Investment Insight

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It's complicated: *For both valuation and structural reasons, Emerging Markets look like an interesting place to invest over the next decade. However, it is not a homogenous opportunity set and, perhaps more so than is the case in Developed Markets, hitching a ride on a passive index is probably not an optimal strategy.*

This is certainly a perspective echoed by Tim Murray of T. Rowe Price (as an active investor, of course, what else would you expect him to say!). In ***The Inside Track*** *we look at what he has to say about the increase in dispersion of returns and why this mandates an active approach to EM.*

Handbags: *This month's Bank of America Fund Manager Survey has shown a shift in economic thinking among fund managers. Their biggest "tail risk" concern currently is one which, if realised, could trigger a tumultuous fall in stock markets. And it's all to do with handbags…although not in an entirely literal sense. In* ***Pic of the Week*** *we reveal all.*

Quoted…

"I want you to imagine the worst person that you've met on Wall Street, the most ruthless and the most diabolical. That's the best person in Washington." –
Anthony Scaramucci

The Inside Track

Tim Murray is a capital markets analyst at T. Rowe Price who recently penned the piece "The Changing Face of Emerging Markets ". The following are some of his thoughts on the sector.

From an asset allocation perspective, the rise in dispersion means that we need to adjust our assumptions about what environments will be most beneficial, while also recognizing that the experience of active investors in Emerging Markets ("Ems") may be markedly different for passive investors.

Falling oil prices may be a catalyst for poor performance within Brazil or Russia, but it may mean that consumers in China and India have more disposable income to spend on food, travel, or entertainment – areas that are now more heavily represented within EMs. Meanwhile, numerous country-specific variables, such as the actions of central bankers and politicians, cultural trends, demographics, and even weather within each country, can have considerably more impact on each individual domestic economy.

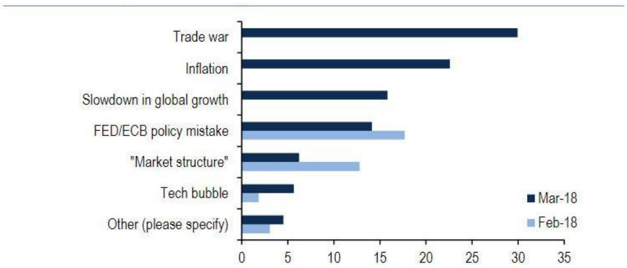
For asset allocators, this ongoing change in emerging markets represents both a challenge and an opportunity. The playbook for allocating to emerging markets equities used to be more cyclically driven. In a nutshell, it went something like: Do you think global growth will be healthy? Do you think commodity prices will be strong? Do you think emerging markets currencies will be strong? If the answer to all these questions was yes, then EM equities were very likely to outperform other regions. Now one has to concede that it is much more complicated. Macro factors like global growth, commodity prices, and currency markets are still quite important, but they are now part of a much broader mosaic of factors.

The opportunity lies in the recognition of two important realities: (1) Emerging markets may continue to offer stronger economic growth trajectories than developed markets and (2) Emerging markets now include a much greater representation of country-specific influences.

Point one argues for the need to have exposure to EMs in portfolios with long time horizons, while point two argues for the need to gain this exposure through an active manager that is well equipped to identify the best opportunities within emerging markets.

Pic of the Week

According to the latest Bank of America Fund Manager Survey, the biggest "tail risk" currently facing markets is trade war. With Trump sabre-rattling and Chinese politicians promising robust defence of their economy, if the verbal hand-bagging does develop into an all-out trade war there are likely to be several losers, including stock market investors. While not known for multi-dimensional analysis of issues, for Trump it's not a binary matter: a trade war precipitated stock market decline before November elections in the US would impair the administration's "market scorecard" and likely lead to an election loss.



Source: BofA Merrill Lynch Global Fund Manager Survey

Week ahead: Key events

26/03 US Manufacturing & UK House Prices
27/03 EU Economic Sentiment & US Retail Sales
27/03 US Consume Confidence
28/03 US Mortgage Applications & Pending Home Sales
28/03 UK Consumer Confidence & Japan Retail Sales
29/03 Germany CPI & US Initial Jobless Claims
30/03 Japan Construction & Housing Starts
30/03 US PMI Data

Market View

	Last 7 days (€)	Last 12 mths (€)	YTD (€)	5Y Ann. (€)
Global equities	-2.0%	+0.1%	-3.9%	+10.7%
US equities	-2.3%	+0.8%	-3.0%	+14.0%
European equities	-1.7%	+0.5%	-5.4%	+7.1%
EM equities	-1.9%	+9.3%	-0.1%	+5.9%
Irish equities	-1.1%	-0.9%	-6.2%	+10.9%
Commodities	-0.2%	-8.0%	-3.4%	-8.5%
Hedge funds	-0.2%	+0.3%	-1.2%	-1.2%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.2306	+2.6%
EUR:GBP	0.8729	-1.8%
EUR:CNY	7.7903	-0.2%
GBP:USD	1.4098	+4.4%
Bitcoin	9,064	-37.5%

Commodities	*Current*	*YTD Δ*
Gold	1,329.43	+2.1%
Copper	6,675.00	-6.7%
Oil	69.79	+3.4%
Wheat	455.00	+6.6%

Central Bank rates	*Current*
Eurozone	0.00%
USA	1.50%
UK	0.25%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+0.9%	+0.5%	+7.2%
Germany	+0.5%	+1.4%	+2.9%
USA	+2.8%	+2.2%	+2.2%
China	+2.0%	+2.9%	+6.8%

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