Identifying value in emerging markets

Nicolas Rohatyn of TRG Management discusses the rebound in local currency, select markets, secondary PE and total return strategies.

Amid discussions surrounding investment in emerging markets, Nicolas Rohatyn, chief executive officer and chief investment officer at TRG Management, says that there are some specific data-related trends to help investors better distinguish when the lows have passed and the bounce is occurring – and when to take advantage of the rebound.

However, Rohatyn stands by the numbers and says the long-term story of emerging markets hasn't changed. He believes they are still going to grow faster than developed markets for the foreseeable future.

The demographics, rise of the middle class, and increase in consumption all support Rohatyn's theory.

NICHOLAS ROHATYN
TRG Management

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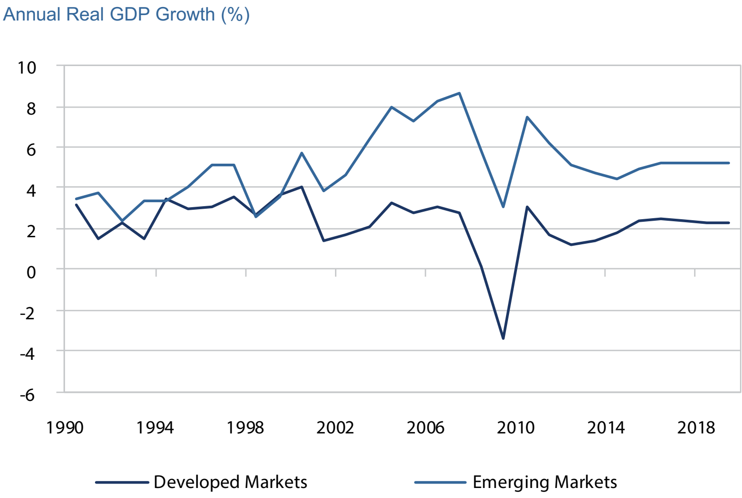
Indeed, the negativity about emerging markets has made a strong impression on the media.

Developed markets, by contrast, face growth constraints as a result of the huge debt overhang from the global

EM VS. DM: ANNUAL GROWTH (%)

Median Rates	2005-14	2010-14	2015-19F
EM	6.2	5.1	5.2
DM	1.8	1.7	2.3
Difference	4.5	3.4	2.9



Source: Bloomberg, International Monetary Fund, TRG Management LP calculations

financial crisis in 2008. Emerging markets have a greater ability to manage market turmoil.

YESTERDAY'S NEWS

"A lot of what people worry about right now is not new news; it may be new in the paper but it is not new in reality," says Rohatyn.

Interest rates in the US are well off their lows; China's growth peaked five years ago, while commodities peaked four years ago, he explains.

In addition, emerging market currencies have been adjusting, which is bad from an investor's point of view, but the flexibility of that adjustment is good from a fundamental point of view.

Rohatyn believes people have lost sight of the adjustment process on the big issues, and don't realise that it is now a lot closer to the end of those issues than before.

Interest needs to be paid to the part of emerging markets with high yields and high liquidity, and constructively think when the bottom of that market will be reached, because from that bounce there will be a lot of opportunities.

History shows with emerging markets, that the bounce relative to the drawdown tends to be more meaningful, explains Rohatyn.

The signs that he says TRG Management is looking for in the bottom include a pick-up in growth in emerging market, stabilisation in commodity prices, a peak in outflows from emerging market funds, and some stability in China.

When these four factors show themselves in a convincing way, Rohatyn says this is a good time to look into getting into this part of emerging markets.

DISPERSION IN EMERGING MARKETS

Today, the divergent monetary policies between the US and Europe, the price and movement of oil, and domestic policy and politics, are all becoming much more important factors in terms of drivers for asset returns.

As a result, the worries of the past are no longer relevant.

STRATEGIES

When looking at emerging markets today, Rohatyn recommends a number of strategies.

He says investors should look at the rebound and local currency debt that offers yield.

Also, they should look at the bounce for equities, select markets and secondarily private equity focused around the market in a slightly different way, as well as macro strategies.

These are all options that advisers and their clients will benefit from examining, he adds. ■

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