JPMorgan Funds – Emerging Markets Dividend Fund

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Topline

Monthly commentary – October 2024

Markets – October was turbulent for global equities amid growth risks and uncertainty from the upcoming US election and potential policy shifts. The global government bond index declined, reflecting uncertainty over interest rate cuts, while the overall commodity index fell despite moderate recovery in crude oil prices and strong gains in silver and gold as election hedges.

Helped – Indian and Taiwan stock selection.

Hurt – Stock selection in China and Brazil.

Outlook – For Emerging Markets, while China's economy is in a multi- year adjustment with weakness in real estate and to a lesser extent manufacturing weighing on aggregate activity, late September and October announcements have given the clearest signs yet that policy support is set to broaden out, given consumer confidence remains weak as consumers trade down on lower prices in real-estate, a key store of wealth. However, valuations are near historic lows. Elsewhere in emerging markets, there are clearer signs of economic growth improving and a recovery in the technology cycle, though valuations here are now less supportive.

Fund Overview

Investment objective

The Fund aims to provide income by investing primarily in dividend-yielding equity securities of emerging market companies,whilst participating in long term capital growth.

Fund launch	Dec 2012
Benchmark	MSCI Emerging Markets Index (Total Return Net)
Market capitalization	All Cap

Month in Review

- Stock selection in China and Brazil detracted, while India and Taiwan contributed.
- The key detractor was stock selection in China. While the plethora of announcements with regard to economic policy has continued, they remain short on specifics, at least until after the NPC ends on the 8th November. This should also allow time to reflect on the likely outcome of the US election.
- This uncertainty saw the share prices of Chinese consumer related stocks, which had contributed, detracted (Haier Smart Home, Shenzhou, Supor). Additionally, a lack of exposure to a smartphone maker which is expanding into the EV space, detracted as the share price rose following the company's announcement of the launch and strong order book for its new EV.
- Brazil was a market laggard in October, versus other global emerging markets. Given a lack of company specific news, we view this as a continued reaction to the central bank raising interest rates in September.
- The longstanding underweight to India, given the limited yield and rich valuations, contributed again along with stock selection here as the exuberance in the SMID sector, which has pushed valuations to record levels, showed signs of abating as results showed margin pressure and weaker than expected top-line growth. Recent addition, Embassy Office Parks was a top stock level contributor, as was no exposure to an Indian multinational conglomerate.
- Taiwan also contributed with stock contributors dominated by AI and semiconductor names (Quanta Computer, Wiwynn, ASE technology) as they demonstrated a strong rebound following a period of valuation corrections. This recovery was driven by renewed investor interest and confidence in the sector's long-term growth prospects.
- With regards to dividends, several dividends were announced from Indian companies over the month. Infosys announced a semi-annual dividend representing 17% year- on-year growth, while Shriram Finance dividends paid in 2024 will be 18% higher than the previous calendar year, 2023.
- From a positioning standpoint, changes followed expected return and yield signals, with one new purchase of an Indian utilities company.
- The portfolio continues to look strong in terms of the key characteristics we look for to produce dividends: decent returns on equity, healthy free cash flow conversion and positive dividend policies from the companies invested in.

Looking Ahead

- With recession/growth risks ever present, markets will be looking to every data point for direction keeping volatility elevated. Expectations for rapid rate cuts have receded as data continues to surprise.
- With many EM central banks having relatively high policy rates, especially compared with domestic inflation, EM central banks are now generally in a position to cut rates faster assuming inflation remains on its current downward trajectory: Mexico, China, Czechia, Chile, Hungary and now South Africa have cut rates in 2024.
- China's economic recovery remains fragmented with consumer confidence weak amid clear signs of consumers trading down as they digest lower prices in real-estate, a key store of wealth. Policy action finally seems to be broadening out with leaders calling for "halting the real estate decline" and speculation mounting on announcements post the NPC meeting in early November. Valuations appear supportive, but earnings revisions remain negative. While government policies can be erratic, they are more pro-growth and pro-business, and these stimulus measures are expected to deliver cumulative benefits into 2025. It now seems there is a focus on underwriting a broader-based recovery rather than just on managing risks to growth.
- Latin America and EMEA, where rates could potentially fall the most, have attractive domestic growth opportunities, particularly in financials and consumer related sectors.
- In India and Indonesia, while valuations have been looking stretched near term, the new governments look set to continue the policy support of recent years, which is likely to see them maintain their respective investment led expansions.
- North Asian technology companies look to be in a new cycle with structural demand for AI and cloud adoption in particular set to drive growth but after a strong run, differentiation is crucial, and higher valuations mean any earnings shortfalls will be punished.
- With a better economic backdrop, expectations are for double digit earnings growth in 2024/5.

NEXT STEPS

For further information, please visit:
www.jpmorgan.com/sg/am/per/

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