

EM investors seek China alternative amid trade war

BY [KARREN VERGARA](#) | TUESDAY, 30 OCT 2018 @ 12:28PM

The intensity of the US and China trade war roiling the equity markets is worrying investors who are seeking alternative emerging markets exposure.

This is according to King Irving Funds Management managing director Kate Mulligan, who sees emerging market investors becoming "nervous" about the escalating trade war - particularly as China looks to make up 30% of the MSCI Global Emerging Markets Index.

Many clients are now seeking for a counterbalance to China and other Asian markets' dominance of the index, she said, adding investors are increasingly turning to Latin America.

Mulligan said the Pacific Alliance, which comprises Peru, Mexico, Columbia and Chile, provide a risk-adjusted performance better than emerging markets in Asia over the medium to long-term.

Over a one-year period, King Irving's flagship fund, which is managed by Sura Asset Management, has consistently outperformed the MSCI GEM index by 6.3%. Over three years, it returned 27.51% versus 23.76%, she said.

This shows the value of the region as an emerging markets opportunity, Mulligan said.

Saxo Capital Markets Australia market strategist Eleanor Creagh warned the breakdown in diplomatic dialogue between China and the US, and the chance of a new "cold war" could hurt Chinese equities.

US Vice President Mike Pence indicated in a recent speech that a new era of adversarial relations is emerging and China is no longer considered a strategic partner - but a rising competitive power intent on US hegemonic decline, Creagh said.

"We cannot blame the weakness entirely on the prospects of a trade war. At the outset of 2018, Chinese equities were clouded by the government's financial de-risking campaign and quasi-fiscal moderation," she said.

"The economic growth model in China has long been dependent on credit. The world has never seen a country expand debt at such a rate and magnitude as China."

Newly appointed chief executive of Sura's institutional business Pablo Sprenger said an allocation between 10 to

30% to Pacific Alliance would significantly increase portfolio returns and reduce volatility of a global emerging markets portfolio.

By partnering with King Irving three years ago, Mexico based Sprenger said Sura is fully committed to expanding its reach in Australia.

With US\$12 billion of institutional assets under management, Sprenger said he hopes to see this double over the next five years, with Australia contributing to this growth.

This page was found at: **<https://www.financialstandard.com.au/news/em-investors-seek-china-alternative-amid-trade-war-128480493>**