The Changing Investment Universe

Investment Opportunities/Challenges in EMEs

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Introduction

- Consequences of the global financial crisis
- EMEs vs. DMEs for investment opportunities/challenges
- Conclusion

Leveraged & Payback World

- Leveraged growth pre-2007
- Deleveraged growth/balance sheet recession post 2007
- Payback world

Financial Repression & Asset Price Inflation

- Financial repression/escape velocity via QE
- Inflation/growth inducing monetary policy
- Asset price inflation but economic activity still lacklustre
- Anticipated improvement in Debt/GDP

QE Payback Time on Exit

- QE helpful in rescuing the financial system
- Economy still fragile due to weak money multiplier linked to weak bank credit growth
- Interest rates to rise on exiting QE (so-called payback time)

Asset Price Distortion & Tail Risks

- EME asset prices distorted by DME monetary policy
- Tail risks high in highly indebted countries
- Return free risk rather than risk free return in quality government bonds
- Investment environment unusually uncertain

Investment Opportunities/Challenges relative to Growth

- EMEs 50.8% vs DMEs 49.2% of world GDP – PPP basis
- EMEs 16% vs DMEs 84% of global wealth
- EME assets under-owned relative to GDP due to capacity constraints/limited investment opportunities (need to broaden the market by providing a wider spectrum of investment outlets)
- Private equity investment a complement and not a substitute to public equity investment
- EMEs need to replicate DMEs market model (i.e. emphasize transparency, investor protection, cost effective & more precise research)

Conclusion

- Tail risks are high in highly indebted countries.
- Risks appear to be elevated in DMEs as policymakers seek to ease the pain of the payback from the boom years.
- Financial repression has resulted in inflated government bond prices.
- Potential investment opportunities abound in EMEs but access is difficult due to capacity constraints.
- Diversification, risk management and due diligence should be the template for investment.
- In John Maynard Keynes words: It is better to be roughly right than precisely wrong.