CEEMEA region offers investment opportunities

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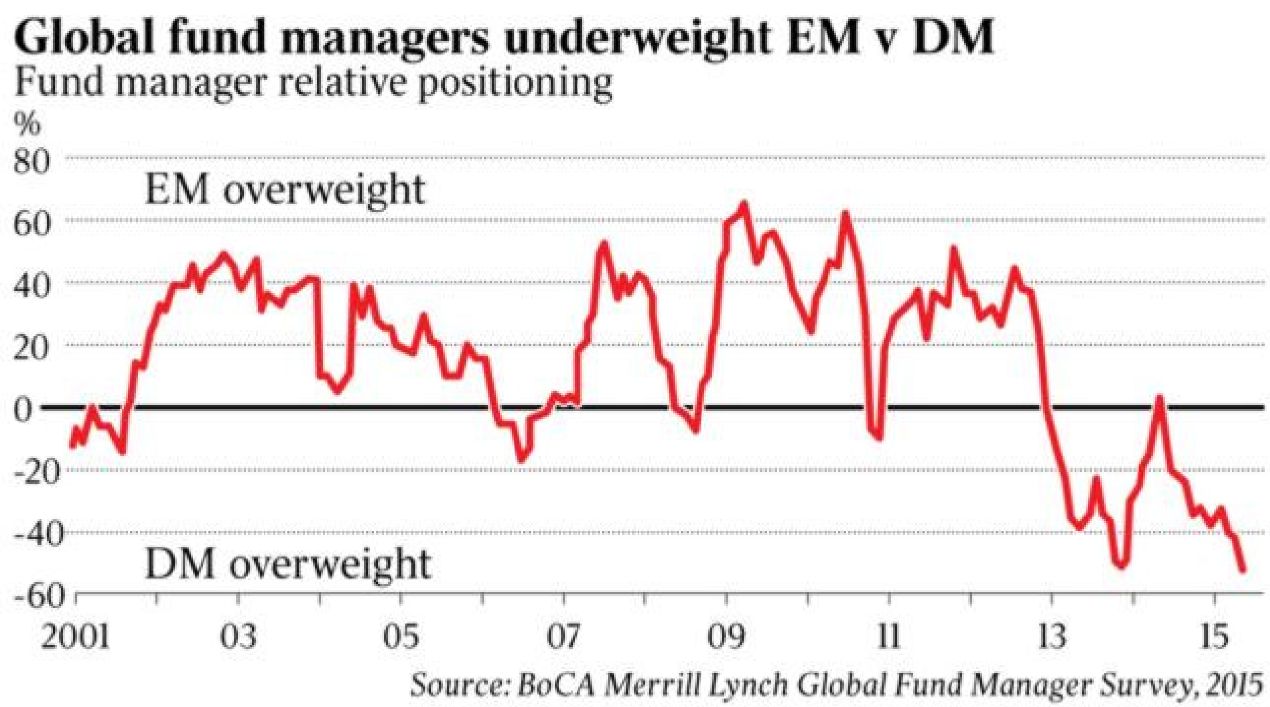

Fund manager positioning. Source: TheAustralian

The acronym CEEMEA (Central Eastern Europe Middle East & Africa) is well understood and often discussed within institutional financial circles but hardly mentioned elsewhere.

Australian global investor should take the time to better appreciate this particular market bloc, particularly given the relative financial stalemates in China, US, Europe and now even Australia/New Zealand.

Spanning from the Czech Republic, Poland and Hungary to Israel, Nigeria and South Africa, this industrious investment bloc can't easily be labelled "emerging" or "developed" but could be considered in-between.

As the graph highlights, since the 2013 "taper tantrum", which saw a mean reversion — or return to the balanced centre — of global fund manager activity, reducing developed market exposures in lieu of then emerging markets, such as China, Mexico and India, the globally minded Ultra High Net Worth investor of today can proactively anticipate where this herd may be heading in 2016.

With the exclusion of Russia — which is an economic disaster waiting to happen — there are timely investment opportunities.

Within continental Europe, the Czech Republic has been the most impressive, recently recording a GDP expansion of 4.4 per cent year-on-year.

Most importantly, this growth is thought to be derived domestically.

Coupled with fixed national investment at a strong 3.5 per cent quarter-on-quarter, a Purchasing Managers' Index score of 56.6 (above 50 is expansionary) and strong domestic retail sales overall, the Czech economic template stands to further benefit from the euro area recovery, expected throughout 2016-18.

Poland can boast similar GDP metrics at 3.3 per cent, also driven by domestic demand.

Respected for its durable economic expansion, Poland also benefits as the euro area recovers, and given its strong links into the German manufacturing supply chain, indirectly benefits from ECB quantitative easing.

Beyond Europe, Israel, South Africa and Turkey are all facing challenging conditions, reflected in their weak fundamentals, but unlike manufacturing-driven emerging economies such as Bangladesh, China or those in Central America these CEEMEA laggards have identifiable headwinds. When these subside, they could present tactical opportunities for the proactive global investor.

Clearly caution is needed but the CEEMEA bloc has substantially changed over the past two years and we can try to predict what might play out.

It is no secret that the 2013 taper tantrum caught financial markets off guard and the CEEMEA was badly affected.

Currencies depreciated rapidly, bond yields rose and stockmarkets dived on fears that capital inflows might reverse, simply because rising US and British interest rates might have led to a period of painful adjustment — as represented in the graph.

However, the global game has changed and today, Europe and Japan champion colossal unconventional stimuli programs and the US and Britain are enjoying reasonable cyclical expansions. The sharp fall in oil prices late last year has reduced the capital account deficits of many oil-importing CEEMEAs.

With a correction already well under way in African exported commodities and CEEMEA equity and bond valuations humbled by recent global events, this bloc is broadly well prepared for a US interest rate "lift off" when it comes.

Today's CEEMEAs have better fiscal fundamentals.

For the more conservative Australian UHNW investor who deems direct African investments too risky during any stage of the cycle, the more successful European CEEMEAs are attractive.

Closer to US "lift off", a closer look at Hungarian Alior Bank (ALR.PW), Bank Handlowy (BHW.PW) or Polish Sberbank bank (SBER. RM) may be prudent, but timing is critical.

Generating outperformance takes skill but the global investor should investigate the alternatives, such as CEEMEA.

The Australian and New Zealand markets are not too dissimilar to the CEEMEA bloc, as our currencies, bond yields and equity markets are sensitive to the same headwinds.

The remaining months of 2015 are not going to be pretty but this stark reality should motivate the global investor to seek not only asset class diversification but also geographic variegation.

There are a lot of forces at work and unpleasant shocks for those across the globe who feed the Chinese dragon for a living.

Investment opportunities in CEEMEA may not be for everybody but for those conscious about the over-reliance on central banking within developed markets, exploring fresh alternatives may make both cents and sense.

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