Marketing communication

Newsletter

Emerging Market

May 2024

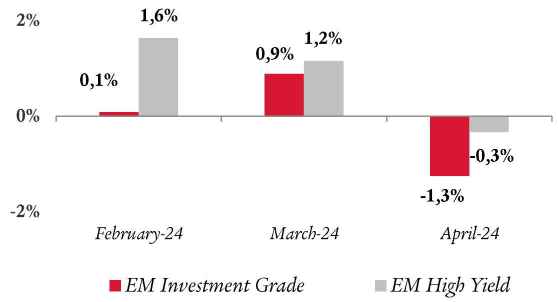
In April, U.S. Treasuries experienced a challenging month with yield spiking up 40-50bps across the curve. Meanwhile, several Federal Reserve speakers indicated that there was no immediate need to lower interest rates as inflation remain elevated and the labor market continue to be robust. The delay in rate cuts in the U.S. is now impacting emerging market (EM) central banks. Several EM central banks are still cutting rates, but with greater caution. Notably, Indonesia surprised the market by raising rates. Overall, the situation reflects the influence of developments in U.S yield on EM monetary policy.

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. Additionally, the High Yield segment benefit from a lower duration in an increasing rate environment month.

Performance EM Investment Grade and High Yield Bonds

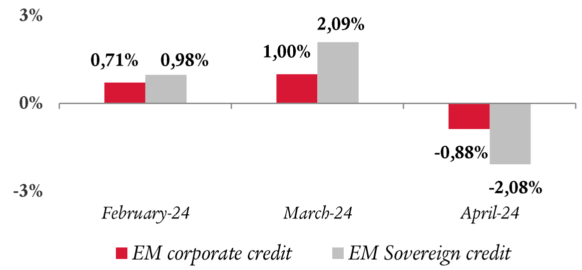


Source: Swiss Life Asset Managers, data as of 30.04.2024

Performance: Corporate vs Sovereigns

Sovereign bonds significantly underperformed corporate credit, partially attributed to their exposure to longer durations.

Performance EM Hard Currency and Local Currency Corporates

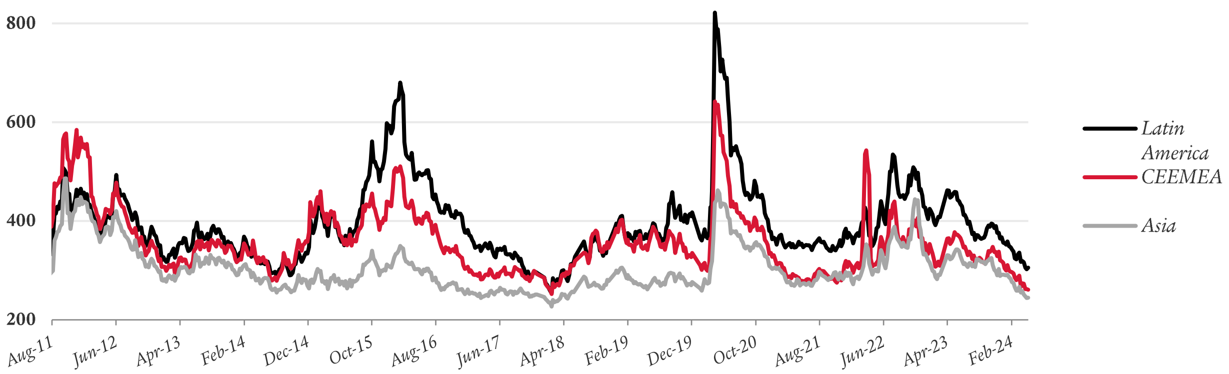


Source: Swiss Life Asset Managers, data as of 30.04.2024

Regional Performance

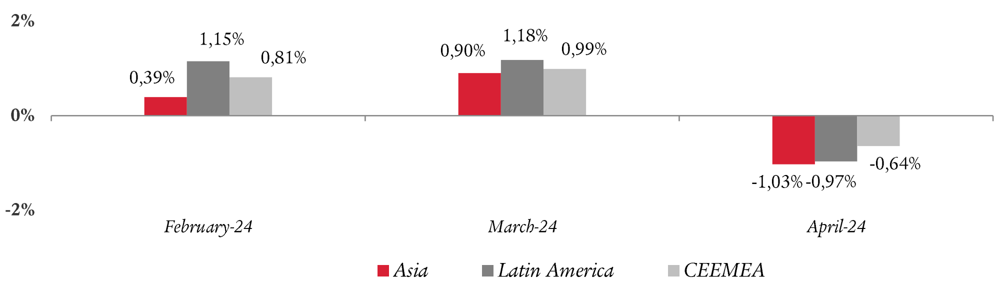
Over the month, performance was consistent negative across various Emerging Market regions due to the increase in rates. However, CEEMEA (Central and Eastern Europe, Middle East and Africa) credits have outperformed those of other regions year-to-date, benefiting most marginally shorter duration, but Latam saw the largest *spread* tightening.

Regional Credit Spreads - EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 30.04.2024

Regional Performance – EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 30.04.2024

Increasing inflow into ESG bond funds

During the first three months of the year, ESG bond funds experienced an inflow of USD 18.5 billion, surpassing the USD 18 billion seen in the first half of 2023. Western European ESG funds accounted for over half of this inflow. Interestingly, Green EUR IG bonds currently offer no premium compared to the average *spread* of 5bps observed from January 2022 to March 2024. In emerging markets, ESG bond fund flows turned around, showing relief in March as inflows returned after six months of outflows. By the end of the first quarter, ESG bond assets under management constituted 6.6% of all EM bond funds.

The Figure of the month

4 June

Results of India's general election

Josipa Markovic
Emerging markets economist

Macroeconomic environment

Results of India's general election will be declared on June 4

India's general elections started on April 19. Since almost one billion people are heading to the polls, the elections are being held in stages, with the final result declared only on June 4. According to opinion polls, Modi's BJP-led alliance (NDA) is set to win the election with a clear majority and therefore Narendra Modi will likely secure a third term as the country's prime minister. A victory of the BJP would mean policy continuity and likely foster business confidence also among foreign investors, and could therefore lead to increased private investments – a necessary driver for sustained future growth. Under Modi's ten year term, India's economy has expanded fast, with the country's GDP per capita (in purchasing power parity terms) rising from roughly 5000 USD to over 7000 USD. Today, India is the fastest growing major economy in the world and under the BJP the country invested a lot in its infrastructure and is looking to upgrade its manufacturing capabilities to take advantage of the "China plus 1 strategy". One of the major challenges will however be to turn these actions into productive jobs, with around 40% of all Indian workers remaining in agriculture, while only about 20% work in manufacturing jobs or business services. Moreover, the negative aspect of a potential BJP victory is the party's nationalist and increasingly authoritarian approach, especially towards its minorities, that is at odds with the collaboration with western democracies.

Economic dynamics in emerging markets keep surprising to the upside

Emerging economies keep their strong momentum, with economic indicators that keep surprising to the upside so far this year. Among other economic indicators, first quarter GDP readings that are already out in a number fo Asian countries such as in China, South Korea, Malaysia as well as Singapore have all been stronger than expected by consensus estimates. There are various reasons for that favorable development. First, domestic demand is supported by lower inflation that is leading to higher real disposable income. Moreover, decreased interest rates in a vast number of emerging countries are supporting investments. On top of that, a resilient US economy has been a supportive factor for Emerging Markets exports. Currently, the major risks that are threatening the otherwise robust outlook for the emerging world are geopolitical uncertainties, especially in the Middle East, that bear the risk of higher energy prices that could lead to renewed inflationary pressure, as well as high interest rates in the US for an extended period of time that would make it more expensive to borrow internationally and induce currency depreciation pressure.

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.

- Escalating geopolitical tension in the Middle East with Iran’s attach on Israel but Israel’s retaliatory strike limited damages on Iranian soil. However, the risk remains elevated as long as Hamas holds Israeli hostages. Additionally, Investors are closely monitoring the situation in Ukraine after a large aid program was approved in the U.S

- Despite dedicated funds withdrawing money from Emerging Markets due to delayed US rate cuts, the overall attractiveness of the all-in yield remains compelling. Additionally, the technical support factor in the form of negative net new issuance continues to bolster the asset class.

India’s Remarkable Election Process

Since mid-April, nearly one billion people can cast their votes during the several-week-long India parliamentary election. The election law mandates that no residence should be more than two kilometres away from the nearest polling station. Consequently, election officials traverse the country, even to remote locations like Gir National Park (home to the Asiatic lion) or undertaking a 42-kilometer hike up the Himalayas to collect a vote from a hermit.

The voting machines carried by election officials are not connected to any network; they communicate externally only via cable. These machines move from polling station to polling station—there are a staggering 100 million across the country—before finally connecting to a computer that tallies the overall result. To prevent double votes and electoral fraud, all polling stations are guarded by the military. Each voting machine can register only four votes per minute, a precaution against anyone “hostaging” the machine and voting recklessly.

India’s election follows a “Winner Takes It All” system, akin to the U.S. Despite the complexity of the process, there is little doubt in the polls: the incumbent Prime Minister Modi’s party, the BJP, and their coalition partners are expected to secure a majority of the 543 seats in the lower house, the Lok Sabha. The question remains: how large will their majority be?

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 30.04.2024.

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