

BUY AND HOLD RATHER THAN DUMP EMERGING MARKET EQUITIES SAYS HSBC GLOBAL ASSET MANAGEMENT RESEARCH SHOWS AVOIDING EMERGING MARKETS CAN HAVE SIGNIFICANT OPPORTUNITY COST

Volatility in emerging market equities is at an all time high¹ however research from HSBC Global Asset Management shows that it pays to take a long-term view toward investing in this asset class, rather than trying to time the market.

Charles Genocchio, Head of Funds and Investments at HSBC Bank Australia, said “the volatility of emerging markets is currently higher now than it was earlier in the new millennium (2000-2002), when this sector was reeling from the Latin American crises and the bursting of the technology bubble.”

“This rising volatility makes the timing of entering or exiting the market extremely important. However, this is difficult to do effectively and avoiding this asset class even in the short-term can have a significant longer-term opportunity cost.”

Research from HSBC Global Asset Management – among the world’s largest Global Emerging Markets asset managers with US\$86 billion² – shows that missing only a good few days over the past decade can have a dramatic negative impact on returns.

Over the 10 year period ending 13 November 2008³, investors’ annualised returns would have been completely wiped off if they had missed the best 20 performing days of being invested in the MSCI Global Emerging Markets Index. While being fully invested over the full period would have resulted in an annualised return of 8.6% in dollar terms, an investor who was absent from the market for just the top 20 days would be left with a negative annualised return of -1.00%. Missing even the top 10 days would have resulted in a substantially low annualised return of 2.2%.

The opportunity cost is more extreme when considering single country exposure. For example, being invested in Russia over the full period would have resulted in a 22.5% annualised return, falling to negative 4.3% if missing the best 20 days. In Brazil, being invested for the full period would have led to an annualised gain of 16.0%, compared to -5.1% if out of the market for just the 20 best days.

(Please note past performance is not indicative of future performance).

¹ Volatility in emerging markets - as measured by the standard deviation of returns from the MSCI Emerging Markets Index over a mean rolling twelve month period.

² At end June 2008

³ The past 10 years is calculated as 31 December 1998 to 13 November 2008. The period is marginally less than 10 years because daily pricing of total return indices is not available before 31 December 1998. Calculations are based on MSCI indices, total return, calculated in dollar terms net of withholding tax. Source: Bloomberg and HSBC Global Asset Management

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	Annualised return	Annualised return without 10 top performing days	Annualised return without 20 top performing days
Emerging Markets	8.6%	2.2%	-1.00%
Brazil	16.0%	2.1%	-5.1%
Russia	22.5%	5.6%	-4.3%
India	13.1%	4.7%	-1.6%
China	4.2%	-5.9%	-12.0%

This table shows the annualised returns for various indices over the past 10 years (31 December 1998 to 13 November 2008). The period is marginally less than 10 days because daily pricing of total return indices is not available before 31 December 1998). Indices are MSCI, total return, calculated in dollar terms net of withholding tax except for MSCI Emerging Markets. Source: Bloomberg and HSBC Global Asset Management. Past performance is not a guide to future performance.

Genocchio said short term risks remained due to concerns about slowing global growth and credit related issues. Emerging markets were also bearing the brunt of geopolitical concerns, inflationary pressures, weaker commodity prices, and a stronger US dollar, he said. However, investors should take a longer-term view.

“Over the medium and long term, emerging market fundamentals appear to remain sound. Corporate and sovereign balance sheets within some emerging markets are at their strongest in recent history. Emerging markets are characterised by a large, young population, expanding labour forces and high saving rates that will drive long term growth. Meanwhile, inflation concerns are ebbing due to a reduction in food and energy prices,” Genocchio said.

Importantly, current valuations have resumed to attractive levels following a severe correction since the beginning of 2008. For example, the GEM universe is trading on a 2008 estimated PE of 7.8 times while EPS growth remains sounder than in developed markets. This varies substantially between countries. For example, the PER of Russia is currently 3.5 times, while China is 8.3 times and India 10.2 times.

Genocchio concludes: “While there is clear evidence that investors are shying away from emerging markets, this is probably one of the most attractive entry opportunities for investors with a medium to long term view. Their volatility is likely to continue in the near term, but it pays to be fully invested rather than trying to time the market.”

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Notes to editors

Emerging markets: Investment in emerging markets is inherently more risky than developed markets.

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