Newsletter

Emerging Market

December 2023

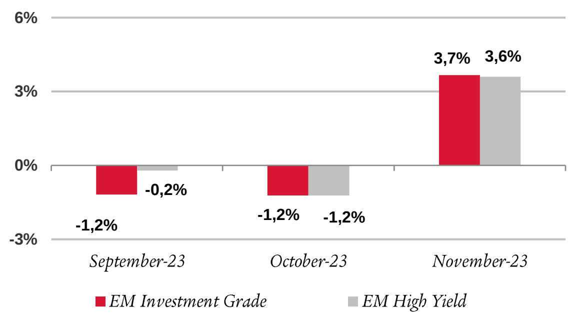
In November, markets surged as U.S. Treasury rates dropped on expectations of a Fed rate pause. China grappled with sluggish real estate growth, prompting government interventions for support. Emerging Market central banks diverged in response to U.S. rate concerns. Argentina witnessed an outsider winning the presidential election, signaling potential hurdles with a divided congress and economic challenges. The Israel-Hamas conflict remained contained within Israel, posing little regional risk. Overall, these occurrences sparked a strong market rally, leading to significant tightening of credit spreads in both sovereign and corporate sectors.

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 benefitted from the extended duration of its index, whereas the High Yield index had strong returns from tighter credit spreads.

Performance EM Investment Grade and High Yield Bonds

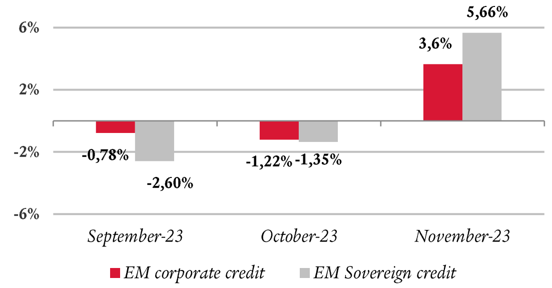


Source: Swiss Life Asset Managers, data as au 30.11.2023

Performance: Corporate vs Sovereigns

Sovereign credit outperform Corporate credit, driven by Sovereigns longer duration exposure and a robust risk rally in the High Yield Sovereign space.

Performance EM Hard Currency and Local Currency Corporates



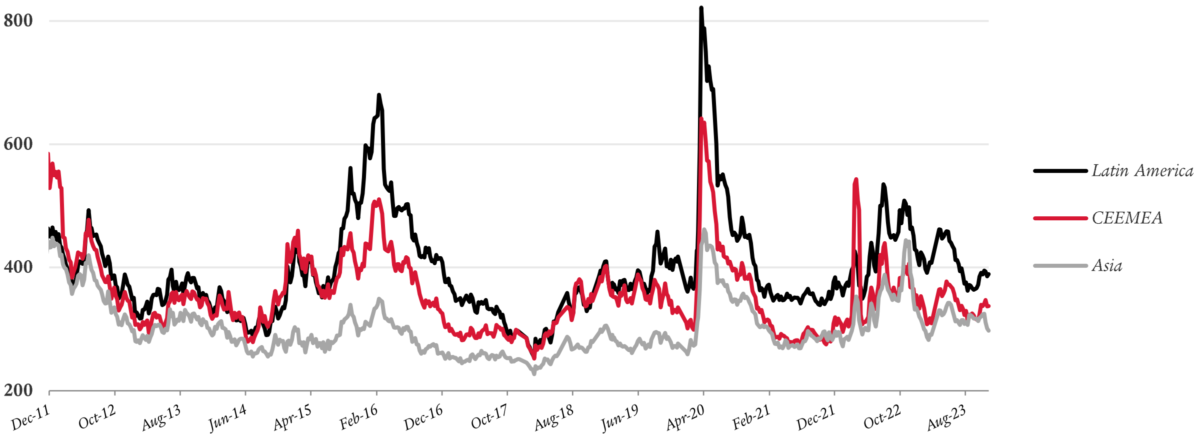
Source: Swiss Life Asset Managers, data as 30.11.2023

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

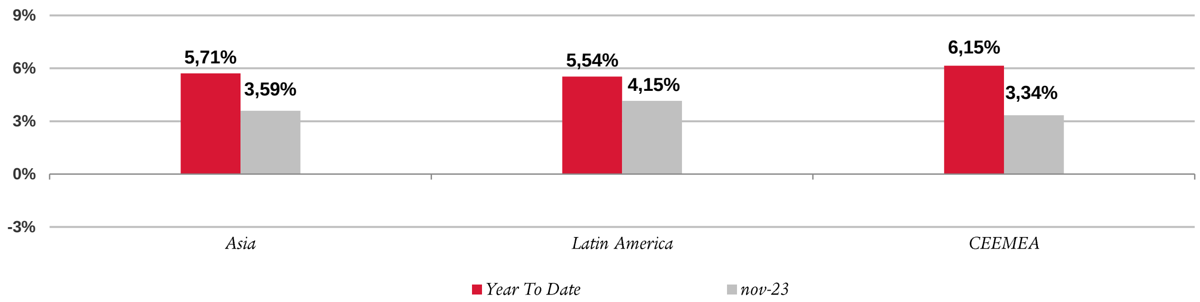
Over the month, Latin America credit outperformed the other two Emerging Market regions. The strong risk sentiment benefitted the region which has a higher beta to risk on environment. Asia and CEEMEA still had strong positive performance thanks to the combination of tighter spreads and lower UST rates.

Regional Credit Spreads - EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 30.11.2023

Regional Performance – EM Hard Currency Corporate Bonds



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The Figure of the month

Josipa Markovic
Emerging markets economist

4.0%

Emerging Markets 2024 Real GDP Growth Expectations according to Bloomberg Survey

Macroeconomic environment

Emerging Markets 2024 Real GDP Growth Expectations according to Bloomberg Survey

Emerging Markets are expected to show quite resilient economic growth for next year. According to the Bloomberg poll, emerging economies are set to grow by 4.0%, against an expected expansion of 3.9% this year. There are various drivers that shape this outlook. The US economy is set to slow, however any recession is expected to be rather mild and short in nature, hence not exerting substantial downward pressure on emerging economies. For China, we expect that the government will be able to slow the speedy downwards trend of the property market. However lingering weakness in the property sector that will weigh on sentiment more broadly will cap its growth trajectory, so that China will still not give a meaningful positive impulse to the rest of the emerging world. More positively, we expect inflation that is already on a decelerating trend in the vast majority of emerging countries to drop further, supporting private consumption and allowing a more broad based interest rate cutting cycle of central banks that will support investments.

Elevated geopolitical risks into 2024

Geopolitical risks will remain elevated also into 2024. Our base case is that none of the current conflicts, such as the Israel-Hamas war, will escalate into a broader conflict, hence a substantial deterioration of current developments or new geopolitical flashpoints constitute a downwards risk to our forecast. On the elections front, the presidential elections in Taiwan will be closely watched as the result will be pivotal to future China-Taiwan relations. Moreover, given China’s fast tech advance and fast expansion of exports of new energy items, such as electric vehicles, solar panels or batteries, there is a risk of heightened trade tensions with the western world.

OUR STRATEGY

“We adopt a more constructive short-term outlook for the asset class as a whole”

Gabriele Bartoletti, CFA
Emerging Market Senior Portfolio Manager

Dorthe Fredsgaard Nielsen
Emerging Market Senior Portfolio Manager

Strategy for Emerging Markets

- In November, there was a notably positive shift in market sentiment. The UST yield curve saw a significant change, with a sharp decrease in rates. This change was largely due to the growing belief that the Fed might be close to concluding its cycle of raising interest rates, a sentiment supported by weaker-than-expected economic data. Concurrently, there was a trend among EM central banks to maintain accommodative monetary policies to bolster domestic demand as the disinflationary process unfolds.

- In particular, China has intensified its efforts to stimulate the economy, grappling with ongoing challenges in the property sector. These developments have led to a more optimistic market outlook, with a 'soft landing' scenario increasingly factored in. Additionally, the easing of global financial conditions is seen as beneficial for EM credit markets.

- Given these circumstances, we adopt a more constructive short-term outlook for the asset class as a whole. This optimism is further underpinned by supportive market technicals, characterized by low supply and an underinvested asset class. Our preference remains inclined towards credit in Latin America and Eastern Europe, where valuations seem more attractive.

Argentina: Milei's Election Viewed Positively by the Market

- The recent presidential election in Argentina was received favourably by the market. Milei, an outsider candidate known for his unconventional approach and often compared to other populist right-wing figures like Bolsonaro or Trump, garnered significant media attention. The market reacted positively, particularly due to Milei's pledge to address the country's fiscal spending issues, a key factor in Argentina's history of defaults.

- Milei's distinctive approach includes plans to significantly reduce government spending, potentially by downsizing or eliminating some ministries. While his methods may be unorthodox, his economic reforms are viewed as necessary to address Argentina's macroeconomic imbalances. This perspective has contributed to the recent rally in Argentine debt.

- However, the future effectiveness of these reforms is a subject of debate. Milei's party holds only a minority in Congress, which could pose challenges to implementing these potentially painful yet necessary economic reforms. The ability of his administration to navigate these challenges and steer the economy towards recovery remains a key question for the market..

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 30/11/2023.

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