ACCESSING EXPOSURE TO EMERGING MARKETS THROUGH DIVIDEND-PAYING COMPANIES

A UNIQUE APPROACH TO THE OPPORTUNITY IN GROWTH MARKETS

RAHUL SHARMA
PORTFOLIO MANAGER, CULLEN EMERGING MARKETS HIGH DIVIDEND FUND (CEMFX)

GLOBAL INVESTORS have become too concerned with China, causing them to overlook excellent growth opportunities in other emerging markets like India, Mexico, Greece, Brazil, Taiwan, Saudi Arabia, the UAE, and many Southeast Asian emerging markets. These markets have benefitted from changes in investment due to geo-political tensions between the U.S. and China, the COVID-19 outbreak, and because of the war in Ukraine.

We at Schafer Cullen expect these trends to continue, and the repositioning of global emerging market assets, and the resulting fund flows, to disproportionately benefit certain countries at the expense of others. While such an asset repositioning, by itself, would not be a sustainable driver for select emerging markets in terms of relative performance, the fact that these trends coincide with very credible and essential long-term demand drivers, which remain underappreciated by investors, creates an excellent investment opportunity that we continue to capitalize upon.

THE DEMANDS OF DEMAND DRIVERS

These long-term demand drivers include the need for companies and countries to address climate change-related risks, diversify their supply chains with reshoring and nearshoring activities, and adopt artificial intelligence and other mega-tech trends into their businesses and economies.

Such developments are generating demand for a variety of goods and services, while offering a positive counterbalance to the genuine challenges facing the global economy, such as inflation and higher interest rates. While these challenges to the global economy are legitimate, demand drivers led by climate change, nearshoring, and AI, are extremely powerful, since the consequences of not adopting or providing solutions to the problems they create are undoubtably calamitous. Accordingly, companies and countries continue to spend money to address these issues despite the obstacles they face, and we believe that we are in the early innings of an augmented spending transition.

BENEFITS OF EMERGING MARKETS

While many investors think of emerging markets as growth markets, we are impressed with how one can access exposure to this growth at such attractive valuations. Investing in dividend-paying emerging market equities is a particularly sensible way to invest, since these companies tend to have better corporate governance, and offer less volatile exposure to this growth.

An additional benefit is the diversification that emerging markets offer investors, especially since so many investors have such heightened exposure to U.S. equities and other U.S. dollar denominated assets. Emerging markets undoubtably offer excellent diversification away from the U.S. dollar. For example, in the nine periods that the U.S. dollar has declined by more than 10% since 1989, emerging market equities have produced an average return of 45%, according to the MSCI EM Index as of 9/30/2023.

COUNTRIES LOOK BEYOND THE DECLINING DOLLAR

While we do not expect the U.S. dollar to collapse, we would not be surprised to see it weaken in the wake of a decade-long rally. Factors that could weigh on the strength of the U.S. dollar include: (1) the cheapness of most EM currencies on a purchasing power parity basis, (2) the United States' twin deficits, growing debt load, massive unfunded liabilities, and political uncertainty, and (3) moves by the Fed to end the current cycle of interest rate increases.

Additionally, foreign countries including China, India, Brazil, and Saudi Arabia have indicated their interest in trading with each other in their own currencies, and reducing the U.S. dollar's role in global trade flows. There are many advantages for foreign countries to continue these trends, and such a continuation could weigh on the strength of the U.S. dollar in the coming years. ■

Rahul Sharma is PM of Schafer Cullen's Emerging Markets High Dividend Strategy and the Cullen Emerging Markets High Dividend Fund (CEMFX). Since 1983, Schafer Cullen has been providing investors with reliable value dividend solutions across an array of portfolio offerings. To learn more, visit: www.cullenfunds.com. The Cullen Mutual Funds are distributed by Paralel Distributors LLC. Paralel is not affiliated with Schafer Cullen Capital Management, Inc. Investing involves risk, including the loss of principal. Diversification does not eliminate the risk of investment loss. The MSCI EM Index is an unmanaged market capitalization-weighted index based on the average weighted performance of widely held common stocks. One cannot invest directly in an index. The views and opinions expressed are for informational and educational purposes only as of the time of the writing and may change at any time. The material may contain "forward-looking" information that is not purely historical in nature. This information should not be used as the primary basis for any investment decision, nor should it be construed as advice to meet a particular investment need. Cullen Capital Management is an independent investment advisor registered under the Investment Advisers Act of 1940 and is doing business as Schafer Cullen Capital Management, Inc. (SCCM). Investing in emerging markets involves greater volatility and political, economic and currency risks and differences in accounting methods and may not be suit-able for all investors. Past performance does not guarantee future results. CUL899