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Emerging Markets: the optimistic view

Sydney, 14 January 2016 - With all the gloom and doubt surrounding China and other emerging market economies, Portfolio Manager of the Van Eck Emerging Markets Equity Strategy, David Semple, remains optimistic that 2016 will end well.

“We anticipate better economic numbers out of China and at least we have started down the journey of Fed tightening. A combination of Fed tightening and cheap emerging markets valuations historically sets up good emerging markets performance and we certainly hope that this will be the case in 2016,” Mr Semple said.

“China gets the blame for just about everything bad that happens in global markets, but the reality is different. As emerging markets become bigger, the key is to be very specific about where to invest. There are companies in the technology, health care, tourism, education and insurance sectors that will generate higher profitability this year,” he says.

“We are not investing in the state-owned banks, the heavy industry, the smokestacks. We invest in the ‘New China’, focused on things like clean air, clean water, clean governance. For example, a company like electricity distributor Boer Power Holdings, which benefits from China’s energy-efficiency push. It trades at 10 times next year’s earnings, which are growing at 20% to 30%.”

“Overall, we expect lower, but better, growth from China, with continued monetary and fiscal easing in 2016. We expect the currency, the RMB, to depreciate versus the US dollar in a modest and fairly controlled fashion, assuming that the US dollar continues to be strong versus other major currencies. It’s also worth noting that offshore Chinese shares are historically relatively cheap compared to other emerging market and developed market countries.”

Mr Semple notes, “One of the buzz phrases being bandied around is that there is a ‘quality growth bubble’ in emerging markets. This implies the valuations of companies that have quality characteristics are trading at a significant premium to other companies in the emerging markets. As far as we can see this seems to be a problem that is associated with large caps in emerging markets. Therefore considering all-caps is important as we do not see overvaluation in mid- and small-cap “quality growth” stocks. Further we think that in a world that is starved of opportunities the better certainty of growth that tends to come from companies with quality characteristics, deserves a premium.”

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