

WealthWise

Investment Perspectives from HSBC
April 2011

Beyond BRICs: What You Should Know About the New Emerging Markets

Learn why economic expansion has spread outside the usual big names, and how to make sense of the investing opportunities these new up-and-comers represent.

The term “emerging markets” was coined about two decades ago, when the world economy was radically different. Consider the state of the so-called BRIC countries (Brazil, Russia, India and China); now shining examples of the developing world’s economic potential, in the early 1980s Brazil suffered triple-digit inflation, Russia languished behind an Iron Curtain, much of India’s economy was government-run, and the majority of China’s citizens had never seen luxury goods, much less embraced them with fervor.

Today, the group boasts four of the world’s largest 11 economies—and investors have bid up the stock and bond markets of each. “These countries have come a long way,” says Christian Deseglise, Managing Director of HSBC Global Asset Management.¹ “But they’re only the beginning. Many other countries are emerging as well, and along with the BRICs, they can offer investors the potential for powerful growth opportunities.”

The Next Wave

Deseglise acknowledges that the BRICs are in a class by themselves: Of the emerging markets, he says, Brazil, Russia, India and China have the population and resources to become significant players on the world stage in the next 20 years. And even after rocketing upward in the past two decades, their economies remain in the early chapters of their respective growth stories. “China may be the second-largest economy in the world,” Deseglise says, “but its gross domestic product per capita is less than one-tenth that of the U.S. The BRICs have much more room to run.”

But Deseglise contends that many other developing countries may also offer compelling growth prospects. In fact, emerging economies around the world have benefited from the rise of the BRIC countries, particularly from China’s ascent. That country’s nearly insatiable



HSBC Securities (USA) Inc.

452 Fifth Avenue
New York, NY 10018
1-800-662-3343

demand for raw materials has driven up commodity prices worldwide, boosting economies in resource-rich areas such as Indonesia, South Africa and Colombia. In addition, many emerging markets have demographic, political and fiscal trends working in their favor. "There are a lot of countries beyond the BRICs that have very large populations, mountains of resources, good macroeconomic policies and sound fundamentals," Deseglise says.

One such group: the CIVETS, made up of Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa. They may not be as large as the BRICs, but they're substantial in their own right: Deseglise notes that together the countries include about 600 million people—roughly twice the size of the U.S. What's more, their young populations and swelling consumer classes are driving economic activity, aided by liberalizing economies and, in many cases, flourishing or developing democracies. Other countries outside the CIVETS, such as Mexico and South Korea, fit the same mold.

It is estimated that two-thirds of global growth will come from emerging markets in the next 20 years.² Like the BRIC countries, CIVETS nations tend to have some sound financial fundamentals, such as relatively low levels of public, corporate and household debt. Deseglise points out that emerging market countries on average carry far lower debt loads and budget deficits than nations in the developed world, and their inhabitants historically save at much higher rates.

Threats to Progress

A number of risks could stall the maturation of these next-tier emerging markets. A stumble by China, which has become a crucial source of demand, would be especially problematic. Likewise, rapid growth could strain supplies of materials and labor, potentially causing inflation to rear its head.

Some markets must overcome structural issues as well. Certain emerging markets have relatively weak transparency, corporate governance and liquidity, and developments in Egypt and elsewhere in the Middle East have highlighted the political risk of some countries.

Risks such as these tend to make emerging markets appear more volatile than capital markets in developed countries—but that's changing, with some emerging markets' volatility levels becoming more consistent with those of developed markets. Deseglise points to the great strides many parts of the world have made in recent decades. "Less than 30 years ago most of Latin America was ruled by dictatorships, and now we take democracy there for granted," he notes.

Moreover, emerging markets' strong fiscal positions may help keep them on a more stable economic footing, potentially helping reduce the severity of their fluctuations. "It's true that some of these markets have political and corporate governance-related risks," Deseglise says. "But emerging markets as a whole are undergoing a steady institutional improvement, and their finances are much sounder than the developed world's."

Considering an Allocation to Emerging Markets?

Contact your HSBC Securities (USA) Inc. Financial Advisor³ to explore whether including an allocation of emerging markets would be appropriate to your personal circumstances—including your investment goals, time horizon, tolerance for risk and volatility, and overall financial situation.

¹ HSBC Global Asset Management (USA) Inc. is an investment advisor registered with the U.S. Securities and Exchange Commission.

² Standard Chartered Bank, "The Super-Cycle Report," 14 November 2010.

³ International investing—and in particular, investing in emerging markets—involves a greater degree of risk and increased volatility. Factors that increase the risk and return include changes in currency exchange rates and accounting and taxation differences in foreign jurisdictions. Some overseas markets may not be as politically and economically stable as other, more developed nations. Additionally, the small size of securities markets in emerging markets and the low trading volume may lead to a lack of liquidity, which leads to increased volatility. Emerging markets also may not provide adequate legal protection for investments.

Investing in foreign securities presents certain unique risks not associated with domestic investments, such as currency fluctuation and political and economic changes. This may result in greater price volatility.

United States persons (including U.S. citizens and residents) are subject to U.S. taxation on their worldwide income and may be subject to tax and other filing obligations with respect to their U.S. and non-U.S. accounts—including, for example, Form TD F 90-22.1 (Report of Foreign Bank and Financial Accounts ("FBAR")). U.S. persons should consult with a tax advisor for more information.

This document is for information purposes only. The material contained is not and should not be construed as an offer to sell, or a solicitation of an offer to purchase or subscribe for, any investment or service.

HSBC Securities (USA) Inc. registered address is 452 5th Avenue, New York, NY

Securities and Annuity products are provided by Registered Representatives and Insurance Agents of HSBC Securities (USA) Inc., member NYSE/FINRA/SIPC, a registered Futures Commission Merchant, a wholly-owned subsidiary of HSBC Markets (USA) Inc. and an indirectly wholly-owned subsidiary of HSBC Holdings plc. In California, HSBC Securities (USA) Inc., conducts insurance business as HSBC Securities Insurance Services. License #: OE67746. Insurance products are offered through Insurance Agents of HSBC Insurance Agency (USA) Inc., a wholly-owned subsidiary of HSBC Bank USA, N.A., and an indirectly wholly-owned subsidiary of HSBC Holdings plc. Products and services may vary by state and are not available in all states. California license #: 0D36843. **Securities, Annuity and Insurance Products are: Not a deposit or other obligation of the bank or any of its affiliates; Not FDIC insured or insured by any federal government agency of the United States; Not guaranteed by the bank or any of its affiliates; and subject to investment risk, including possible loss of principal invested.**

All decisions regarding the tax implications of your investment(s) should be made in connection with your independent tax advisor.

HSBC Securities (USA) Inc. or any other member of the HSBC Group may from time to time underwrite, perform or seek to perform investment banking services for issuers or make a market or otherwise buy or sell as principal securities or other instruments, or together with the issuers directors, officers and employees may have either a long or short position in securities, commodities, currencies or other instruments or futures or options contracts convertible into securities or other instruments.

This information in this newsletter is not intended as tax or legal advice, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek tax or legal advice from an independent professional advisor. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was written and prepared for HSBC Securities (USA) Inc. by a third party vendor.

We maintain strict security standards and procedures to prevent unauthorised access to information about you. HSBC will never contact you by e-mail or otherwise to ask you to validate personal information such as your user ID, password, or account numbers.

This e-mail is confidential. It may also be legally privileged. If you are not the addressee you may not copy, forward, disclose or use any part of it. If you have received this message in error, please delete it and all copies from your system and notify the sender immediately by return e-mail.

Internet communications cannot be guaranteed to be timely secure, error or virus-free. The sender does not accept liability for any errors or omissions.

© Copyright 2011 HSBC Securities (USA) Inc. All rights reserved.