Global emerging markets

Investing beyond our borders

The Canadian stock market has delivered terrific returns over the past ten years. However, investments in other parts of the world have also generated excellent results and still present attractive opportunities to diversify your portfolio beyond our borders.

One area with a very strong case is emerging markets. Many experts agree that this diverse and dynamic group of Asian, Latin American, African and Eastern European countries is shaping up to lead the rest of the world in economic growth for the foreseeable future.

In this article, you'll learn more about the principal reasons to consider investing in emerging markets. By diversifying your portfolio to include a sensible amount of emerging markets, you'll have exposure to this fast-growing area.

Emerging markets are big... and getting bigger

Emerging markets are defined as countries with financial markets that are open to investment and per capita incomes that are still low relative to developed markets.

The largest emerging market countries are Brazil, Russia, India and China (the “BRIC” countries). Other countries in this group include South Korea, Taiwan, South Africa, Mexico, Israel, Malaysia, Indonesia, Turkey, Chile, Thailand and Poland.

Individually, each country is an important force in the global economy as it usually has a large population, plentiful natural resources and a large domestic market for goods and services.

But as a group, emerging markets are expected to change the face of global politics and economics for many years to come.

Emerging markets represent

- 80% of the world’s population
- 75% of its land mass
- 66% of its foreign exchange reserves
- 34% of its GDP

Source: RBC AM, IMF
**Now open for business**

One common feature of emerging markets is the change from state-run economies—which failed to deliver sustainable economic growth—to more democratic, free-market systems. As part of this transition, many emerging economies have opened their doors to foreign capital investment and two-way trade with developed countries.

**The world’s growth engine**

Emerging markets are the world’s fastest-growing economies and have recently become a major source of economic growth around the world. As the chart to the right shows, emerging markets have grown to provide virtually all of the world’s economic growth in recent years.

**Key drivers of growth in emerging markets**

**An increasing number of well-managed companies**

› In the past 10 years, many emerging market companies have adopted better management practices and have become more transparent to shareholders in order to compete for increased investor cash flows into these countries’ markets. Now, more than ever, emerging market companies have strong balance sheets, high levels of profitability and a commitment to maximizing shareholder value.

**Low debt levels**

› As the chart to the right shows, both consumers and corporations in emerging markets carry much lower levels of debt than their counterparts in developed markets.

**Strong trade surpluses**

› Thanks to high demand for their export goods, emerging market governments have strong balance sheets and extremely high levels of foreign currency reserves. The opposite has occurred in developed markets.

**Free markets**

› By adopting more liberal economic policies and free-market ideas, emerging markets have unlocked the economic potential of billions of people who are eager to join the ranks of developed nations.

**Domestic economies**

› As they grow in wealth and influence, emerging markets are expected to build strong and vibrant domestic economies and increased levels of trade.
A growing population of young, skilled workers

As developed markets face a declining number of working adults in the future, emerging markets benefit from younger workforces that will continue to grow.

Strong stock market returns over 20 years

Strong economic growth tends to lead to higher stock market returns. Over the past 20 years, emerging market stocks have outperformed the developed country indexes by a wide margin.

Emerging markets reward investors over time

Despite the size and influence of emerging markets in the global economy, they represent only 13% of global market capitalization and often a much smaller percentage of investors’ portfolios. As more investors come to recognize the investment case for emerging markets, these percentages can be expected to increase.

Emerging markets still face some challenges as they work to redefine the role of government and the level and type of government intervention in their economic affairs. And many countries must still complete the challenging reforms of their financial, legal and political systems that are needed to run stable free-market economies.

And historically, emerging market currencies and stock market prices have seen more dramatic price fluctuations than those of developed markets.

The future looks bright

Emerging markets clearly hold the “swing vote” in the future of the global economy. These markets embody an enormous reserve of untapped human potential that seems determined to take the necessary steps to build a better way of life.

As with everything, there are risks in emerging markets. But if these countries continue on the well-established path towards political stability and economic reform, their future looks promising.
To discuss opportunities in emerging markets and to determine what constitutes a sensible amount of emerging market exposure to include in a diversified portfolio, please talk to your advisor and ask for a copy of our accompanying investment publication *Emerging Markets in Your Portfolio*. 