Emerging Markets Are Making Investors Brilliantly Rich Again

Description

After nearly a decade in the doldrums, emerging markets are back – and with a bang!

They were the best performing asset class in 2017, according to fund manager Fidelity, closely followed by Asia Pacific equities, which to many people is the same thing.

Emerging market stocks easily beat other strong performers such as Europe and Japan, and blitzed bonds and cash.

Chasing last year's best performer can be risky but there are signs that emerging markets can do it again in 2018.

And because they are more volatile than developed markets, when they grow they can quickly become millionaire makers!

Rising BRICS

Emerging markets have just posted their best year since 2009, growing a chunky 37.72%, according to MSCI, well ahead of the rest of the world's at (a still impressive) 14.4%.

China had an astonishing year, its stock market growing 52.5%, while India grew 30.49%, South Africa 36.12% and Brazil 24.11%. Of the BRICS only Russia disappointed, growing just 0.08%.

Many smaller markets to also put on a show well, for example, Hong Kong leapt 36.17%, South Korea climbed 30.56% and Singapore rose 25.46%.

Developed markets also did well, but not that well. The U.S. rose 21.90%, the UK rose 22.38% and Canada was up 9.22%, as measured by MSCI.

Germany rates a mention, though, rising 27.70%.

Momentum builds

Chasing strong performance is always dangerous, but there are signs emerging markets could do it again in 2018.

First, momentum is on their side. Growing investor and business confidence looks set to trigger a virtuous circle, as higher investment inflows release pent-up domestic demand and trigger domestic growth cycles, which further boosts confidence, and so on.

Racing ahead

The IMF is upbeat, predicting global GDP will rise 3.7% this year but this rises to 4.9% for emerging markets, up from 4.6% in 2017. It forecasts China will climb 6.5% and India a whopping 7.4%.

As ever, risks remain, with the IMF warning that China must accelerate efforts to curb its credit bubble while India's transition from a cash-based society to digital banking is proving disruptive.

Russia is still too dependent on high oil prices, while both Brazil and South Africa are hampered by corruption and political scandals.

These risks will always be there, to a degree, and no reason to hold your nose and stay away.

Dollar weakness is another tailwind for emerging markets, as this shrinks their foreign debt liabilities and reduces the cost of their dollar-priced commodity exports to customers, which should boost demand.

Right balance

Emerging markets also look far better value than the U.S. stock market. While the S&P 500 index currently trades on a price-to-book ratio of 3.1, Brazil, China, Poland, South Korea and Russia look far cheaper ranging between 0.8 and 1.8, according to figures from Saxo Bank.

Emerging markets are back so check what exposure you already have to this fast-growing sector. You might want a little more…

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