

# Newsletter

## Emerging Market

June 2024

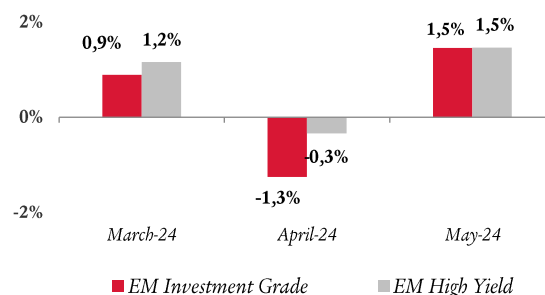
The macroeconomic environment remained favorable for emerging markets (EM), with resilient US growth and Chinese policy support boosting risk sentiment. Lower US Treasury rates increased appetite for risk assets. In China, economic activity was supported by new measures, including aid for the property sector. The Israel-Hamas war in the Middle East remains a contained risk. EM central banks faced mixed challenges due to delayed rate cuts from developed markets, particularly the US Federal Reserve. May was politically busy, with elections in the Dominican Republic, South Africa, Mexico, and India, bringing surprises like the ANC losing its majority in South Africa and Claudia Sheinbaum's victory in Mexico.

## Monthly highlights

### Performances: Investment Grade vs High Yield

During the month, both High Yield and Investment Grade credit delivered consistent returns. Investment Grade credit gained from the decline in UST rates, while High Yield credit benefited from narrower spreads.

Performance EM Investment Grade and High Yield Bonds

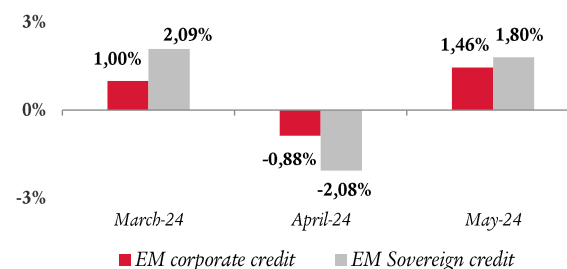


Source: Swiss Life Asset Managers, data as of 31.05.2024

### Performance: Corporate vs Sovereigns

Sovereign bonds outperformed corporate credit, primarily due to their longer duration exposure.

Performance EM Hard Currency and Local Currency Corporates



Source: Swiss Life Asset Managers, data as of 31.05.2024

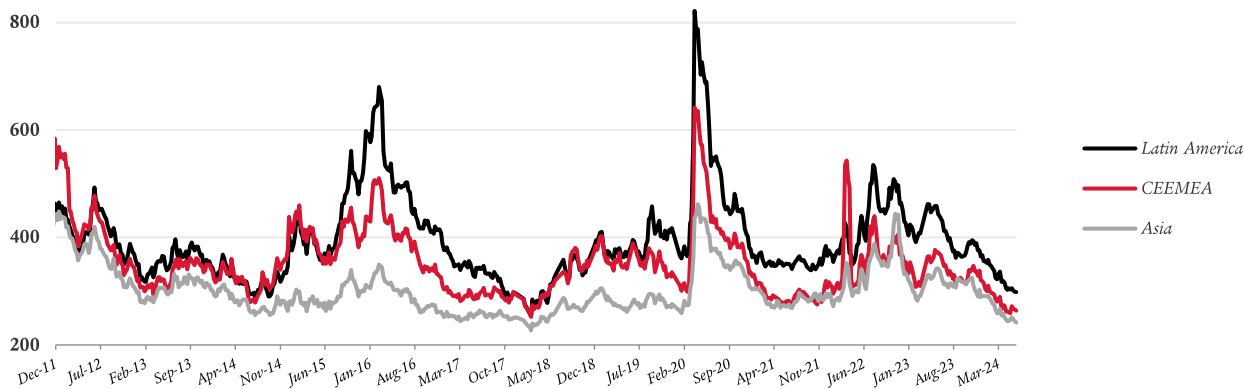
**Disclaimer:** Source: Swiss Life Asset Managers France, Bloomberg. This presentation contains historical market data. Historical market trends are not a reliable indicator of future market behavior. These data are provided for illustrative purposes only. Depending on the date of publication, the information presented may differ from the updated data.

## Regional Performance

Absolute performance was positive across all regions over the month. Asia led the way, driven by positive momentum in China following the announcement of easing measures for its property sector.

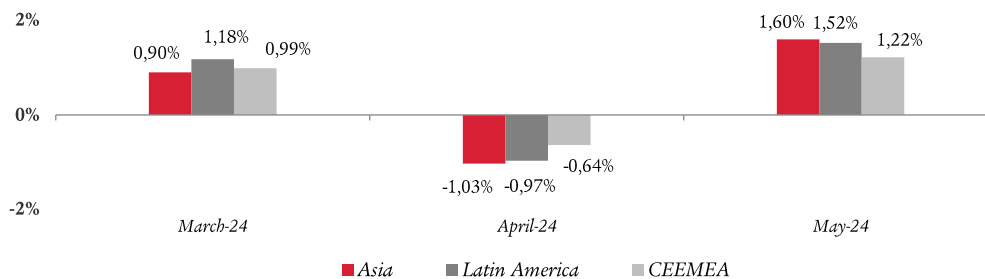
In contrast, CEEMEA (Central and Eastern Europe, Middle East and Africa) credit underperformed, mainly due to its lower duration exposure.

### Regional Credit Spreads - EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 31.05.2024

### Regional Performance – EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 31.05.2024

**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.

# The Figure of the month



**Josipa Markovic**  
Emerging markets economist

52

**Emerging Markets Manufacturing PMI for May**

## *Macroeconomic environment*

### **Emerging Markets Manufacturing PMI for May**

Economic dynamics in emerging markets remain robust, with the EM manufacturing Purchasing Managers' Index (PMI) for May registering at 52.0. This reading is comfortably above the 50-point threshold that separates expansion from contractionary economic trends. Notably, this positive trend has persisted since January 2023. These developments bode well for second-quarter GDP growth rates. Additionally, the first-quarter economic growth has been surprisingly strong. Key drivers of this economic resilience include ongoing disinflation, which boosts real disposable income and supports consumer spending. Furthermore, lower inflation rates have enabled central banks in emerging economies to implement interest rate cuts even before the U.S. Federal Reserve, providing a supportive environment for investments.

### **Politics in focus with election results out in South Africa, Mexico and India**

Political developments continue to be a central focus in emerging markets, with recent elections taking place in South Africa, Mexico and India. In South Africa, the ruling ANC party, which has been in power for the past three decades, has lost its majority for the very first time, securing only 40% of the vote. This outcome reflects the party's inability to address the country's economic challenges effectively. South Africa grapples with an unemployment rate exceeding 30% and lackluster GDP growth averaging around 1% over the past decade due to a lack of investments, ongoing electricity outages, high corruption, and criminality. The formation of a coalition government will now determine the country's economic prospects. Populist parties such as the EFF, the MK lead by former president Zuma, as well as market-oriented parties, such as the main opposition DA are part of the discussion. In Mexico, Claudia Sheinbaum a leftist from the party of the incumbent President Lopez Obrador (AMLO) will take office with a strong majority in Congress. While the country's first female leader might be more technocratic and let more private investment in the country, there are risks that she might have legislative support to pass anti-market reforms. Meanwhile in India, President Modi's BJP failed to secure an outright majority in parliament. Nevertheless, the BJP-led NDA coalition will continue to govern, albeit from a weaker position. In the near-term, there are risks that the party will reorientate towards populist spending measures to strengthen its standing among the population which could derail the fiscal situation. In the medium-term, although it could become more difficult to pass certain reforms, the broad direction of reforms – such as fiscal prudence, manufacturing and infrastructure upgrade, expanding the tax net etc. – are in check, which means that India's medium-term growth outlook remains unchanged. *(Editorial deadline: 10.06.2024)*

# OUR STRATEGY

*“ We maintain our optimistic outlook on EM credit, but we acknowledge that political developments in both EM and DM could introduce some volatility in spreads ”.*

**Gabriele Bartoletti, CFA**  
Emerging Market Senior Portfolio Manager

**Dorthe Fredsgaard Nielsen**  
Emerging Market Senior Portfolio Manager

## *Strategy for Emerging Markets*

- We maintain our optimistic outlook on EM credit due to strong growth, robust fundamentals, and supportive technical indicators. However, we acknowledge that recent political developments in countries like Mexico and India could introduce short-term volatility in spreads. Additionally, persistently high US interest rates may negatively impact risk sentiment, which has been quite strong since the beginning of the year.
- Political and geopolitical events could contribute to volatility in EM spreads. The recent elections in Mexico, India, and South Africa highlighted the market's potential complacency regarding anticipated election outcomes. This complacency resulted in crowded long positions, especially in local assets such as foreign exchange and interest rates. Unexpected election results in these countries surprised investors, causing volatility and asset repricing. This serves as a reminder that crowded positions can lead to volatility when outcomes deviate from consensus expectations.
- Although the upcoming election calendar for EM is lighter, there remains potential for volatility from political events in developed markets, such as elections in the UK, France, and the highly anticipated US elections in November.

## *Mexico Election: Landslide Morena Victory*

Mexico held its general elections in early June, resulting in a sweeping victory for the Morena coalition. Claudia Sheinbaum made history by becoming the first woman elected to this position. Additionally, the governing Morena coalition exceeded expectations by securing a two-thirds majority in Congress. This landslide victory surprised both consensus and the markets, which had anticipated stronger performance from opposition parties to maintain checks and balances in Congress.

The market viewed the supermajority as a negative outcome, fearing it would enable the Morena government to pass constitutional reforms perceived as market-unfriendly, such as proposed judicial and pension reforms. Furthermore, there is concern that the current president, AMLO, might leverage the supermajority in Congress, effective in September, to push through his reforms before transferring the presidential mandate to Sheinbaum in October.

These election results have introduced significant uncertainties and risks, leading to volatility in Mexican assets. Nevertheless, Mexico can still rely on strong growth and positive momentum from the near-shoring trend, providing a fundamental basis for optimism.

# 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 Europe<sup>1</sup>. 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.

<sup>1</sup> INREV 2021 survey of fund managers (based on assets under management at 31.12.2021).

Swiss Life Asset Managers data at 31.05.2024.

---

### 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 DIC 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](http://fr.swisslife-am.com). Source: Swiss Life Asset Managers, data to 31/05/2024. "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](http://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](mailto:service.clients-securities@swisslife-am.com),

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

**In Switzerland:** [info@swisslife-am.com](mailto: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

