

Newsletter

Emerging Market

November 2023

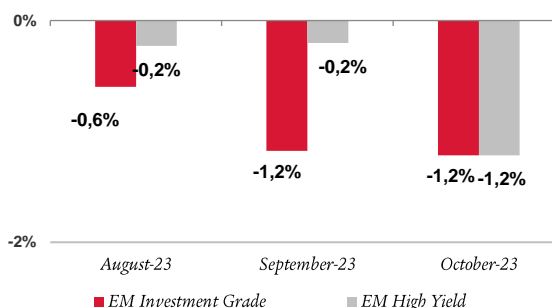
October saw a tumultuous geopolitical landscape with Hamas’ attack on Israel and rising US Treasury rates, unsettling global investors. Political shifts occurred in Poland, Ecuador elected a young businessman as president, and Argentina braced for a runoff election. These events soured investor confidence in Emerging Market credit, resulting in widened sovereign and corporate spreads by month-end.

Monthly highlights

Performances: Investment Grade vs High Yield

The Investment Grade and High Yield sectors exhibited comparable performance over the month. The returns in the Investment Grade category suffered due to the extended duration of its index, whereas the High Yield index was impacted by the widening in credit spreads.

Performance EM Investment Grade and High Yield Bonds

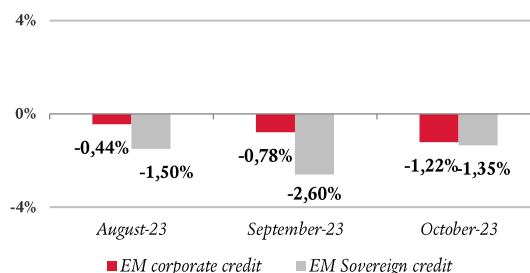


Source: Swiss Life Asset Managers, data as au 31.10.2023

Performance: Corporate vs Sovereigns

Corporate bonds were less affected by the shift in U.S. Treasury rates compared to Sovereign bonds, due to the shorter duration of the Corporate bond index.

Performance EM Hard Currency and Local Currency Corporates



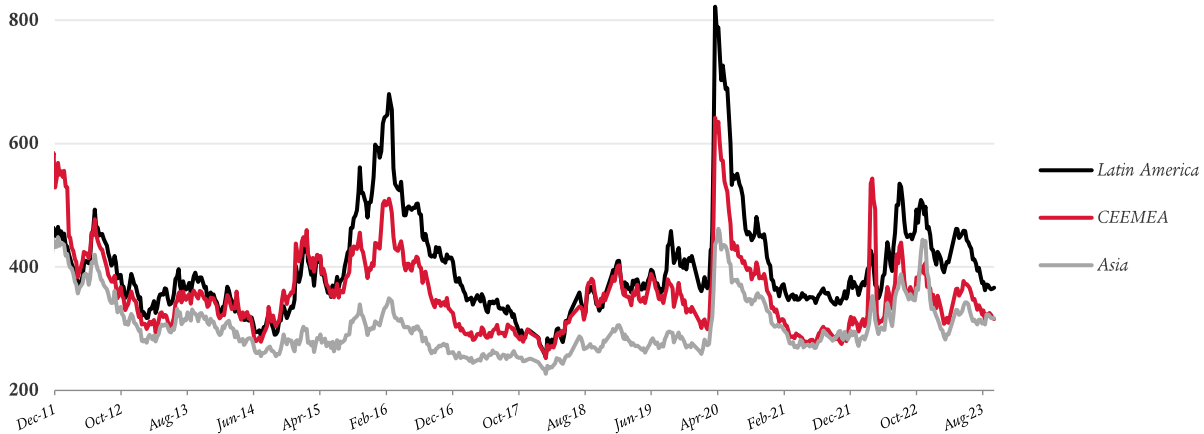
Source: Swiss Life Asset Managers, data as 31.10.2023

Disclaimer: Source: Swiss Life Asset Managers France, Bloomberg. This presentation contains historical market data. Historical market trends are not a reliable indicator of future market behavior. These data are provided for illustrative purposes only. Depending on the date of publication, the information presented may differ from the updated data.

Regional Performance

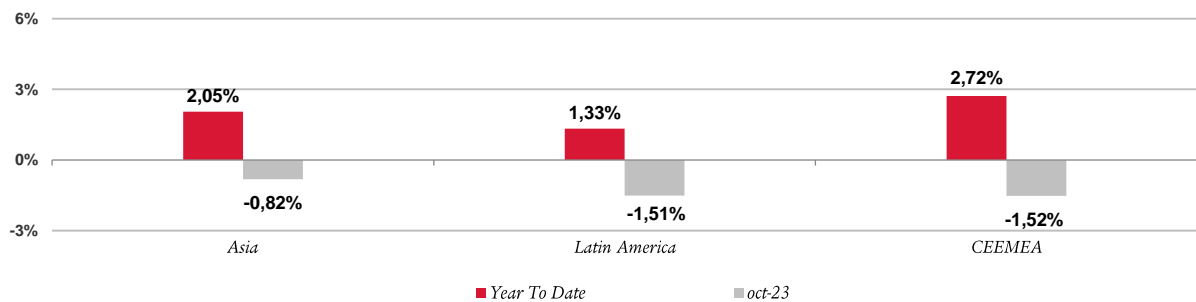
Over the month, Asia surpassed the other two Emerging Market regions in performance. Despite being affected by tensions in the Middle East, CEEMEA (Central & Eastern Europe, Middle East, and Africa) still achieved returns comparable to those of Latin America. Additionally, CEEMEA maintains the highest absolute return year-to-date (YTD).

Regional Credit Spreads - EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 31.10.2023

Regional Performance – EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 31.10.2023

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The Figure of the month



Josipa Markovic
Emerging markets economist

50.1%

Emerging Markets manufacturing PMI for October

Macroeconomic environment

Emerging Markets manufacturing PMI for October

The emerging markets manufacturing PMI for October remained just a notch above the 50 points mark that separates expansion from contraction. A number of Asian economies continues to show solid readings, such as Indonesia and India – both rather domestically driven economies that benefit from a resilient consumer. Developments on the two north Asian tech exporters, Taiwan and South Korea are also encouraging. Taiwan's PMI has picked up from a month before, while in South Korea the reading remained more or less unchanged – showing that in these countries the manufacturing cycle is improving. The negative surprise in the region has been China, where the PMI unexpectedly dipped again below the 50 points mark. Hence, although we have seen signs of improvement as well as a stronger than expected GDP growth rate for the third quarter, that came in at 4.9%, the weak October PMI reading shows that the ongoing recovery still looks fragile. Therefore, the government that is already introducing various stimulus measures, will likely continue to do so.

Israel-Hamas war fuelling geopolitical risk

The ongoing Israel-Hamas war is fuelling geopolitical risk and could leave marks on the global economy as it threatens to push up oil and gas prices, which would lead to a renewed increase in inflation and curb economic activity. So far, the reaction in oil prices has remained muted. If this will remain will depend on the future development of the war. We do not expect any significant rise in energy prices in the least negative scenario in which the war remains limited to Israel and the Palestinian territories. If, as currently seems increasingly to be the case, the war spills over to other Arab countries such as Lebanon and Syria, we expect increased volatility in energy prices and a risk premium due to the looming risk of a direct conflict with Iran. However, in our view, only the worst case of a direct conflict between Israel and Iran in which other major powers such as the US and China would also intervene would lead to a significant and protracted rise in energy prices.

OUR STRATEGY

“Our strategy continues to be cautious, mindful of the rate volatility and geopolitical factors impacting certain emerging market regions. We are maintaining a neutral stance in our overall positioning and have adjusted our regional allocation to align with recent developments.”

Gabriele Bartoletti, CFA

Emerging Market Senior Portfolio Manager

Dorthe Fredsgaard Nielsen

Emerging Market Senior Portfolio Manager

Strategy for Emerging Markets

- In October, risk sentiment deteriorated due to the Israel-Hamas conflict. This escalation led to wider spreads in the region, although the market didn't anticipate a broader escalation, and the initial sharp sell-off in spreads partially reversed later in the month. We're maintaining a cautious outlook for the region and have shifted to a more defensive approach in our credit allocations there.
- Elsewhere in emerging markets, the narrative is shaped by the prospect of higher U.S. interest rates and their impact on EM economies. These economies have shown resilience in the face of global financial tightening and ongoing domestic issues in China, indicating a reduced sensitivity to both UST rates and Chinese economic growth. The ability of EM issuers and in particular Investment Grade credit to navigate this environment has been impressive.
- Our strategy remains cautious, considering the volatility in rates and geopolitical factors affecting specific emerging market regions. We have adjusted our regional allocation to mirror a more defensive approach towards the Middle East and maintain an underweight position in China. Our preference leans towards Eastern European and Latin American credit, where valuations appear more appealing, and fundamentals are on the upswing. Furthermore, meticulous selection will be crucial in this environment to generate excess returns.

China Property: No Relief in Sight Amid Defaults

- China's property market is facing intensified scrutiny after a notable default by Country Garden in October. Previously seen as a leading property developer and one of the few solvent firms, Country Garden's financial troubles exacerbate the sector's difficulties. Currently, most developers that have not defaulted are state-owned or partially government owned.
- In an effort to bolster market confidence, Beijing has initiated measures to stimulate demand. These efforts include relaxing monetary policy, reducing mortgage rates and downpayment requirements, and reclassifying some second home buyers as first-time buyers. The government's actions align with China's goal of common prosperity, aiming to support households rather than directly bail out property developers. The focus is on encouraging consolidation in the sector while maintaining the viability of state-owned developers. This approach marks a significant shift towards centralization, diverging from previous policies that were more favorable to the private sector.

About Swiss Life Asset Managers

Swiss Life Asset Managers has over 165 years' experience in managing the assets of the Swiss Life Group. This close link with the insurance industry underpins its investment philosophy, whose main objectives are to invest with a responsible approach to risk, and to act in the interests of its clients every day. Swiss Life Asset Managers also offers this proven approach to third-party clients in Switzerland, France, Germany, Luxembourg, the UK and the Nordic countries.

As of June 30, 2023, Swiss Life Asset Managers managed 265.8 billion euros in assets for the Swiss Life Group, including over 114.8 billion euros in assets under management for third-party clients. Swiss Life Asset Managers is a leading property manager in Europe¹. Of the 265.8 billion euros in assets under management, 91.7 billion euros are invested in real estate. In addition, Swiss Life Asset Managers jointly administers 21.6 billion euros of real estate with Livit. As of June 30, 2023, Swiss Life Asset Managers thus managed 113.3 billion euros of real estate assets. Swiss Life Asset Managers' clients benefit from the commitment and expertise of more than 2,200 employees across Europe.

Life with freedom of choice

Swiss Life enables people to live their lives with freedom of choice and to look to the future with confidence. This is also the aim of Swiss Life Asset Managers: we think long-term and act responsibly. Drawing on our expertise and experience, we develop forward-looking savings and investment solutions. We support our customers in achieving their long-term investment objectives, so that they in turn can take into account the needs of their own clientele and build a financial future with complete freedom of choice.

¹ INREV 2021 survey of fund managers (based on assets under management at 31.12.2021).

Swiss Life Asset Managers data at 31/10/2023.

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