

Newsletter

Emerging Market

March 2024

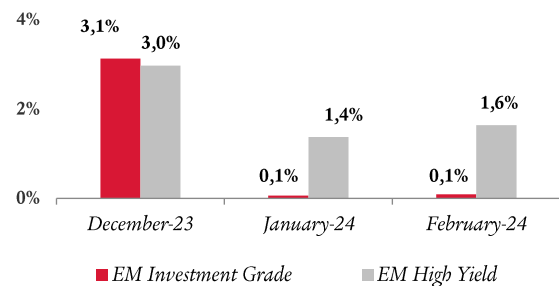
The US economy continues to be robust but faces persistent inflation, prompting a rise in the 10-year US Treasury yield. The battle against inflation might prove tougher than anticipated: the Federal Reserve expects around three rate cuts for 2024. Geopolitical tensions persist in the Middle East. In Indonesia, general elections are in focus with a likely victory for the Prabowo-Gibran ticket. Emerging markets witness yield spread tightening, notably in riskier segments.

Monthly highlights

Performances: Investment Grade vs High Yield

High Yield credit significantly outperformed Investment Grade credit during the month. The former was more resilient to rates volatility and benefitted more from the positive risk sentiment driving spread tighter.

Performance EM Investment Grade and High Yield Bonds

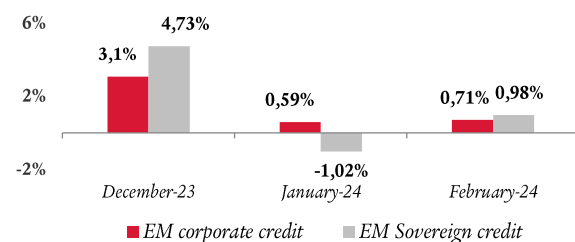


Source: Swiss Life Asset Managers, data as of 29.02.2024

Performance: Corporate vs Sovereigns

Sovereign bonds marginally outperformed corporate credit, primarily due to different country composition of the riskier part of the market, as a few of the lower rated sovereigns had a strong month.

Performance EM Hard Currency and Local Currency Corporates



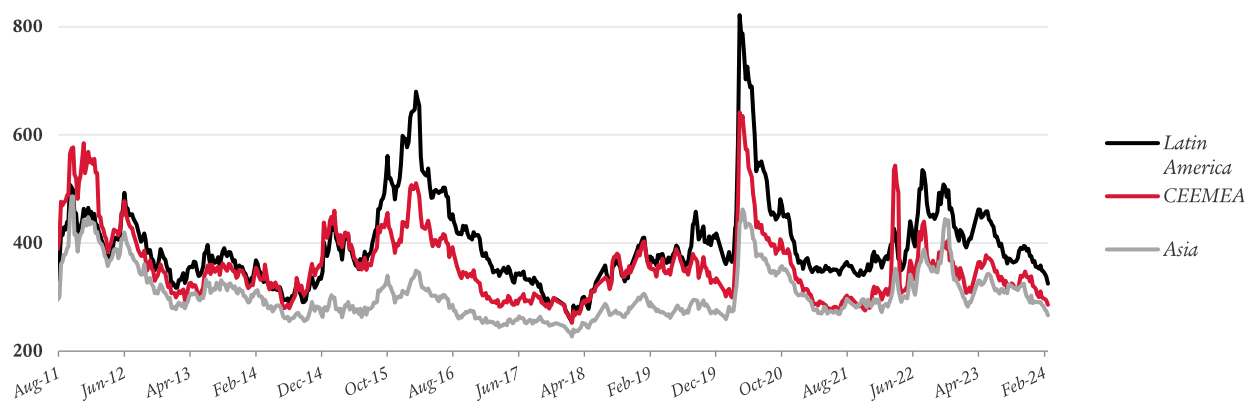
Source: Swiss Life Asset Managers, data as of 29.02.2024

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

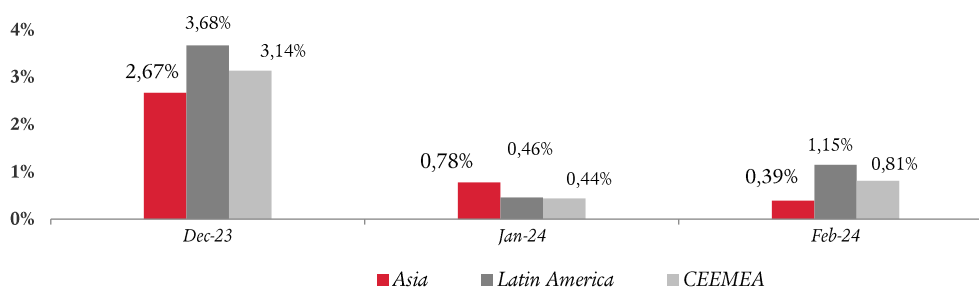
Over the month, credit markets in Latam outperformed those in other Emerging Market regions, driven by strong spread tightening in Brazil, Chile, Colombia, and Peru. The CEEMEA region followed, dragged up by the Eastern Europe as the Middle East still affected by the hidden geopolitical tension. Asia was the weakest region in terms of return over the month.

Regional Credit Spreads - EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 29.02.2024

Regional Performance – EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 29.02.2024

New ESG measures in Latin America

In Latin America the larger countries are taking steps to bring their ESG regulations closer to the international standards. These countries hope it could help increase the capital flows and improve transparency. The EU Green taxonomies seems to be the inspiration for many countries outside the EU. However, the EU Green taxonomies lack specific to extractive industries, hence Brazil and Chile are working on their own taxonomies given the relevance of the natural resources for their economies. While local regulation may be lacking, the larger companies already seek to adopt international standards to cater to foreign investors. The local investors' demand for ESG disclosure is still relative limited, however the pension plan administrators are pushing for better disclosure as they themselves have disclosure requirements.

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.

The Figure of the month



Josipa Markovic
Emerging markets economist

Around 5%

China's annual GDP growth target for 2024 has been set at "around 5%"

Macroeconomic environment

China's annual GDP growth target for 2024 has been set at "around 5%"

During its annual meeting of the National Peoples' Congress, China's rubber-stamp parliament, China announced a growth target of "around 5%" for 2024, unchanged from last year. This target looks very ambitious to us, given that this year it will be much more difficult to achieve 5% compared to last year as the base number has become higher. (Growth of around 5% in 2023 was relatively easy to achieve as it was compared to a very low base in 2022, during which Covid restrictions weighed heavily on the economy.) Hence, in order to achieve this growth target support from one side or another must be coming. However, fiscal support is increasing only slightly: including special government bonds that are used for infrastructure projects the fiscal deficit will be 4.1% against 3.5% last year. Nevertheless, considering the prevailing housing slump and deleveraging of local governments this fiscal impulse remains modest. Growth would therefore need to be propelled by other measures: on the one hand, the government intends to promote domestic consumption by encouraging the trade-in of consumer goods including automobiles, household appliances and home furnishings. It remains to be seen to what extent this measure will be able to boost goods demand. On the other hand, on the housing sector, the government emphasized on bolstering real estate with public projects for affordable housing and urban renovation, which could be financed by the country's central bank and lead to a narrowing of real estate investments. Property sector support would indeed be the most efficient measure to boost growth but given a lack of details and scope we refrain from adjusting our growth forecast for this year and leave it unchanged at 4.5% and therefore below the growth target.

Middle East conflict disrupts transportation, but renewed inflationary pressure remains limited

Inflation in emerging markets continues to ease. Although the February readings dipped up somewhat in a few countries, such as South Korea, the Philippines or Indonesia, this has been mainly related to somewhat higher food prices. The less volatile core inflation component that excludes food and energy, however, continues to dip lower. The Latin American central banks take that opportunity and continue to unwind rate hikes they implemented when inflation was on the uptrend. This on the other hand, will likely support economic activity. Their Asian counterparts meanwhile remain prudent, being wary of potential downward pressure on currencies if they cut rates prior to the US Fed. These countries will therefore not start their easing cycle before the Fed does, which may weigh on economic activity, but support the disinflationary trend.

OUR STRATEGY

“We maintain a positive outlook on the asset class over the medium term ”

Gabriele Bartoletti, CFA
Emerging Market Senior Portfolio Manager

Dorthe Fredsgaard Nielsen
Emerging Market Senior Portfolio Manager

Strategy for Emerging Markets

- We maintain our positive outlook for the asset class over the medium term, supported by continued strong US data, pointing to a “soft” landing in the US, central banks in both developed and emerging markets are either indicating the end of their tightening cycles or have begun easing, corporates balance sheets remain healthy in general are all supportive for the Emerging Markets asset class.
- The primary risk to the asset class is geopolitical, as the conflict between Israel and Hamas has escalated tensions in the Middle East. This situation not only poses risks from a potential military escalation but also disrupts global trade and economic growth. However, we consider the scenario of this conflict leading to a full-scale war involving countries like the US and Iran to be a tail risk.
- Finally, we believe technical factors will continue to support the asset class throughout the year. Valuations have become somewhat more neutral, but the asset class is still underinvested by international investors.

Major Emerging Market Corporate Conference Insights

At the end of February one of the largest Emerging Market Corporate conferences of the year took place. The take always support our medium-term outlook for the asset class.

The overall sentiment was neutral to positive. Despite challenges, companies in emerging markets are navigating well. Views on the broader economic landscape were cautiously optimistic.

There’s been an uptick in primary market activities. However, it’s worth noting that maturity levels remain high. As a result, we anticipate a third consecutive year of negative new issuance.

Interestingly, crossover accounts—those venturing into Emerging market assets —still have limited exposure to the asset class. This technical support remains a positive factor.

Most investment-grade companies reiterated their position: no immediate plans to seek debt refinancing in the international capital market. Instead, they prefer tapping into existing cash reserves or exploring local funding options. Falling local interest rates play a role in this decision.

Only a handful of companies deviate from this stance. Notably, this reinforces the view of net negative issuance for the year and highlights the robust financial health of better-rated firms.

With healthy balance sheets and a favourable outlook for the US economy, Emerging Markets investment-grade companies are poised for a stable year.

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 december 31, 2023, Swiss Life Asset Managers managed 275.4 billion euros in assets for the Swiss Life Group, including over 120.4 billion euros in assets under management for third-party clients. Swiss Life Asset Managers is a leading property manager in Europe¹. Of the 275.4 billion euros in assets under management, 91.9 billion euros are invested in real estate. In addition, Swiss Life Asset Managers jointly administers 22.9 billion euros of real estate with Livit. As of december 31, 2023, Swiss Life Asset Managers thus managed 114.9 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 consider 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 29.02.2024.

Warning:

The information contained in this document is accessible to professional and non-professional clients within the meaning of art. 4 of the LSFIn, which incorporates the MiFid directives. This document is intended for information and marketing purposes only. It should not be construed as investment advice or an invitation to invest. 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 actual data. The figures, comments and analyses contained in this document do not constitute any commitment or guarantee on the part of Swiss Life Asset Managers France.

Swiss Life Asset Managers France cannot be held liable for any decision taken on the basis of this information. All information and opinions expressed in this document are subject to change. Potential investors should read the DICI and the prospectus of each fund before subscribing. These documents are available free of charge in paper or electronic form from the fund's Management Company or its representative: Switzerland: Swiss Life Asset Management AG, General-Guisan-Quai 40, P.O. Box 2831, 8002 Zürich; France: Swiss Life Asset Managers France, 153, rue Saint-Honoré, 75001 Paris or at fr.swisslife-am.com. Source: Swiss Life Asset Managers, data to 29/02/2024. "Swiss Life Asset Managers" is the brand name for the asset management activities of the Swiss Life Group.

Find all our publications on:

www.swisslife-am.com

If you have any further questions, please do not hesitate to contact us:

In France: service.clients-securities@swisslife-am.com,

Phone: +33 (0)1 40 15 22 53

In Switzerland: info@swisslife-am.com

Swiss Life Asset Managers France

Investment management company

GP-07000055 of 13/11/2007

Public limited company with an Executive Board and Supervisory Board and capital of 671,167 Euros

Headquarters: Tour la Marseillaise, 2 bis, boulevard

Euroméditerranée, Quai d'Arenc 13002 Marseille

Main office: 153, rue Saint-Honoré, 75001 Paris

