

What sort of companies might interest an outward-looking globally minded investor?

# Global view of investing is key

## MARKET WATCH TOM WALKER



For as long as there have been joint stock companies, British investors have looked overseas to make their fortunes. From the founding of the East India Company in the sixteenth century through to the present day, foreign markets have offered the promise of untapped resources and superior returns. That outward-looking, internationalist mindset has, perhaps, never been more important than it is today.

Most developed economies currently face similar problems: rising unemployment, collapsing domestic demand and escalating public-sector debt. Few of them, however, are as poorly equipped to deal with those challenges as the UK. In contrast, the prospects for many of the world's less developed economies are far brighter, with much lower levels of debt in both the public and private sectors.

As a result, emerging markets have led global markets higher in recent months. The relative strength of the developing world is most apparent in China. Its state-owned banks have been "persuaded" to increase lending and, thanks to years of financial rectitude, the Chinese government has been able to provide considerable fiscal stimulus. Fixed-asset investment has increased, industrial production has remained strong and retail sales have risen. As a result (and despite the

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weakness of its main export markets) the Chinese economy grew at an annualised rate of 7.9 percent in the second quarter of this year.

In contrast, North America, Europe and Japan are only just starting to edge out of recession. But the really encouraging factor has been the rapidity with which some companies have been able to adjust. While it has been difficult for companies to grow their top-line revenues, that has been more than offset by their success in cutting costs. A clear majority of US stocks reported earnings ahead of analysts' expectations in the first half of this year. The success of this cost cutting has been a big factor in driving markets higher.

Of course, cost cutting can only take us so far. Thankfully, there are signs of stabilisation in most developed economies. The escalation in unemployment is slowing, as is the decline in house prices.

But while it's good news that the developed world seems to be dragging itself out of recession – and that China's growth is robust – the more pressing matter is identifying the companies that will

benefit. A global approach to investment asks which companies have the know-how, the market positioning and the products to take advantage of current conditions. Some of these companies may be listed in China. But not all of them. As globalisation progresses, the importance of where a company is listed dwindles.

Investing in the beneficiaries of growth in the developing world demands a global view of investment, one that looks at macro-economic trends through the lens of individual companies, wherever they happen to be headquartered. What sort of companies might interest a globally minded investor in 2009?

Stocks like China Mobile and New World Development, perhaps, both of which are listed in Hong Kong. Equally, however, European companies such as Swiss engineering group ABB and beverage group Anheuser-Busch InBev also give investors excellent emerging markets exposure.

While the recent strong run in the market in recent months suggests we should leaven any optimism with a pinch of caution, we believe that valuations for global leaders such as these remain attractive, particularly relative to other asset classes such as cash and government bonds.

Tom Walker is manager of the Martin Currie Portfolio Investment Trust