3 Reasons to Invest in Emerging Markets

Description

The Canadian stock market may be the eight largest in the world, but it represents an extremely small proportion of the total investable universe for stocks. By remaining fixated on the Canadian market, which has over 67% of the TSX's weighting skewed towards financials and commodities, investors are missing out on a range of opportunities that emerging markets can offer.

Now what?

Firstly, investing in emerging markets enhances returns by giving investors exposure to the rapidly growing economies of the developing world.

You see, emerging economies experience far faster rates of economic development than developed economies, providing companies operating in those economies with considerable growth opportunities. In addition, they also have younger populations, rapid rates of urbanization, and rising middle classes.

These factors and a lack of sufficient infrastructure and commercial development cause demand for products and services to massively outstrip supply, particularly as wealth grows.

This was an important reason for **Bank of Nova Scotia's** (TSX:BNS)(NYSE:BNS) decision to bolster its presence in Latin America. It has established a solid footprint in Mexico, Colombia, Peru, and Chile. In fact, its Latin American business is responsible for a fifth of the bank's net income compared to 18% two years ago.

Another company that, for similar reasons, has expanded into emerging markets is **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP). It has a globally diversified portfolio of infrastructure assets with a considerable portion of those assets and operations located in emerging markets.

These include toll roads in Peru, Brazil, Chile, and India as well as a regulated electricity distribution business in Colombia. It is assets such as these that remain in high demand because of the lack of infrastructure and rapidly expanding populations.

Brookfield Infrastructure is also seeking to boost its exposure to Asian emerging markets, particularly India. The company is a part of a consortium that is in the process of purchasing Australian ports and logistics company **Asciano Ltd.**

Secondly, by investing in emerging markets, investors are able to further diversify their portfolios. Diversification is an important tool for managing risk. Spreading investments across different economies and industries minimizes the impact of country-specific factors that can lead to losses when investing in a single market.

More importantly, the performance of emerging market stocks is less correlated to developed markets like the U.S. and Canada, which means they don't move in conjunction with those markets.

As a result, market corrections in the U.S. or Canada typically have less of an impact on emerging markets, and this became apparent during the global financial crisis. A number of emerging markets such as Colombia, Peru, and Brazil experienced little to no fallout from the crisis.

Finally, there is a growing consensus among analysts that now is the time to invest in emerging markets because of the attractive valuations, firmer commodity prices, improving economic growth, and favourable currency movements across a range of developing economies. Firm commodity prices in particular are a boon for many as a large number are dependent on the extraction and exportation of commodities as a key lever of economic growth.

So what?

Clearly, investing in emerging markets offers investors plenty of benefits, but investors should be aware that there are a range of additional economic and political risks. One of the easiest ways to minimize those risks is to invest in companies that are domiciled in less-risky jurisdictions, such as Canada, but have a considerable operational footprint in emerging markets.

Two that stand out are Bank of Nova Scotia and Brookfield Infrastructure Partners. As highlighted earlier, both have significant operations in Latin America and remain focused on growing their presence in those markets. This, along with their wide economic moats and ability to be price makers rather than price takers, substantially enhances their growth prospects.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:BNS (The Bank of Nova Scotia)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
4. TSX:BNS (Bank Of Nova Scotia)

Category

1. Bank Stocks

2. Investing

Date
2025/10/01
Date Created
2016/08/22
Author
mattdsmith