

## IPE Views

### Emerging markets: Still more good news than bad

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*Less robust growth in the emerging markets isn't welcomed, but investors shouldn't get ahead of themselves, says Calamos Investments' John Calamos.*

The good news is that we are in a global market that provides opportunities around the world. The bad news is that we are in a global market, so whatever happens anywhere affects us all.

Recent data and news reports have cited declines in global trade and improved conditions in the developed economies. In July, the IMF announced revisions to its growth estimate for emerging and developing economies to a "more moderate pace" of 5% in 2013 and 5.4% in 2014, with China's GDP growth estimated downward to 7.8% for 2013-14.

Less robust growth in the emerging markets isn't welcomed, especially when we don't know where the bottom will be, but investors shouldn't get ahead of themselves. Expansion levels remain entirely respectable, both in absolute and relative terms. After all, the US is staging a recovery with a growth level well under half of that of the IMF's estimates for the emerging markets. Most of us are quite happy about it.

As emerging markets mature and expand, it's to be expected that growth rates would decelerate from torrid levels. It should also come as no surprise their economic expansion is not proceeding along a straight-line upward trajectory. That's not how economies work. And we should be happy that the developed markets are regaining their footing – to my way of thinking, that's good for the global economy as a whole.

Emerging markets are still doing their fair share for global growth. If 5% growth in those economies is cause for extreme consternation, that points to a bigger problem. When the global economy needs the emerging markets to deliver rapid growth year over year to stay afloat, that's bad news for the global economy. Emerging economies can't be expected to go it alone, pulling the developed markets forward indefinitely. Developed markets must do their share, striking the right balance between capitalising on emerging market opportunities without becoming overly dependent on them, whether that's for loans or export markets.

Although emerging market GDP is decelerating, these bourses still look well positioned to be an important driver of long-term economic growth, thanks in large measure to the rise of a middle class. Of course, consumers do adjust their spending habits in tougher economic times, but the exponential prosperity of the emerging economies' consumer class provides sustainable opportunities for companies worldwide, even if their GDP growth dips to more modest levels – assuming that growth is sustainable.

Moreover, many of the emerging markets have healthy debt-to-GDP levels, and, as their consumer class grows, we would expect to see an increasing focus on services within emerging economies. Over time, this diversification should help smooth some of the bumps in the road that have resulted from having economies dominated by manufacturing and commodities. And although conditions are different in every country, there have been some noteworthy bright spots, such as China's recent decision to allow banks greater flexibility in setting interest rates for borrowers.

While economic conditions matter, ultimately, it is secular growth themes, not short-term GDP data, that underpin the emerging market investment story. So, the deceleration we have seen thus far shouldn't fundamentally negate our view of the opportunities. The recent volatility does, however, remind investors to do their homework. This choppiness will continue as emerging markets seek to manage their own growth against the backdrop of expanding importance in the global economy. The potential end of QE in the US won't make things any easier, either. As investors, the key is to be aware of the risks of each country and company.

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