BMO LGM Global Emerging Markets Fund

30 April 2019

Markets were again buoyant in April, with emerging markets adding over 3% based on MSCI index returns in AUD. The portfolio's return was also positive and ahead of the index. Sentiment was positive over the period, as it appeared that we were moving towards some kind of trade resolution between the US and China. Of course (at time of writing), there was a major twist in this opera, with President Trump losing patience at the eleventh hour and moving ahead with the imposition of additional tariffs on Chinese goods. Is a trade deal dead? No, as talks will continue, but clearly vested interests on both sides are further apart than anticipated. As crucial as trade is, it is not the only source of US-China tensions. There is, of course, intellectual property; the case of Huawei; American suspicions about the creeping influence regionally (and globally) of China (Belt and Road initiative, anyone? How about the South China Sea? That is not to say a trade deal wouldn't improve the situation. What it will not be is a cure-all. The relationship looks like it will be as uncertain as it is compelling for some time to come. Needless to say – and hopefully the market will take some lessons from these developments, however unlikely as this might be – one should not take things for granted and certainly not position portfolios around events where outcomes in the short run are so unpredictable. At the risk of sounding like a broken record, one should build resilient portfolios of good quality companies based on their long-term prospects over multiple cycles, and hold onto them for many years.

Elsewhere, Taiwan (5.0%) and Thailand (3.0%) were also strong in Asia, while Mexico was among the strongest markets for the month, adding over 6%. There was a lot of negativity around the newly elected Mexican president Andrés Manuel López Obrador. Markets took a dim view of this leftist politician and, as markets often do, placed a significant emphasis on politics over and above how the economy and corporates were actually performing. Clearly we cannot say this with certainty, but we do see this type of behaviour often where there is a (both positive and negative) overreaction to changes in governments in the short term. This behaviour typically corrects itself. Perhaps we are seeing this more recently in Mexico.

We should also mention that India kicked off the process to elect its next prime minister and government, launching what is the largest democratic voting process globally. Consensus is that the current prime minister, Narendra Modi of the BJP party, will win re-election albeit with a lower majority. History has taught us that Indian elections are notoriously difficult to predict because of the country's complexity and diversity. As such, we shy away from making predictions or positioning the portfolio based on any expectation of outcomes. In the same vein as mentioned above, the portfolio is structured to be resilient and independent over a multi-year period, regardless of the outcome of this election. While the election will take up many column inches and dominate discourse in the coming weeks, we should remember that Indian economic growth has been broadly stable across several different governments, and elections generally have little bearing on stock-market returns in the long term. We could easily see some volatility in the run-up to and in the aftermath of the election, but we expect any reaction to be transitory.

A final word on performance. Exposures to South Africa and Mexico led the way last month, with Walmart De Mexico and Mr Price (apparel retailer in South Africa) both delivering strong gains. Mr Price recovered some losses experienced earlier in 2019 (though it still has some way to go), while Walmart continues to be an excellent operator. We saw some losses in Indian holdings, although not anything that causes us great concern, while BAT Malaysia also underperformed.

As at 30 April 2019

Key risks

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested. Securities in emerging markets may involve a higher degree of risk. These markets are typically less liquid and may experience greater volatility in prices and currencies than more established markets.

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