



## **NEWS RELEASE**

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### **EMERGING ECONOMIES EXPECTED TO PROVIDE A BETTER PLATFORM FOR GROWTH**

It was inevitable that the financial crisis of 2008 and subsequent fall-out, which persists in the form of a sometimes slow and uneven global economic recovery, would lead to major shifts in the investment landscape. Amongst these has been growing emerging market prominence in portfolios.

According to Francois van der Merwe, Portfolio Manager at Novare Investments, this trend will continue as will investor demand for alternative asset classes in economies seen to have the potential for sustainable growth.

“Although emerging markets were initially thought by some to have become ‘de-synchronised’ from the downward spiral in developed markets, they also got caught up in the financial malaise. But their recovery has been swift and global portfolio flows have been directed to emerging market equities, which have handsomely outperformed their developed market counterparts,” said van der Merwe.

Looking to 2010, is this sustainable and what are the alternatives to investing in emerging market equities?

Developed market investors face a conundrum. Cash investments are yielding close to zero while government bonds in the form of 10-year US treasuries are yielding a paltry 3.3%. In addition, bond yields could come under pressure due to higher future issuance in response to massive government fiscal deficits and the need to finance them. This could lead to capital losses.

In this environment where low-risk assets are delivering very low yields, van der Merwe said it was inevitable that investors would move up the risk spectrum for alternative sources of return.

“Emerging market equities have provided a great alternative over the course of this year, but with global asset managers already overweight in this asset class, the potential for the same type of returns over the shorter term may be limited,” he said.

In the long run, emerging market equities are bound to play a more important role as they attract capital flows due to their stronger growth rates. Most emerging markets don't face the same leverage-induced problems that are prevalent in the US, UK and Eurozone and, being less susceptible to the debt hangover, emerging economies are in a position to provide a better platform for growth.

Their improved macro-economic environment and lower debt levels should benefit emerging market sovereign debt, while higher growth and interest rates should lead to stronger exchange rates compared to developed market currencies.

"Indeed, a play on a strong global economic recovery can be made by investing in commodity-related currencies. Commodities themselves have experienced strong appreciation since March this year and exchange traded funds have made investments into many commodities much easier, creating investor appetite for these products

"It is, however, debatable whether commodities should be seen as a separate asset class. For example, instead of gold, investors could opt for Australian money market instruments. The fortunes of the Australian dollar are closely correlated with gold price, and the Australian central bank has already started raising interest rates, improving the returns that can be earned on cash investments there," said van der Merwe.

He added that offshore investing should take into account established principles of diversification. Emerging markets are expected to play a more prominent role within global portfolios and should not be seen as a stand-alone asset class, but as an opportunity set that includes equities, sovereign debt, domestic debt, cash and currency investments.

Instead of the traditional approach of investing in developed market equities and government bonds only, investors should include other assets from regions that will draw future capital flows and provide attractive risk adjusted rate of returns.

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