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Emerging market equities gain momentum

Sydney, 12 October 2016 – Emerging market equities outperformed global indices in the third quarter of 2016 and continue to gather momentum according to VanEck’s visiting emerging markets expert.

David Semple, Portfolio Manager for VanEck’s Emerging Markets Equity strategy, said, “Emerging market equities have generally underperformed over the past four or five years, however the tide is turning. Emerging markets growth relative to developed markets is at its highest since 2014 and we believe it will continue to outperform developed markets over the next five years.”

According to Semple, there are several factors driving the strong performance of emerging market equities including dollar and commodity stabilisation, low global bond yields, improving earnings and relief in China.

“Emerging market performance has been supported by a stable US dollar. Given that many potential global headwinds are still yet to play out we expect market uncertainty to continue into the next year. Because of this, we don’t expect to see the dollar appreciate aggressively in the near-term which supports investment in emerging markets. Stability in commodity markets is also a positive for emerging market companies.

“China offers pockets of opportunities. After two quarters of weakness, MSCI China was one of the top country performers in the third quarter. The question really shouldn’t be if to invest in China but rather where to invest. The local population no longer want to see ‘black stinky water’ and instead want better air quality, cleaner water and good healthcare. We see opportunities in companies focused on providing middle-income services and companies focused on the environment.”

According to Semple, emerging market small and mid-cap companies offer plenty of opportunities but are poorly captured by widely used benchmark indices and instead investors should be considering an emerging markets equity strategy that has the flexibility to go anywhere across the market-cap spectrum to find the best growth opportunities.

“While most emerging market large-caps have shown strong performance, we believe that much of their performance is cyclical. Small to mid-cap companies offer strong performance opportunities because they are less developed, domestic demand driven but not necessarily more risky,” he said.

“We believe emerging market companies are better positioned than previous years given the majority have adapted to a low growth environment and are meeting changing domestic demands. They also have better management structures and cost saving mechanisms in place, resulting in better earnings and profit margins.

“Most investors are under-allocated to emerging market equities because they are skeptical about performance. We expect this sentiment will shift as investors continue to see strong performance into 2017 and as a result, we expect they will significantly increase their exposures,” he said.

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