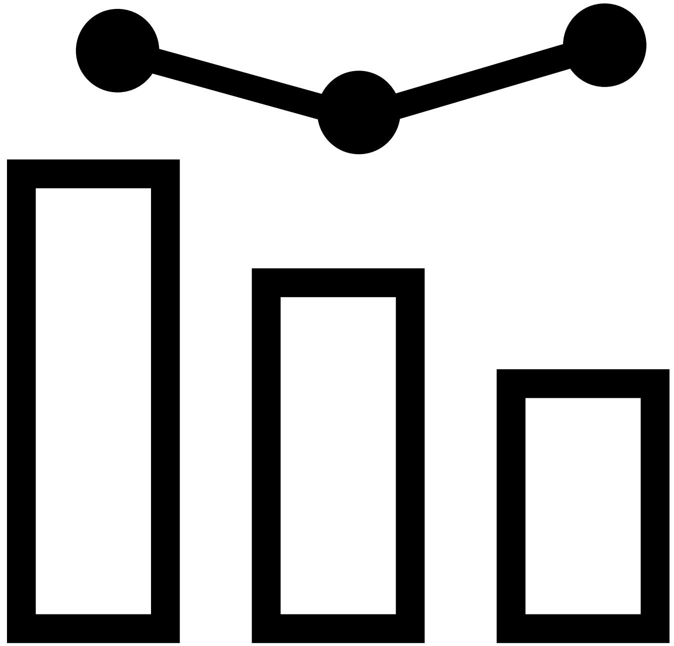
a.s.r.
de nederlandse
vermogens
beheerders



Market: trends & themes

January 2024

Why have emerging markets not rallied?

Emerging markets are underperforming. Whereas the US S&P500 Index scored a return (in euros) of 22% last year, the MSCI Emerging Markets Index managed only a paltry 7%. And that's actually rather strange, because the rally at the end of 2023 was driven by investor expectations that the Fed would soon cut its policy rate. Lower US interest rates and a weaker dollar are generally good for emerging markets. So why have emerging market shares underperformed? And will this be the year in which emerging markets flourish?

To answer these questions, we first of all have to avoid generalisation. The fact is that there is too much variation between the emerging markets for generalisation to be meaningful. The underperformance this year is in fact mainly due to China. China accounts for more than a quarter of the index, and Chinese stocks declined by 16% last year. This is also quite understandable. China's real estate market is at the point of implosion, and this is having an effect on the real economy. Economists expect growth of 4.5% in China this year. This compares poorly with the more than 8% growth the Chinese economy has shown over the past 20 years.

On the other hand, the Indian economy is roaring ahead, with an expected growth rate of 7% this year. The outlook for India is also not bad. Investment is relatively high and the country has a young and growing population.

Moreover, India could become a serious competitor to China in certain areas, such as smartphone assembly. India's stock index rose 17% last year, in sharp contrast to China.

Besides the different economic prospects, the emerging markets are at different points in their policy interest rate cycle. Brazil and Chile already cut their policy interest rates last year, while hyperinflation in Argentina and Turkey means that interest rate cuts are not on the cards in these countries for the time being. So the possibility of help from monetary policy varies considerably from one country to another.

There are also differences in how emerging markets react to fluctuations in commodity prices. Most emerging markets are relatively energy-intensive and are net oil importers. So higher oil prices are not good for many emerging economies. But the opposite applies to oil exporters such as Saudi Arabia, Nigeria and Angola. There are therefore many country-specific factors. India and Thailand are major rice exporters, so they are exposed to changes in the price of rice. The critical price factor for Indonesia is palm oil, for Brazil soy beans and for Zambia and Chile it is copper.

What is a common factor for emerging markets this year is the increase in geopolitical risk. First, we have the war in Israel in addition to the many military conflicts already going on in the world. Unfortunately, more and more countries are getting (indirectly) involved in this, such as recently Yemen, Iran and Pakistan. Second, there will be political elections in much of the world this year, including South Africa, India and Indonesia. In all these countries, political activity tends to involve violence and social unrest.

This will not necessarily be the case this time, but elections in emerging markets are different from municipal elections in the Netherlands. The US presidential election is another important factor. There is a reasonable chance of Trump becoming president again, and he wants to introduce a 10% tariff on imports to the US, among other things. This could have a serious effect on export-oriented countries.

So the answer to whether emerging markets' economic prospects are going to improve this year depends on many things. What the Chinese economy and commodity prices will do, what the Fed will do and how the elections will go. It is not that there is nothing to be said about these questions, but discussion of the prospects for emerging markets needs to be country-specific. We hope this article has helped to emphasise this point. Because in a world where a simplistic attitude has become the norm, we prefer to take a more nuanced stance.

Disclaimer

a.s.r. vermogensbeheer
Archimedeslaan 10
3584 BA Utrecht
www.asrvermogensbeheer.nl

ASR Vermogensbeheer N.V. - KvK 30227237 Utrecht

57552EN_0124