Marketing Communication. Capital at risk. The value of investments may fall as well as rise and you may not get back the full amount invested.

Emerging market small cap equities – How to capture the potential returns?

Emerging Market Small Caps present a compelling investment opportunity for several reasons. Firstly, they often offer attractive valuations compared to the broader market, especially during periods when larger companies may be overvalued. This can lead to the potential for significant upside. Additionally, emerging markets are experiencing robust economic growth, which benefits many companies within this space. Small-cap stocks, in particular, have greater room for growth than their larger counterparts. Another key factor is the better debt profile of many emerging market companies; they demonstrate healthier balance sheets and more stable interest expenses. However, it’s essential to acknowledge the challenges associated with investing in Emerging Market Small Caps, as their returns can exhibit a non-normal distribution with concentrated tails. This underscores the importance of diversification to manage risks while still enabling the potential for high rewards.

What makes Quantitative investing effective?

Quantitative investing (QI) is effective due to its systematic and data-driven approach. By analyzing vast amounts of data, QI employs a repeatable investment process that allows for informed decision-making. One of the significant advantages of this strategy in the emerging market small-cap equity space is the limited analyst research coverage; on average, only five analysts cover each stock, and around 30% have no analyst coverage at all. This is in stark contrast to developed market large caps, where each stock typically has 18 analysts covering it. It creates a unique opportunity for our strategy. By leveraging extensive data, we have a better chance to identify undervalued stocks with improving fundamentals that may be overlooked by traditional fundamental investors, giving us a competitive edge in this space.

What role could this strategy play in an investor’s portfolio?

The Emerging Market Small Cap Equity Strategy serves as an effective diversifier across geographies within an investor’s portfolio. By investing in a broad array of small-cap companies across multiple emerging market countries, investors can enhance the diversification of their global developed markets equity portfolio. This strategy can help capture returns while mitigating risk, as emerging market companies, particularly small caps, tend to be driven more by local demand. As such, they are less exposed to potential future volatility in the US dollar, making them a prudent addition to a well-rounded investment portfolio.

Risk warning:

No assurance can be given that our investment strategies will be successful. Investors can lose some or all of their capital invested. Our strategies are subject to specific risks including, but not limited to: equity; emerging markets; global investments; investments in small and micro capitalisation universe; investments in specific sectors or asset classes, volatility risk, liquidity risk, credit risk, counterparty risk, derivatives risk, legal risk, valuation risk, operational risk and risks related to the underlying assets. Some strategies may also involve leverage, which may increase the effect of market movements on the portfolio and may result in significant risk of losses.