

Investors head back to Bric country equities

Trends

One reason for renewed interest in these markets is the lack of exposure to toxic assets, writes **Ruth Sullivan**

As confidence grows following the global equity rally in March, investors are showing renewed interest in the world's biggest emerging market economies – Brazil, Russia, India and China, also known as the Bric group.

Appetite, in part, comes from the faster rate of growth of some of the Bric economies compared with those of developed countries. China and India in particular are seen as motors of the global economy with growth this year forecast at 7.5 and 5.8 per cent respectively.

“While the green shoots may be thin on the ground in developed markets, the recovery in emerging market economies, especially the Brics, is more readily visible,” says Julian Thompson, head of global emerging market equities at Threadneedle.

Bric markets began to see inflows in the first week of March, about the same time as flows into other emerging market equities, says Brad Durham, managing director of EPFR, which tracks global fund flows. Net inflows to China reached \$6.5bn (£4bn, €4.7bn) in the second quarter of the year, while more than \$5bn flowed into Brazil, nearly \$2bn into India and \$1.4bn into Russia.

“Bric exposure gives an investor nearly 50 per cent of emerging market capitalisation, representing all four

major emerging market regions, two leading commodity exporters – Russia and Brazil – and two of the world's most powerful domestic demand growth stories, China and India,” says Mr Durham.

Another reason for the revived interest is that “people are waking up to the fact there is a lack of exposure to toxic assets in these countries,” says Virginie Maisonneuve, head of global and international equities at Schroders.

Investors are also sitting on a lot of cash following the flood of redemptions from last year, and now reworking their risk strategies, say fund managers.

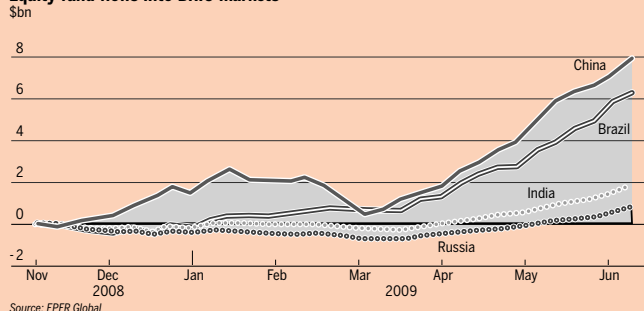
Michael Power, global strategist at Investec Asset Management, attributes interest in the Brics to four factors. “Investors are disillusioned with developed country equity markets, attracted by higher GDP growth rates in Bric economies, by less debt and more robust banking systems,” he says.

The comparison between the growth rates of Bric economies and developed ones has put the concept of decoupling back on the table after it had been dismissed by analysts and fund managers following the collapse in global markets after Lehman Brothers' bankruptcy in September.

Nick Smith, managing director of Allianz Global Investors, believes as the global recession bites, these economies are “the most resilient and best-equipped to pull away from the rest of the world”.

Last week, the first Brics summit was held when leaders met to discuss how their countries could work more closely and to gain a bigger voice in global policymaking

Equity fund flows into BRIC markets



and currency markets.

Mr Smith believes the meeting was a “significant milestone in the acceptance of Brics as a legitimate and compelling economic grouping of countries”, particularly after experts have questioned the validity of such a narrow grouping of emerging markets since the term was coined by Goldman Sachs chief economist Jim O’Neill eight years ago.

But not all Brics are attracting equal attention. China caught investor interest after the government’s incentive package in mid November, sparking a rally in emerging markets, and giving rise to the view it is leading the way out of the global slowdown. Since November 10 [to date], net inflows into China equity funds have reached almost \$8bn, almost half of the \$17bn that headed into all the Bric markets.

India is also tempting investors again as, like China, growth in its economy is driven by strong domestic consumer demand. Some of the investment focus has shifted from China to Brazil in the past few weeks as fund managers eye its rich resources and Latin American funds step up their country allocation, says EPFR.

But foreign investors still lack a strong enough stomach for putting money into

Russian equities in spite of Moscow’s RTS index rising about 70 per cent in the year to date from dramatic lows. They are wary of its dependence on oil prices, which is driving up the stock market again, and concerned about bad debt and poor governance.

Chris Cheetham, chief executive of Halbis, the active management unit of HSBC Global Asset Management, believes renewed interest is more a dipping of the toe in the water rather than a rush. He expects to see a “gradual but modest increased allocation” of the portfolio to Brics but it may “take a while for risk confidence to fully return”.

In spite of investor enthusiasm since early March, those thinking about getting exposure this late in “the initial phase of a cyclical recovery in these markets” should be cautious, says Mr Durham. Strategists and fund flow data analysts are already flashing contrarian indicators for emerging markets.

However, Mr Cheetham believes there is still significant scope for Bric investing to grow in global portfolios. “In the mid to long-term I expect to see substantial investor take up,” he adds.