

Candriam Equities L Emerging Markets

Market Overview

In January, EM posted negative returns (-4.7% in USD) and underperformed DM (+1.1%).

In China (-10.6%), despite an in-line GDP growth (5.2%) for 2023, the overall weak trajectory continued. The ongoing challenges were especially underscored by persistent deflation, contracting manufacturing PMI, and soft credit data. Although the PBoC injected more liquidities and reduced the Reserve Requirement Ratio (RRR) by 50bps, resulting in a brief market rebound, sentiment remained cautious and awaited further restoration.

Taiwan (-1.5%) and South Korea (-9.7%) posted negative returns during the month while Taiwan outperformed. The technology-led exports regained strength helping the economy. The semiconductor industry saw more confirmation of a turning point, and the confidence was additionally boosted by fast growing orders stemming from the accelerated adoption of AI. Taiwan elected a new president from the Democrats, just as his predecessor. This will have a positive impact on the stability of the chip supply chain. Meanwhile, South Korea witnessed its highest exports growth since May 2022. The Korean government mulled new policies to enforce corporate disclosure and narrow the discount of undervalued companies.

Indian market (+2.5%) continued to be strong. The Indian stock market ascended to the fourth largest among its global peers, fueled by domestic investors' progressing passion. The government's forthcoming interim budget in February was expected to prioritize long term objectives while maintaining fiscal discipline, such as more investments in infrastructure and social-driven projects.

In Latam, Brazil (-5.9%) underperformed peers while the easing cycle continued with another cut of 50bps. In Mexico (-1.9%), moderating inflation provided room for rate cuts in the near term.

Turkey (+10.3%) saw another rate hike. Inflation stayed at high levels but was in line with the central bank's assessment. Greece (+5.8%) also recorded positive performance during the month, as the economy resumed growth following a prolonged period of stagnation.

Regarding commodities, oil gained +6.1% amid the present geopolitical volatilities. Gold eased by -1.1%. US yields retreated below 4% by the end of the month.

Portfolio Highlights & Strategy Review

In January, the portfolio outperformed the benchmark.

Region wise, Taiwan led the positive contributors with the resuming strength of its semiconductor industry. As a result, several companies such as TSMC and Alchip (chip designer) in Information Technology were among the best performers. These companies are clear beneficiaries of the AI thematic. Despite an overall negative market performance, South Korea followed with strong returns in portfolio due to positive selection effect. Indian names were also helping the strategy. Many of them were among the top performers, such as Bharti Airtel (telecom operator), Tata Motors (automotive manufacturer), and Torrent Pharmaceuticals (drug producer). Other leading performers also included BIM (Turkish food retailer), Bank of Jiangsu (Chinese regional bank), and MercadoLibre. The positive relative performance was partially offset by continued China detractor.



Fund Outlook

We are increasingly optimistic on the prospects for EM equities, as a confluence of headwinds that hindered the performance over the past year begin to dissipate. Higher rates in the US and consequently a strengthening dollar have been a key factor weighing on EM equity returns in recent years. A possible shift to tailwinds is favourable for EM returns, including the potential for US interest rates to peak and a transition towards a more accommodative monetary policy environment. Particularly, these tailwinds are expected to be pronounced for EM growth and ESG factors, which are integral to our EM strategies.

Regionally, EM outside China have been demonstrating notable resilience, weathering the weakness associated with China's slowdown. It has been exemplified by their capacity of turning challenges into opportunities, as the global supply chain undergoes a wide reshuffling. The semiconductor industry witnesses more confirming signals of a turnaround, and the upward of the AI trend continues to be robust, helped by global techs' ramping up investments.

China experienced sporadic bounces entering the new year. The subdued sentiment leads to mounting hopes that some transformative support should be seen from the government instead of incremental and rippling small policies. With the Lunar New Year approaching, we are closely monitoring market moves from a tactical perspective.

Aligned with our strategy, we will dynamically calibrate the portfolio's risk appetite in response to evolving market conditions, maintaining a balanced position. We are awaiting further confirmation that the peak of interest rates is behind us, and that China's economic recovery is gaining momentum, thus contributing to the differential growth of EM.

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