

# Investment Team Corner

*In conversation with Mauricio Abadia, member of Brandes' Emerging Markets Investment Committee and an analyst in the Basic Materials, Consumer Products, and Utilities Groups*



As emerging markets investors increasingly focus on Asia and technology sectors, we spoke with Mauricio Abadia to gain a deeper understanding of the investment opportunities in this evolving asset class. In addition, Mauricio explains the Brandes Emerging Markets Investment Committee's viewpoint on China and the strategic approach of the Brandes Emerging Markets Equity Strategy. Mauricio has 18 years of experience and has been with Brandes for 13 years.

## **With emerging markets having underperformed developed markets since the global financial crisis, what is the case for investing in this asset class today?**

It's true that emerging markets have underperformed, but it is important to remind ourselves that the focus on the asset class has evolved both in terms of geographic and sector exposures. Previously centered around Latin America, Eastern Europe, and commodities, the focus has now shifted to Asia and technology. As a result, I would say that emerging markets are structurally better positioned to accommodate global macroeconomic developments than they were in the past. They have adopted more flexible exchange rates and have a greater reliance on local currency debt, enabling them to absorb external shocks more effectively. Key global economic growth drivers, such as the energy transition, artificial intelligence, and digitalization, are heavily reliant on emerging markets. This reliance underscores the importance of these markets in the global economic framework. When considering long-term returns, we believe that emerging markets present an attractive valuation relative to their history and when compared to developed markets. This attractiveness is evident across various valuation metrics.

## **What is the Emerging Markets Investment Committee's perspective on China within the portfolio?**

To provide some context, China holds a significant position in global equity markets as the world's second-largest economy and one of the fastest-growing large economies. Additionally, a significant portion of trading activity in Chinese equities is driven by retail investors, who typically have short investment horizons. This behavior can create opportunities for price dislocations that long-term value investors can seek to capitalize on.

The investment committee's approach is to have a diversified set of holdings in China and focus on areas of the Chinese economy with the most attractive long-term prospects, such as companies that sell most of their products/services locally or manufacture products in high demand due to the energy transition. As value investors, we concentrate on individual company fundamentals rather than broader economic conditions, allowing us to uncover potentially undervalued companies even in challenging environments.

## **How is the Brandes Emerging Markets Equity Strategy positioned today?**

Our emerging markets portfolios are distinctively positioned compared to the emerging markets benchmark due to our bottom-up approach to identifying value opportunities across all emerging markets and capitalization levels. We have a notable overweight in Latin America, with diversified investments in the telecommunications, utilities, energy, and real estate sectors. We believe these sectors could benefit from deflationary input costs and nearshoring trends in Mexico and nearby regions. Our portfolios also focus on industries that could benefit from post-COVID normalization, such as gaming, travel, and apparel. We maintain underweights in regions such as India, Taiwan, and China, where valuations are less attractive, and we are cautious about statistically cheap companies that may be value traps.

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