Emerging market investing

Frontier markets forecast to thrive as investors avoid US-China rivalry

Mercer predicts money will flow to non-aligned states that have dodged geopolitical crossfire

Countries that are not aligned will benefit as western companies move supply chains out of China © Dado Ruvic/Reuters

Brooke Masters in New York JUNE 17 2023

Emerging and frontier markets are poised to benefit from US-China tensions as global investors seek companies and projects that can avoid the economic rivalry, Mercer's chief investment strategist has said.

Non-aligned countries are benefiting as western companies move supply chains out of China, said Rich Nuzum, who is also executive director of investments for a group that advises clients with more than $16.4tn in assets and directly manages $354bn.

But global investors are also looking to put money into projects and countries that can attract investment from both sides of the rivalry and avoid being hit with tit-for-tat technology boycotts or other economic retaliation, Nuzum told the Financial Times.

"If China and western countries starting with the US and Canada are not going to do as much trade and direct investment with each other . . . you ought to look at the countries that can receive investment and technology transfer from both blocs and trade with both," he said.

Rich Nuzum said global investors were looking to put money where it could attract investment from China and the US © Mercer

Nuzum's enthusiasm for a "non-aligned emerging and frontier markets thesis" comes as one of the world's most successful venture capital empires has announced plans to split into three independent businesses in response to US-China tensions.

Sequoia Capital plans to have one business for the US and Europe, one based in China and one housing its Indian and south-east Asian operations.

Mercer, which does a lot of work with wealthy entrepreneurs seeking to start or grow family offices, is seeing a shift in where investors want to keep their money, Nuzum said. The rapid sanctions imposed on Russian oligarchs after Moscow invaded Ukraine have made entrepreneurs worry that they could be similarly caught out.

"Before the Russian invasion of Ukraine, they might have felt most confident putting their money in a western bank," he said. But now, he added, they were saying: "I'm going to put my money to work in the non-aligned emerging frontier markets . . . because I don't know when my government is going to do something that the US doesn't like."

That is already starting to benefit financial groups based outside of New York, London and Hong Kong. "Singapore was a beneficiary, but Dubai, probably more," he said.

Nuzum noted that not all countries would benefit equally. Those with relatively high population growth and robust court and regulatory systems were likely to see more inflows as investors sought economic growth and strong legal protections. He also warned that the big inflows to non-aligned countries might not start until the US Federal Reserve finished raising rates because so many of the economies were closely tied to the dollar.

"Once the US monetary policy becomes more expansionary, they're really going to take off, but [before then] why would you fight the Fed?" he said.