JPMorgan Funds – Emerging Markets Dividend Fund

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Topline

Monthly commentary – September 2024

Markets – September was a robust month for global equity markets, driven by the Federal Reserve's long-anticipated rate cuts and new stimulus measures in China.

Helped – Structural underweight exposure to India.

Hurt – Asian exposure, notably China, Korea and Taiwan.

Outlook – Economic data shows relatively stable global growth, despite signs of slowing momentum. Encouragingly, inflation is moderating, allowing interest rates to fall gradually in many developed markets. In emerging markets, earlier hiking cycles helped contain inflation. Coupled with lower developed market rates, this has enabled aggressive policy rate cuts in several EMs, boosting sentiment. China's economy is adjusting, with real estate and manufacturing weaknesses affecting activity, though there are signs of increased policy support. Consumer confidence remains weak, with consumers trading down due to lower real estate prices. However, valuations are near historic lows. The USD fell in real terms in 2023 from multi-decade highs, but its medium-term trajectory is expected to remain volatile. Elsewhere in EMs, there are clearer signs of economic growth improving, inflation peaking, and a recovery in the technology cycle, though valuations 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, particularly in Asia, detracted, with China, Korea, Taiwan and Indonesia all having a detracted impact.
- India reversed some of the relative losses of recent times by rising to be the top market contributor, with lessor contribution coming from zero exposure to Turkey, UAE and Kuwait.
- The government stimulus announced by China late in September pushed the market higher, which some portfolio stocks were exposed to, for example Haier Smart Home, China Mengniu Dairy and NetEase. Overall nine of the top ten stock level contributors were Chinese, however that contributed impact was more than outweighed by names not held given low or zero dividends (Two Chinese e-commerce companies) or by not owning domestic brokerages and the most heavily indebted real estate companies which rallied sharply, none of which fit our disciplined investment criteria.
- Elsewhere in Asia, Korean and Taiwanese exposure detracted as technology related companies were hurt by a mixed reaction to the Value-Up Index and the continuation of the broad IT supply chain weakness on concerns over the sustainability of the recovery, respectively.
- The Mexican market remained subdued in the run up to the October 1st inauguration of Sheinbaum as new President, and the new government taking office.
- From a contributed perspective, the longstanding underweight to India, given the limited yield and rich valuations, has contributed to the last couple of months as the market rally and optimism slowed. As a result, the underweight exposure has added to relative returns.
- The portfolio has been increasing positions in India in the last year, and two of the newer positions, contributed; Shriram Finance and Bajaj Auto.
- With regards to dividends, several dividends were announced from South African companies over the month. Firstrand announced a final semi-annual dividend which delivered growth of 10% year-on-year, and the payout ratio rising slightly, while retailer Shoprite announced a final dividend up 7% year-on-year.
- From a positioning standpoint, changes followed expected return and yield signals, resulting in taking advantage of recent market movement to continue to increase Mexican exposure slowly where the market has detracted given concerns over political direction and its potential structural impact. Chinese exposure saw some rotation, trimming select consumer names and adding to ecommerce. This has been funded by reducing select technology names in Taiwan.
- 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. With a surprise 50bp first cut, expectations are that US rates will fall more quickly.
- With many EM central banks having relatively high policy rates, especially compared with domestic inflation, EM central banks are now 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 recognising this with a raft of interest and mortgage rate reductions, lower downpayments, liquidity injections and greater use of central government funds to stabilise the property sector. 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 in to 2025. However, the authorities remain more focused on managing risks to growth rather than underwriting a broad-based recovery.
- 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, valuations mean any earnings shortfalls will be punished.
- After weak earnings growth in 2023 driven by falling margins, higher rates and cyclical pressures, expectations are for double digit growth in 2024/5.

NEXT STEPS

For further information, please visit:
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