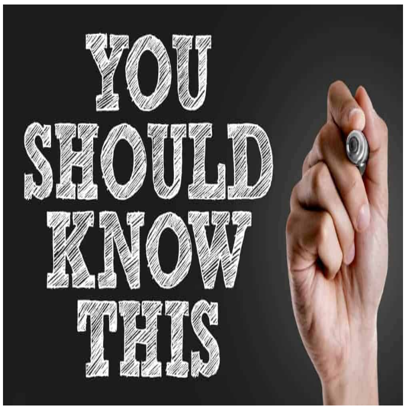

Investors Now Is the Time to Boost Exposure to Emerging Markets

Description

Emerging markets were roughly handled during 2018 primarily because of fears that a confluence of weaker currencies, poor fiscal policies, softer commodities and high levels of debt would precipitate a crisis among some of weakest developing economies. While a full-blown crisis didn't emerge, there was a substantial flight of capital that caused many to decline sharply in value.

Even after rallying since the start of 2019 many emerging markets remain attractively valued as highlighted by the **iShares MSCI Emerging Markets ETF** being own by over 14% for the last year. This has created an opportunity for investors seeking to diversify their portfolios and enhance returns, particularly with the International Monetary Fund (IMF) forecasting that the 2019 collective gross domestic product (GDP) of emerging economies will expand by 4.7% compared to 2.1% for advanced nations.

Improved economic outlook

Firmer commodity prices have triggered a return to growth among many developing nations, as many are dependent upon the extraction and exportation of natural resources as an important driver of economic growth. It is anticipated that Chile, the world's single largest miner of copper, will experience 3.4% GDP growth during 2019, while Peru, one of the largest producers of precious metals, will see its economy grow by 4.1%. Such strong economic growth will lead to higher business and consumer confidence, which will trigger an uptick in demand for credit and other financial products.

This bodes well for **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), which trades as Scotiabank and has established itself as the third-largest privately controlled bank as well as a leading provider of consumer credit in both Andean nations. For 2018, the bank reported an impressive 22% year over year increase in adjusted net income for its international banking business. The majority of that was driven by its Mexican, Chilean, Peruvian and Colombian operations, where loans expanded by 42% and revenue grew by 28%. The growing likelihood of a trade war between China and the U.S. being averted augurs well for firmer commodity prices.

That strong economic outlook coupled with higher official interest rates in Latin America, which are approximately a full percentage point greater or more than the head line rate in Canada, will give Scotiabank's profitability a solid boost. Higher earnings will support the sustainability of Scotiabank's dividend, which currently rewards patient investors with a 4.5% yield.

Reduce risk

By diversifying into emerging markets, investors can reduce risk, as their economies grow at a greater rate than developed markets thereby enhancing returns and they are less correlated to advanced economies. That means a market downturn in the U.S. or Canada will have less of an impact on developing nations.

The Feds more dovish approach to monetary police, including signalling that it will slow the pace of interest rate hikes bodes well for emerging markets. This is because it will cause the U.S. dollar and official interest rates to ease reducing the financial pressure on developing countries with large amounts of U.S. debt.

Diversified exposure

Brookfield Infrastructure Partners L.P. (TSX:BIP.UN)(NYSE:BIP.UN) provides investors with an attractive means of gaining broad direct as well as indirect exposure to a range of emerging markets, including China and India. The partnership owns and operates a globally diversified portfolio of infrastructure spanning ports, toll roads, railroads, energy utilities and communications facilities, which are critical to modern economic activity. This allows it to benefit from the higher growth rates associated with emerging markets such as Brazil, India and China while enjoying the stability associated with major developed economies such as the U.S., Canada and Australia.

Brookfield Infrastructure's EBITDA is highly dependable, as around 95% is earned from regulated or contracted sources, which also shields it from the impact of economic slumps. Firmer commodity prices and an improved outlook for China also augurs well for the partnership as does its considerable exposure to Latin America. While investors wait for this to lift its stock higher, they will enjoy Brookfield Infrastructure's sustainable distribution yielding a juicy 5%.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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