Quarterly Commentary

Emerging Markets Equity

Amid high levels of geopolitical concerns and lower global growth, Emerging Markets underperformed in 2019. However, the potential for a brighter backdrop offers a compelling opportunity as growth is forecast to accelerate in 2020 and remain more than double that of developed markets. Improving fiscal, economic and monetary policies and a renewed focus on structural reforms in many emerging markets have regained traction.

China is trying to find a middle ground between supporting economic growth without resorting to aggressive steps that could saddle the country with more debt. All the while its economy is being hit by the U.S. trade war, denting factory activity and consumer confidence. Still China's slowdown is easing. Industrial output and retail sales indicate the economy is strengthening. The property market also appears to be improving. However, the government is not reducing its vigil, so it is pouring more funds into infrastructure and the central bank is injecting more money into the economy by freeing up banks to lend slightly more. These moves are relatively modest given the vast size of the Chinese economy.

For decades, China built its economy as the world's factory for cheap goods. However, over the past decade, it has undergone a transformation that has created a domino effect; a shift that has laid out the welcome mat for other emerging economies looking to compete. Countries such as Vietnam, Thailand, Indonesia and India are now poised to become the next wave of winners. Vietnam is one of the world's fastest growing economies as it opens its doors to the world and boasts several advantages over its neighbours in Asia. Indonesia is well equipped to undertake some of China's manufacturing capacity with 42% of the population under the age of 25. The government has recently announced it will open up new sectors of the economy to foreign investment and introduce labour reforms.

Amid slowing economic growth, India has recently reduced corporate tax rates dramatically. It has also introduced even lower tax rates for new manufacturing companies that could potentially attract foreign investment looking to diversify their supply chains away from China. As one of the largest and fastest growing markets, and with favourable demographics, India is attempting to incorporate disruptive technology to drive productivity and deflation.

Brazil's economic recovery has been slower than expected. Inflation has remained under control which has allowed the central bank to reduce interest rates to record lows. As well, the government has implemented social security reform which should help improve economic activity and can significantly reduce the deficit. A major privatization plan has also been announced, while tax and other structural reforms are being contemplated.

As a whole, Emerging Markets gained 18.9% for the year and a resounding 11.9% in the fourth quarter (all figures in U.S. dollar terms). Emerging European stocks lead the way climbing 33.6% for the year and 13.3% on the last quarter. Emerging Asian stocks were the next best generating 19.7% in the year and 12.6% in the quarter. Emerging Latin American stocks were the weakest region gaining only 17.9% in 2019 and 10.6% in the fourth quarter.

For the past 30 years, Emerging Markets have provided return enhancement and risk diversification opportunities for global equity investors. Emerging Markets offer superior economic growth and low correlation across asset classes which has provided diversification benefits and created opportunities for enhanced performance. An amicable settlement in the U.S. / China trade dispute would make a compelling case for emerging market investment to accelerate.

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