Q&A-Emerging markets to outperform developed countries in 2021; Vaccine availability "an incredible psychological impact": Mark Mobius

Veteran emerging markets fund manager Mark Mobius expects developing markets to outperform their developed counterparts in 2021 as lockdowns end by early next year and a COVID-19 vaccine becomes available.

Governments in developed countries won't be able to continue supporting economies as they have in 2020, **Mobius, emerging markets fund manager and founder of Mobius Capital Partners,** told the Reuters Global Markets Forum from Dubai on Monday, November 30.

China is recovering well, Mobius said at the Reuters Global Investment Outlook Summit 2020, adding he also expected India to return quickly to its previous rapid growth.

Following are edited excerpts from the conversation:

Q: What do you see as the post-pandemic fallout for markets and the investment world, assuming a vaccine is rolled out at some point in 2021?

A: I see a V-shaped recovery for economies around the world, and the reason why is that is that I believe the lockdowns will end by January-February next year. This of course is on the back of the vaccine. In addition to growing frustration among the business community generally regarding these lockdowns, I believe the governments will say they've run out of money. They're not going to be able to continue to support the economy in such a way as they've been doing. The cost of money will continue to be very low, even negative, as you know with Europe. Notice that Portugal recently issued a bond at a negative rate. So, that will be good. More importantly, when people start looking at the percentages, when you go from a minus to a plus, the percentage change can be quite dramatic. And that's what you're seeing. All the economies around the world, I guess without exception, have had the euphemism negative growth. By the way, I never really understood that euphemism. It's actually a shrinkage of the economy.

I believe we are going to have a very good year economically in 2021, but that doesn't mean the stock market will boom. What we see is this stock market is always, as usual, a precursor of what we can expect in the economy, and of course the market has done very, very well, and continues to do quite well, which is telling us that the economy will do well next year. But then, once the economy is doing well, we can't expect the kind of gains in that we've seen this year. I'm optimistic, and hopefully, things will continue to go well, you'll see companies recovering and therefore their price will recover. But we've seen part of that already. So, we have to be cautious with regards to the actual direction of the market next year.

Q: Does the rollout of vaccines and post-pandemic world see a bigger gap between have and have not countries – opening a fissure between developed and developing economies?

A: No, not really. You must remember that the emerging/developing countries (EMs) have a younger age group 26 years versus 40 plus for the developed markets (DMs). So, the resistance to the disease is much better and, therefore, mortality rate should be less, with or without the vaccine. But you must also remember that the vaccine will be distributed globally. Lot of money is being poured into the developing world by multilateral institutions to improve health services and (provide the) vaccine. I don't expect everyone to be vaccinated even in the developed world. What the vaccine does is that it has an incredible psychological impact. If you know there is a vaccine available, then you're much more confident that even if you don't have the vaccine, other people around you will be vaccinated and will not transmit the disease.

Q: What is your outlook on the U.S. equity market for next year?

A: My advice to people is to be diversified. Go into those areas where the industries that because of COVID-19 have been completely bombed out, like cruise companies, travel companies, airlines, all those bombed out sectors who, most importantly, have strong balance sheets or at least access to finance. Those are the ones that will probably go do very, very well with the recovery from COVID-19.

And, of course, technology continues to be attractive, but not necessarily the internet-type companies, but the companies that are doing the infrastructure, like semiconductors, memory chips, because the growth of the cloud and all these other background instruments necessary for the expansion of the internet are going to be in great demand.

Also, emerging markets are going to do quite well, probably even better than the developed world. They are coming back in terms of their currencies; number of their currencies against the U.S. dollar. have actually appreciated, and there's going to be greater confidence in people putting money into emerging markets.

Q: Has Big-Tech topped out? Do you see a rotation to small tech after all the regulatory/tax/anti-trust pushback?

A: No, I don't think Big-Tech has topped out. It doesn't mean that you will see it going through the roof and continue to surge like its done. But Big Tech will soon be important because of the almost oligopolistic hold that they have on the market. You must remember companies like Apple, Microsoft, Alphabet are all oligopolies and have a very strong position, in some cases, monopolies. There is a chance under the Democratic administration of (President-elect Joe) Biden, anti-trust people will go after them, but they all have very powerful friends in Washington, so the impact of anti-trust and other regulatory inhibitions will be somewhat limited.

But it is in the infrastructure side is where the big money is going to be made, people that make the nuts and bolts, that run these systems globally. One thing that you've got to watch out for is if there is a continuation under Biden of restrictions against the Chinese software and hardware technology, then you'll see the Chinese move faster to develop their own infrastructure. For example, Microsoft operating system will be seeing competition from the Chinese operating systems. Apple already is seeing competition in their areas, and will probably see even more competition as the Chinese develop their own chips and software, out of necessity as they no longer have access to the American technology. This is where we're going to see a sea change in the ability of Americans to dominate the tech world. Now that doesn't mean that the American companies will go under or will suffer, because the market in general is expanding globally and there will be plenty of room for everybody to compete. It's no longer going to be the day when you have a new computer and you are forced to have Windows. There will be other operating systems.

Q: What are your top picks in EMs, especially after the recent rally? Do you think EMs will outperform DMs in 2021?

A: I think so. Emerging markets will do better because of this incredible recovery we're going to see in the COVID-19 situation, which will be better in emerging markets. Already, you're seeing the Chinese are recovering much faster. I think India will come up faster as well and regain their rapid growth. Indian markets have done well, and I believe India will continue to recover and regain the rapid growth that we saw in the past. So, we'll see a big, big recovery next year. The big countries in our portfolio are India first; China, Brazil, Korea, Taiwan, Turkey and South Africa.

Q: From an asset class perspective, which could perform the best and the worst in 2021?

A: The best will be anything related to technology, and I use that in a very broad sense. That includes healthcare, education, (and) technology in general. Those sectors that are able to use technology effectively will be the best performing. Those that are not able to do so will be the worst performing. (The latter) will be in a difficult position. For instance, if you look at the broader scope of technology, a company like TSMC in Taiwan will do quite well, talking about infrastructure of technology.

Q: Do you see ESG investing being forced to take a few steps back due to the pandemic?

A: Oh no! In fact, ESG (environment, social and corporate governance) has become even more salient as a result of the pandemic because corporate governance, which we focus on, is becoming very critical in handling the COVID-19 crisis. In other words, when a company is faced with a COVID-19 downturn, the loyalty of the employees becomes much more important, companies want to hang on to these employees even though they cannot pay them as much as previously or even not at all. They want to be able to recover once things come back to normal. I would say ESG is still more important, particularly the governance issues.

You must remember that during this crisis, investing has not stopped. The major international institutions, if you look at any pension fund, any country fund, or sovereign und, you'll find part of their mandate now is ESG. They prohibit investments in companies that violate key ESG standards, and their rating systems that are available to these institutions that enable them to rank where the companies are located in the spectrum, so the opportunity for them to select the very best ESG rated companies is there. Evidence indicates that highly rated ESG companies tend to do better in terms of their stock price.

Q: Will attention to climate and workforce diversity matters help or hurt share values in 2021?

A: Climate change movement is moving people towards non-fossil fuels very rapidly at least in the developed world. But in the emerging world, in India and China, the dependence on coal is very heavy, and it's extremely difficult for them to do a complete switch out of these fossil fuels; so that effort will continue. All these countries are moving toward solar and wind, but you must remember that while you are increasing your energy output by using solar and wind; the total demand for power is also increasing. So, you're trying to catch up by running a marathon, and difficult to eliminate the fossil fuels. But the effort will continue. But I believe talking about technology, eventually a solution will be found that will enable these countries to continue burning coal but in a cleaner way.

Q: Why do you think gold and silver are below their 2011-highs given central banks' balance is multiple times that of 2008-2009, and similarly with negative yields?

A: Gold and silver, particularly gold is seen as a safe haven in times of trouble. We have that situation now with COVID-19, but looking forward, people are beginning to realise that they don't have to have everything in gold. They can buy stocks, they can buy other investments. So, I think gold will continue to hold its own, but it won't necessarily skyrocket.

We are now having a different view of money not only with multiple currencies around the world that are increasingly being used as reserves but also the use of cryptocurrency has been expanding. As long as people have faith in these currencies, whether they be cryptocurrencies or non-cryptocurrencies, the use of gold is not critical. Once the faith in these currencies decline, that's when gold comes into its own.

I'm not an investor in cryptocurrencies.

Q: What is your view on the U.S. dollar. Do you believe in market consensus of a broad depreciation from here?

A: There already has been deprecation against a few currencies. As you know the Korean won, the Taiwan dollar and the renminbi have appreciated against the U.S. dollar. The U.S. dollar is still a widely used currency around the world, but the Chinese are bent on destroying the invincibility of the U.S. dollar and they want to have the renminbi as a reserve currency going forward. I believe they will begin to achieve that, but it'll take time because there are still quite a lot of restrictions on the use of the renminbi. The Chinese still want to keep hold of the renminbi. The use of a currency is its credibility. If a currency is credible, then it becomes a widely used currency. Right now, despite the depreciation, which is not a really big depreciation, the dollar index has come down but it's not a dramatic fall, the credibility of the U.S. dollar is still very high.

It'll probably come down a little bit more against particularly the emerging market currencies, may be 5%-10% at most, but not more than that. As I said, India and China are the big ones for us now, but a lot of these other countries like South Korea and Taiwan are very significant; And then if you go to Turkey and South Africa, prospects are very good in a year or two from now.

Q: Will inflation now be unleashed, as many suspect? Where does it show up, and if not, what happens next?

A: I don't believe inflation will come up. In my new book 'The Inflation Myth,' I outline why inflation as we now measure it is not incredible and I also point out that we are now in a deflationary world. The numbers coming out of governments may show inflation, but in fact these numbers are not credible. Because of technology we are entering a deflationary world. A lot of economists are afraid of deflation, but it's probably the best thing that's happened to the world because it means that things are getting cheaper as a result of technology.

Q: What do you see as the biggest risks for 2021?

A: The biggest risk is that governments decide not to give relief on lockdowns. If lockdowns continue or are increased as a result of the so-called second wave/third wave, then all bets are off. I don't think that'll happen, but it is a risk.