



Investing in the emerging markets consumer

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Your success. Our priority.

This current expansion in the global middle class, roughly three billion new consumers, is almost exclusively going to be coming from the emerging markets.

When you think about emerging markets, the big story's really quite simple: it's three billion new consumers. So if you think about investing in emerging markets, what's drawing you there is the growth that's coming from the new affluence that is developing in these developing markets. What's happening to the emerging markets is the individual consumer in the emerging markets is hitting what is commonly called the sweet spot. There's a point of income where you actually have something what's called discretionary spending.

Now think about what that means as an investor. I want to invest in emerging markets because they're growing rapidly. Their economies are growing rapidly. But what within those markets are growing more rapidly? It's the consumer sector. So if I want exposure to emerging markets for growth -- I do -- then within the emerging markets, what I want exposure to is what is driving that growth, that is growing more rapidly than the overall emerging market economy, which is the consumer sector.

When investors think about investing in emerging markets, I think the initial thought is, "Well, I'm just going to go buy a basket of emerging markets." Like, if I'm going to invest in the US, I'm going to buy the DOW Industrials or the S&P. So there is an equivalent index for the emerging markets. It's what's called a benchmark. It's the entire market. Well, this co-called benchmark, the overall market, it really doesn't have a lot of exposure to the consumer. It's less than 15 percent consumer stocks. It's got a lot of energy, got a lot of basic industry, it's got a lot of industrials, it's got a lot of everything else, but it doesn't have a lot of the consumer.

So if you want to align your investment with your intent, what does that mean? If you want to buy what's attracting you to emerging markets in the first place, then you probably don't want to buy what's called the benchmark or the entire emerging market. You want to buy that within the emerging market -- the consumer sector -- that is attracting you to the emerging markets, because that's where the growth is the best.

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"It's three billion new consumers." Source: Ernst & Young, "Innovating for the next three billion", 2011.

"The consumer sector that is attracting you...where the growth is the best." Source: Kharas, "The Emerging Middle Class in Developing Countries," OECD Development Center, January 2010.

MSCI Emerging Markets (EM) Index is designed to measure the equity market performance in global emerging markets.

S&P 500 Index is a broad-based measure of U.S. stock market performance.

Dow Jones Industrial Average is a price-weighted average of 30 significant stocks.

It is not possible to invest directly in an index.

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