Global GDP Worse Than Official Forecasts Show, Maersk Says

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- IMF too optimistic as trade indicates less growth, CEO says
- World's biggest shipping line is bellwether for global trade

The world's economy is growing at a slower pace than the International Monetary Fund and other large forecasters are predicting.

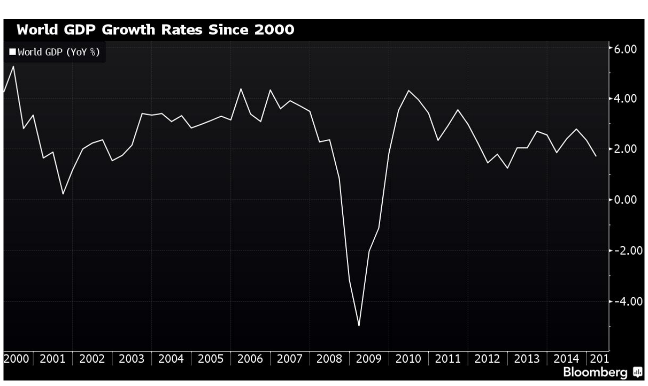
That's according to Nils Smedegaard Andersen, chief executive officer at A.P. Moeller-Maersk. His company, owner of the world's biggest shipping line, is a bellwether for global trade, handling about 15 percent of all consumer goods transported by sea.

QUICKTAKE
GDP

"We believe that global growth is slowing down," he said in a phone interview. "Trade is currently significantly weaker than it normally would be under the growth forecasts we see."

The IMF on Oct. 6 lowered its 2015 global gross domestic product forecast to 3.1 percent from 3.3 percent previously, citing a slowdown in emerging markets driven by weak commodity prices. The Washington-based group also cut its 2016 forecast to 3.6 percent from 3.8 percent. But even the revised forecasts may be too optimistic, according to Andersen.

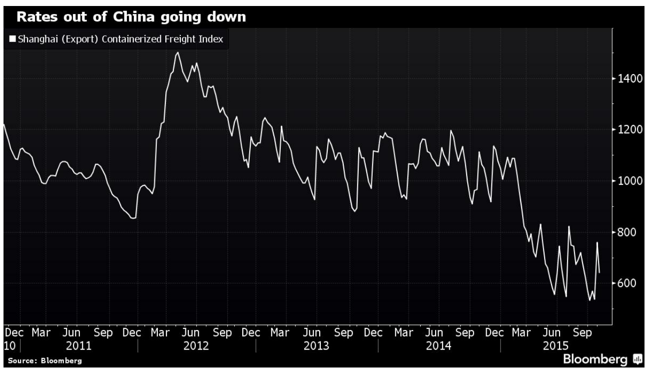
"We conduct a string of our own macro-economic forecasts and we see less growth -- particularly in developing nations, but perhaps also in Europe -- than other people expect in 2015," Andersen said. Also for 2016, "we're a little bit more pessimistic than most forecasters."



The Organization for Economic Cooperation and Development on Monday lowered its forecasts for the global economy for a second time in three months. GDP will grow 2.9 percent in 2015 and 3.3 percent in 2016, down from the 3 percent and 3.6 percent the group predicted in September.

Maersk’s container line on Friday reported a 61 percent slump in third-quarter profit as demand for ships to transport goods across the world hardly grew from a year earlier. The low growth rates are proving particularly painful for an industry that’s already struggling with excess capacity.

Trade from Asia to Europe has so far suffered most as a weaker euro makes it tougher for exporters like China to stay competitive, Andersen said. Still, there are no signs yet that the global economy is heading for a slump similar to one that followed the financial crisis of 2008, he said.



“We’re seeing some distortions amid this redistribution that’s taking place between commodity exporting countries and commodity importing countries,” he said. “But this shouldn’t lead to an outright crisis. At this point in time, there are no grounds for seeing that happening.”

To bolster its oil business, Maersk said on Monday it will spend up to $845 million on acquisitions in Kenya and Ethiopia to take advantage of lower prices that have hobbled parts of the energy industry.

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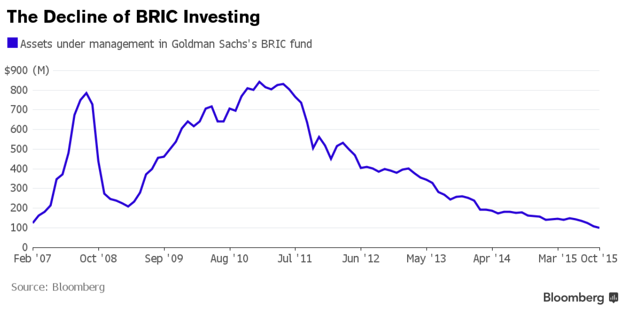
- BRIC fund loses 21% in five years, leading to investor exodus
- Acronym-based investment strategy comes under greater scrutiny

The BRIC era is coming to an end at Goldman Sachs Group Inc.

The bank’s asset-management unit folded its money-losing BRIC fund, which invests in Brazil, Russia, India and China, and merged it last month with a broader emerging-market fund. Goldman Sachs pulled the plug on the nine-year-old product because it doesn't expect "significant asset growth in the foreseeable future," according to a filing to the U.S. Securities and Exchange Commission.



Fourteen years after former Goldman Sachs economist Jim O'Neill coined the acronym that ushered in an unprecedented investment boom, the biggest emerging markets are now sputtering. Russia and Brazil have fallen into recessions. China, long an engine of the world's growth, is poised for its weakest expansion since 1990.

The downfall of the BRIC fund, which had lost 88 percent of its assets since a 2010 peak, also underscores how the strategy of bundling disparate countries into a single investment theme is losing its appeal among investors.

"The promise of BRIC's rapid and sustainable growth has been challenged very much for the last five years or so," said Jorge Mariscal, the chief investment officer of emerging markets at UBS Wealth Management, which oversees about $1 trillion. "The BRIC concept was popular. But nothing is eternal."

The BRIC fund is being swallowed up by the Emerging Markets Equity Fund as part of Goldman Sachs's efforts to "optimize" its assets and "eliminate overlapping products," the New York-based bank said in the Sept. 17 filing.

Fund Merger

Instead of liquidating the fund, Goldman Sachs opted for the merger because it will give investors access to "a more diversified universe" of developing nations. The bank pointed out that the emerging-market fund has outperformed in the one-, three- and five-year periods.

The BRIC fund lost 21 percent in the five years through Oct. 23, the last trading day before the merger. Its assets declined to $98 million at the end of September after peaking at $842 million in 2010, according to data compiled by Bloomberg.

"Over the last decade emerging market investing has evolved from being tactical and opportunistic to being a strategic part of most asset allocations," said Andrew Williams, a spokesman for Goldman Sachs. "We continue to recommend that our clients have exposure to emerging markets across asset classes as part of their strategic asset allocation."

O'Neill, who stepped down as the chairman of Goldman Sachs Asset Management in 2013 and became commercial secretary to the U.K. Treasury in May, declined to comment.

BRIC Power

In the decade following the creation of the BRIC moniker, the group surged as a global economic power, amassing 40 percent of the world's foreign reserves. MSCI Inc.'s BRIC Index returned 308 percent in the 10 years through 2010, compared with a 15 percent gain in the Standard & Poor's 500 index.

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While the four countries still account for more than one fifth of the global economy, their growth prospects have dimmed. In a December 2011 report, Dominic Wilson, then chief markets economist at Goldman Sachs, said the economic potential for BRICs probably peaked because of a smaller supply of new workers.

The predicament has become even more striking this year. Brazil is reeling from a corruption scandal and the worst recession in a quarter century, while Russian companies are locked out of global capital markets because of international sanctions. In China, the government was caught off guard by a stock crash this year that wiped out $5 trillion in market value. Even in India, where growth accelerated, Prime Minister Narendra Modi is struggling to push through reforms.

Era Ends

The MSCI's BRIC benchmark fell 0.6 percent at 9:09 a.m. in New York, extending this year's decline to 8.2 percent on a total return basis. Over the past five years, it has lost 26 percent, compared with a 92 percent advance in the S&P 500 Index and a 16 percent decline of the emerging-market benchmark.

"The excitement came from the rapid growth from China," said Anindya Chatterjee, managing director at City National Asset Management Inc. in New York. While China's current shift away from exports and investment leads to a more balanced economy, it also slows its growth, "thus it is not a pretty environment" for emerging-market investing, he said.

Chatterjee's $775 million City National Rochdale Emerging Markets Fund has returned about 8 percent annually over the past three years. It beat 98 percent of its competitors during the period by shunning companies in Brazil and Russia and focusing on those profiting from Asia's growing middle class, including China's Internet giant Tencent Holdings Ltd.

Fund Outflows

Investors have withdrawn $1.4 billion from funds investing in BRIC countries this year through Nov. 4, extending the outflow since the end of 2010 to more than $15 billion, according to EPFR Global. That is more than unwinding all the inflows since 2005.

The acronym-based investing strategy is flawed and has come under increasing scrutiny, according to Xavier Hovasse, who oversees $2.3 billion emerging market assets at Carmignac Gestion. That's because markets are now driven more by country-specific factors than global trends, causing performance to diverge.

"The BRIC acronym didn't make any sense in the first place because you just randomly group four countries which are completely different," Hovasse said from Paris. "If you restrict your investment universe too much, it's more difficult to perform. I am not surprised that those funds are collapsing."

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