# Market & Portfolio Update – June 2017

## Spot the Difference: What Defines an Emerging Economy?

In global markets the terms "emerging markets" or "emerging economy" are used broadly to describe countries that have lower income levels per citizen and generally experience a lower standard of living compared to a "developed" country. China has been the poster child for emerging economies over the past 25 years, as the country has seen massive growth and changes in its economy: GDP has grown from US$360 billion in 1992 to over US$8 trillion today. The World Bank's definition of an emerging economy is one that has per capita income levels below US$15k over the past 3 years (New Zealand's is US$37k). China is currently at US$15k - while in line with the threshold, this number masks the underlying data; there are currently over 40 million Chinese citizens that earn more than the average New Zealander!

Share market index providers use additional criteria to classify developed over emerging economies, including the accessibility, openness and stability of their markets. This keeps China classed as an emerging market, despite reaching the income threshold. While this should change over the next decade, today there are still many great investing opportunities in China, so your global share investments already include a 10% allocation to emerging markets.

This reflects that despite the criteria, the long-term growth outlook for emerging markets make them a great investment opportunity. If you travel today to any of China's dozen largest cities, you may be surprised to find you have just arrived in one of the most advanced cities in the world. This can be seen in the skyline photos below comparing Shanghai and New York; emerging vs developed: Can you spot the difference?

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- June was a fairly quiet month for world share markets, with most investment funds relatively flat - although this capped off a solid overall first half of the year. Our own NZ share market was the stand-out, helping to offset the effect of a further 3% rise in the NZ Dollar on the value of overseas share investments.

- The NZ Dollar's rise was in tandem with higher long-term market interest rates, as European Central Bank President Mario Draghi acknowledged that the European economy has been growing well – this was seen as hinting at official interest rate hikes moving closer.

- More generally, a number of risk factors facing markets have not turned out as badly as initially feared over the past two years. Together with good economic fundamentals, this has supported funds slightly increasing their global share investments during June.

- Booster added shares in Swiss company Givaudan, a well-entrenched provider of fragrances and food products around the world. The change was funded by selling some shares in Louis Vuitton Moet Hennessy, locking in strong gains over the past year.