Marketing communication

Newsletter

Emerging Market

July 2024

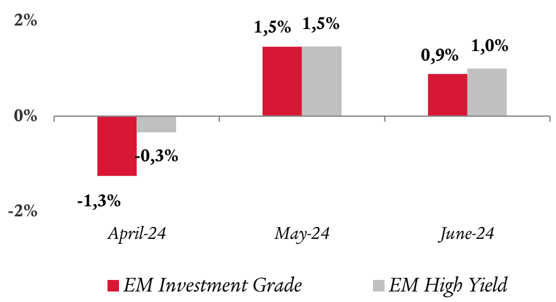
The summer of steady spread-compression and carry-chasing was disrupted by surprise election results in South Africa, India, and Mexico and to less of a degree for the elections in Europe, with first the EU parliamentary election, followed by Macron in France calling for a snap legislative election in response to the victory French right-wing parties in the EU election.
The macroeconomic environment continued to be favorable for EM, with supportive PMI figures and strong balance sheets on average for the corporate space. On the monetary front, EM central bank actions were mixed. EM central bank cycles are increasingly challenged by the delay in developed market central bank rate cuts, particularly from the Federal Reserve.

Monthly highlights

Performances: Investment Grade vs High Yield

During the month, both High Yield and Investment Grade credit delivered consistent positive returns. Investment Grade credit benefited more from a small decline in UST rates than the High Yield segment, however the High Yield credit segment benefited more from its' higher carry as spread only widened with a couple of basis points and thereby outperformed the Investment Grade credit segment.

Performance EM Investment Grade and High Yield Bonds

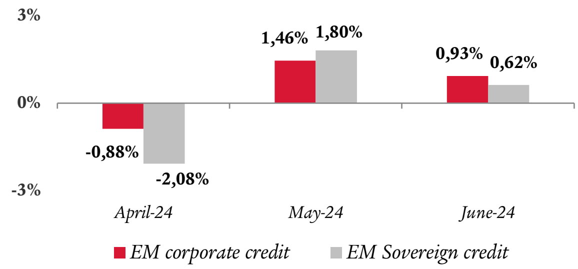


Source: Swiss Life Asset Managers, data as of 28.06.2024

Performance: Corporate vs Sovereigns

Corporate bonds outperformed Sovereign bonds, primarily due to higher yielding segment within the Sovereign bond, which widen with over 20 basis points.

Performance EM Hard Currency and Local Currency Corporates



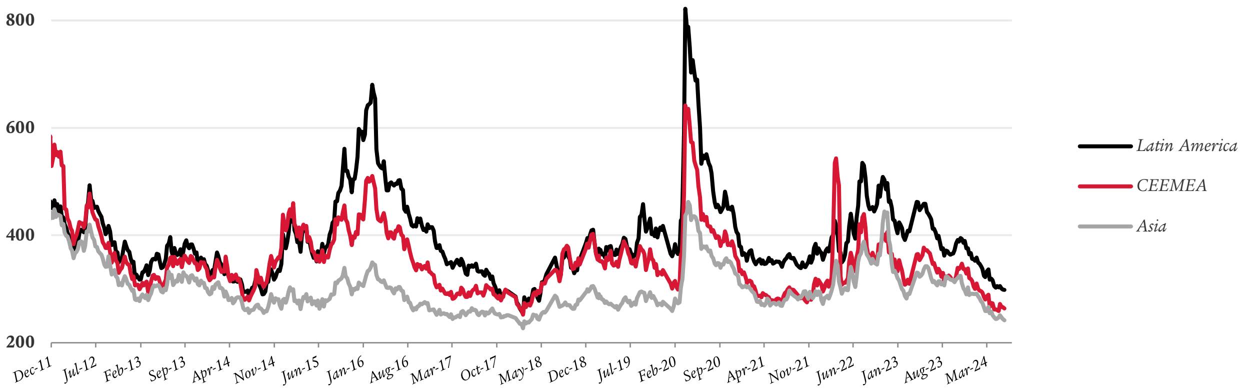
Source: Swiss Life Asset Managers, data as of 28.06.2024

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

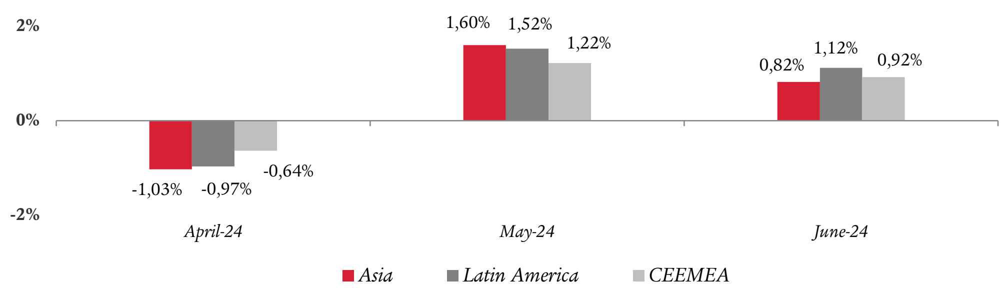
Absolute performance was positive across all regions over the month. Latam led the way, driven by higher carry and neutral spread development, whereas spread widened a few basis points in the Asia and Middle East Africa region.

Regional Credit Spreads - EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 28.06.2024

Regional Performance – EM Hard Currency Corporate Bonds



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The Figure of the month

Josipa Markovic
Emerging markets economist

52.1

June emerging markets manufacturing PMI

Macroeconomic environment

June emerging markets manufacturing PMI

The economic landscape in emerging markets has shown remarkable strength throughout the first six months of 2024. In June, the initial economic indicator made available, which is the manufacturing PMI, kept expanding with a value of 52.1, hence markedly above the 50-points mark that separates expansion from contraction. Contributing factors include a robust export sector, evidenced by the export order sub-index at 50.3. Yet, the primary force behind this economic vigor has been the domestic economy, with the new orders sub-index a measure of domestic demand standing strong at 52.4. A significant factor fueling this solid demand has been the dip in inflation, which has bolstered real incomes and facilitated a decrease in interest rates. However, the trend of reducing interest rates is now more cautious, especially since Latin America and Eastern Europe have seen significant reductions since mid-2023. For example, Brazil has halted its rate-cutting cycle, while Chile and Hungary have opted for more modest reductions compared to their earlier actions. Additionally, amidst political uncertainties such as the forthcoming US elections, France's political unrest, and surprising election outcomes in key emerging economies like Mexico, South Africa, and India, not to mention trade frictions between China and Western nations central banks are prioritizing currency stability.

China's economy hampered by weakness in real estate sector and trade frictions

Throughout the initial six months of 2024, the aggregate manufacturing PMI for emerging markets has maintained a strong performance. However, China, the largest among these markets, has shown signs of decline. The official manufacturing PMI, released by the National Bureau of Statistics (NBS), indicated a contraction with a score of 49.5 in June. A closer examination of the two sub-components, production and new orders, reveals a significant disparity: production remains in the growth zone with a score of 50.6, while new orders, representing the demand side, continue to contract at 49.5. This suggests that inflation is likely to stay subdued, as companies' pricing power remains limited in such conditions. The primary cause of this dampened demand is the apparent downturn in the real estate sector, despite additional economic stimulus efforts. Moreover, ongoing trade tensions with Western countries are casting a shadow over future prospects. While US and EU trade tariffs will not stop China's investment in high-tech goods, particularly electric vehicles (EVs), they necessitate more expensive local production, underpinning our expectations of a higher inflationary environment than before the pandemic.

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 an optimistic outlook on emerging market credit, driven by strong growth, robust fundamentals, and supportive technical indicators. However, we recognize that recent political developments in countries like Mexico and South Africa could introduce short-term volatility in spreads until the market assesses the priorities of these new governments. While the second-half election calendar for EM is light, attention will be on Western elections (including the second round in France, the UK, and the US). Geopolitical factors remain unpredictable and could contribute to volatility in EM spreads, especially as we approach the highly anticipated US election in November.
- Additionally, persistently high US interest rates may negatively impact risk sentiment.

South Africa Election: ANC loss its majority for the first time

In South Africa, the African National Congress (ANC) lost its parliamentary majority for the first time since the end of apartheid. In response, President Cyril Ramaphosa swiftly announced the pursuit of a Government of National Unity. After a month of coalition and cabinet negotiations, Ramaphosa declared the formation of this new government, which includes 10 parties. Notably, 12 out of 32 ministerial posts will be held by non-ANC parties, with the center-right Democratic Alliance (DA) securing six ministerial positions. The DA will also hold six deputy minister positions, including key economic ministries such as Finance and Trade & Industry.
The reappointment of Mr. Godongwana as finance minister signals continuity in fiscal policy.

The establishment of this new government may pave the way for potential reforms, enhancing accountability and oversight, leading to improved policy implementation. However, there are also political risks, as disagreements within the coalition of 10 parties could hinder the government’s effectiveness.

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 28.06.2024.

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