Investors: Don’t Ignore Emerging Markets

Description

The economic upswing in developing economies triggered by firmer commodities caused the **iShares MSCI Emerging Markets ETF** to soar by just over 27% over the last year. This has garnered considerable attention from investors, as those markets continue to enjoy an improving outlook. What many investors don’t realize is that by investing in emerging markets, they can not only enhance returns because of those economies’ higher growth rates, but they also reduce risk.

Now what?

You see, emerging markets are typically less correlated with developed markets, which means their stock markets don’t move in lock-step with the stock markets of countries such as the U.S. or Canada.

The Canadian market typically moves in lock-step with U.S. markets, which makes Canadian investors vulnerable to a U.S. market correction; heightened fears of a market slump are rising because of the latest turmoil. By investing in emerging markets, investors can reduce the vulnerability of their investments to such an event and reduce the volatility of their portfolios.

By investing in emerging markets, investors can geographically diversify their investment portfolios, further reducing their vulnerability to a downturn in any single market. This becomes apparent when considering the Global Financial Crisis, when many developed economies contracted, whereas a number of developing nations saw their economies grow. In 2009, when Canada’s gross domestic product (GDP) contracted by almost 3%, the developing nations of Colombia and Peru saw their GDP expand by 1.7% and 1%, respectively.

As a result, companies in both countries pulled through the crisis in relatively good shape, and markets did not fall as steeply as they did in Canada.

The ability to further diversify their portfolios is important for Canadian investors because of the concentrated nature of the Toronto Stock Exchange, which is dominated by banking, mining, and energy stocks. That reduces risk and the potential impact of any market correction.

Emerging economies are growing strongly, and there is considerable evidence that this will continue for some time, and the favourable economic outlook will act as a powerful tailwind for companies operating in those markets.

So what?

Among the easiest and best ways for Canadians to obtain exposure to emerging markets without leaving the comfort of Canada is by investing in **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), which is Canada's most international bank. It has constructed an impressive franchise in the Pacific Alliance countries of Mexico, Colombia, Peru, and Chile, which are all expected to experience solid economic growth over 2018 and into 2019. The bank expects the combined revenue from those countries to grow at a healthy 30% clip over the medium term.

Bank of Nova Scotia remains focused on making accretive acquisition in those nations with it exploring the acquisition of Citibank's Colombian consumer banking business, which includes 47 branches. In December last year, the bank announced that **Banco Bilbao Vizcaya Argentaria S.A.** had accepted its almost $3 billion offer for its operations in Chile. Once that deal is completed, it will make Bank of Nova Scotia the third-largest private bank in the Andean nation.

Another opportunity is **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP), which owns and operates a range of critical transportation and telecommunications infrastructure in developed and developing nations. It has considerable direct and indirect exposure to the rapidly growing economies of Brazil, Colombia, Peru, Chile, China, and India. That and the widening global infrastructure gap and the global economic upswing will act as powerful tailwinds for growth over the course of 2018 and 2019.

Clearly, investors that are ignoring emerging markets are doing so to their detriment. The advantages of having exposure to developing economies cannot be understated, and it can be achieved easily and without the discomfort of leaving Canada.

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