



Want to Outperform the TSX? Look to Emerging Markets

Description

The S&P/TSX Index took another beating on March 19. The index is now down 3.8% in 2018 so far. Indexes in the United States also suffered a sharp drop on March 19. This was led by the NASDAQ, which fell 1.8% after **Facebook Inc.** shed over \$40 billion in its market cap following a data scandal. U.S. markets have also grown anxious in anticipation of the upcoming rate decision from the Federal Reserve.

Michael Wilson, chief U.S. equity strategist at **Morgan Stanley** Institutional Securities, has said, “we think January was the top for sentiment, if not for prices, for the year.” Wilson expressed skepticism that institutional investors would be able to “gross up” to January highs over the course of the year. The bullish run ignited by tax reform was also unlikely to be duplicated in the near future.

Canadian investors that have been frustrated with the performance of the TSX to start the year now face a more volatile market south of the border. Where then should investors turn?

Emerging markets have lagged since the 2007-2008 financial crisis, but they had an impressive year in 2017. **iShares MSCI Emerging Markets Index ETF**, which boasts access to over 800 emerging markets stocks, has climbed 7.3% in 2018 as of close on March 19. The ETF is up 20.2% year over year. Some of its top holdings include Chinese multinational Tencent and the South Korea multinational Samsung.

Growth in China is expected to slow in 2018, as the International Monetary Fund (IMF) projects GDP to stand at 6.6%. China has continued to clamp down on its financial sector, which has stunted growth projections somewhat going forward. South Korea is expected to post 3% growth in 2018 and, according to the Center for Economics & Business Research, it is projected to overtake Canada as the 10th largest economy by 2022 and settle in at eighth place by 2032.

Investors should also take note of Canadian companies that have made major inroads in Asia and will be [positioned to take advantage](#) of what will soon be the largest middle-class population in the world.

Several TSX-listed stocks also offer promising exposure to emerging markets.

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) stock has climbed 1.5% in 2018 thus far. Shares are up 5.8% from the prior year. Bank of Nova Scotia has a significant footprint in South American markets.

In the first quarter, Bank of Nova Scotia reported net income of \$667 million in its International Banking segment, which represented a 16% increase year over year. This was largely due to positive loan and deposit growth in Latin America. In fact, it posted double-digit growth in loans in its Pacific Alliance countries.

Fairfax India Holdings Corp. ([TSX:FIH.U](#)) is a Toronto-based investment holding company that invests in equity securities and debt instruments in India. For the first time in history, an Indian Prime Minister gave the keynote speech at the World Economic Forum in Davos, Switzerland this year. Prime Minister Narendra Modi [laid out ambitions](#) to nearly double India's economy by 2025.

The IMF has projected that India will post 7.4% growth in 2018, and that will increase to 7.9% in 2019. Fairfax India Holdings stock has climbed 14.3% in 2018 so far and has surged 29.4% year over year.

CATEGORY

1. Investing

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1. Editor's Choice

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