



Have Emerging Markets Lost Their Shine?

Description

Investing in emerging markets has been a popular strategy in the last couple of decades. For many investors, they have promised high returns over a sustained period. In theory, countries such as Brazil, Russia, India and China (the BRICs) should gradually see wealth and prosperity levels rise.

While the idea behind investing in emerging markets has been attractive, the reality has been somewhat more mixed. All four countries have experienced their own economic challenges and investment returns have been somewhat disappointing at times. Therefore, could it be the case that the investment appeal of the emerging world is now not particularly high?

A changing outlook

Of course, the idea that the emerging world would be able to deliver high growth over a long period without any disappointment was unrealistic. No economy in the world has been able to achieve a consistently high GDP growth rate in perpetuity, and there are always unexpected challenges which cause slower growth and even recessions.

In the case of Brazil and Russia, their economic performance has been disappointing in recent years. Political risks in the former, and the effect of a lower oil price in the latter, have contributed to their economies delivering lacklustre performance in recent years. Even China and India have arguably failed to live up to expectations, with slowing economic growth rates gradually becoming a reality.

Growth potential

However, there could still be investment potential from the BRICs. For example, China offers high growth potential, but perhaps in a different sphere than it did a decade ago. Previously, resources companies enjoyed a boom due to Chinese demand for commodities which were used to develop its infrastructure. While infrastructure spending remains high, the country is gradually transitioning towards a more consumer-focused economy.

This opens up opportunities within the consumer goods and banking industries in particular, with rising

wealth levels likely to contribute to growth in demand for such products and services. It's a similar story in India, Brazil and Russia, where there could still be strong growth in consumer spending over the long run. Therefore, there could continue to be investment appeal in all four countries, although perhaps on a more realistic level than was assumed in previous years.

Relative attraction

Of course, the appeal of the emerging world from an investment perspective must be compared against the outlook for the developed world. On a relative basis, emerging markets still offer high growth and diversity. That's especially the case since the US faces political risk and potential debt problems further down the road, while the EU remains at risk of a break-up as Brexit talks commence.

As such, while investing in emerging markets may no longer be the obvious choice for long-term investors, it could represent a worthwhile addition to a portfolio. The BRICs may continue to be volatile and uncertain places to invest, but their growth rates could become increasingly impressive in future years.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Investing

Date

2025/08/26

Date Created

2017/07/09

Author

peterstephens

default watermark

default watermark