Middle East & North African unrest

Aberdeen

Overview

With no end in sight for the unrest in the Middle East and North Africa, investors have understandably become more risk averse. As if global inflationary pressures and a euro sovereign debt crisis are not enough to worry about, there is now a potential oil shock to contend with. What we can say right now is that our positive long term outlook on global emerging markets remains intact, as is our confidence in the quality of the companies and credits we invest in.

Uncertainty about the course of events in the Middle East, and news that Libyan leader Muammar Gaddafi has ordered oil facilities to cut production, has pushed up the price of oil and triggered some safe haven fund flows.

According to US officials though, OPEC's top oil producer Saudi Arabia could replace Libyan supplies within a month. Reassuringly, the Saudis have stepped in to boost production in previous disruptions in other member producers - during the first Gulf war in 1990-91, during the oil strike in Venezuela in late 2002, and in 2003 during the US invasion of Iraq - and the Saudi oil minister says the kingdom stands ready to pump more oil, if needed. Besides, oil stocks are generally in much better shape than they were when prices rose to over $145 per barrel in 2008.

It is impossible to know for certain how events will pan out in the Middle East and North Africa (MENA) region. Political reform and economic liberalisation across the region are inevitable over the long-term and should be seen as a positive. The ease with which they are achieved is the cause of the uncertainty. There would be obviously serious global economic ramifications if instability spread to Saudi Arabia or Iran and threatened the oil supply.

The risk of popular uprisings outside of the MENA region would seem remote for the moment – though Gaddafi's and Hugo Chavez' "shared destiny" serves to remind us of the potentially explosive politics in countries like Venezuela, and the need for judgement when investing in emerging markets.

Our Global Emerging Market core equity portfolios do not have direct exposure to any of the MENA markets, and what indirect exposure we have is minimal. On the fixed income side our emerging market debt portfolios have a 1% position in Bahrain, a 3% position in Qatar, and a 1% position in the United Arab Emirates.

As long-term investors, we will take a step back from the noise, and continue to concentrate on assessing the individual strengths and weaknesses of economies and companies. This is where we can add value; geopolitical events will run their course while the fundamental case for investing in global emerging markets remains unchanged.

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