Investors: Now Is the Time to Add Emerging Markets to Your Portfolio

Description

In recent years, emerging markets have been brutally handled by a confluence of events that caused some of the world's fastest-growing economies to stall. Sharply weaker oil prices, the prolonged commodities slump, China's economic slowdown, and growing political turmoil have all taken their toll on what was once considered one of the hottest asset classes.

Nonetheless, these events now make emerging markets an extremely appealing investment.

Now what?

While equities in developed markets appear expensive, those in long beaten-down emerging markets appear are attractively valued, and it is here where the opportunity lies. The **iShares MSCI Emerging Markets ETF** (NYSE:EEM), even after gaining 20% over the last year, has a P/E ratio of 15 compared to the **iShares Core S&P/TSX Capped Composite Index ETF's** (TSX:XIC) P/E of 18.

That indicates emerging markets are attractively priced. When this is considered along with growing corporate earnings, renewed economic growth, younger and rapidly growing populations, and rising wealth, now is the time for investors to boost their exposure to those markets.

Some of Canada's top companies are already benefiting from the economic recovery that is underway in developing nations, as highlighted by their latest results.

For its fiscal second quarter 2017, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS)**,** which is Canada's most international bank and has considerable exposure to a range of emerging economies, experienced a solid lift in profit. A significant proportion of that came from its international banking business.

Net income from those operations surged by 17% year over year primarily because of strong loan growth, notably mortgages and personal loans. That significant uptick in performance is a direct result of the improving economic conditions in Latin America, where Bank of Nova Scotia has a significant operational footprint in Chile, Colombia, Mexico, and Peru.

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) is another Canadian blue chip which is benefiting from its sizable emerging markets presence. Core earnings from its Asia Division for the first quarter grew a remarkable 10% year over year, and, more impressively, its sales in emerging Asian economies shot up an extraordinary 43%.

That substantial growth should continue, not only because of Asia's growing wealth and demand for Manulife's products, but also because it received the first Investment Company Wholly Foreign-Owned Enterprise licence in mainland China during the quarter. This gives Manulife considerable scope to expand its operations in the world's second-largest economy.

Not only will investors in emerging markets benefit from stronger economic growth and higher corporate earnings, but they"ll also benefit because the currencies of many developing nations are expected to strengthen as their economies improve. This will further boost corporate earnings and enhance the returns received by investors.

There is also a little-known benefit from investing in emerging markets. This is that they have a low correlation to developed markets, which means they don't move in lockstep with equity markets in developed countries such as Canada or the U.S. Along with providing greater diversification, that helps to shield investors from market corrections.

So what?

Clearly, there is a place for emerging markets in every investor's portfolio. Because they appear cheap in comparison to the dizzying valuations associated with many Canadian and U.S. stocks, now is the time for investors to bolster their exposure. The easiest means of doing so is by investing in **the iShares Core MSCI Emerging Markets IMI Index ETF** (TSX:XEC), which mimics the MSCI emerging markets index. This means that its top five holdings are focused on China, South Korea, Taiwan, India, and Brazil.

However, my preferred means of adding emerging markets is to invest in high-quality Canadian companies that have considerable operations in those economies, such as Bank of Nova Scotia and Manulife.

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Date
2025/08/21
Date Created
2017/07/11
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