

GLOBAL MARKETS FORUM

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Q&A-Equity markets in "full recovery mode;" India, Brazil, Korea, Taiwan top picks: Mark Mobius



World equity markets are now in recovery mode, according to **veteran emerging markets fund manager Mark Mobius**, who said he was betting that markets had bottomed out.

"You would expect at a time like this, you have a bigger bear market, and that is why I've been cautious and kept a little powder dry, because there could be relapses in the market," said Mobius, who is founder at Mobius Capital Partners, which has \$130 million assets under management.

"But the way it looks now, we may be in full recovery mode," **Mobius told the Reuters Global Markets Forum on Thursday, May 7 from Munich.**

Mobius said his top country picks were India, Brazil, Korea and Taiwan. In terms of sectors, his fund increased weights in education, healthcare, software, specifically companies in cloud, and consumer areas, particularly those focussed on online sales.

Following are edited excerpts from the conversation:

Q: What sort of recovery do you see in the global economy -- V-shaped/U-shaped/W-shaped -- as the lockdowns ease down?

A: I think it is more likely to be a V-shaped recovery. As soon as people get back to work, you will see an incredible increase in production, increase in consumption and so on. You must remember a lot of people were holding back in terms of consuming. We are in an era where things are happening much faster than in the past, the volatility, not only of economies but of markets is increasing, not decreasing. Because of the internet, news travels very, very fast.

By the end of the year we'll be back to where we were, where we will have the amount of production, the amount of travel, and all the rest of it, back to where we were. A lot of people think travel is dead, nobody is going to travel. Not true, people will travel, no question about that. Now I'm not saying they can do overseas travel, but they're definitely going to doing a lot of domestic travel. And once governments allow people to enter their countries, may be next year, then you will definitely see more international travel.

Q: Moving the discussion to central banks, how much more do you think the Fed can do to keep the economy and markets supported?

A: I don't think they can do that much more other than increase the "helicopter money," in the sense of getting money into the hands of the consumers. But the real issue is not the amount of liquidity in the markets. The real issue is how people can spend that money, how consumers can get back into the stores. That's why this lockdown has been so damaging and is so critical. The faster governments can get people back to work, back on the streets, back in the stores, the better it'll be for the economy. That is something that needs to be paid attention to. Up to now, governments, rightly so, have been taking advice from scientists, but they have overlooked the economic and sociological impact. This is something that has to be corrected immediately.

After all this is over, there is going to be a lot of finger-pointing at governments who made wrong decisions with regards to lockdowns.

Q: Do you see Fed taking any more steps to go provide even more support, say cut rates into negative territory?

A: It would be very unlikely for them to cut into negative territory. A significant segment of the American population has their life savings in bank accounts, not in stocks or bonds or funds, and if they [the Fed] get into negative rates, there will be incredible politically consequences. People are already concerned about low rate of interest they are getting in the bank. The whole economic system is being distorted as a result of these moves by central banks. In Japan, they are buying government bonds, corporate bonds, ETFs, stocks. This is getting completely crazy.

Q: What is your view on emerging markets (EM) and how they are coping with the COVID-19 crisis?

A: Too many EMs have copied what was happening in Italy or in Europe, and they imposed these strict, draconian lockdowns, and they didn't adjust to the situation. These emerging markets by and large have younger populations who are much more resistant to these diseases. I think the harm done by the lockdowns in many of these markets probably was more than the harm done by the COVID-19. That's why I advocate there's not one policy that fits all. There has to be a mixture of policies that different countries can adopt to their own situations. For example, if you want to go out, you have to wear a mask; if you want to go to a shop, you have to keep a certain distance from other people; if you think you have a problem, then let's do a test. Of course, I know that the test opportunities are not that great in these countries, but they've got to ramp up the testing.

Q: Would you say the equity markets have bottomed out? Or will there be more pain?

A: My bet is that they've probably bottomed out, but there will be relapses. As the actual earnings numbers come out, people will then say, "I didn't realise it was that bad, I better sell". Many of these companies will not be in existence because their financial conditions are so bad. You'll get consolidation, some companies will surprise on the downside as regards to earnings. There's a combination of things that will take place.

I frankly was very surprised the bear market came down so quickly, and revived so suddenly as well. If you look at the markets, you see declines in dollar terms of between 30% and 40%. But looking at history, the bear markets, the average [decline] is 50%. You would expect at a time like this, you have a bigger bear market. That is why I've been cautious and have kept a little powder dry, because there could be relapses in the market. But the way it looks now, we may be in full recovery mode.

Q: How have you churned your portfolio in the coronavirus crisis, and what major shifts do you see coming as lockdowns start getting reversed?

A: What we're doing is reconstructing our portfolio. What we're saying is that let's look at those companies we liked in the past but were too expensive for one reason or another, and have now come down within the buy range. We haven't changed country weightings very much. But we have increased sector weightings in education, healthcare, software, particularly related to the cloud, and in certain consumer areas where they're taking advantage of the internet and increasing their online sales.

Q: Have your cash positions changed?

A: We've kept cash level stable at 5% to 10%.

Q: What would be the top emerging markets that you would invest more in?

A: I would say India, Brazil, Korea, Taiwan, which is an indirect way to get into China, and Hong Kong.

Q: What is your view on Brazil in particular?

A: We're finding quite a few great opportunities in Brazil, along with some other EMs. We invested in consumer-oriented companies, internet and software, education, especially distance education, which is a growing fad as a result of this COVID-19 crisis.

Q: What are your views on Turkish stocks and the lira given all the volatility we've seen? Where do they go from here?

A: There are a number of good Turkish stocks, and we own some of them in our portfolio. You have to separate the macro from the micro. Many of the companies in Turkey, and by the way this is true for a number of other countries, where the macro situation is looking terrible, but at the company level they are doing quite well. Of course, we have to be very concerned about currency. We're not concerned the exchange rate necessarily because some companies benefit from a weak currency. Generally speaking, we want to go into those areas where things may look bad on a macro level, but on a micro level they're pretty good. Same sectors in Turkey too, that I mentioned earlier, but added to that would be consumer goods, both export-oriented and local.

Q: A Reuters poll showed that emerging market currencies will struggle against the U.S. dollar over the next three months. What is your view on the dollar for the next 3-6 months?

A: With the amount of dollars being pumped into the global system, people are going to begin to realise that maybe they should diversify. A lot of the currencies have already moved down against the dollar to the level where they're quite cheap. So, I would not bet on an extremely strong dollar. I would think that it would be a good idea to diversify away from the U.S. dollar. Right now, I would probably go for some of these emerging market currencies like the Korean won, Taiwan dollar or even the remnimb, those countries with good foreign exchange reserves and a reasonable balance of payments, though bear in mind we don't trade in currencies.

Q: Do you think central banks should shift toward Nominal GDP (NGDP) targeting instead of inflation targeting? Would that help in a better and faster recovery perhaps?

A: I don't think they should do any targeting. This whole thing of inflation targeting is senseless. I don't think they should targeting anything. They should be looking at the currency and ensuring that they have a strong currency that can be trusted. Essentially, inflation is devaluation, nothing more than that. That's what the central banks have given up. They've lost the prime function that they were designed for.

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