

# Turn to emerging markets for investments that ‘will power the AI revolution,’ portfolio manager says

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A lower rate environment this year will boost the thesis for investing in emerging markets, according to Christine Phillpotts, a portfolio manager at Ariel Investments.

Phillpotts, who manages Ariel’s Emerging Markets Value and Emerging Markets Value ex-China strategies, told CNBC’s Mike Santoli that there are several reasons why emerging markets should outperform in 2024 and beyond.

For starters, a lower interest rate environment would mean investors would increase flows to ex-U.S. regions, including emerging markets. Phillpotts pointed to Friday’s release of April’s weaker-than-expected labor market report as evidence that the Federal Reserve might soon embark on its rate-cutting campaign.

The portfolio manager noted that valuation discounts for emerging market equities are at all-time highs, based on a comparison of the MSCI Emerging Markets Index versus the S&P 500. She’s also seeing evidence that earnings growth has accelerated in the emerging markets space.

For investors interested in artificial intelligence beneficiaries, Phillpotts highlighted that key opportunities in emerging markets lay within the picks-and-shovels plays that “will power the AI revolution.” These companies, she added, are key components to today’s unfolding infrastructure deployment and are available at a “fraction of the multiple” they would be in a developed market.

Year to date, the Ariel Emerging Markets Value strategy is up 8.74% net of fees versus the MSCI EM Net Index, which is up 2.37%, and the MSCI EM Value Net Index, which has added 1.31%.

In 2024, Ariel's ex-China strategy has risen 9.97% net of fees, compared to the MSCI EM ex-China Net Index's 4.01% advance.

In addition to her thesis on emerging markets in 2024, Phillpotts also discussed the following topics during her conversation with Santoli:

- Investing in China is a classic example of Warren Buffett's famous saying to be greedy when others are fearful.
- Investing in Korean banks has been a contrarian play, but Phillpotts sees the sector lowering its cost of risk, strengthening its balance sheets, and returning more capital to shareholders.
- Investing in copper as it benefits from short-term supply/demand imbalances and long-term growth drivers such as global electrification.