
THE LONG-TERM BULLISH CASE FOR EMERGING MARKETS

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Last week, we released two “Behind the Markets” podcasts focused on emerging markets, with guests Ruchir Sharma, head of emerging markets and chief global strategist at Morgan Stanley, and Andy Rothman, investment strategist for Matthews Asia.

Sharma Is Long-Term [Bullish](#) on Emerging Markets

Sharma discussed the ebbs and flows of emerging markets over the last few decades, and in his view, the markets could be setting themselves up for another decade in which [valuations](#) support emerging markets outperforming the U.S. Similarly, he thinks the outperformance will not just stem from [cyclical sectors](#) but, rather, more domestic demand-oriented sectors, such as the consumer sectors and even financial stocks, which he views as attractive in the long term.

Rothman: Pay Attention to China’s Growth

Rothman’s long-term view is that China will continue to be a driver of the global economy’s long-term growth, particularly via domestic demand-oriented companies. Every year for the last decade, China has accounted for about one-third of global economic growth, which is a larger share of economic growth than the U.S., Europe and Japan combined. In short, as China grows or slows down, so does the global economy.

Rothman believes it is important to look at China as no longer an export-driven economy, especially in light of the tariff debates. The tariffs are having an impact, but Rothman sees three-quarters of the Chinese growth as being driven by consumption and income growth. What the trade tensions are affecting is investment sentiment, which is pushing the Chinese markets around significantly.

Timing of a Resolution

Rothman believes that Trump decided last November that a deal with China was better for his re-election prospects than “no deal” after seeing Republicans lose majority control of the House of Representatives. His base case is that we will see a deal sometime in the near future.

Sharma’s Three D’s

Sharma’s book *The Rise and Fall of Nations* discusses how the global economy is being hampered by what he calls the “Three D’s”: demographics, debt and deglobalization. In this next phase of deglobalization, Sharma prefers the countries and companies that

benefit from domestic consumption patterns that offer more stable growth and that he also thinks offer better value today. Sharma emphasized some of the opportunities in Eastern Europe as being underrecognized and valuable based on these metrics.

For two interesting perspectives on emerging markets, check out these great discussions below.

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Bullish: a position that benefits when asset prices rise.

Valuation: Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

Cyclical sectors: Consumer Discretionary, Energy, Industrials, Materials, Financials and Information Technology sectors.