Newsletter

Emerging Market

October 2023

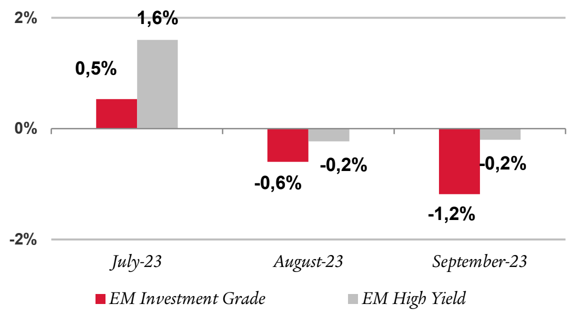
In September, US interest rates saw a significant shift due to strong economic data and a hawkish Fed, which reduced 2024 rate cut expectations.
China's PBOC cut the reserve requirement ratio (RRR) by 25 basis points to support its economy. Official manufacturing data indicated expansion, but a private sector gauge suggested ongoing uncertainty.
Post-US Labor Day, the primary market gained momentum after a slow summer, with participation from all regions, indicating increased activity.

Monthly highlights

Performances: Investment Grade vs High Yield

The High Yield segment performed significantly better than the Investment grade segment over the month, as the sub asset class benefited from shorter duration.

Performance EM Investment Grade and High Yield Bonds

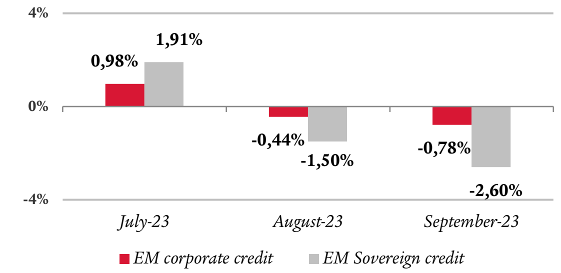


Source: Swiss Life Asset Managers, data as au 29.09.2023

Performance: Corporate vs Sovereigns

Corporates bonds benefited from its shorter duration than Sovereign hard currency bonds as well as a small spread tightening vs the Sovereign space, which had a spread widening.

Performance EM Hard Currency and Local Currency Corporates



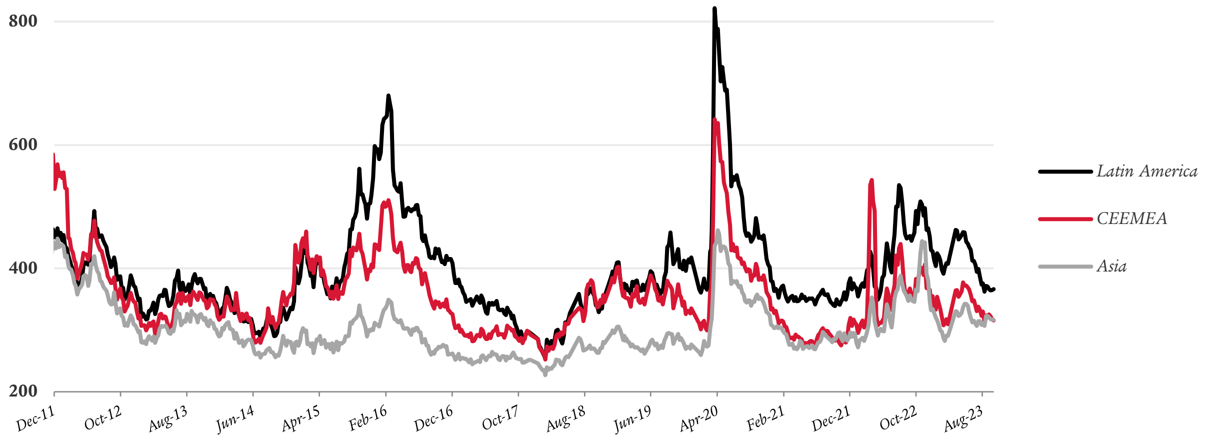
Source: Swiss Life Asset Managers, data as 29.09.2023

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

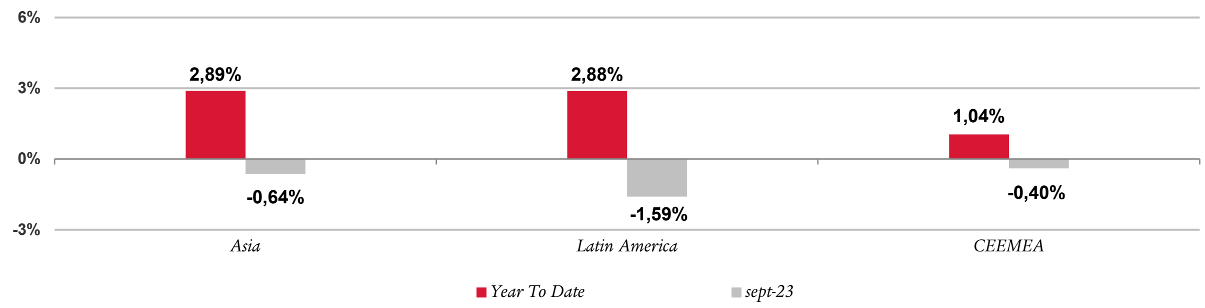
CEEMEA outperformed as the region in general benefit from higher oil prices, followed by Asia as the property sector was more stable over the month. Latam was the clear underperformer, as spread widen vs tighten in the other two regions in addition to having longer duration.

Regional Credit Spreads - EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 29.09.2023

Regional Performance – EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 29.09.2023

Update on EU sustainable finance regulation

The EU Commission is looking into updating its Sustainable Finance Disclosure Regulation (SFDR). The SFDR 2.0 could possibly include a new label based on investment strategies (particularly for retail investors who like simple labels) and/or adding minimum criteria to Article 8 & 9 classifications as baseline.
AMF, the French regulator is working on revising the French SRI label in order to make it more stringent and revisit exclusions.

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The Figure of the month

Josipa Markovic
Emerging markets economist

50.2%

China NBS Manufacturing PMI

Macroeconomic environment

China NBS Manufacturing PMI

The Chinese manufacturing PMI published by the National Bureau of Statistics (NBS) moved back into expansionary territory after having remained below the 50-points mark that separates expansion from contraction for 5 months in a row. This together with more constructive economic activity data in August as well as an uptick in tourism during the golden week holiday beginning of October point to a more robust economy in the second half this year. During the golden week holiday domestic tourism trips and revenues jumped by 71.3% and 129.5% y-o-y, respectively, with their levels at 4.1% and 1.5% above pre-pandemic levels in 2019. Along China, also other Asian economies saw an improvement in their manufacturing PMI readings compared to a month ago, such as South Korea, Taiwan as well as the Philippines.

Latin America supported by high consumer confidence

Other than in the Asian economies, the September manufacturing PMI readings disappointed in the big Latin American economies Mexico and Brazil that both registered readings below the 50-points mark that separates expansion from contraction. Nevertheless, these economies get supported by a strong consumer, as consumer confidence in Brazil and Mexico has been on a steep upwards trend during the course of this year thanks to a strong labour market and plunging unemployment rates. While an expected deceleration of demand from the US next year will weigh on these economies, an ongoing normalization in inflation rates could support domestic consumption.

OUR STRATEGY

"Considering the resent US data print (Nonfarm Payrolls) and development of the conflict in Israel over the last few days we continue to acknowledge the robustness of the US data but remain extra mindful of the surge in uncertainties and geopolitical risk. We maintain a neutral stance in our positioning, and ready to act swiftly if needed in a fast-moving environment."

Gabriele Bartoletti, CFA
Emerging Market Senior Portfolio Manager

Dorthe Fredsgaard Nielsen
Emerging Market Senior Portfolio Manager

Strategy for Emerging Markets

- The risk-on sentiment in September was more neutral with small pockets of larger moves in the riskier part of the market, e.g., Argentina risk off due to the upcoming election in October and risk on in e.g., Sri Lanka after the IMF Staff concludes its visit to the country.
- Even with more supportive data coming out of China we remind caution toward risk in Greater China and focus more on finding value everywhere in the region as well as the rest of EM.
- With the strength of the US economy the prospects of higher for longer rates in the US increases, which will test the resilience of EM issuers' ability to navigate through this environment. Higher funding costs could weight on credit fundamentals and the tighter liquidity and funding condition makes it more difficult to refinance, hence we focus more on the better-quality investment opportunities. So far, the EM corporate fundamentals have held up with only marginal weakening in credit metric over recent quarters. We think that EM corporate issuers on average should be able to mitigate the pressure given the strong starting level of fundamentals and the better onshore funding possibilities than in the past. Further companies have proactively pre-financing over the past years to term out maturities across a longer timeframe.
- In light of the heightened geopolitical risk in the Middle East, which led to a sharp increase in uncertainty and risk sentiment we remind on the cautious side in our position but will be on the outlook for taking advantages of the increased volatile in the market.

Israel - Hamas Conflict

- Hamas launched an unprecedented attack on Israel over the weekend, which has led Israel to officially declare war against Hamas. Fighting on the ground continues and the US is sending a group of carrier ships and weapons to the region. Israel has pointed the finger at Iran for helping Hamas to plan the attack, however Western officials have so far been reluctant to publicly say Tehran was directly involved. Non-Western countries e.g., the UAE and China have called for de-escalation of the violence and stressed the need for an international diplomatic effort to prevent a wider regional confrontation.
- If the conflict remains limited to Israelis and Palestinians, then the impact on economies and markets would likely be limited, too. If, however the conflict broadens out and other countries such as Iran get involved the risk will take another material leg up.
- On the political front domestically in Israel the ruling coalition said it wants to form an emergency government with the opposition to see the country through the crisis. Some of the opposition leaders are in favour of such a move.
- The full economic costs of the war will depend on the length and scale of operations, which will include direct military costs, the reconstruction of damaged buildings, infrastructure etc and the slowdown of economic activity. Bank of Israel already announced support measures for the currency and the fundamental profiles of the largest banks are favourable in the country with solid liquidity and adequate capitalisation.

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 29/09/2023.

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