Aberdeen Standard Investments

Devan Kaloo – An income approach in emerging markets

- Emerging markets have come from a difficult place in 2018
- There were a number of significant concerns - rising US interest rates and a strong US economy are a problem for emerging markets because it creates a higher cost of capital and slower economic growth
- Another issue was China which was slowing domestically
- The trade war was the third issue, which dented returns
- Two of these issues are better today and the other (the trade issue) is still unsure. We are unlikely to see rising rates in the US and the US economy is slowing. This is much better for emerging markets
- China is now easing, and infrastructure spending is picking up. Consumption is relatively robust. China is reflating, but it is a reluctant reflator. As the trade situation gets worse, China will stimulate more. It makes the 'A' Share market quite attractive
- Trade is the big unknown and the news is mixed. The US/China trade issue is a symptom and not the cause of the problem. The US wants to confront rather than contain China
- We will have to deal with this confrontation with China for the next 10 years
- A trade agreement will be struck but it won't be the end of it
- The corporate health of emerging markets is good, particularly relative to other markets. Valuations also look good and remain below the 10-year average
- Why is Income a good way to play this? The amount of companies paying dividends has increased substantially and today a significant part of returns are being paid by dividends
- The growth of dividends in emerging markets has outstripped other regions, and there is scope for this to continue, with good cash flow coverage and room for pay-out ratios to expand

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