Newsletter

Emerging Market

April 2024

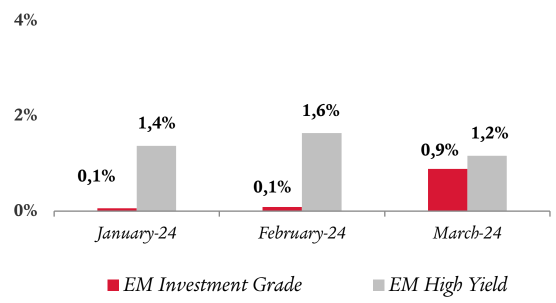
In March, emerging market credit thrived due to lower US rates and tighter spreads. Strong global economic activity fueled expectations of a delayed Fed easing cycle. EM central banks responded differently, with some holding rates steady and others cutting cautiously. China's National Policy Congress didn't introduce further easing, and its property market weakened. Geopolitically, Israel faced increasing isolation from international and U.S. support, while Senegal saw Faye assume the presidency after unrest. Overall, EM credit spreads stayed strong amid positive risk sentiment and robust demand in the primary market.

Monthly highlights

Performances: Investment Grade vs High Yield

During the month, High Yield credit outperformed Investment Grade credit. Continued positive risk sentiment led to tighter spreads in High Yield sectors.

Performance EM Investment Grade and High Yield Bonds

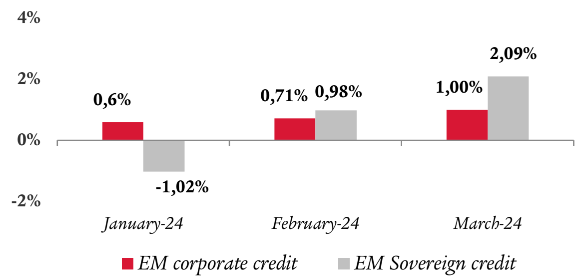


Source: Swiss Life Asset Managers, data as of 29.03.2024

Performance: Corporate vs Sovereigns

Sovereign bonds significantly outperformed corporate credit, partially attributed to their exposure to longer durations. Additionally, the performance was driven by the distressed segment within the sovereign space, which yielded strong returns.

Performance EM Hard Currency and Local Currency Corporates



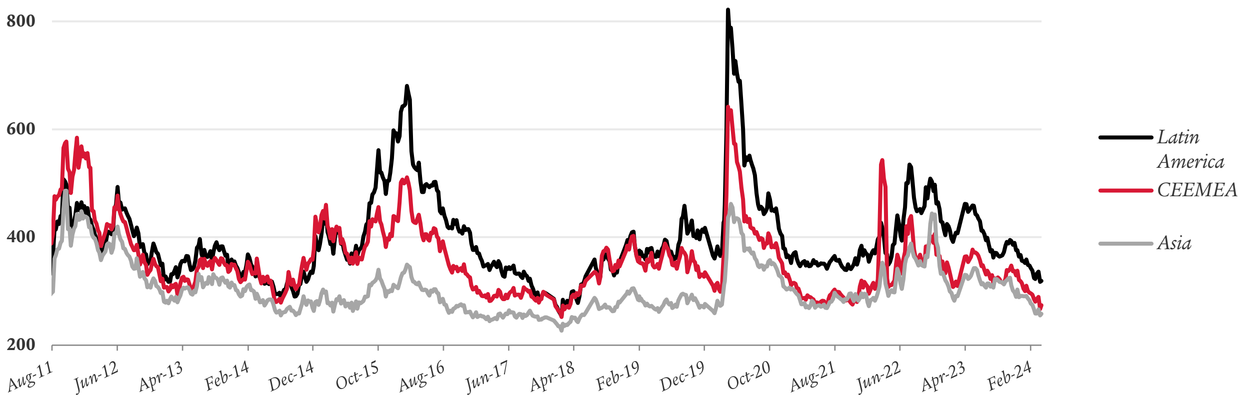
Source: Swiss Life Asset Managers, data as of 29.03.2024

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

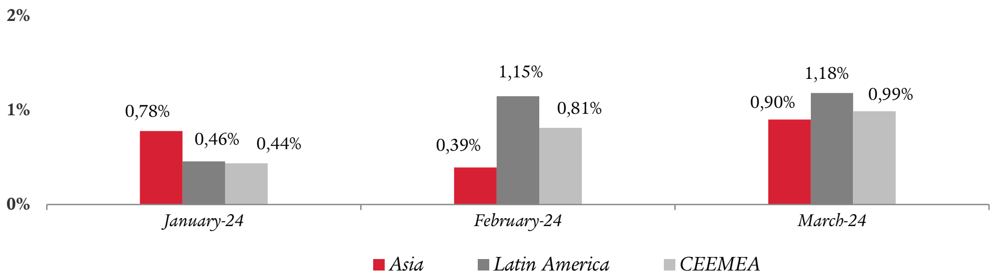
Over the month, performance was consistent across various Emerging Market regions. However, Latin American credits have outperformed those of other regions year-to-date, benefiting most from stronger US economic growth.

Regional Credit Spreads - EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 29.03.2024

Regional Performance – EM Hard Currency Corporate Bonds



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The Figure of the month

Josipa Markovic
Emerging markets economist

USD 90 per barrel

Brent crude oil prices breached USD 90 per barrel at the beginning of April

Macroeconomic environment

Brent crude oil prices breached USD 90 per barrel at the beginning of April

After an Israeli attack on Iran's consulate in Syria, in which high-ranking military personnel were killed, Iran has vowed to retaliate. This is increasing the risk of the Israel-Hamas war – which has so far remained widely contained to Gaza and Israel's northern border with Lebanon – expanding. So far, it remains unclear what form this retaliation could take. Will it be via Iran's proxy fighters, the Hezbollah in Lebanon, or could Iran really strike Israeli cities directly? The uncertainty will keep risks elevated and increase volatility, particularly in oil prices that breached 90 USD per barrel for the first time since October. In the near term, geopolitical uncertainty is a factor that could lead to another spike in oil prices. However, we expect a potential spike in oil prices to be only rather temporary because there are factors that would cap a sustained increase. On the one hand, while geopolitical uncertainty has increased significantly, we still consider the eventuality of a direct war with Iran as unlikely. Moreover, the underlying supply and demand balance speaks for rather stable oil prices: on the demand side there will be no demand push from either Europe, China or the US. On the supply side, currently supply is rather tight, due both to Opec+ supply cuts and also to Mexico's announcement that it would halt some of its oil exports. Nevertheless, the voluntary cuts by Opec+ would likely be dialled down if prices increase even further, because Saudi Arabia in particular is not interested in an oil price that is so high as to potentially lead to some demand destruction and incentivise countries to increasingly look for alternatives to oil. At the same time, the US would respond with a higher supply if oil prices were to increase and might even start selling its strategic petroleum reserves.

Manufacturing sector in emerging markets continues to expand.

Emerging markets had a strong first quarter in 2024. In March, the aggregate emerging markets' manufacturing PMI expanded further, reaching 52.0 (51.5 in February, 51.1 in January). Eastern European countries such as the Czech Republic and Poland remain in contractionary territory, but the readings keep improving. Latin American economies have largely remained comfortably above the 50-point mark that separates expansion from contraction, while some economies in Asia, such as India, are reporting record readings of 59.1 for March. Also in China, the NBS manufacturing PMI moved into expansion in March after five consecutive months of contractionary readings. This shows that the country's industrial sector remains resilient despite the challenges faced by the real estate sector. All in all, the strong readings for the first quarter could lead to positive surprises in the first-quarter GDP releases that are still due.

OUR STRATEGY

“We remain constructive on the Emerging Market credit. Our optimism is underpinned by a consistently strong growth environment”

Gabriele Bartoletti, CFA
Emerging Market Senior Portfolio Manager

Dorthe Fredsgaard Nielsen
Emerging Market Senior Portfolio Manager

Strategy for Emerging Markets

- We maintain a constructive outlook on the Emerging Market credit landscape. Our optimism is underpinned by a consistently strong growth environment and high commodity prices, which boost external demand in Emerging Market economies. Additionally, several emerging market central banks have initiated easing cycles as inflation rates decrease, supporting domestic growth. Fundamentals remain robust on both the sovereign and corporate fronts.

- Investor confidence is reinforced by expectations that major central banks, such as the Fed and the ECB, will start an easing cycle this year. However, a significant risk to this outlook would be if investors completely price out an easing cycle and begin to anticipate another hiking cycle in countries like the US, though we consider that scenario unlikely.

- Geopolitical risks also pose a threat to this asset class, especially given the escalating tensions in the Middle East following the intensified conflict between Israel and Hamas. This conflict not only raises the possibility of military escalation but also affects global trade and economic growth.

- Lastly, although valuations have tightened over the past year, the overall attractiveness of the yields and the continued underinvestment by international investors suggest potential for further technical support moving forward.

Egypt's Economic Revival: Major UAE Investment and IMF Support Fuel Market Optimism

In March, Egypt garnered significant attention with renewed market optimism, even as it navigated several ongoing challenges. The government announced a major investment deal with the UAE, involving a $35 billion project on Egypt's North Coast. Later in March, Egypt revealed an expanded $8 billion loan agreement with the IMF, following its commitment to reforms including adopting a floating currency regime, which led to a currency devaluation at the start of month.

Despite these positive developments, challenges persist. Egypt remains indirectly affected by the Israel-Hamas conflict and has experienced disruptions in Suez Canal traffic due to tensions in the Red Sea. Nonetheless, these hurdles have not dampened the market sentiment, with Egypt's external debt rallying by an impressive 20% year-to-date.

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.

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 29.03.2024.

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