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## Value has its risks in emerging markets

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 By Claire McGreal | In [Investment](#)


Recent volatility in global financial markets is causing institutional investors to increase allocations to emerging market equities but there are risks involved, according to an emerging markets specialist.

Global emerging markets fund management firm, Somerset Capital Management, believe emerging markets are becoming more differentiated, with attractive opportunities in some matching significant risks in others.

**tyndall am** Managing risk with a measured approach. Tyndall Australian Bond F

Portfolio manager and co-founder of Somerset Capital, Edward Robertson, who is currently visiting Australia, pointed to Brazil as an example of an emerging market that until recently looked in danger of overheating.

"The issue for Brazil, like several important emerging market economies, is combating a slowdown and a (manageable) deterioration of asset quality which is impacting their equity market," said Robertson.

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"This is why they have aggressively cut rates and will continue to do so. And what seemed a questionable strategy of cutting rates now seems sensible and we are seeing similar cuts across many emerging markets. A weaker currency should help exporters but overseas markets are lacklustre at best."

Robertson also maintained that longer-term issues need to be addressed.

"Particularly, the government's fiscal credibility and the role of the public sector banks. Inflation is almost 7% and rising. Although driven by food and fuel, Brazil's tight labour market suggests inflation could become entrenched as workers demand higher wages."

Dennis [McGreal](#), managing director of Clearway Capital Solutions, which is helping Somerset to grow its business in Australia, said:

"Typically after a crisis such as the one in 2008, intra-market stock correlations rise as investors are less discriminating in assessing economic and company fundamentals. However, as the cycle turns investors become more attentive and country markets and stock price performances diverge.

"It is becoming apparent to many investors that country and stock selection skills are becoming more critical in emerging markets in seeking to benefit from a dynamism not found elsewhere and also to cushion investors from the significant economic and geopolitical risks that are likely to appear."



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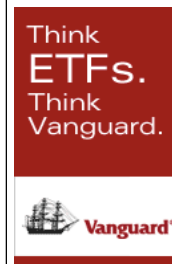
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