

Despite a correction, emerging markets are the correct place to be

Midway through last year, we predicted global markets would experience both volatility and a correction. We saw a subsequent correction in emerging markets – in Asia, specifically – and volatility across all markets.

It was surprising how many people underestimated the degree of the correction these markets would undergo at the time, and equally how many are nervous about their future now.

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For us – looking globally – there is more reason to be optimistic about emerging economies than developed ones as we start 2019.

Let me explain this reasoning.

This year, we have seen a bounce both in Asia and the US – but that is where the similarity ends.

While the US remains in the healthiest position of all developed markets, its economy was always going to slow down naturally as interest rates began to rise. But alongside this natural deceleration, the self-inflicted wound of the government shutdown is now threatening to compress growth for this quarter and is likely to adversely affect annual numbers, too.

Though the US government reopened after 35 days, and new legislation aims to keep another shutdown at bay, at least until the end of September, Trump's plan to declare a national emergency to fund his border wall could split his party and start another legal fight, leading to more uncertainty. However, the Fed's softer stance is seen as supportive of markets.

In Europe, the world's other major developed economy, although never quite reaching the strength gained by the US due to structural issues, we see a slowdown happening naturally, too. In addition, Brexit is already having substantial economic ramifications on the UK and will have political ramifications on the European Union as well.



Saker Nusseibeh
Chief Executive Officer

For the UK itself, it is impossible to predict what will happen, but it is looking increasingly possible that the exit from the EU is going to be delayed, although there is still equally the possibility of a hard or "no-deal" Brexit.

If history rhymes, rather than repeats itself, we might be entering a period in British political history similar to the one after the repeal of the Corn Laws. We could potentially end up with up to four blocks in Parliament for the next few years – two on the right and two on the left – which would engulf the UK in political instability for even longer.

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Turning East, China is slowing to around 6% a year or below, but that is only natural and should have been expected. It is a very large economy and one cannot expect very large economies to keep growing at 14%. Let's not forget it is still doing much better than everyone else. Should we believe the Chinese economic number? It's almost irrelevant whether it is 6.5%, 6% or 5.5%. The growth of the Chinese consumer will continue. What we are seeing now is the government trying to effect a controlled slow down to deal with its credit overhang.

It seems to me that Western investors have lost sight of the fact China is a Communist country and economic growth is being directed centrally for a political purpose, not simply to grow the middle class – and that appears to remain on track.

Globally, political uncertainty is on the rise partly due to a more assertive Russia which took President Trump's policy of withdrawing from a position of global influence as a greenlight for expansion of its own. Recent activities in Syria are a prime example of this. China, too, in response to the withdrawal of American influence, has become a lot more vocal about Taiwan and Southeast Asia generally. Elsewhere, Brexit has politically taken up most of the 27 EU nations' time for the past two years, without even looking at what it has displaced in the UK parliament.

Given this level of uncertainty, I am more confident in the possibility of finding long term value in markets that are still emerging than the signs that I see in more established ones. In the short term, at least, I think there is more upside in eastern emerging markets than in their developed neighbours to the West – but we are always aware that one correction does not preclude another.

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PRO0568 0005741 02/19