UK

US recession will not hinder those emerging market stocks

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Moving at a snail's pace in the Dubai traffic surrounded by the sparkling lights of construction cranes, I am forced to contemplate the recent fall in various emerging market stocks.

It seems that there is strong dissonance between what is happening in emerging markets and the frightening subprime news coming out of the US and UK markets

So how can I reconcile the doom and gloom I read about in the daily newspapers and hear about from any economist I want to listen to?

My recent month-long tour of Latin America does not seem to indicate an imminent disaster.

Businessmen I talked with in Brazil, Argentina, Chile, Peru, Panama and Mexico were saying that business was good and they were planning for growth. Even in Mexico where the impact of a US slowdown is bound to be felt more than other Latin American countries the mood was sanguine.

After I finished my questions, invariably the executives of those companies would ask me: "What do you think of this subprime crisis in the US? Will it affect us?"

I was not able to give them a lot of comfort since negative sentiment in the face of good economic data is difficult to reconcile.

The evidence to date seems to indicate that not only Latin America, but emerging markets in general do not necessarily have to succumb to a US recession.

"Decoupling" is the buzzword. But there is no such thing as decoupling in this world of greater communications, investment and trade. Whether we like it or not we are bound together. That does not have to be bad, since a slowdown or crisis in one country can be remedied by an upturn in another. Emerging markets this year are expected to experience an average gross domestic product growth of 7 per cent, while developed markets (the US, Japan, Europe, UK, Australia, and New Zealand) are expected to grow at an average of a little more than 2 per cent. Is it not possible that the emerging markets' growth might tickle the economic giants of this world a little?

Indeed, the most exciting aspect of emerging markets growth is the fact that the two most populated countries in the world are the fastest growing. More relevant is the fact that the growth in those countries is being led by domestic consumption growth. The Chinese and Indian consumers are the world's new consumers and they along with consumers in Brazil, Russia, Turkey, the United Arab Emirates, Egypt, Mexico, Poland and many other emerging markets are becoming an important force in world consumption.

Regardless of how the current situation develops, we can take comfort that any bear market will not last long.

Our studies of emerging markets indicate that bull markets last longer than bear markets and bull markets go up, in percentage terms, more than bear markets go down.

When I started investing in emerging markets in 1987 with $100m, I never imagined in my wildest dreams that today I would be investing $40bn in emerging markets.

But we cannot forget that during those 20 years we lived through eight bull and bear markets. The bear markets went down by an average of 33 per cent and lasted an average of seven months.

But each one of those bear markets was followed by a more impressive bull market with an average rise of 124 per cent continuing an average 24 months each.

The most impressive rise started in December of 1990 and lasted a glorious 47 months for a rise of 251 per cent.

Given the dramatically improved fundamentals in emerging market countries, the future is bright indeed.

So, when people ask me when is the best time to invest in emerging markets, since I and no one else can predict the timing of bull and bear markets, I fall back on the facts: bull markets go up further and last longer than bear markets and the emerging market economic fundamentals are impressive indeed.

All I can then say is what may seem like a self-serving comment: the best time to invest in emerging markets is when you have money.

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