



Emerging market equities: identifying the key long-term trend

Dara White, Head of Global Emerging Markets Equity

As we enter 2022 we can expect robust fundamentals to serve as a key tailwind for emerging markets (EMs). From a top-down perspective, regulation noise in China, ongoing Covid concerns, geopolitical risk and inflationary pressures have all weighed on sentiment. However, we remain excited by the opportunities we see across the asset class.

In China, we are witnessing a regulatory cycle which started in the back end of 2020. We can expect this to continue into elections next year with the government focusing on the notion of common prosperity. We believe dismantling the private sector is not the objective and many of the policies are, in fact, on the “wish lists” of Western economies – for example, data privacy and curbing monopolistic practices. We are focusing on areas of the economy with policy tailwinds that will benefit from the government’s prosperity and productivity agenda – such as “Made in China 2025” – in everything from the semiconductor industry to biotech

and electric vehicles to name a few. We believe we are out of the first phase of regulation where equity risk premium from domestic regulation feels priced in, and are moving to the next phase where regulatory rules get applied. There are also signs of policy easing as we move into an election year, however we can expect normalised policy as opposed to large stimulus.

In terms of US-China relations, we can expect the Biden administration’s stance to remain unchanged given the bipartisan support in Washington for its policy towards



Beijing, with the administration also likely to have the support of allied countries. We are also monitoring the optionality around US-China trade tariffs, as US Treasury Secretary, Janet Yellen, explores relaxing Trump-era tariffs to help ease some inflationary pressure.

Although vaccine optimism has fuelled positive investor sentiment globally, we still envisage distribution challenges in the near term. We are continuing to monitor the scale of new infection waves globally while considering the risk of new variants. Meanwhile, the outlook for inflation remains a key issue for both emerging and developed markets, as central banks may begin to moderate monetary policy accommodation.

It's fair to say that concerns over the US Federal Reserve tapering still have an impact on sentiment related to emerging economies. In 2013, the "fragile five" were identified as most at risk due in part to their large current account deficits. This still weighs on investors to some degree. However, the notion of the "fragile five" is no more, it seems to be just Turkey which is vulnerable. Even if we exclude China, which has a large current account surplus, in aggregate emerging economies are in a current account surplus. This doesn't mean the market won't react to concerns over Fed tapering and ask questions later, but when they do ask questions they will get much better answers than in the past. From an investment perspective we will use the sentimental market reaction as an opportunity to add to specific companies which we like long term.

EMs are breaking away from their dependence on the developed world, with heightened domestic demand increasing resilience to external forces, the development of local debt markets and the stabilisation of the interest rate differential between the US and emerging economies. Therefore, we don't have the same weakness in different pain points.

We also place a lot of importance on ESG (environmental, social and governance) characteristics, which will no doubt become yet more important throughout 2022. Understanding how well a company manages its material ESG risks is key to assessing the quality of an investment. The focus of our ESG research approach is to understand exposure to, and management of, factors which have an impact on performance through regulation, physical threats to assets, brand and reputation, and operational costs. We follow a best-in-class approach and assess companies against peers.

More broadly, we believe the key long-term trend for EMs is the transition from predominantly export-led growth to reliance on buoyant domestic demand. This is reflected in the change of composition of the universe, which is now dominated by higher quality structural growth companies with a domestic focus. In 2008 more than 60% of the universe was exposed to cyclical growth; today around 60% of the universe is exposed to structural growth. Furthermore, there has been nearly a 90% increase in the number of companies coming to the market in the past decade. We believe the innovation of the universe, in both depth and quality, is ideal for stock pickers and is where we can add value in active management. Investors should now be looking at EMs through a different lens.

Structural wealth creation, a rising middle class and the associated changes to consumption and services is the dominant theme for us. This leads us to various trends, including: the technological revolution, with the emergence of platform companies with various verticals (the adoption of technology in general usually happens faster in EMs because infrastructure isn't as well developed so it's easier to start using e-commerce); financial penetration, where we're seeing both an increase in traditional participation and inclusion, as well as fintech developments; and localisation, with many countries focussed on creating strong domestic brands and developing domestic industries.



To find out more visit
columbiathreadneedle.com



Important Information:

For use by professional clients and/or equivalent investor types in your jurisdiction (not to be used with or passed on to retail clients). This is an advertising document.

This document is intended for informational purposes only and should not be considered representative of any particular investment. This should not be considered an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services. **Investing involves risk including the risk of loss of principal. Your capital is at risk.** Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. The value of investments is not guaranteed, and therefore an investor may not get back the amount invested. **International investing** involves certain risks and volatility due to potential political, economic or currency fluctuations and different financial and accounting standards. **The securities included herein are for illustrative purposes only, subject to change and should not be construed as a recommendation to buy or sell. Securities discussed may or may not prove profitable.** The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Threadneedle Investments (Columbia Threadneedle) associates or affiliates. Actual investments or investment decisions made by Columbia Threadneedle and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be suitable for all investors. **Past performance does not guarantee future results, and no forecast should be considered a guarantee either.** Information and opinions provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. This document and its contents have not been reviewed by any regulatory authority.

In Australia: Issued by Threadneedle Investments Singapore (Pte.) Limited ["TIS"], ARBN 600 027 414. TIS is exempt from the requirement to hold an Australian financial services licence under the Corporations Act and relies on Class Order 03/1102 in marketing and providing financial services to Australian wholesale clients as defined in Section 761G of the Corporations Act 2001. TIS is regulated in Singapore (Registration number: 201101559W) by the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289), which differ from Australian laws.

In Singapore: Issued by Threadneedle Investments Singapore (Pte.) Limited, 3 Killeiney Road, #07-07, Winsland House 1, Singapore 239519, which is regulated in Singapore by the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289). Registration number: 201101559W. This document has not been reviewed by the Monetary Authority of Singapore.

In Japan: Issued by Columbia Threadneedle Investments Japan Co., Ltd. Financial Instruments Business Operator, The Director-General of Kanto Local Finance Bureau (FIBO) No.3281, and a member of Japan Investment Advisers Association.

In Hong Kong: Issued by Threadneedle Portfolio Services Hong Kong Limited 天利投資管理香港有限公司. Unit 3004, Two Exchange Square, 8 Connaught Place, Hong Kong, which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 regulated activities (CE:QA779). Registered in Hong Kong under the ce (Chapter 622), No. 1173058.

In the UK: Issued by Threadneedle Asset Management Limited, registered in England and Wales, No. 573204. Registered Office: Cannon Place, 78 Cannon Street, London EC4N 6AG. Authorised and regulated in the UK by the Financial Conduct Authority.

In the EEA: Issued by Threadneedle Management Luxembourg S.A. Registered with the Registre de Commerce et des Sociétés (Luxembourg), Registered No. B 110242 44, rue de la Vallée, L-2661 Luxembourg, Grand Duchy of Luxembourg.

In the Middle East: this document is distributed by Columbia Threadneedle Investments (ME) Limited, which is regulated by the Dubai Financial Services Authority (DFSA). This document is intended to provide distributors with information about Group products and services and is not for further distribution. The information in this document is not intended as financial advice and is only intended for persons with appropriate investment knowledge and who meet the regulatory criteria to be classified as a Professional Client or Market Counterparty and no other Person should act upon it.

In Switzerland: Threadneedle Asset Management Limited. Registered in England and Wales, Registered No. 573204, Cannon Place, 78 Cannon Street, London EC4N 6AG, United Kingdom. Authorised and regulated in the UK by the Financial Conduct Authority. Issued by Threadneedle Portfolio Services AG, Registered address: Claridenstrasse 41, 8002 Zurich, Switzerland.

Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies. columbiathreadneedle.com

Issued 01.22 | Valid to 06.22 | J32025 | 4108025