GLOBAL
Insight
WEEKLY

Wealth Management

Perspectives from the Global Portfolio Advisory Committee August 31, 2023

# BRICS: What's all the fuss about?

Kelly Bogdanova – San Francisco

The loose association of developing nations is preparing to welcome up to six new members, while developed economies are coming to terms with a significant shift in the geopolitical and geo-economic landscape. We look at how the emergence of new relationships could shape the future.

Multinational summits have become commonplace, but the recent annual meeting of BRICS nations drew significant attention. In the U.S. and other Western countries, the assessments we saw from business and mainstream publications and foreign policy think tanks mostly ranged from dismissive to critical, or even mocking. They largely missed the mark, in our view.

There continues to be a lot of misunderstanding about what BRICS is (an association of countries that want a bigger say in global affairs, as well as deeper trade and strategic ties among themselves), and especially about what BRICS is not (a formal bloc like the G7, NATO, or AUKUS that is directly confronting rival nations).

There is also confusion about what BRICS is aiming for: the reform of international institutions like the UN Security Council, the International Monetary Fund, and the World Bank, all of which have been dominated by Western developed countries since the end of World War II and the establishment of the Bretton Woods monetary system.

And there's not a lot of context about what all of this has to do with the geopolitical and geo-economic shifts that are taking place—changes that are the most consequential since the Cold War ended, in our assessment.

## Join the club

The already eclectic group of BRICS countries is becoming even more so. The five BRICS members—the acronym stands for Brazil, Russia, India, China, and South Africa—have extended membership invitations to six others: Saudi Arabia, the United Arab Emirates, Iran, Egypt, Ethiopia, and Argentina.

The addition of four Middle Eastern countries to the BRICS club may underscore that U.S. influence in the region is waning. Countries that once viewed the U.S. as their principal ally, such as Saudi Arabia and the UAE, no longer see the world through this prism, according to Middle East expert Helima Croft, who is RBC Capital Markets, LLC's Global Head of Commodity Strategy. Rather, these countries view the U.S. as one of a handful of important partners that they will work with.

All four of the Middle Eastern countries already have active, constructive relations with China, Russia, and India that have been strengthening for years.

BRICS membership is an effective way for Saudi Arabia, the UAE, and Egypt to sit on multiple chairs, rather than just being seated with the U.S. and other Western countries, in our view. It's not that the invitees are casting aside their relationships with the U.S. and the West; rather,

For perspectives on the week from our regional analysts, please see pages 4–5.



For important disclosures, required non-U.S. analyst disclosures, and authors' contact information, see page 7.
Priced (in USD) as of 8/30/23 market close (unless otherwise stated). Produced: 8/31/23 3:40 pm ET; Disseminated: 8/31/23 3:45 pm ET

they regard their decisions to join BRICS as formalizing their already strong and deepening ties with other powers.

Their interest in BRICS is also a subtle (or maybe not-so-subtle) message to Western powers that unilateral economic sanctions, asset freezes, and asset confiscations—like the ones imposed on Russia following its military intervention in Ukraine—are harmful to the global economy and supply chain system.

All BRICS countries oppose such unilateral measures and are unwilling to impose them on each other. The six countries that received invitations have agreed to this, according to Russia's Ministry of Foreign Affairs. It's interesting that this is one of the few criteria for BRICS membership.

The Middle Eastern and African countries seem all but certain to accept BRICS membership, in our view, because it affords them additional economic and trade opportunities, along with geopolitical and strategic leverage. New memberships will become effective on Jan. 1, 2024.

Argentina is more of a wild card, with its decision dependent on the outcome of its forthcoming presidential election in October; two of the leading candidates have indicated they do not want to join BRICS.

Over the course of the next year, BRICS countries have stated that they will seek to develop mechanisms to expand trade in local currencies and to work around the Western-based SWIFT electronics payments system. The association's New Development Bank will increase its efforts to provide and raise capital for infrastructure projects.

In 2024, we expect the expanded BRICS group to offer additional countries full memberships and/or to develop a partnership framework, perhaps structured along the lines of the like-minded Shanghai Cooperation Organisation (SCO).

## The power of pragmatic policy

From our vantage point, the Western press and foreign policy think tanks have overplayed purported disagreements between China and India, and have distorted how both countries view BRICS, membership expansion, and their roles within the group.

Heading into the summit, many headlines blared that India opposed BRICS expansion. Yet the country's Foreign Ministry and Prime Minister Narendra Modi flatly rejected this notion at the summit, and their actions in support of expanding the association backed up their statements.

Importantly, relations between China and India have scope to improve rather than deteriorate, in our view.

One week ahead of the BRICS summit, news broke that the Chinese and Indian military leaders had agreed to resolve their countries' longstanding Himalayan border disputes in an "expeditious manner." There have been military clashes along this roughly 3,400 km (2,100 mile) border five times since 1962, most recently in 2020.

Chinese President Xi Jinping and India's Modi then held direct discussions during the BRICS summit that included talks about how to "intensify efforts" to resolve this border dispute.

Aside from BRICS expansion, the potential rapprochement between China and India was the biggest news to come out of the summit. A resolution of the border issue would be a significant geopolitical and geo-economic

### BRICS countries represent three of the top five and four of the top 10 largest economies

Gross Domestic Product in 2022 on a purchasing power parity basis

| Ranking | Economy | GDP (millions of international dollars)* |
|---|---|---|
| 1 | China | 30,327,320 |
| 2 | United States | 25,462,700 |
| 3 | India | 11,874,583 |
| 4 | Japan | 5,702,287 |
| 5 | Russia | 5,326,855 |
| 6 | Germany | 5,309,606 |
| 7 | Indonesia | 4,036,901 |
| 8 | Brazil | 3,837,261 |
| 9 | France | 3,769,924 |
| 10 | United Kingdom | 3,656,809 |
| 11 | Türkiye | 3,180,984 |
| 12 | Italy | 3,052,609 |
| 13 | Mexico | 2,742,903 |
| 14 | South Korea | 2,585,011 |
| 15 | Canada | 2,273,489 |
| 16 | Spain | 2,181,968 |
| 17 | Saudi Arabia | 2,150,487 |
| 18 | Egypt | 1,674,951 |
| 19 | Australia | 1,626,940 |
| 20 | Poland | 1,625,236 |
| 21 | Iran | 1,600,556 |
| 22 | Pakistan | 1,518,043 |
| 23 | Thailand | 1,482,098 |
| 24 | Vietnam | 1,321,256 |
| 25 | Nigeria | 1,280,716 |

BRICS current and prospective members

*International dollars represent the purchasing power equivalent of US$1 when comparing national economies

Source - World Bank, RBC Wealth Management development—no less noteworthy than the recent rapprochement between Saudi Arabia and Iran.

It's in both China's and India's interests to expand economic ties and improve neighborly relations. In 2022, China and India ranked first and third, respectively, in terms of GDP size on a purchasing power parity basis, according to the World Bank. Total trade between the two countries increased 444 percent between 2006 and 2022, from $25 billion to almost $136 billion annually. China is India's largest goods trading partner.

Judging by the press coverage, Washington and some of its allies seem to fear that India could be drifting away—as if India shouldn't have friendly relations with the West and at the same time maintain strong ties with other countries. The increasingly prevalent "us or them" mentality is misguided, in our view, especially from an economic perspective.

India's foreign policy has been fiercely and proudly independent since British rule ended in 1947. Top Indian officials in successive administrations, including Modi's, have clearly asserted the country seeks to maintain close ties with the U.S. and other Western partners, while at the same time deepening its relations with countries outside of the West's immediate orbit—including some the U.S. views as rivals, or worse. India has followed this course for decades and won't change it anytime soon, in our view.

Many developing countries that have constructive ties with the West seek to emulate India's balanced approach to foreign and economic policy, hence their interest in BRICS and the SCO.

## A more consensus-driven model

We think BRICS, rather than being the source of problems affecting the current geopolitical and geo-economic order, is a product of how that order is evolving. Developing countries' growing economic importance, and their critical natural resources, give them the clout to demand a bigger say in global affairs going forward.

Most Western-led international institutions functionally have the U.S. at their head, either directly or on a de facto basis, and close allies of the U.S. typically follow its leadership.

But newer, non-Western groupings like BRICS and the SCO are much more consensus-driven—there is no single formal or even de facto head of these entities. Member nations agree and cooperate where it is beneficial, and they don't get worked up over areas where they disagree, or exert pressure on one another. They leave room for multiple views on key topics. And they regard it as important to stay out of one another's business when it makes sense to do so.

This loose, flexible structure affords developing countries the ability to assert their sovereignty, while at the same time allowing them to reap economic, trade, and geo-strategic benefits. These are key reasons we think a diverse group of developing countries are attracted to BRICS.

For more about BRICS and the dramatic changes taking place in the world economic order, see our report titled, *"Worlds apart: Risks and opportunities as deglobalization looms."*

## UNITED STATES

Michael Roedl – Minneapolis

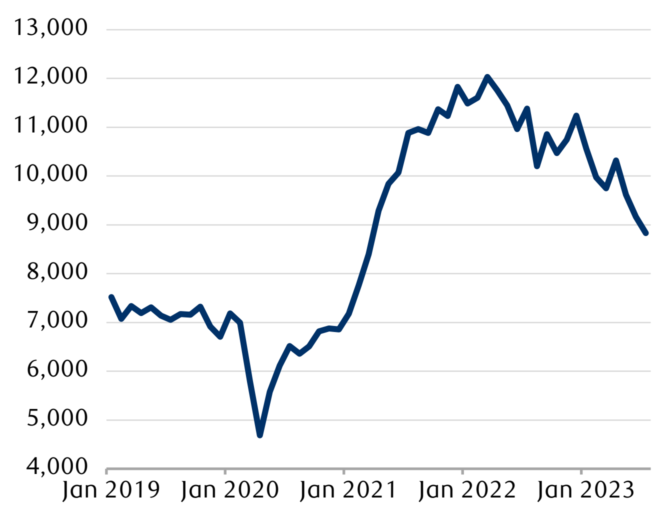
- **The number of U.S. job openings fell during July to the lowest level since early 2021, marking the sixth decline in the past seven months, as demand for workers continues to cool**. The quits rate, which measures voluntary job leavers, also dropped to the lowest level since early 2021, suggesting Americans are less confident in their abilities to find another job in the current market. The combination of fewer job openings and increased labor force participation is likely to create more balance in the labor market while further tempering wage growth. Thus, we believe these conditions are likely to fuel optimism that policymakers can achieve an economic soft landing and avoid a spike in unemployment.

- **American consumer confidence dropped in August by the largest percentage in two years**, pushed down by multiple factors including higher borrowing costs, elevated gasoline prices, and fewer job opportunities. Despite worsening sentiment, however, expectations for a recession in the next 12 months dropped to the lowest level of the year, even though nearly two-thirds of respondents in the Conference Board's monthly Consumer Confidence Survey believed interest rates have yet to peak in this Fed cycle. While markets still expect policymakers to hike rates one more time before the end of the year, our view is that the Fed will not raise rates again from the current 5.50% level. Instead, we think policymakers are likely to keep rates unchanged for a longer period, letting restrictive monetary policy run its course, in order to tame inflation and wage growth.

- **Personal consumption expenditures, the Federal Reserve's preferred measure of inflation, rose modestly during July**. But the month-over-month increase was the smallest since late 2020, adding to growing expectations that the economy may avoid a recession. While softening inflation figures underscore the progress policymakers have made in taming price pressures, we think the Federal Reserve is still some way from declaring victory, due to continued strength in consumer spending. However, dwindling savings and rising credit card debt suggest spending may not be sustained in the coming months.

### U.S. job openings trending lower as labor market stabilizes

JOLTS job openings (in thousands)




Source - RBC Wealth Management, Bloomberg; monthly data through July 2023

## CANADA

Luis Castillo & Sean Killin – Toronto

- **Canadian investors are gearing up for the Bank of Canada's (BoC's) Sept. 6 policy rate announcement** following 25 basis points (bps) hikes in June and July that brought the overnight lending rate to 5.0%, its highest level since 2001. Canadian rates have continued to move with an upward bias in 2023, with the 5-year Government of Canada rate rising by more than 100 bps since late March 2023, breaching the 4.0% mark—albeit temporarily—for the first time since 2007. Market pricing suggests bond investors are nearly fully convinced the incremental tightening phase of monetary policy is now complete. RBC Capital Markets is also on board with this view, anticipating a BoC policy hold at 5.0%. That being said, tomorrow's Q2 GDP release will be closely dissected by policymakers. Quarterly GDP releases have, in the past, proven strongly influential in BoC policy decisions.

- **Canada's GDP data could support a BoC pause**. According to a recent survey of economists conducted by Reuters, tomorrow's GDP release is expected to show a meaningful slowdown. The consensus projection is that the Canadian economy will have grown at an annualized 1.1% pace in the quarter, significantly lower than the 3.1% seen in Q1 and the 1.5% estimate released by the BoC for Q2. Slower household consumption and a potential slowdown in the real estate sector are possible sources of weakness for the Canadian economy in light of elevated household debt and interest rate sensitivity. With base effects largely responsible for the modest uptick in July's Canadian CPI report, nascent signs of softening in the labour market, and the expectation of a meaningful slowdown in economic activity in Q2, the case for the BoC to consider holding its benchmark rate at the current 5.0% level appears to be strengthening. Overnight index swaps, which act as a proxy to market expectations of future interest rate moves, are pricing in a pause at the BoC's Sept. 6 policy meeting.

## EUROPE

Frédérique Carrier & Thomas McGarrity, CFA – London

- **The German government announced a 10-point programme to support the economy**, mixing new initiatives with pre-announced measures.

- **The German economy, the sixth largest in the world, appears to have lost its mojo**. The export powerhouse, once leading the region's growth, has become a laggard.

Its industrial sector can no longer rely on cheap Russian gas while structural issues have started to bite: a fixation on balancing the budget led to chronic underinvestment in infrastructure and in research and development (R&D); the dependence on China proved unhelpful as China's recovery sputters; and an ageing population and heavy bureaucracy compound the challenges.

■ **The coalition government seems to have woken up to the situation**. The principal new measure announced is the introduction of tax incentives for investments in energy efficiency, as well as R&D, valued at some €7 billion (0.02% of GDP). The government also announced that half of the €200 billion it pledged earlier to finance the green transition would be available next year.

■ **We think these measures will be insufficient by themselves to turn around the economy's fortunes**, but they are nevertheless an encouraging sign that authorities are no longer ignoring the issues.

■ **Shares of Danish renewable energy company Ørsted**, the largest offshore wind farm developer and operator globally, **plunged over 20% on Aug. 30** following the company announcing US$2.3 billion of anticipated impairments on its U.S. offshore wind portfolio. The impairment reflects the likely pressure on project returns owing to a confluence of adverse factors including project delays, the lack of additional U.S. tax credits, and higher interest rates. The announcement, which underscored the challenges associated with the higher cost of capital and supply chain headwinds facing offshore wind companies at present, also weighed on the share prices of other European renewables-focused Utilities stocks.

■ **The STOXX Europe 600 ex UK Index's 1.6% gain during the week helped to trim its fall to -2.5% during August**. Europe's weakening macro and earnings momentum remain headwinds to the region's relative outperformance potential, in our view, warranting moderate Underweight positions.

### Germany's economy has lagged the U.S. since 2018

In the decade leading up to 2017, Germany's economy kept pace with the U.S.

| | | GDP annual growth | |
|---|---|---|---|
| | | U.S. (USD) | Germany (Euro) |
| Structural issues start to bite | 2022 | 2.1% | 1.8% |
| | 2021 | 5.9% | 2.6% |
| | 2020 | -2.8% | -3.7% |
| | 2019 | 2.3% | 1.1% |
| | 2018 | 2.9% | 1.0% |
| | Growth 2006–2017 | 21.2% | 21.0% |
| German GDP growth keeps pace with the U.S. | 2017 | 2.2% | 2.7% |
| | 2016 | 1.7% | 2.2% |
| | 2015 | 2.7% | 1.5% |
| | 2014 | 2.3% | 2.2% |
| | 2013 | 1.8% | 0.4% |
| | 2012 | 2.3% | 0.4% |
| | 2011 | 1.5% | 3.9% |
| | 2010 | 2.7% | 4.2% |
| | 2009 | -2.6% | -5.7% |
| | 2008 | 0.1% | 1.0% |
| | 2007 | 2.0% | 3.0% |
| | 2006 | 2.8% | 3.8% |

Source - RBC Wealth Management, Bloomberg

## ASIA PACIFIC

Emily Li – Hong Kong

■ **China has pledged to bolster policy support and accelerate government spending in response to the challenges faced by its recovering economy**. Finance Minister Liu Kun and Zheng Shanjie, chairman of the National Development and Reform Commission, made the pledges in reports to the country's legislature on Monday. Apart from that, China's biggest state-owned banks are considering lowering deposit rates for at least the third time. China cut the stamp duty on stock trading by 50% on Monday and lowered margin requirements for investors to buy securities to 80% from 100% to boost the struggling market.

■ **Earnings season has concluded, and below are some highlights**:

» **BYD Co. (1211 HK)** recorded a 67% y/y revenue increase in Q2 2023, and net profit increased 145% y/y. Management remains confident the company can sell three million clean cars this year despite economic challenges and an intense price war in China.

» **BYDE (285 HK)**, the electronics arm of BYD Co., agreed to buy Jabil Inc.'s (JBL US) manufacturing business in China for US$2.2 billion. The pact includes the manufacturing of products for existing customers, including Apple Inc. (AAPL US) and Dell (DELL US).

» **Meituan's (3690 HK)** sales rose 33% y/y to RMB 67.96 billion in Q2 2023. However, the CEO warned that order volume growth in its core food delivery business is likely to decelerate in Q3 due to consumer spending headwinds.

» **Xpeng Inc. (9868 HK)** shares were up after the company agreed to buy Didi Global Inc.'s (DIDIY US) smart-car development unit. The US$744 million all-stock deal will see Didi emerge with a 3.25% stake in Xpeng. The partnership comes just over a month after Xpeng received a US$700 million investment from **Volkswagen AG** (VOW GR) to jointly develop EVs for the Chinese market.

» **Xiaomi Corp.'s (1810 HK)** total revenue declined 4% y/y in Q2 2023. The adjusted net profit grew 147% y/y, which was a strong beat compared to consensus and accompanied by a historically high gross profit margin of 21%. The results were driven by cost control efforts and a better product mix in the smartphone business.

# MARKET Scorecard

Data as of August 30, 2023

| Equities (local currency) | Level | MTD | YTD | 1 yr | 2 yr |
|---|---|---|---|---|---|
| S&P 500 | 4,514.87 | -1.6% | 17.6% | 13.3% | -0.3% |
| Dow Industrials (DJIA) | 34,890.24 | -1.9% | 5.3% | 9.7% | -1.4% |
| Nasdaq | 14,019.31 | -2.3% | 33.9% | 18.0% | -8.2% |
| Russell 2000 | 1,903.21 | -5.0% | 8.1% | 2.6% | -16.0% |
| S&P/TSX Comp | 20,330.32 | -1.4% | 4.9% | 4.2% | -1.3% |
| FTSE All-Share | 4,074.20 | -2.9% | 0.0% | 0.7% | -1.1% |
| STOXX Europe 600 | 459.13 | -2.6% | 8.1% | 9.4% | -2.9% |
| EURO STOXX 50 | 4,315.31 | -3.5% | 13.8% | 21.2% | 2.8% |
| Hang Seng | 18,482.86 | -7.9% | -6.6% | -7.3% | -27.6% |
| Shanghai Comp | 3,137.14 | -4.7% | 1.5% | -2.8% | -11.1% |
| Nikkei 225 | 32,333.46 | -2.5% | 23.9% | 14.7% | 16.4% |
| India Sensex | 65,087.25 | -2.2% | 7.0% | 9.3% | 14.4% |
| Singapore Straits Times | 3,220.22 | -4.6% | -1.0% | -0.6% | 3.8% |
| Brazil Ibovespa | 117,535.10 | -3.6% | 7.1% | 6.4% | -1.8% |
| Mexican Bolsa IPC | 54,390.74 | -0.8% | 12.2% | 18.4% | 3.4% |
| **Gov't bonds (bps change)** | **Yield** | **MTD** | **YTD** | **1 yr** | **2 yr** |
| U.S. 10-Yr Treasury | 4.112% | 15.3 | 23.7 | 101.0 | 283.4 |
| Canada 10-Yr | 3.575% | 7.5 | 27.5 | 50.2 | 239.1 |
| UK 10-Yr | 4.422% | 11.3 | 75.0 | 171.8 | 384.4 |
| Germany 10-Yr | 2.545% | 5.3 | -2.6 | 103.4 | 298.4 |
| **Fixed income (returns)** | **Yield** | **MTD** | **YTD** | **1 yr** | **2 yr** |
| U.S. Aggregate | 4.99% | -0.7% | 1.3% | -1.7% | -12.8% |
| U.S. Investment-Grade Corp | 5.64% | -0.9% | 2.6% | 0.2% | -14.4% |
| U.S. High-Yield Corp | 8.47% | 0.0% | 6.8% | 6.4% | -4.4% |
| **Commodities (USD)** | **Price** | **MTD** | **YTD** | **1 yr** | **2 yr** |
| Gold (spot $/oz) | 1,942.52 | -1.1% | 6.5% | 12.7% | 7.3% |
| Silver (spot $/oz) | 24.61 | -0.5% | 2.8% | 33.6% | 2.4% |
| Copper ($/metric ton) | 8,411.00 | -4.4% | 0.6% | 6.6% | -10.7% |
| Oil (WTI spot/bbl) | 81.63 | -0.2% | 1.7% | -10.9% | 17.9% |
| Oil (Brent spot/bbl) | 85.95 | 0.5% | 0.0% | -13.5% | 17.1% |
| Natural Gas ($/mmBtu) | 2.81 | 6.6% | -37.3% | -69.0% | -34.8% |
| **Currencies** | **Rate** | **MTD** | **YTD** | **1 yr** | **2 yr** |
| U.S. Dollar Index | 103.1640 | 1.3% | -0.3% | -5.2% | 11.3% |
| CAD/USD | 0.7389 | -2.5% | 0.1% | -3.2% | -6.9% |
| USD/CAD | 1.3533 | 2.6% | -0.2% | 3.4% | 7.4% |
| EUR/USD | 1.0923 | -0.7% | 2.0% | 9.1% | -7.4% |
| GBP/USD | 1.2722 | -0.9% | 5.3% | 9.1% | -7.5% |
| AUD/USD | 0.6475 | -3.6% | -5.0% | -5.5% | -11.3% |
| USD/JPY | 146.2600 | 2.8% | 11.5% | 5.4% | 33.1% |
| EUR/JPY | 159.7500 | 2.1% | 13.8% | 14.9% | 23.2% |
| EUR/GBP | 0.8586 | 0.2% | -3.0% | -0.1% | 0.2% |
| EUR/CHF | 0.9596 | 0.1% | -3.0% | -1.7% | -11.3% |
| USD/SGD | 1.3496 | 1.5% | 0.8% | -3.5% | 0.3% |
| USD/CNY | 7.2870 | 2.0% | 5.6% | 5.4% | 12.7% |
| USD/MXN | 16.7425 | 0.0% | -14.1% | -16.9% | -16.9% |
| USD/BRL | 4.8876 | 3.4% | -7.4% | -4.6% | -5.7% |

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Wednesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.73 means 1 Canadian dollar will buy 0.73 U.S. dollar. CAD/USD 0.1% return means the Canadian dollar rose 0.1% vs. the U.S. dollar year to date. USD/JPY 146.26 means 1 U.S. dollar will buy 146.26 yen. USD/JPY 11.5% return means the U.S. dollar rose 11.5% vs. the yen year to date.

Source - Bloomberg; data as of 8/30/23

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As of June 30, 2023

| | | | Investment Banking Services Provided During Past 12 Months | |
|---|---|---|---|---|
| Rating | Count | Percent | Count | Percent |
| Buy [Outperform] | 832 | 57.22 | 250 | 30.05 |
| Hold [Sector Perform] | 573 | 39.41 | 138 | 24.08 |
| Sell [Underperform] | 49 | 3.37 | 3 | 6.12 |

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