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## Opalesque Exclusive: Some macro strategies in emerging market investing

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At the Spring Meetings of the International Monetary Fund (IMF) and the World Bank which started last Saturday in Washington, it was widely agreed that the global recovery had evolved better than expected, [reported](#) istockanalyst.com. However, the recovery is uneven, with faster growth in some emerging markets (EMs) while more sluggish recovery in advanced economies like the European Union and Japan, according to the latest World Economic Outlook and the Global Financial Stability Report released by the IMF earlier last week.

This is no news to the fund managers who invest in EMs, as they see opportunities abounding there more than ever. Three of them explained their case at the [Jetfin](#) conference "BRIC 2010" in Geneva earlier this month.

### Robeco: Country allocation model, quant research, ESG

ESG is embedded in all our investment strategies, said Alex Neve, Head of Investment Specialists at Robeco Alternative Investments, a fund manager headquartered in the Netherlands with around Eur135bn in AuM (and Eur12.3bn in EM equities).

And so are the macro investment process and quantitative research. Indeed, macro is very important in EM investing, especially when applying the country allocation model (as opposed to sector), and when using macro-economic variables. Robeco uses proprietary quantitative models as decision support tools, which can lead to "excellent alpha."

"From the equity side, we see signs of inflation and bubbles at places, depending on the different countries," said Neve. "We favour Russia at the moment, but we are still overweight India, so we are not too worried about the inflation or about interest rate hikes there."

### BlueBay: discretionary macro

Ciam Walsh, Portfolio Manager at BlueBay A.M., an asset manager headquartered in London that specialises in fixed income with around \$34bn in AuM, said that the firm had launched an absolute return fund in the EM space last November.

According to BlueBay, now is time to earn the inflation premium in rates and the structural risk premium in risky assets. The firm sees structural headwinds due to deleveraging and ballooning fiscal debt, and the underlying cyclical momentum is still positive. Furthermore, central banks are tentative because the risk of inflation is a better risk to take, and equity valuations are attractive, liquidity is supportive. So as cyclical assets do well, the hedge is earning the excess

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premium in policy rate expectations.

“There is an interesting situation in that we receive interest rates as a hedge an earn carry,” said Walsh, who believes that in 2010, cash will be the underpinning asset class.

#### **TRG: bullish on EM currencies**

There is a virtuous circle for EM currencies, which benefit from favourable commodity cycles, inflation targeting by central banks, improved credit quality, and then FX reserve accumulation, improving account balances, and the expectation of a growth in global GDP share.

“Most EMs were able to put in counter-cyclical policies during the credit crisis,” said Bernard Steinberg, partner at The Rohatyn Group (TRG), an asset management firm headquartered in New York focused on emerging markets with around \$2.6bn in AuM. “They are now recovering at a much faster pace than the developed world and this will continue.”

Indeed, excluding gold reserves, the aggregate EMs’ FX reserves amount to around \$4.26tn (lead by China (55%), Russia (10%) and Saudi Arabia (10%)), according to Bloomberg. This is compared to the aggregate reserves of developed countries, which amount to around \$1.45tn (lead by Japan (71%) and the U.S. (8%)).

According to TRG, EM currencies reflect fundamental economic change. So the firm is bullish. The macro case lies in the real appreciation of exchange rate, which TRG uses with all instruments available.

Steinberg expects the cycle will end up very supportive for exchange rates: “the trend is very clear. Global rebalancing will take several years, supported by EMs.”

See yesterday’s: **Opalesque Exclusive: EM Capital seizes opportunities and challenges in ESG investing in emerging markets with new fund**

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