

Identifying Opportunities Through the Emerging Markets Continuum

A holistic approach, to information sharing and analysis, flips the script on emerging market investment strategies

Emerging markets (EM) have gained traction in investors' strategic asset allocation in recent years. While emerging markets still remain subject to phases of regional turbulence, their share in investors' strategic asset allocation is set to continue to rise as the asset class can no longer be overlooked.

With strategic and tactical asset allocations being revisited, so should the traditional emerging markets perspective. Rather, investors should consider moving away from an "asset class" consideration for emerging markets to embrace a more selective approach to capture country, sector or even company-specific stories and to avoid major areas of risk. In particular, to best exploit emerging market opportunities, investors should rely on a strong understanding of the macroeconomic backdrop of each country. As EM countries are at different phases in the business cycle, with different growth and inflation dynamics, different vulnerabilities to external shocks, and with different central bank policy trajectories, the macro assessment of each country is paramount to not only identifying the most compelling opportunities, but also to avoiding areas where political risk goes together with poor fundamentals, which remains a very relevant issue in EM.

Integrating research and investment expertise

But beyond looking at macroeconomic fundamentals, developing an **emerging markets' stance would particularly benefit from integrating bottom-up research across asset classes.** Indeed, bottom-up research is highly symbiotic with macroeconomic

research, by providing ideas on sectors that could best benefit from specific reforms or growth dynamics.

The case of Mexico is a compelling one. In 2016, many asset managers around the world were high on Mexico as an up-and-coming emerging market star. Recommendations to buy the peso or buy Mexican equities were the norm. Investors were told they did not want to miss out on the growth story.

But there might have been another side to the story. Views upheld by Amundi emerging markets fixed income and equity teams did not follow the general Mexican growth consensus, as the earnings' structure and prospects of Mexican companies, both from the fixed income and equity sides, did not seem to corroborate the widely accepted Mexican call. This view was rewarded when, in 2016, Mexico's GDP dropped to its lowest since 2010.

"We didn't see any short-term growth in earnings and could not see how it could drive GDP growth in Mexico at the time," says Yerlan Syzdykov, Global Head of Emerging Markets at Amundi, "It was a situation where a bottom-up view helped us to formulate a top-down approach."

The Emerging Markets Continuum

The current low but rising yield environment and perceptions of a maturing financial cycle have made emerging markets all-the-more attractive for investors as a source of potential alpha.

Accessing that opportunity requires a deep knowledge across what Yerlan Syzdykov refers to as the "emerging



Yerlan Syzdykov, Global Head of Emerging Markets at Amundi

markets continuum". Such an approach goes beyond the traditional "asset classes only" perspective to integrate regional, country, industry or even company-specific stories across both equity and fixed income to assess the opportunity. And for the story to unfold, the appropriate organisation, reflecting these beliefs, must be set-up.

"Implementing the 'emerging markets continuum' calls for a unique organisational set up, coordinated under a Global Head of Research for Emerging Markets, a person who combines both credit and equity research in one", says Syzdykov. "This set-up fosters in-depth insights into the capital structure of a specific company, industry or even country. Complemented by analysts, who have "in the field" knowledge, acquired during meetings with CEOs of various companies or other local actors, we get a local perspective for the domestic state of play". "Our conviction is that this integrated approach enables us to identify the most valuable areas and

to uncover opportunities in phases of market disruption."

"Macro views and policies are difficult to translate into valuations at times," adds Syzdykov. "But if you take the time to establish and share ideas and perspectives and see how that translates into effects, you immediately create a lot of interest from both equity and fixed income risk takers. It's an integral part of our investment approach, that's what sets us apart at Amundi Emerging Markets."

With 73 investment professionals on the equity and fixed income side and €39.5bn of assets under active management, Amundi Emerging Markets applies this unique investment approach across asset classes, management styles and regions.

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