Marketing communication

Newsletter
Emerging Market

September 2024

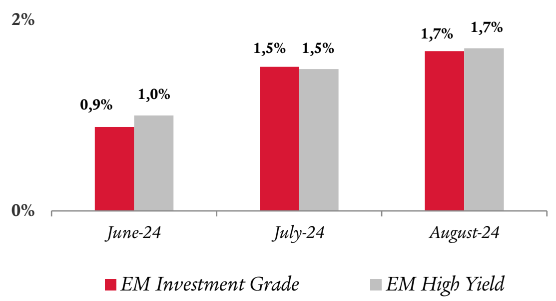
In August, UST rates sharply repriced due to weak U.S. economic data, leading to a temporary "growth scare" and widening EM credit spreads. As concerns eased, sentiment improved after Fed Chair Powell signalled a potential easing cycle. Geopolitical tensions escalated in the Middle East after Israel's assassination of a Hamas leader, prompting threats from Iran, while Israel launched new operations in the West Bank. In Asia, China's slower growth raised the need for more policy support, and protests in Indonesia opposed changes to election laws. Despite market volatility, EM credit spreads tightened by month's end.

Monthly highlights

Performances: Investment Grade vs High Yield

Both High Yield and Investment Grade credit posted consistent positive returns. While Investment Grade credit benefited more from the decline in UST rates, the High Yield segment gained more from its higher carry and greater spread tightening in August.

Performance EM Investment Grade and High Yield Bonds

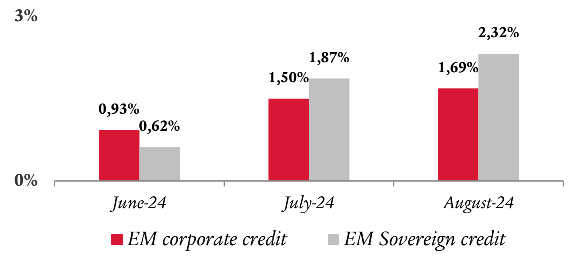


Source: Swiss Life Asset Managers, data as of 30.08.2024

Performance: Corporate vs Sovereigns

Sovereign bonds outperformed corporate bonds, largely due to their longer duration, while spreads tightened similarly across both indices.

Performance EM Hard Currency and Local Currency Corporates



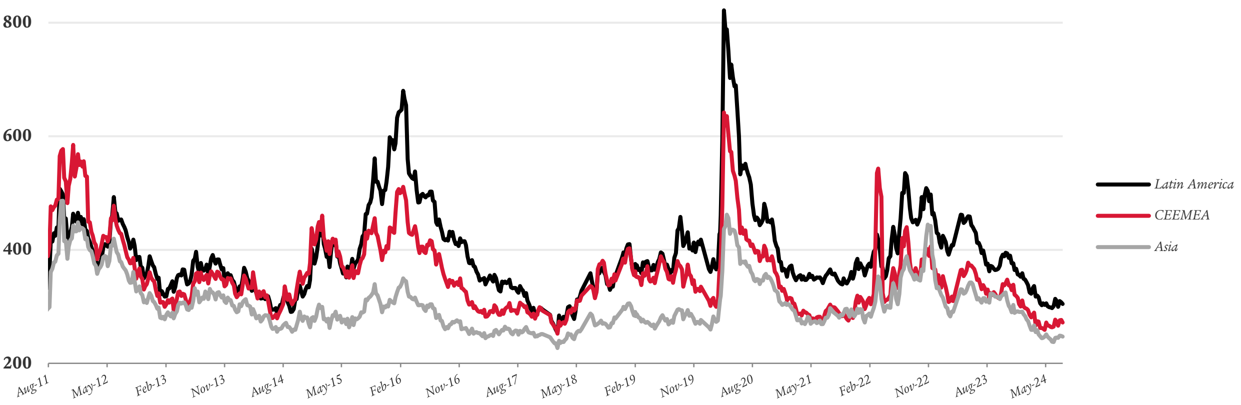
Source: Swiss Life Asset Managers, data as of 30.08.2024

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

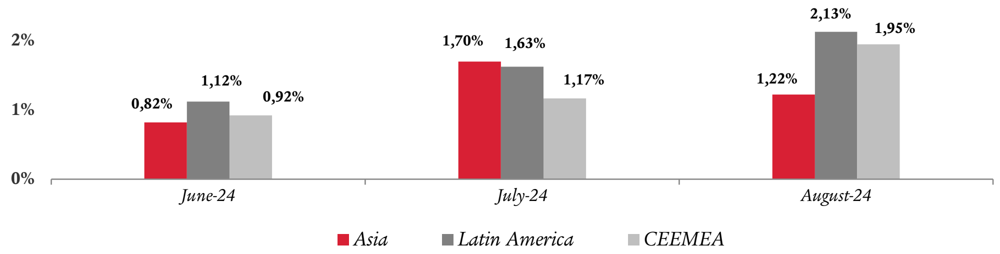
Absolute performance was positive across all regions throughout the month, with Latin America outperforming, while Asia lagged the other two regions.

Regional Credit Spreads - EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 30.08.2024

Regional Performance – EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 30.08.2024

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The Figure of the month

Josipa Markovic
Emerging markets economist

6.7%

India's Q2 2024 GDP growth rate

Macroeconomic environment

India's Q2 2024 GDP growth rate

India remains the world's fastest-growing major economy, with a growth rate of 6.7% in the second quarter compared to the previous year. Although this is slightly lower than the growth rates of over 7% seen in the past five quarters, the primary reason for this dip was the presidential elections during the second quarter, which led to a temporary halt in government spending. Despite this, both consumption and investment have remained robust. With inflation within the central bank's target range, there is potential for rate cuts, which could sustain these strong economic dynamics. Additionally, India's economy is largely domestically driven and has a relatively low export exposure, shielding it from potential declines in global demand, particularly lower demand form the US.

Emerging markets: the external tailwind is diminishing, but domestic economy remains resilient

Economic dynamics in emerging markets have shown remarkable resilience this year. The manufacturing PMI for emerging markets, as a whole, remained in expansionary territory at 50.8, driven primarily by robust domestic demand, with new orders also surpassing the 50-point threshold that separates expansion from contraction. This strength in the domestic economy has been bolstered by lower inflation, which has increased real disposable income and supported consumption. Additionally, several countries have embarked on interest rate cutting cycles, further stimulating economic activity. However, the external environment is becoming less supportive. The export-orders sub-component has dipped below the 50-point mark for the first time this year, indicating contraction. This is particularly evident in countries like Mexico, where reliance on exports to the US has led to lower PMI readings due to waning demand from the world's largest economy.

OUR STRATEGY

“While we anticipate that the current environment will continue to support EM credit, the potential for additional spread compression is limited”.

Dorthe Fredsgaard Nielsen
Emerging Market Senior Portfolio Manager

Gabriele Bartoletti, CFA
Emerging Market Senior Portfolio Manager

Strategy for Emerging Markets

The overall environment remains supportive for EM credit, even as global growth shows signs of slowing. While some regions face softening growth, it remains consistent with soft landing scenario and the market does not anticipate a recession currently.

One key factor supporting EM credit is the shift in monetary policy. With inflation decelerating, major developed market central banks are beginning a policy easing cycle, which should help support sentiment and risk assets such as EM credit. From a fundamental’s standpoint, EM economies remain robust, though technical factors may become less favourable in September due to an anticipated increase in supply.

While the outlook for EM credit remains constructive, further spread tightening seems unlikely as current valuations are already compressed. Heading into Q4, risks will likely revolve around geopolitical tensions and the upcoming U.S. elections, which could have varying impacts on EM economies depending on the outcome.

In summary, while we anticipate that the current environment will continue to support EM credit, the potential for additional spread compression is limited, and political risks could play a larger role in shaping the market as the year progresses.

Middle East Tensions: Uncertainty grows amid market resilience

Tensions in the Middle East escalated following the assassination of Ismail Haniyeh, Hamas’ political leader, in Tehran in July. Iran responded with threats of retaliation, raising concerns throughout the region over a potential Iranian attack in August and the risk of a broader regional conflict involving multiple countries. While Iran has not carried out direct military action against Israel, tensions remain high.

Simultaneously, ceasefire talks continue, but no significant breakthroughs have been announced. In Israel, the nation remains on high alert, particularly along its northern border, where preparations for a possible offensive are underway. Additionally, tensions in the West Bank have intensified due to ongoing Israeli military operations, further straining the situation.

The situation is fluid and highly unpredictable. Despite the elevated risks, market reactions have been relatively calm, with spreads in the region staying stable. Although we believe that diplomatic efforts across the broader region will focus on containing the situation, the risks remain high, and a clear path to a ceasefire or a more peaceful resolution appears distant.

About Swiss Life Asset Managers

Swiss Life Asset Managers
Swiss Life Asset Managers has more than 165 years of experience in managing the assets of the Swiss Life Group. This insurance background has exerted a key influence on the investment philosophy of Swiss Life Asset Managers, which is governed by such principles as value preservation, the generation of consistent and sustainable performance and a responsible approach to risks. Swiss Life Asset Managers offers this proven approach to third-party clients in Switzerland, France, Germany, Luxembourg, the UK, Italy and the Nordic countries.

As of 30 June 2024 assets under management for third-party clients amount to EUR 121.2 billion. Together with insurance assets for the Swiss Life Group, total assets under management at Swiss Life Asset Managers stood at EUR 272.3 billion. Swiss Life Asset Managers is a leading real estate investor and manager in Europe[1]. Of the assets totalling EUR 272.3 billion, EUR 91.1 billion is invested in real estate. In addition, Swiss Life Asset Managers, in cooperation with Livit, manages real estate totalling EUR 21.6 billion in value. Total real estate assets under management and administration at the end of June 2024 thus came to EUR 112.7 billion.

Swiss Life Asset Managers employs more than 2200 people in Europe.

A financially self-determined life
Swiss Life enables people to lead a financially self-determined life and look to the future with confidence. Swiss Life Asset Managers pursues the same goal: We think long-term and act responsibly. We use our knowledge and experience to develop future-oriented investment solutions. This is how we support our customers in achieving their long-term investment objectives, which in turn also take account of their client's needs so they can plan their l future in a financially self-determined manner.

[1] INREV Fund Manager Survey 2024 (AuM as of 31.12.2023).

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www.swisslife-am.com

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