



Investment Insight

Friday, 28 March 2014

Emerging volatility: Emerging Markets have started this year in a similar fashion to last...volatile and weak. However, an “emerging” theme over the past year, which continues today, is the divergence in performance of different markets within the EM region. The result is that some emerging markets look quite attractive now while others might remain vulnerable. Conditions like this provide excellent opportunities for unconstrained investors who can pick up “bargains” that have been dragged down in price more than fundamentals warrant, just because their region (in this case EM) is out of favour. In this week’s **Inside Track** we hear from one such unconstrained fund manager, Michael Hasenstab of Franklin Templeton Investments.

Stocks to lay down: Equity investors might be able to learn some valuable lessons from oenophiles. When stocking up their cellars with wines that are to be laid down for ten or twenty years, wine investors don’t focus on what’s cheapest, they focus on what’s best. In other words, they are looking for something of real quality that will endure for many years, and they don’t mind if that means paying a bit extra. So is it right to dismiss a stock that’s valued at 30 or 40 times earnings? In the **Pic of the Week** we have some examples from history that provide an interesting answer!

The Inside Track

Michael Hasenstab is a fixed income portfolio manager with Franklin Templeton Investments known best on these shores for buying up massive positions in Irish government bonds at a time when nobody else wanted them. What follows are extracts from a recent recording with Michael where he discussed the current Emerging Market sell-off and the opportunities and risks this has thrown up.

“Looking back on global fixed income markets in 2013, we often saw clusters of volatility in emerging markets dominated by a few high-profile countries. For example, there were periods when markets in Hungary, South Korea and Mexico got caught up in a generalized panic, but then later rebounded.”

“We expect to continue to see volatility during this year, but as we have done in the past, we will try to exploit those opportunities. We intend to be very selective about our investments and very active about positioning for a potentially rising interest rate environment.”

“The recent emerging market sell-off and currency moves are nothing new; we’ve seen them in the past and will probably see them again in the future. Typically, what happens is that problems in one country cause investors to question the entire asset class, but the macro fundamentals do not justify this broad sell-off.”

“The high-divergence in emerging markets and the drastically different interest rate environments mean these periods of overselling allow us to “cherry pick” the best ideas. Opportunities are not only between countries, but within each country – interest rates, currencies, and credit markets all provide distinct opportunities.”

“Looking forward, there will be further volatility, but we believe an unconstrained, active manager can use this as an opportunity, even if it means wearing some short-term risk.”

If you would like to hear Michael’s full interview please [click here](#) or on the video window below.



Pic of the Week

To mark your birth forty years ago, your loveable but somewhat flakey parents put \$10,000 into each of four investments for you and then forgot all about them. Not knowing much about investing, they selected the exciting up-and-coming “Big Blue” for your portfolio, along with Coca-Cola...after all it wasn’t going out of fashion...and an S&P500 tracker fund, just to hedge their (your!) bets. Stuck for a final idea, even though it was valued at a crazy 30 times earnings, they wasted the final \$10,000 on recently floated Arkansas retailer Walmart...just because they liked their sausages! Now, forty years later, tired of apartment living, you’ve found out about their largesse and called the stockbroker, thinking you might get the deposit for a nice new 3-bed semi out of it. Here’s the broker’s report...turns out shares in Walmart generated a total return of nearly \$42 million....not bad for an overvalued sausage seller!

| | IBM | Coca Cola | S&P500 | Walmart |
|------------------------|-----------|-----------|-----------|--------------|
| Original investment | \$10,000 | \$10,000 | \$10,000 | \$10,000 |
| Dividends (reinvested) | \$197,529 | \$518,485 | \$458,002 | \$12,116,550 |
| Share price increase | \$113,526 | \$285,209 | \$179,189 | \$29,275,047 |
| Total return - \$ | \$311,055 | \$803,694 | \$637,191 | \$41,391,597 |
| Total return - % | 3,111% | 8,037% | 6,372% | 413,916% |
| CAR - % | 9% | 12% | 11% | 23% |

Week ahead: Key events

31/03 UK Money Supply & EU CPI
 31/03 Chicago Purchasing Manager Data
 01/04 China, EU & Ireland Manufacturing PMI
 01/04 US ISM Manufacturing
 02/04 UK House Prices
 02/04 US ADP Employment Change
 03/04 China Non-Manufacturing PMI
 03/04 EU & UK Composite PMI
 03/04 EU Interest Rate Announcement
 03/04 US Trade Balance & Initial Jobless Claims
 04/04 US Non-Farm Payrolls

Market View

| | Last 7 days | YTD | 5Y Ann. |
|--------------------------|-------------|-------|---------|
| Global equities | +0.1% | -0.9% | +13.2% |
| US equities | -1.2% | +0.0% | +17.8% |
| European equities | +1.2% | +0.6% | +12.7% |
| Emerging market equities | +3.2% | -2.7% | +10.5% |
| Irish equities | +1.5% | +9.4% | +18.1% |
| Commodities | +1.4% | +7.2% | +4.1% |
| Hedge funds | -0.3% | +0.7% | +3.6% |

| Economic indicators | Bond yields | Inflation | GDP YoY |
|---------------------|-------------|-----------|---------|
| Ireland | +3.0% | -0.1% | -0.7% |
| Germany | +1.5% | +1.2% | +1.4% |
| USA | +2.7% | +1.1% | +2.6% |
| China | +4.5% | +2.0% | +7.7% |

| Currencies | Current | YTD Δ |
|------------|---------|-------|
| EUR:USD | 1.37 | +0.0% |
| EUR:GBP | 0.83 | -0.3% |
| EUR:CNY | 8.53 | +2.3% |
| GBP:USD | 1.66 | +0.3% |

| Commodities | Current | YTD Δ |
|-------------|----------|--------|
| Gold | 1,296.37 | +7.5% |
| Copper | 6,572.00 | -10.9% |
| Oil | 107.89 | -1.8% |
| Wheat | 703.25 | +14.9% |

| Central Bank rates | Current |
|--------------------|---------|
| Eurozone | 0.25% |
| USA | 0.25% |
| UK | 0.50% |

Suite 3, The Cubes 3
Beacon South Quarter
Sandyford
Dublin 18, Ireland

T: (+353 1) 685 4100
E: media@aria-capital.ie
W: www.aria-capital.ie

UNDIVIDED ATTENTION

Important Disclosure. Aria Capital Limited is regulated by the Central Bank of Ireland. Financial data provided by Bloomberg. All values are indicative only. This Investment Insight has been prepared for information purposes only. It does not constitute investment advice or an offer to buy or sell securities. No investment decisions should be made without seeking appropriate professional advice. This document may not be reproduced in whole or in part without Aria Capital's permission. © Aria Capital Limited 2014. All rights reserved.