



While tactical asset allocation can take advantage of bouts of volatility, emerging market exposure should be seen as strategic in nature. (ddp)

Emerging markets

Thinking strategically about Emerging Markets

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Whether investors decide to invest in emerging markets directly or not, they are increasingly exposed to their economic, financial, political, and even cultural sphere of influence.

This year, like many in the past decade, has not been good for emerging market assets. Across developing countries, the performance of bonds, stocks, and currencies has been poor in absolute levels and in general below that of their more developed counterparts. The headwinds they have faced this year include escalating trade tensions between the US and its major trading partners, rising US interest rates, and local and global political uncertainty as the anti-establishment, anti-globalization movements have colored electoral races worldwide. The underperformance has been particularly severe in Argentina and Turkey, where largely idiosyncratic vulnerabilities have been compounded by global shocks.

High sensitivity to external and domestic shocks has historically been a defining factor of what constitutes an emerging market. Many international investors have come to regard emerging market assets more tactically than strategically, acquiring exposure when things are good and the momentum is positive, and avoiding the “asset class” altogether when trouble hits. The advent of the

BRIC phenomenon brought greater awareness to emerging markets, and came close to assuring them a permanent seat in the global investment stadium. The heavy losses these markets suffered during the global financial crisis reminded many of their cyclicity.

But a single-minded focus on the tribulations of emerging market assets risks ignoring not only the remarkable progress and transformation emerging economies and societies have made, but the greater depth and breadth of investment opportunities they offer. In the last 15 years emerging economies have taken over one billion people out of poverty, more than the total population of the US and Western Europe combined. These countries are now responsible for the majority of the world’s GDP, as well as the bulk of global car sales and cell phone subscriptions. Their citizens are more intrepid, becoming the main source of growth in global tourism, and prominently populating classrooms at US universities. Emerging markets are now minting billionaires at a blistering pace, with the total number of ultra-wealthy individuals expanding by a factor

of 14 since the year 2000, compared with the tripling of developed world billionaires over the same period.

A large component of this transformation owes to China's size and rapid growth over the last two decades. But outside China, emerging markets have seen dramatic change, with countries like Brazil, Vietnam, Indonesia, and Russia making significant strides in their development path; India is likely to maintain a growth edge over China in the years to come. This process of development convergence is still at an early stage given that per-capita incomes, even in terms of purchasing power parity, of populous countries such as China, Indonesia, and India are only a fraction that of the US.

Read the entire white paper: [Thinking strategically about emerging markets](#), 10 October 2018.

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