

Emerging markets capitulation: Are we there yet?

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Investing and Talking Points



Probably not. There is a fire sale going on in emerging market assets right now and there's probably more volatility on the horizon.

Emerging market stocks took a drubbing in the late-August rout—faring much worse on a year-to-date basis than their developed market counterparts.

Anxiety over China's growth prospects culminated in a steep correction in China's A shares (companies listed on the Shanghai and Shenzhen stock exchanges.) That, combined with a surprise renminbi devaluation and fears of what a Federal Reserve (Fed) liftoff could mean to emerging market assets triggered steep losses for the MSCI Emerging Markets Index.



Source: Morningstar Direct.

And no, the sky is not falling



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The U.S. is still growing and Europe is recovering.

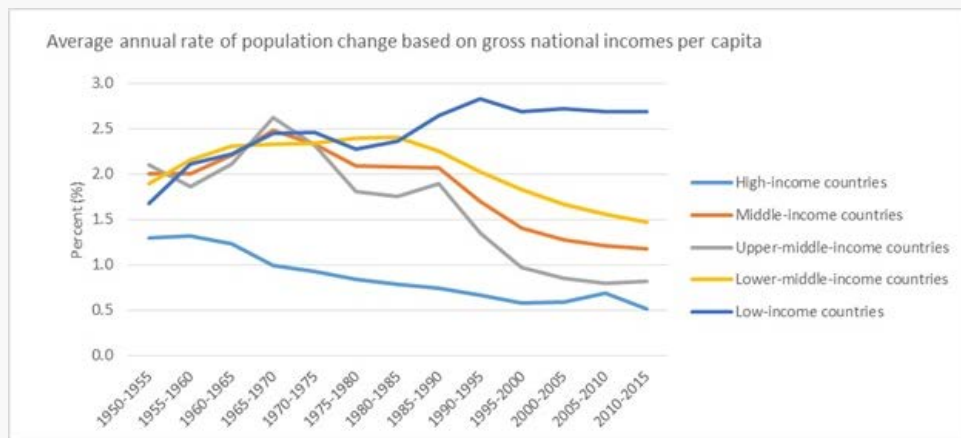
This is not another global financial crisis in the making—at least as long as the world's central banks continue supporting the markets with easy liquidity and accommodative monetary conditions. And while it may be a bumpy ride right now, the emerging markets growth story appears largely intact based on demographic trends.

The emerging markets consumer is movin' on up

Emerging markets have been and will continue to be a significant growth engine for the entire global economy. Unlike the developed markets, which are aging, the long-term outlook for emerging markets has generally been much brighter with its younger and faster-growing populations. Consequently, the spending patterns of the emerging market consumer is now a dominant force helping shape the face of global consumption with more people spending their way into the middle class.








Source: United Nations, Department of Economic and Social Affairs, Population Division (2015). *World Population Prospects: The 2015 Revision, DVD Edition*.



Source: United Nations, Department of Economic and Social Affairs, Population Division (2015). *World Population Prospects: The 2015 Revision, DVD Edition*. Gross national incomes (GNI) are calculated based on data from the World Bank.

Emerging market opportunities still exist

And while yes, emerging markets could go lower from here, it is important to remember

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volatility will always be a part of investing as markets advance in fits and starts.

Where there's volatility, there's also the potential for significant reward.

Volatility alone does not always mean risk. Instead, volatility can also represent opportunity—especially for those investors who choose investments with care and can refrain from selling in a panic.

For example, some emerging markets in Europe are benefiting from low inflation and strong domestic and external demand. Taiwan is less sensitive to U.S. interest rates, buffered by its low dollar-denominated debt and strong exports, and consumers in India are benefiting from cheap oil prices.

So before you bail on your emerging market investments just because they are down—it's helpful to remember why you invested in them in the first place—which for most people is the long-term growth potential and geographic diversification.

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The risks of investing in foreign securities are magnified in emerging markets. These may include risks related to market and currency volatility, adverse social and political developments, and the relatively small size and lesser liquidity of these markets.

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