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EMERGING MARKETS: LESS MACRO, MORE MICRO

NICOLAS FOREST, Global Head of Fixed Income, and **JAN BOUDEWIJNS**, Head of Emerging Markets Equity Management, argue that the events of the past two years demonstrate the importance of experience and a bottom up approach in emerging market investing.



Nicolas Forest

Why have emerging market debt and equity experienced such a difficult period over the past two years?

For many years, investments in emerging market bonds and equities were seen as straightforward. The valuation case for bonds and equities was not just compelling, the fundamental supports to both asset classes were also powerful and unquestioned.

These included: low debt levels, sustainably stronger economic growth rates backed by secular demographic trends, currency appreciation and the prospect of strong fund flows.

We can also add that episodic crisis (1998, 2004, 2008) recovered quite rapidly with markets back to positive returns.

However, since the sell-off inspired by the Federal Reserve's monetary policy statement

in May 2013, investors have become rather better acquainted with the region's risk factors.

Fundamentals have deteriorated in a small number of countries, as highlighted by the currency volatility of the so-called "fragile five" countries (Brazil, South Africa, Indonesia, India and Turkey).

Also, concerns about the sustainability of growth in China and even in the overall asset class have surfaced while social unrest and other geopolitical factors have also returned to the fore.

In short, the risks rather than the opportunities of investing in emerging market assets have started to dominate the headlines. And, fears around the end of the US quantitative easing and rate "normalization" has induced a rise in risk aversion.

Has the long-term investment case for emerging markets dissolved?

Absolutely not. While the problems of a few emerging nations have commanded a disproportionate volume of media column inches (such as Argentina, Venezuela, Ukraine...), it is important to remember that the fundamental story remains very much intact.

Emerging market debt and equity exhibit low correlations with other global debt & equity markets, thus giving them an attractive diversification potential.

Meanwhile, it may surprise readers to learn that the average debt to GDP ratio across emerging markets has barely moved since 2007. At approximately a third of the average level across developed nations, it compares well. And GDPs across the developing world are still forecast to grow at nearly two times

60 SECONDS WITH THE FUND MANAGER



the rate of those in the developed world, for at least the next few years.

With declining inflation, increasing GDP per capita, significant improvements in policy stability and corporate governance, as well as reform momentum across the investable universe, there are still powerful long-term supports to the region's bonds and equities, alongside attractive valuations.

What sets Candriam apart in managing emerging market bonds and equities?

Regardless of whether the uncertain global macroeconomic backdrop persists or whether investors simply accept that growth may remain low for some time, inefficiencies in emerging markets continue to create an abundance of opportunities at the individual security level.

For many years, Candriam is convinced that exploiting these inefficiencies with a rigorous bottom-up approach by combining numerous independent sources of potential alpha is the key to a higher Information Ratio and consistent returns.

Our proven track record relies on the selectivity and the flexibility that this bottom-up approach allows as well as our in-depth understanding of the markets. Indeed, Candriam has a long-standing expertise in both emerging market bonds and equities, calling on nearly two decades of experience in these unique asset classes. With stable teams, our investment approaches in these fields are consistently applied and proven over the long term.

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