Country Governance Research Commentary
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Country Ranking Trends

Japan has made tangible, yet modest progress in improving the integrity of the country's markets. Magni completed a review of its market integrity; the resulting small upgrade reflects the greater confidence business leaders can have in the ability to conduct business without the risk of corruption from opaque financial markets. Japan's overall ranking among the investible countries is about the same as Belgium's.

Pakistan's Official Emergence is Tarnished

The index provider MSCI has upgraded Pakistan from frontier market to its emerging market classification as part of MSCI's annual review. Upgrades are generally viewed as positive indicators for the country's stock market, however political turmoil remains a drag on the Pakistani stock market. This market has fallen over 20% since its high earlier this year, and is now the third-worst performing globally this year. Nawaz Sharif was recently ousted as prime minister and has been disqualified to run again after an investigation into his family's finances. Relative political stability had led to rising business optimism, but this latest corruption scandal calls into question the durability of the progress.

Implications: Magni is completing the process of adding Pakistan to the Magni Model Portfolios. Pakistan's lack of adherence to the Magni Sustainable Wealth Creation principles results in a relatively low score. Magni is also reviewing the one and only countrywide ETF available for Pakistan to determine whether it meets Magni requirements for inclusion in the Magni Global Portfolios. If the ETF is determined acceptable, Magni will work with clients to determine whether Pakistan should be added to specific client portfolios.

An Argentinian Yoyo

MSCI also announced that it is considering Argentina for re-admission into its emerging market index. Argentina was downgraded to frontier market status in 2009 after its imposition of capital controls. In 2015, Argentina reversed the controls, but the country's erratic history has made MSCI hesitant to re-admit the country into its index. Since his election in 2015, President Macri has pursued a liberalizing agenda and recent legislative elections have seen his political party gain support. If the current trend holds during the upcoming round of voting, Macri will strengthen his ability to push through bills in congress to reform tax, labor, and capital markets laws. Solidifying and extending the already realized reforms will increase the likelihood that Argentina will be promoted in the next MSCI review.

Implications: If Argentina is upgraded, Magni will follow the same process as was used with Pakistan for inclusion in models and client portfolios.

France: Can Macron be Effective Without Being Popular?

Following several political missteps, the optimism that accompanied President Macron's election has given way to declining popularity that threatens to undermine his economic reform agenda. His diminished political capital will make it harder to withstand the inevitable protests against his forthcoming labor reform proposals. Unions are already threatening national strikes and blockades. Macron has the advantage of a large parliamentary majority that, unlike the US, is typically sufficient to enact legislation.

Implications: The labor reforms would not directly change the Magni Country Score for France; however, such a success would make other reforms more likely and some of those reforms would improve France's relatively average score among countries in the developed markets.

Will the U.S. Overplay its Hand?

Negotiators from the U.S., Mexico, and Canada have concluded a first-round of talks on renegotiating the NAFTA agreement and have laid out an aggressive schedule for future meetings. The accelerated pace is aimed at completing talks no later than early 2018 to avoid political complications in Mexico's presidential vote in the summer and the U.S. midterm elections later in the fall. Early indications are that the negotiations have been difficult with President Trump going so far as to threaten to pull out of the agreement altogether. The U.S. focus on reducing trade deficits has been disputed from the Canadian and Mexican sides, with Mexico explaining it would only consider trade rebalancing in the context of expanding trade, not restricting it. The U.S. has yet to outline its specific negotiating positions, so it's not possible to assess the real U.S. commitment to a hardline position. Any new agreement would need to be approved by Congress, perhaps providing a check on any drastic changes that risk upsetting the deep trading relationships that have been developed over the agreement's 20+ years of existence.

Implications: The range of possible outcomes is substantial, and the implications for markets are tough to predict. Markets tend to dislike uncertainty and the news cycles may cause volatility in the markets based on the upcoming twists and turns of the negotiations. Any major changes to NAFTA imposed by the U.S. on Mexico have the potential to backfire. The current Mexican administration could fall and a populist could be elected. Such a populist would likely fan the existing anti-Trump flames within Mexico into an economic confrontation, thus placing downward pressure on the equity markets in both countries.