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Emerging markets – not a pure commodities story any longer

Gast-AutorIn / Guest Author

Gabriela Tinti was interviewed by Dieter Kerschbaum, Erste AM Communications.

The global economy is experiencing significant growth, and the emerging markets have felt the increased economic growth rates as well. Even in problematic countries such as Brazil or Russia, the situation has been picking up due to the increased oil price.

Gabriela Tinti, fund manager of ESPA STOCK GLOBAL EMERGING MARKETS, has answered the most important questions in this context.

What are the growth prospects of the emerging economies?

Until 2021, the developed markets are expected to grow by an annual rate of above 2% on average. The growth rate in the emerging economies could be at least twice as high; just shy of 5% seems feasible. Asia, the biggest emerging markets region, dominates this narrative.

> *“Asia is experiencing a huge backlog of investments due to the economic growth we have witnessed”*
>
> *Gabriela Tinti, fund manager ESPA STOCK GLOBAL EMERGING MARKETS*

What are the reasons for the encouraging growth?

The important issue is that all 24 emerging economies are showing positive growth rates and that the forecasts are subject to ongoing upward reviews from the IMF. The drivers of the economy in the emerging markets are the recovery of the commodity prices, an upswing in export figures, and a rise in consumption. Falling inflation figures and stable exchange rates to the US dollar also help. Above all, China seems to be back on track with an increase of 20% of exports. Said growth is facilitated by a mega-trend that has taken hold of all emerging economies: growing wealth and the creation of a middle class that is ready to consume and settles largely in big cities. In Asia, we can see a tremendous investment backlog. The purchase power in the region has caused e-commerce to boom.

How about innovation in the Asian economies?

The region relies strongly on innovation and the development of technology. Whereas only a few years ago emerging markets would have been the recipients of know-how transfer, nowadays China is the second-largest technology leader in the world, sporting 1,400 research centres. The initiative “Made in China 2025” is meant to push ten selected sectors such as for example electromobility to global market leadership. Companies such as Samsung or Alibaba have already successfully attained this leadership status.

What effects can the new Silk Route have?

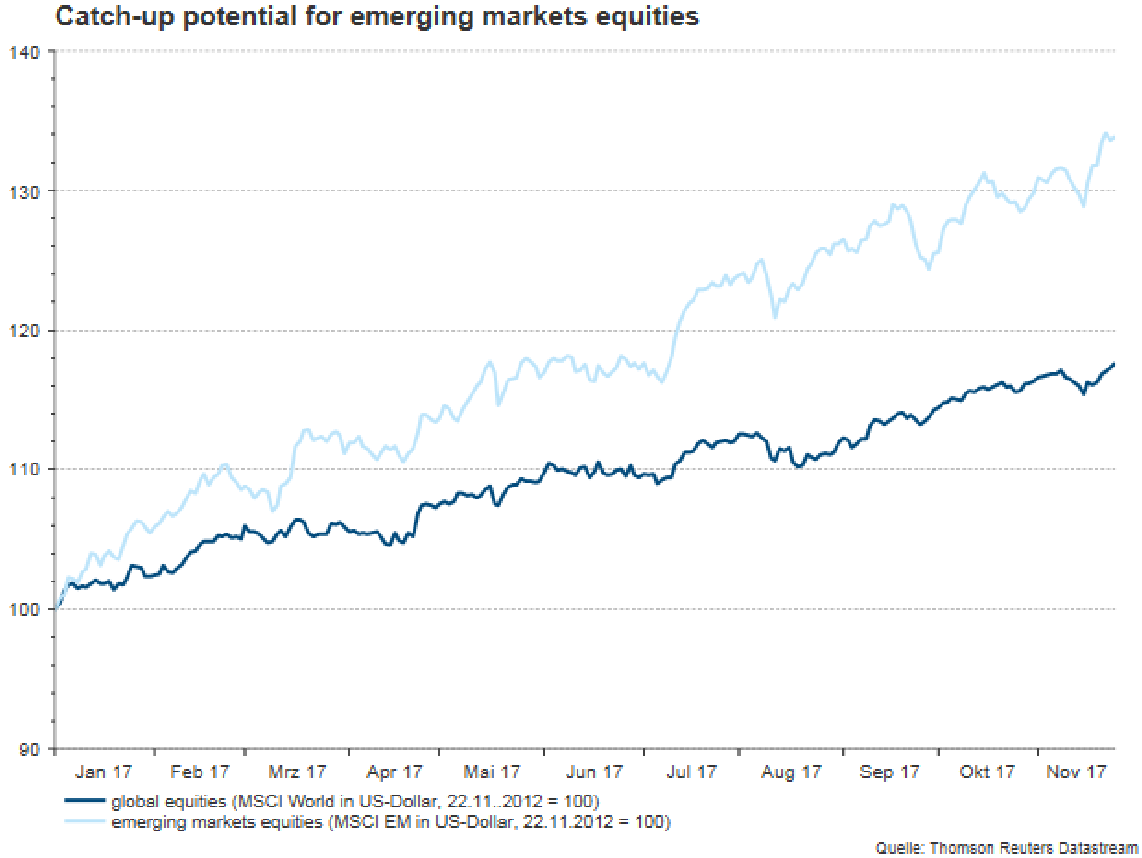
The construction of a new Silk Route between China and Europe is of particular relevance here. The Chinese president, Xi Jinping, brought up the idea in 2013: China, Central Asia, and Europe are to be linked overland via six economic corridors (source: CorporAid, 72/2017). In addition to the overland route, plans are also for a new sea route through Sri Lanka and Indonesia to the East coast of Africa and on to the Suez Canal all the way to the Mediterranean.

Can the infrastructure shoulder such growth?

The ambitious plans require billions of investments across all areas of infrastructure. The metropolises in China alone record an influx of about 13 million people from rural areas annually. In public long-distance transport, Asia has invested massively in the expansion of high-speed train links. The rapidly growing metropolises are to be linked through shorter travelling times. At an unbelievable 22,000km, China is home to the world’s biggest train network. There will be an increased focus on environmental protection in the future. President Xi Jinping has declared this topic a top priority in China.

How have the emerging stock exchanges performed?

The emerging stock exchanges have welcomed the economic recovery and the outlook of further growth. In the year to date, emerging markets equities have gained an average of 30% (MSCI Emerging Markets: +33.65% in USD, as of 23 November 2017). However, in a 5Y comparison they continue to trail global equities by a wide margin. Valuations are more than 25% below their long-term average, which suggests healthy growth potential for the coming years.



Past performance is not indicative of future developments.

What are the risks investors should be aware of?

The stock exchanges of the emerging markets are no one-way street. A decline in commodity prices, especially in the oil price, and a strong USD could come with negative effects. Also, investors have to keep an eye on the political risk; events such as the attempted coup in Turkey or the impeachment of the then-Brazilian president Rousseff. Dictator Kim in North Korea or the political corruption scandal involving the South Korean president Park have not exactly strengthened trust. Still, in the long run, the enormous growth potential represents one of the strongest pros in favour of investing in the entire region, which is home to about three quarters of the world's population.

The growth regions in one fund

ESPA STOCK GLOBAL EMERGING MARKETSoffers investors the chance to invest in a portfolio of emerging markets equities broadly diversified across countries, regions, and sectors. The fund management team selects companies of high quality with above-average growth rates and attractive valuation.

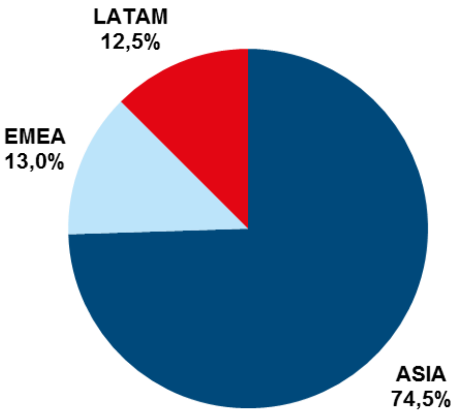
Within the framework of this active investment approach, the weightings of the regions of Asia, Africa, Middle East, and Latin America are actively chosen and managed, as are companies and sectors.

The five biggest positions currently are:

Tencent Holdings Ltd.
Taiwan Semiconductor Manufacturing Co.
Samsung Electronics Co. Ltd.
Alibaba Group Holding Ltd.
China Construction Bank Corp.

Assets under management by investment region

ASIA: 74.5%
LATAM: 12.5%
EMEA: 13.0%



Sources: Erste Asset Management, FMP
LATAM = Latin America
EMEA = Eastern Europe, Middle East, Africa
ASIA = Asia

Assets under management by sectors:

IT: 33.1%
Financials: 23.3%
Consumer Discretionary: 10.2%
Materials: 7.8%
Energy: 6.5%
Industrials: 5.6%
Consumer staples: 4.9%
Telecom: 2.5%
Utilities: 2.5%
Real estate: 1.7%
Healthcare: 1.6%

For more information about ESPA STOCK GLOBAL EMERGING MARKETS, please visit this link

Benefits for investors:

- Globally diversified emerging markets equity fund.
- Active stock selection by experts.
- Opportunity to earn a high, long-term return

Risks to be aware of:

- The net asset value of the fund can fluctuate considerably (high volatility).
- Due to investments denominated in foreign currencies, the net asset value of the fund in euros can be negatively impacted by currency fluctuations.
- Emerging markets involve a higher level of risk.

Risk notes according to 2011 Austrian Investment Fund Act

ESPA STOCK GLOBAL EMERGING MARKETS may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

Legal note:

Prognoses are no reliable indicator for future performance.

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