THE SHORT- AND LONG-TERM FATE OF EMERGING MARKETS

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On last week's "Behind the Markets" podcast, we showcased two conversations—in the first segment, we reviewed the global markets and the outlook for monetary policy and currencies with Marc Chandler of Brown Brothers Harriman.

I was also fortunate enough to attend and moderate a panel at the Evidence-Based Investing Conference (#EBIWest) put on by Ritholtz Wealth Management and IMN in Dana Point, California.

#EBIWest is a great place to network with other financial advisors, and the Ritholtz crew attracts many from finance Twitter and the blogosphere. On the second segment of the podcast, we played the emerging market panel I moderated with panelists from VanEck, KraneShares and the Vienna Stock Exchange.

On Trade and Currencies

In the first segment, Chandler said that many commentators and newspapers are exaggerating what is happening with trade and that the global markets and ecosystems generally are holding together quite well. He views the trade damage for China and the U.S. as quite modest for both, even if the current tariffs are put into place.

From a markets perspective, Chandler sees a few primary drivers of currencies today: monetary policy divergence, the policy mix of tighter monetary policy and looser fiscal policy, which he thinks could be steroids for a currency (pointing to era of Volker and Reagan and in Germany when the Berlin Wall fell). He also addressed the discomfort with immigration policies throughout Europe that led to Brexit and other European political risks that still exist. Before this cycle is over, Chandler believes we are going to confront parity on the euro.

#EBIWest Emerging Markets Discussion

Brendan Ahern of KraneShares contrasted traditional China benchmarks with some of the newer-economy internet firms.

- Ahern just returned from a trip to China, and he discussed how the country's economic leaders are deliberately slowing down the economy in high-polluting industries that have an overcapacity in coal and aluminum.

- Ahern highlighted the very wide dispersion in returns for China recently and how an orientation to the consumer in China via technology companies has been working, whereas old-economy China has been underperforming.
- Ahern highlighted some interesting statistics about mobile phones driving their retail sales growth at a rate much higher than their U.S. counterparts.
- He also discussed the transition of Chinese A-shares into MSCI benchmarks and how he sees that transition playing out over the next five years.

Fran Rodilosso of VanEck discussed emerging market debt and the attraction for emerging market currencies today. We discussed some of the past rising rate scenarios and how these compared with his views on the current rising rate scenario.

- Rodilosso discussed how emerging markets are still an engine of global growth, both currently and longer term. He likes them from a debt perspective because they have half of the debt levels relative to developed world market economies.
- Rodilosso discussed the various types of emerging market debt—local currency debt, dollar-denominated debt and their duration levels, corporate debt and high-yield emerging market corporate debt. Rodilosso said the currencies in emerging markets could become a "value" opportunity with their sell-off, although it has been very hard to identify when that bottoming process will happen.

Matthias Szabo of the Vienna Stock Exchange discussed the role of his stock exchange in providing new listings and indexes to cover the Eastern European markets.

- Szabo sees a number of Eastern European economies, such as Poland and the Czech Republic, as the most dynamic forces within the European Union; these two countries are performing well from an economic growth perspective, with GDP growth well above 4%.

This was a great opportunity to bring a small subset of the discussion from the #EBIWest conference to a broader universe—I hope you enjoy the full conversation, available here.

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DEFINITIONS

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Fiscal Policy : Government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy.

Brexit : an abbreviation of “British exit” that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Unio.

A-share : shares traded on the Shanghai and Shenzhen stock exchanges. This is contrast to Renminbi B shares which are owned by foreigners who cannot purchase A-shares due to Chinese government restrictions.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

EM local currency debt : Debt denominated in the local currencies of emerging market governments.

Corporate debt : Bonds a company issues in order to raise money.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over tim.