

FED'S STATUS QUO

EMs should worry: Mobius

Decision has created uncertainty, which could lead to continued volatility

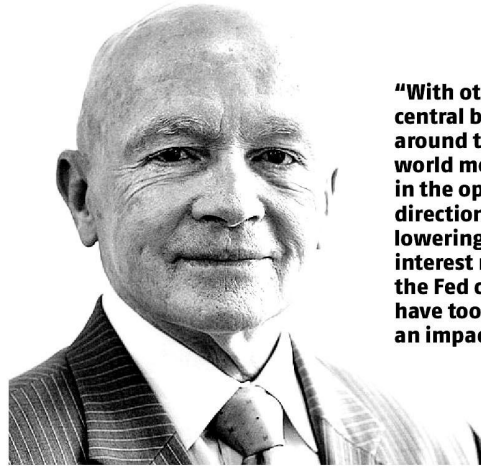
BS REPORTER

Mumbai, 18 September

The US Federal Reserve's decision to leave rates unchanged isn't necessarily good news for countries like India, says Mark Mobius, chairman of the emerging markets group at Franklin Templeton Investments.

"In our view as investors in emerging markets (EMs), this (Fed's decision) isn't necessarily positive news. We are still left with the uncertainty that has been plaguing the market for some time. We know that the markets dislike uncertainty; so, we could also be left with continued volatility through year-end," he said.

The Fed had on Thursday left interest rates unchanged at near-zero, on concerns over the global economy amid volatility in the financial markets. The global financial markets — including bonds, currency and stock markets — saw heightened volatility in August due to concerns over the slowdown in China and an impending rate rise by the Fed.



"With other central banks around the world moving in the opposite direction, lowering interest rates, the Fed can't have too strong an impact"

"If in the coming months the Fed feels confident enough in the US economy to raise interest rates, it could be viewed as positive news for EMs, particularly those with export ties that benefit from a strengthening US economy," said Mobius.

Adding: "I believe that once the Fed does take action, it will not be the start of an aggressive tightening regime. With

other central banks around the world moving in the opposite direction, lowering interest rates, the Fed can't have too strong an impact and is likely to be extremely cautious and incremental with any future actions."

India's benchmark stock index, the BSE bourse's Sensex, had dropped 6.5 per cent in August, its biggest monthly setback in nearly four years. Earlier

this month, the index had closed at its lowest level since May 2014.

"My feeling is that the under-performance in EMs overall this year can be partly attributed to the uncertainty about interest rates. We saw a similar type of downturn in EMs two years ago, when the Fed first started hinting at increasing interest rates, dubbed 'taper tantrum'," said Mobius.

Late last month, he'd said investors should wait for the markets to stabilise before buying into EMs. Mobius said valuations in the EMs had become attractive after the recent correction, as price-to-earnings ratios had declined.

"We would also emphasise that while some recent market shocks have been unsettling to many investors, volatility goes both ways. We could see equally sharp rebounds in equity markets take hold and asset flows shift as more positive events unfold," he said.

The Indian markets have rebounded nearly five per cent from their 2015 lows, touched earlier this month.