

Emerging markets returning centre stage

Interview Thomas Gerhardt - Head of Global Emerging Markets and Commodities



Thomas Gerhardt

Emerging markets seem to have returned to centre stage. Is the trend really improving?

A new M&A cycle in Europe started in mid-2013. After three difficult years, emerging markets have for again looked as if they are improving and investors are once again showing an interest. Overall macroeconomic news is encouraging. The situation in China is improving. Manufacturing PMI, for example, hit an 18-month high over the summer, and the government decided on a number of favourable measures, which now look to be bearing fruit. Nevertheless, we still have to keep an eye on the medium- to long-term situation. Key reforms still need to be introduced and China's economy remains overdependent on the government.

Some countries have made bold reforms. Mexico, for example, launched structural reforms several months ago – notably in the energy sector – that got the country back on track. The impact can now be seen as investors return and macroeconomic data improve.

In India, too, a new government has helped introduce a series of reforms aimed at halting inflation, creating jobs and attracting foreign investors. Long awaited, these reforms should give a boost to India's economy.

In Brazil, the situation is quite worrying. The country went into recession in the first half of 2014

and Moody's has just downgraded the outlook from stable to negative. Inflation is still an issue. Dilma Rousseff will finish her term of office on a negative economic note. The outcome of Brazilian presidential elections this month will have an impact on the performance of the equity market.

Conditions in numerous emerging countries are improving, although there are still some causes of concern – as we have just seen with Brazil. Geopolitical tensions have to be taken on board and Russia is still a good example of a fragile zone.

In these conditions, it is essential to remain selective to detect promising investment themes and isolate robust companies. It is also important to take an overall approach to seize opportunities whatever the investment zone.

What are currently your strongest convictions?

In the Edmond de Rothschild Global Emerging fund we focus on major investment themes and long-term macro trends that drive emerging markets and which have a significant impact on their economies and industries.

Consumption is one of our favourite themes. Populations in emerging markets are very young and people migrate to cities to find work. Their purchasing power increases and helps drive consumption. Ultimately, numerous sectors benefit from these trends with attractive opportunities in tourism, food production or retail.

Healthcare is another major theme. Improved living conditions translate into a sharp increase in spending on healthcare. People now have access to new

equipment like contact-lenses and also benefit from comfort medicines. Governments are engaged in substantial investments, notably building hospitals. Some pharmaceutical companies specialise in ageing populations and are providing new population groups with access to care and medicine.

Economic growth and higher living standards are also encouraging families to devote more money to education, a key factor in their efforts to climb the social ladder. This is a particularly big challenge

in China and Brazil.

This non-exhaustive list of themes shows that the emerging markets are a source of numerous opportunities. However, they can only be captured by observing strict investment rules and undertaking in-depth research.

As part of the Edmond de Rothschild Group, we have the capacity to cover all markets and call on experienced specialists with local market knowledge – this is a major plus when trying to take advantage of this demanding but fascinating universe.

Company Profile:

Asset management is one of the Edmond de Rothschild Group's two strategic businesses. The Group was founded in 1953 and has been chaired since 1997 by Baron Benjamin de Rothschild. An independent, family-owned group that also specialises in private banking, the group has €135.7bn under management and employs 2,800 people in 31 offices throughout the world.

With six investment hubs in the world (France, Switzerland, Germany, Hong Kong, Luxembourg and the UK), the Asset Management business of the Edmond de Rothschild Group is positioned as a multi-specialist investment firm. Its offer seeks long-term performance through active investing and strong convictions based on a tradition of constant innovation.

This builds on recognised areas of expertise such as European and US equities, corporate debt, multi manager, overlay management, asset allocation and quantitative asset management.

The Asset Management business of the Edmond de Rothschild group had close to €45bn under management as at 31 December 2013 and employs 550 people including 100 investment professionals.

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