Reduce Investment Risk by Diversifying Into Emerging Markets

Description

Emerging markets are once again on the move, causing the **iShares MSCI Emerging Markets ETF** (EEM) to soar by 20% over the last year. Every sign points to continued momentum in the near future as developing commodities return to growth because of booming commodities. The **S&P/TSX Composite Index** is heavily weighted to energy and materials, which combined account for over 30% of the index's weighting, providing a handy opportunity for Canadian investors to diversify.

Now what?

One of the easiest ways to gain exposure and access to the oversized returns on offer is by investing in Canadian companies with extensive operations in emerging markets.

Among the most attractive investments is **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP). It owns and operates a range of vital infrastructure that's critical to economic activity across a mix of developed and developing economies. These include the jurisdictions of North America, Western Europe, Australia, Brazil, Colombia, Chile, and India.

Notably, because of the resource-focused nature of Australia's economy, Brookfield Infrastructure's assets in that nation provide it with considerable indirect exposure to China. This is particularly important because China and India are developing at a rapid clip, while Brazil, Chile and Colombia are all returning to growth after their economies were depressed by the commodities slump.

India's 2018 gross domestic product is forecast by the International Monetary Fund (IMF) to expand by 7.4%, whereas for China it will be 6.6%. Colombia and Brazil are all projected to see their economies grow by 2.7% and 2.3%, respectively, over the course of 2018. That will drive demand for Brookfield Infrastructure's assets in those countries, including its ports and rail infrastructure in Australia, giving it a significant lift that will translate into solid earnings growth.

Those assets also have strong defensive characteristics, and their utilization will continue to grow regardless of economic slumps or disruptions.

Those emerging markets are also experiencing a dire shortfall of investment infrastructure, which means demand remains strong, with very little competition. This environment allows Brookfield Infrastructure to be a price maker rather than a price taker while further lowering the accepted higher degree of geopolitical risk in developing nations.

These characteristics, along with the contractually locked inflation linked income many of those assets generate, virtually guarantee that those earnings will continue to grow.

So what?

An important characteristic of this type of investment that many Canadian's don't realize is that it provides their investment portfolios with greater diversification, as infrastructure and utilities compose a smaller part of the S&P/TSX Composite Index. Diversification is therefore an important tool for managing investment risk. It helps to reduce the impact of market or economic corrections, which is further enhanced by the general disconnect between the performance of developing and developed economies.

For these reasons, Brookfield Infrastructure should be a core holding in any Canadian investor's portfolio; there is also the partnership's steadily growing sustainable distribution to consider. Brookfield Infrastructure has hiked that payment to investors for the last 10 years, giving it a tasty yield of just over 4%, which, along with solid growth potential and a range of defensive characteristics makes it an attractive stock.

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Author
mattdsmith