



## A Case for Investing in Emerging Market Equities

November, 2020

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Dear investors

We are now in the last month of what can be termed as an unprecedented year. At the beginning of the year no one would have envisaged the way the year would pan out. We experienced a major human crisis that ultimately impacted economies around the globe. The spread of the infection forced various governments to enforce stringent lockdowns. It dealt a severe blow to consumer facing businesses like hotels, leisure, restaurants, travel etc. Unemployment rose to record levels. Economies coming to a standstill prompted central banks around the globe to slash interest rates and pump an unprecedented amount of liquidity into the global system. Given the bleak outlook prevailing at that point of time, global liquidity in the first phase chased safer assets like bonds and drove the yields to record lows. Nearly USD 17 Trillion worth of bonds have a negative yield i.e. investors were willing to forego gains and even a portion of principle on the assumption that if they didn't lock it in now, their money could lose much more value later.

However, what surprised most economists was the sharp recovery in the economic activity for the July to Sep quarter as the first wave started receding and economies started coming out of lock downs. Enterprising investors realised that things were not as bad as they were expected to be. Human ingenuity and resilience ensured that at least some sectors turned the crisis into an opportunity. This led to a sharp rally in the markets leading to the birth of a new term - the "K shape" recovery, meaning a few sectors gained while some traditional sectors were losers. Now we seem to be coming further out of the dark period. Vaccines for the dreaded COVID 19 have been developed, approved and vaccinations will start in the near term. Economies and businesses expect normalcy to resume in 2021. The fear of a second wave hitting hard is relegated to the background as vaccines are likely to stop the spread. Low yield on assets, global liquidity, promise of central banks to hold interest rates lower for longer has prompted global investors to explore various risk assets. Dollar dominance seems headed for a long pause. Like in the past, the "risk on" approach of global investors manifested itself in the form of the flows directed to emerging markets (EMs). As part of this allocation India received record FII flows in November, upwards of 50000 cr. That is the highest monthly flow in the last two decades. The logical question that would come to mind would be that the pain on the street is real, job losses, pay cuts, bankruptcies which cannot be wished away. Then what prompts global investors to take the risk of emerging markets.

We believe that liquidity is just one factor. There are structural tailwinds that are favourable for EMs. Emerging economies have transitioned from being cheap suppliers of labour and raw materials to being at the forefront of service and tech sectors. 30% of the Fortune 500 companies now coming from EMs is a testimony to the fact. The efforts of respective governments, policy makers and the private sector have culminated in the rise of a middle class that is driving consumption of goods and services. In the next decade nearly 2/3rds of the burgeoning middle class will be residing in Emerging Markets. The confluence of factors is ensuring that ~60% of the global GDP growth is coming from EMs that are home to a younger population as compared to their developed counterparts. This pandemic has accelerated the adoption of digitization and it will transform multiple industries while opening up new areas of growth.

Compared to their developed market (DM) counterparts, EMs have been relatively less effected by COVID. The fiscal and monetary response by EMs have been more calibrated than DMs. The possibility of repeat lockdowns are lower given economic imperatives. Reserves are stronger. There are also more scalable companies in emerging markets now compared to before.

We have to be mindful of risks too. Currency appreciation is one. When the rupee depreciates it adds to an Indian investors returns and vice versa. Regulatory and policy initiatives by emerging market governments is another.

To help you participate in an opportunity that is roughly 8 to 10 times larger than the Indian markets, we have launched the PGIM India Emerging Markets Equity Fund. It is a feeder fund that feeds into PGIM Jennison Emerging Market Equity Fund. The underlying fund is a sector, region and benchmark agnostic one with a concentrated portfolio of 35-45 stocks. Managed by a hugely experienced team from Jennison, the fund is a stellar performer across time frames. The fund focusses on buying market leading companies with unique business models, positively inflecting growth rates, and long duration competitive advantages. It is a complementary portfolio to our PGIM India Global Equity Opportunities Fund. It is a good vehicle to gain exposure to themes like - on demand economy, AI robotics, data sciences that are either absent or are not adequately represented on the Indian bourses. Of- course you should allocate provided it fits into your overall financial plan and asset allocation. That will help mitigate some risks as mentioned above. Please do consult your MFD/RIA or get in touch with us to know more about the product.

Wishing you a happy and healthy holiday season and new year.

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