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2024 Outlook: Emerging Markets Equities

By: Jitania Kandhari | December 15, 2023

Increased Heterogeneity in Economies and Markets

KEY POINTS

1. Increasing dispersion of returns in emerging markets (EM) countries enhances the appeal of active management.
2. We are taking active positions in countries and stocks based on our high-conviction views.
3. Growth, inflation and interest rates will remain important variables across different countries in 2024, as will elections as several countries go to the polls.

What We Are Seeing

EM equity is a heterogeneous asset class, with varying economic, political and market cycles. For example, while China is overinvested and overleveraged, India has spent the last decade deleveraging and is only just beginning an investment cycle. Growth will be driven by public capital expenditure and a consumption cycle underpinned by the financialization of savings and premiumization of the consumer.

Several EM countries, like Brazil and Mexico, followed orthodox monetary and fiscal policies in the last couple of years and have exhibited a more stable and resilient macro environment. Both government and private sector balance sheets are in much better shape in EM ex-China compared to their developed market peers. Stable external accounts and inexpensive currencies have contributed to resilience, despite the Fed hiking cycle this year.

What We Are Doing

Themes in EM that we are invested in include: Beneficiaries of supply chain diversion from China; countries with favorable macro management policies; commodity economies that benefit from the green transition; and digitization and AI opportunities. The spread of digital technologies, including AI applications, should act as a growth driver in several EM countries and create ecommerce, fintech and digital entertainment opportunities.

We are constructive on countries like India, Mexico, Brazil, Indonesia, South Africa and Poland, where macro economic trends and themes should support equity markets. China's most recent stimulus package has failed to revive economic momentum and animal spirits compared to the past three rounds of stimulus, leading to growth expectations falling short of consensus. We see opportunities in selected pockets of China that are related to consumer, automation, semiconductors, the green transition and other hard science-based industries.

What We Are Watching

In 2024, several emerging and frontier countries will be going to polls with national and local elections that can have significant policy implications. Taiwan's election will help shape the island's relations with China. In India and Indonesia, the incumbent political parties are likely to win another term and policy continuity will be key. Other countries whose elections we are watching closely include Mexico, South Korea and South Africa.

From a regional perspective, Saudi Arabia and the Gulf countries have pursued economic diversification and reforms to enhance the quality of growth, and are gaining prominence in global markets and index representation.

Country dispersion in emerging markets is increasing. Monitoring inflation, policy and growth cycles with an active approach will be key in EM equity investing.

Risk Considerations: *The value of equity securities can fluctuate in response to activities specific to a company. Investments in foreign markets entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in emerging market countries are greater than the risks generally associated with investments in foreign developed countries.*



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