

Newsletter

Emerging Market

January 2024

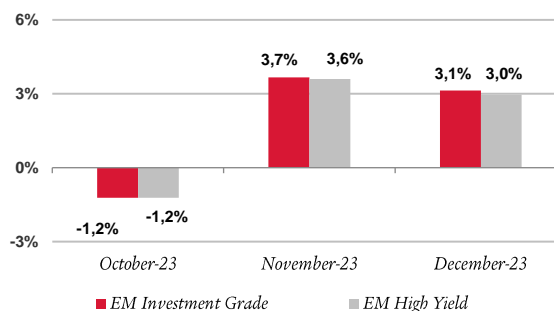
In China the PMIs gave a mix picture of the current sentiment, which contributed to China lacking other larger EM countries in the spread move over the month. Another attempt to change the constitution in Chile was made, but once again the proposal for a new constitution was reject in a referendum and taken as a defeat of the Government. However, the opposition also failed to use the momentum to push for a change in the cabinet.

Monthly highlights

Performances: Investment Grade vs High Yield

Another month where the Investment Grade and High Yield sectors exhibited comparable and strong performance. The returns in the Investment Grade category benefitted from the extended duration of its index and to less of a degree of spread tightening, whereas the High Yield index had strong returns from larger tightening in credit spreads.

Performance EM Investment Grade and High Yield Bonds

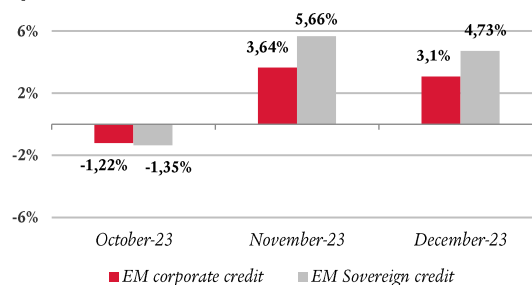


Source: Swiss Life Asset Managers, data as of 29.12.2023

Performance: Corporate vs Sovereigns

Sovereign credit outperformed Corporate credit, driven by Sovereigns longer duration exposure.

Performance EM Hard Currency and Local Currency Corporates



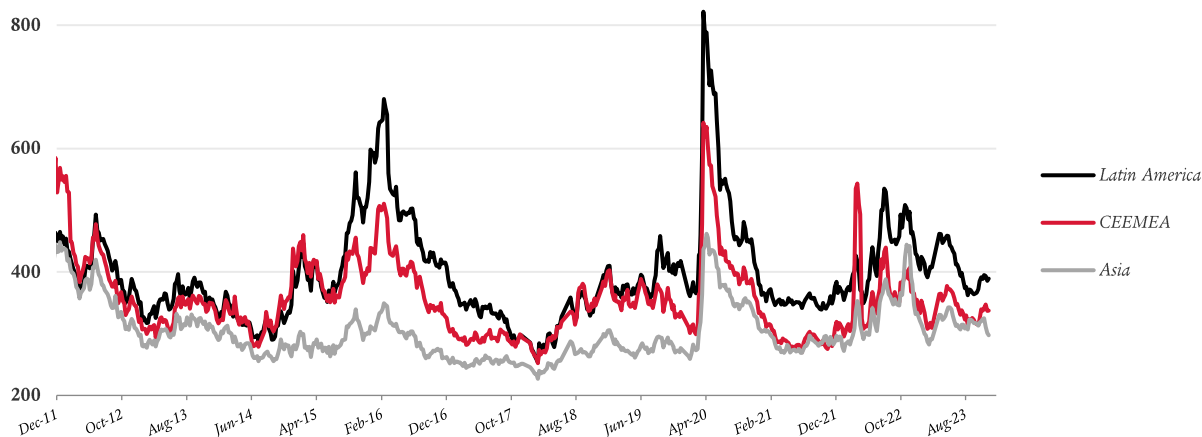
Source: Swiss Life Asset Managers, data as of 29.12.2023

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

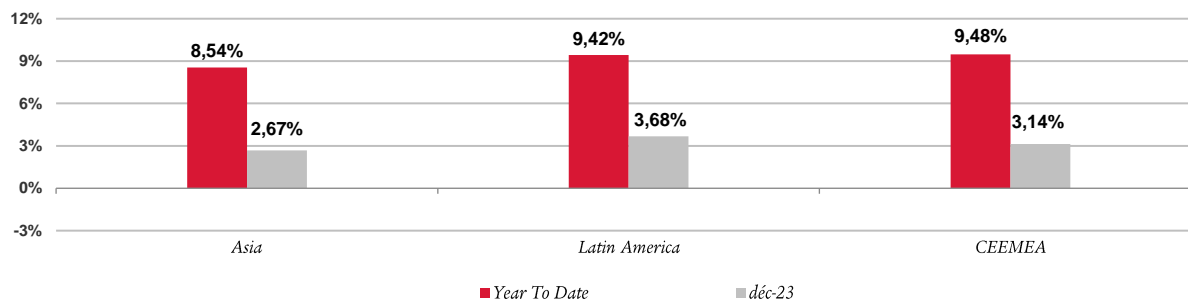
Over the month, Latin America credit outperformed the other two Emerging Market regions. The strong rally in US Treasury rates benefited the region the most as it has the longest duration. Asia and CEEMEA still had strong positive performance thanks to the combination of tighter spreads and lower US Treasury rates.

Regional Credit Spreads - EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 29.12.2023

Regional Performance – EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 29.12.2023

The COP28 summit in Dubai

The COP28 summit in Dubai ended with a first-of-a-kind agreement to transition away from fossil fuel to keep the 1.5C target. Delegates reached a deal after weeks of hard-fought negotiations over the terminology used in multiple draft resolutions. COP28 President al-Jaber hailed the deal as "historic" and stated it keeps the target of limiting global warming to 1.5°C within reach. Notably, however, the agreement stops short of calling for an explicit 'phasing out' of fossil fuels, which has drawn criticism from some. The lack of phasing out commitment goes in line with OPECs over 15% oil demand growth projection of more than 115 million barrels per day (mbpd) by 2045, which is a shape contrast to The IEA's often-quoted Net Zero Scenario, which estimate a dramatic decline in demand of coal (>90%), natural gas (~80%) and oil (~75%) by 2050 (vs. 2022 levels).

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The Figure of the month



Josipa Markovic
Emerging markets economist

1/3

The Suez Canal is used by one third of global container ship cargo

Macroeconomic environment

The Suez Canal is used by one third of global container ship cargo

Tensions in the middle east are rising. Besides the war in Gaza as well as the fighting in Lebanon with the Hezbollah, also in Yemen tensions are fierce as the Houthi rebels continue to attack ships in the Red Sea. This is disrupting maritime trade through the Suez Canal, which is used by roughly one third of global container ship cargo. The IMF Portwatch, a daily monitor of maritime trade flows, shows that more and more ships are avoiding that route, diverting the container vessels from the Red Sea route around Africa's Cape of Good Hope. The trip around Africa can add about 10 days to journey times and requires more fuel. As a consequence, shipping costs are rising. While they remain well below the peak in 2021 that was caused by the pandemic, they are significantly above their 2019 level. If the development intensifies it could derail the disinflationary process that has been ongoing over the past year.

China will not be a growth engine for the world economy in 2024

China's economic dynamics remain lackluster. The first readings for the month of December, the Purchasing Managers indices, fell short of expectations. The NBS manufacturing PMI came in at 49.0, hence below the 50-points mark that separates expansion from contraction. The non-manufacturing PMI, although in expansionary territory at 50.4, still registered the second lowest reading of 2023. Slowing external demand, combined with insufficient domestic demand due to a confidence crisis triggered by woes in the real estate sector, are the key hurdles for the Chinese economy. Hence China will not act as a growth engine to the world economy in 2024. Meantime, more support measures from the government are expected, on the monetary as well as on the fiscal front.

OUR STRATEGY

“Still constructive, but very short-term a bit softer outlook for the asset class”

Gabriele Bartoletti, CFA

Emerging Market Senior Portfolio Manager

Dorthe Fredsgaard Nielsen

Emerging Market Senior Portfolio Manager

Strategy for Emerging Markets

- The positive market sentiment there started in November held up until year end. The downward move in the US Treasury yield curve was extended. This change was largely fuelled by the comments from the FED and Powell after the mid-December FED meeting. The club of EM central banks to maintain accommodative monetary policies to bolster domestic demand as the disinflationary process unfolds where expanded with Colombia.
- In China the mixed picture from the PMIs, the fact that the property sector is still facing weak demand combined with the governments efforts to stabilize the economy vs advancing the growth rate is cooling the market sentiment a bit.
- Given the strong move in both credit spread and US Treasury rates the past two months, we have adopted a more neutral very short-term view for the asset class. However, in the medium to long term we remind optimistic, which is underpinned by supportive market technical, characterized by low supply and an underinvested asset class together with strong balance sheets for the part of the asset class we focus on. Our preference remains inclined towards credit in Latin America and Eastern Europe, where valuations seem more attractive.

2024: the Big Election Year

- Year 2024 is filled with elections, first up is Taiwan on the 13th of January. The best case is that the Democratic Progressive Party (DPP) win's a third presidential term but loses control of the Legislative Yuan. From a market point of view the worst case would be a win of the Yuan by DPP, as the concerns about an escalation cross-strait tension would likely pick up.
- Indonesia has their election on Valentine's Day, a run-off is still possible which would take place June 26th as the Advance Indonesia party is having mid 40% in the latest polls. A win by Prabowo-Gibran from Advance Indonesia is the best case from a market point of view as it is perceived as a continuation of the policies of two-term current President Widodo.
- In April/May it is India's turn. Modi have served as President since 2014 and enjoys an extraordinarily high approve ratings of 70%.
- In June Mexico will have their general election. AMLO also face limitation in running for another period. Currently uncertainties seem small with regards to the outcome of the election as AMLO enjoys an approval rating north of 60%, which his party will benefit from in the election.

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 29/12/2023.

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