

Some begin to question 'emerging' wisdom

The big picture

The party may be over, at least for the time being, writes **Steve Johnson**

An investment forum hosted earlier this month by Fidelity International neatly encapsulated the mood after a staggeringly successful decade for emerging markets.

All of those present, representing investment powerhouses Aviva Investors, Newton, Schroders and hosts Fidelity, tipped emerging markets as their pick for the year ahead.

However, in the wake of the \$1,787bn that has flooded into emerging equity and bond markets in the past decade, how much further does this particular trade have to run?

Jonathan Asante, man-

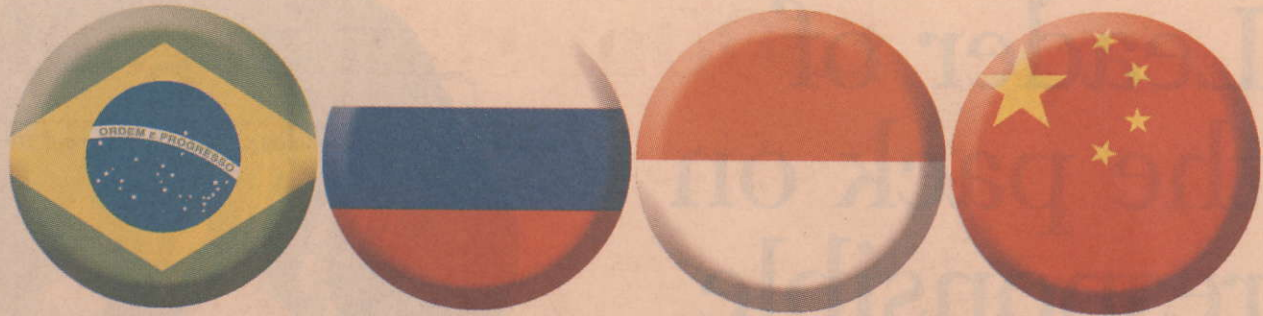
book value, emerging markets are now trading at a premium to those in the developed world.

Some, such as Claudio Brocado, senior portfolio manager at Legg Mason's Batterymarch emerging markets arm, argue that this is "justified", given the higher return on equity in the emerging world.

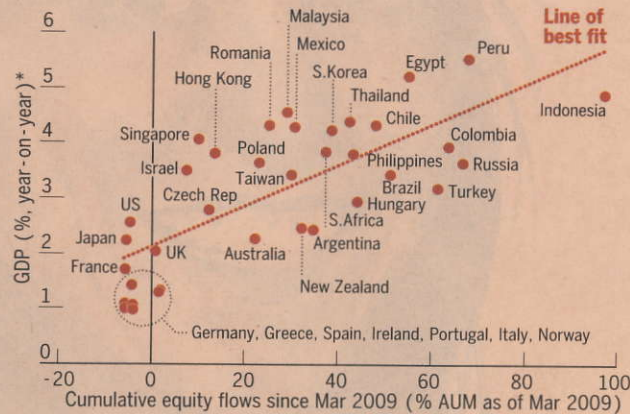
Mr Asante, though, argues the aggregate valuation metrics are distorted by emerging market indices being "dominated by very large companies on ostensibly low valuations", most of which are "too poor quality to back with clients' money even in a small way".

His ire is particularly directed at banks and

'How can the p/e ratio of WalMart's subsidiary in Mexico be twice



Relationship between equity flows and GDP



Sources: Barclays Capital; Vanguard

* IMF Apr 2009 5-year forecasts

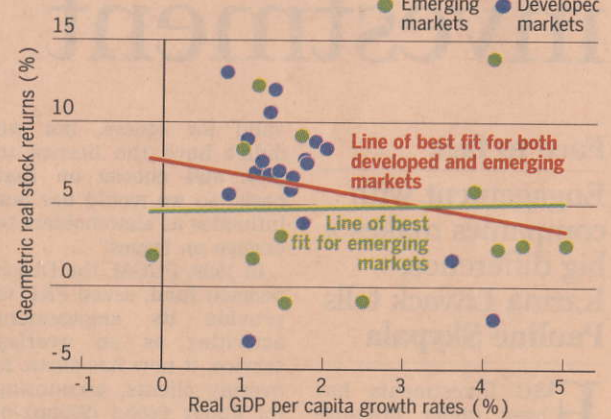
returns". Mr Molitor's view is that the strong performance of emerging markets was due not to higher economic growth per se, but to low valuations 10 years ago and a subsequent "growth surprise".

And despite the strides many emerging markets have made in recent years, there is still a view that standards of corporate governance and investor rights still lag behind those in the west, a factor that should

in the MSCI World Index.

Despite his enthusiasm for emerging markets, Stewart Robinson of Aviva, one of the managers at the Fidelity forum, admitted enthusiasm for the sector reminded him of the

Relationship between economic growth and stock market returns, 1988-2009



technology boom in 1998.

Mr Asante concludes: "Having seen emerging markets labelled 'submerging markets' 10 years ago, which was precisely the right time to buy them, it is with some irony we note

that the developed world is now called 'submerging' by some".

"The fund management industry is not set up to not sell funds. When they see something popular they try to log the hell out of it."