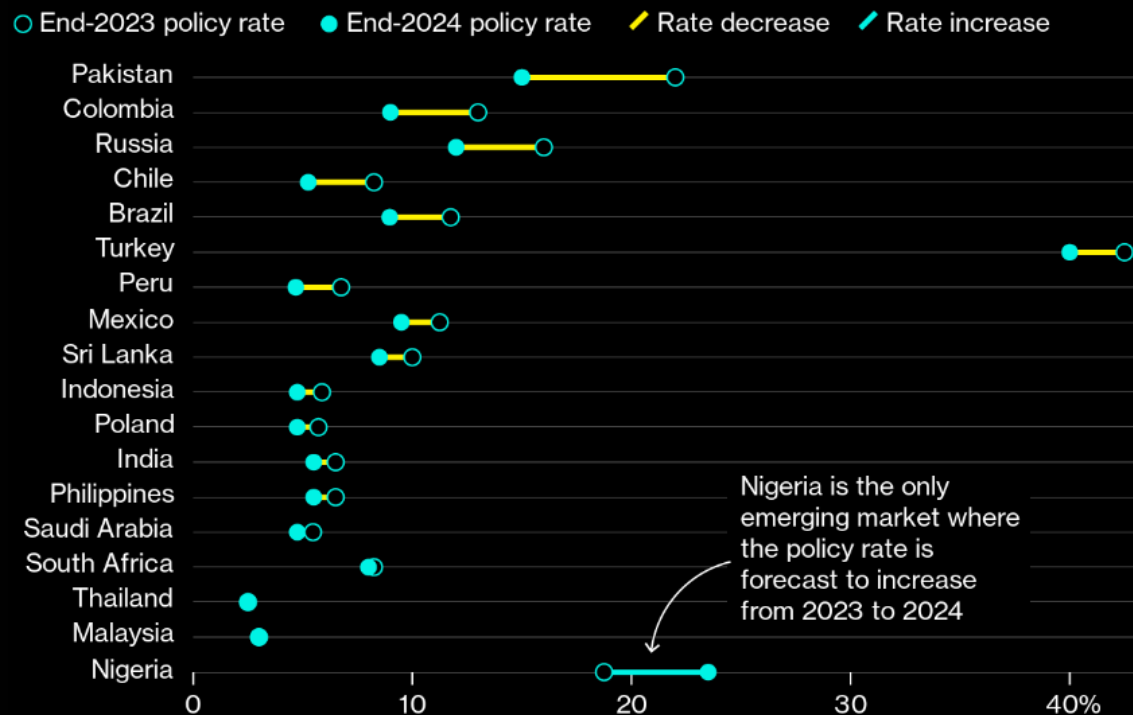
Equity Inflows in 2023 Across EM				
Name	2023↓	2022	2021	2020
Sources: Eurostat, World Ba...				
▼ Capital Flows (USD M)				
▼ EQUITY				
▼ YTD	36,775.59	-51,456.60	-45,057.16	-51,399.95
India	21,426.50	-17,016.20	3,761.12	23,372.80
South Korea	10,705.23	-9,664.94	-23,009.80	-20,082.20
Brazil	9,222.06	19,384.40	-1,172.06	-9,679.77
Taiwan	6,932.85	-44,007.00	-15,603.60	-15,257.00
Dubai	1,380.89	1,368.81	509.08	184.29
Czech Republic	615.39	-148.73	-51.77	147.56
Poland	525.37	-1,120.84	608.47	-3,480.66
Qatar	495.55	1,578.70	1,759.59	202.69

Source: Bloomberg Intelligence

Source: Stock Exchanges, Balance of Payments, Bloomberg Intelligence

Supply Chain Shift + Rates Cuts A Boon for Some EM

Rate Cuts at EM Central Banks Should Support Growth in 2024

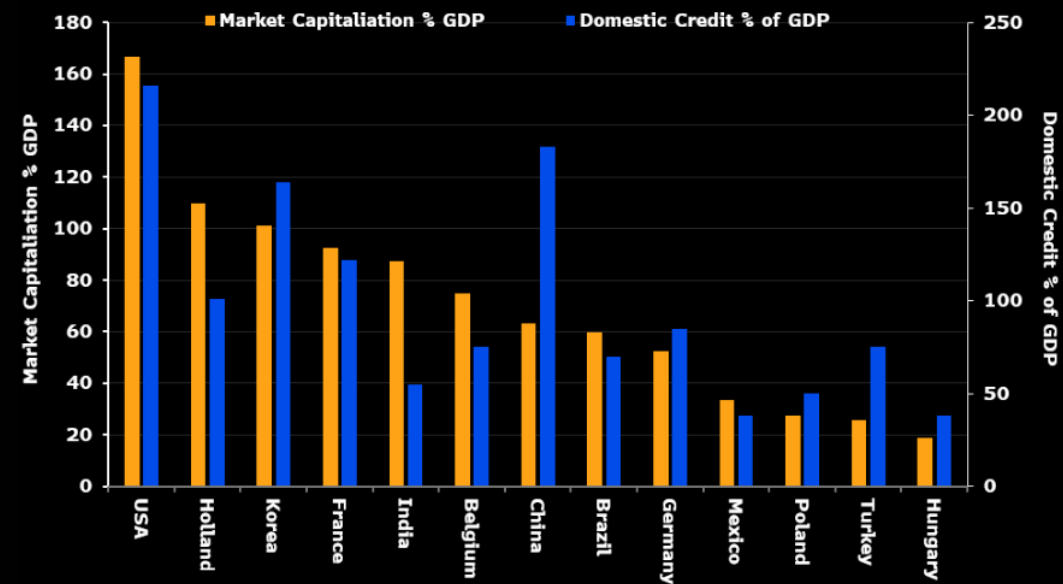
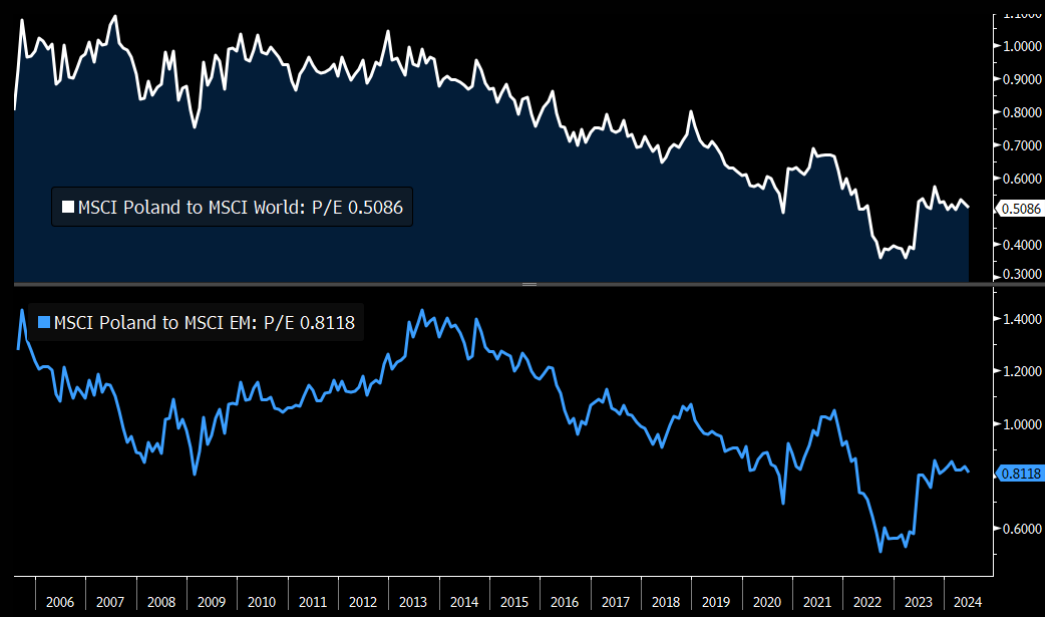


Source: Bloomberg Economics
Note: 2024 rates are forecasts

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Source: Stock Exchanges, Balance of Payments, Bloomberg Intelligence

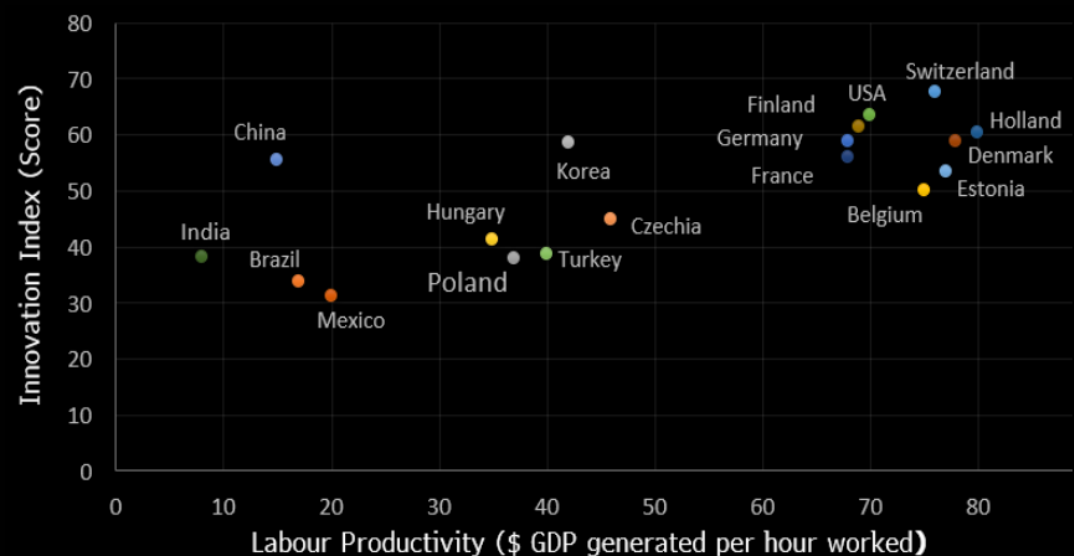
Poland's Valuation Discount Stands Out...Still



Source: WIPO, Bloomberg Intelligence

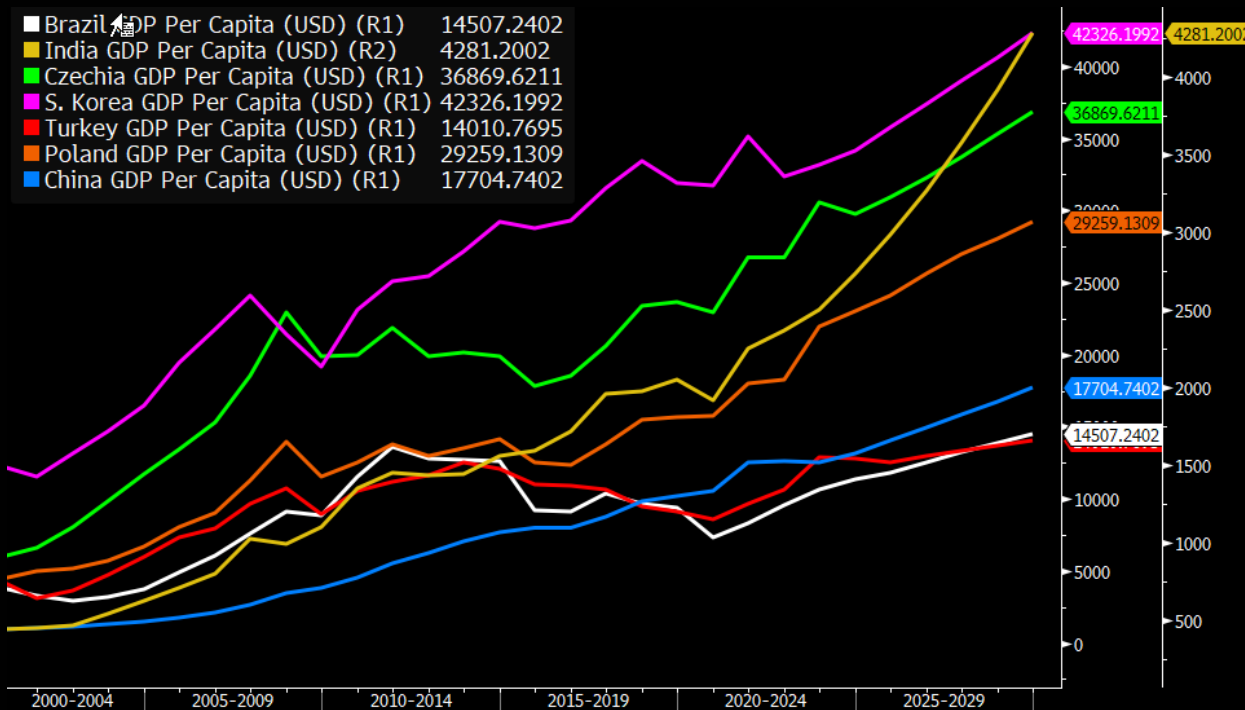
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Productivity + Innovation = Wealth Creation



Source: The World Intellectual Property Organization, ILO

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