JPMorgan Funds – Emerging Markets Dividend Fund

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Topline

Monthly commentary – August 2024

Markets – August was an eventful month for investors. Any hopes of a late summer lull were quickly dashed at the beginning of month after the publication of disappointing US economic data, together with an interest rate hike by the Bank of Japan, sparked a sharp sell-off across global equity markets. However, by month end, the market had rebounded as investors began to price in more aggressive policy easing by the Federal Reserve.

Helped – Stock selection in India and Indonesia.

Hurt – Exposure in China and Korea.

Outlook – Economic data shows relatively stable global growth, despite signs of slowing momentum. Encouragingly, inflation is moderating, increasing the likelihood of gradual interest rate cuts in developed markets. In emerging markets, earlier rate hikes have contained inflation, allowing some to start cutting policy rates. Sustained cuts from developed market central banks may accelerate this process, improving sentiment. China's economy faces a multi-year adjustment with real estate and manufacturing weaknesses, though policy support is increasing. Consumer confidence remains weak, with signs of trading down due to lower real estate prices. Valuations are near historic lows. The USD fell in real terms in 2023 from multi-decade highs, but its medium-term trajectory remains volatile. Elsewhere in emerging markets, economic growth is improving, inflation has peaked, and the technology cycle is recovering, though valuations are 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

- From an equity standpoint, stock selection in India and Indonesia contributed, with South Africa and Taiwan exposure also contributed.
- In contrast, stock selection in China and Korea detracted.
- In a change to the previous YTD trend, both India and Indonesia contributed. Indian contribution was led by Bajaj Auto, Shriram Finance and Infosys, while in Indonesia, Bank Rakyat bounced from recent weakness and Bank Mandiri, a fairly new addition to the portfolio, contributed, with recent results continuing to show good operating trends and outlook.
- In South Africa, sentiment post the elections and the formation of a government of national unity continues to see investors re-evaluate the opportunity, while Taiwan contributed despite pressures on Tech hardware given concerns about cyclical performance peak and AI monetization, with Realtek and ASE adding value.
- China witnessed raised volatility around earnings announcements, and overall sentiment around the Chinese consumer worsened with companies generally reporting weaker top line and/or difficulty in maintaining margin. Investors showed little patience with companies which missed expectations, with diminished risk appetite from both local and foreign investors.
- Chinese internet game developer Netease was the largest stock level detractor, after being knocked by a second quarter revenue miss despite an earnings beat, although this impact was mitigated by a zero exposure to chinese ecommerce business which fell sharply post a weaker growth outlook, and Fuyao Glass which recovered from a dip last month.
- Korea detracted overall, in particular through Samsung which fell as investors continued to reconsider bullish expectations around the demand side for AI and its supply chain. Positions in Samsung Fire & Marine and Shinhan Financial also lagged.
- From a dividend perspective, it was a bumper month in China, as more companies announced plans to pay mid-year dividends, reiterating a focus on better shareholder returns.
- China Resources Gas raised the interim dividend by 67% year-on-year, Ping An held their interim dividend flat, with management emphasizing the dividend remains a priority but it is still a tough environment, and NetEase announced a quarterly dividend in-line with a 30% payout.
- From a positioning standpoint, changes followed expected return and yield signals, resulting in taking advantage of recent market movement to increase Mexican exposure slowly where the market has detracted given concerns over political direction and it potential structural impact, which while not positive, has led to what we see as over correction in stock prices. This has been funded by reducing select Korean and Indian names.
- 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 reviving, markets will be looking to every data point for direction keeping volatility elevated. Expectations are now that US rates will now fall more quickly.
- With many EM central banks having relatively high policy rates, especially compared with domestic inflation, EM central banks may now have the capacity to cut rates faster assuming inflation remains on its current downward trajectory: Brazil, Mexico, China, Czechia, Chile and Hungary have cut rates in 2024.
- China's economic recovery remains two-speed with weakness in real estate and to a lesser extent manufacturing weighing on growth. Consumer confidence remains weak with clear signs of consumers trading down as they digest lower prices in real-estate, a key store of wealth. Policy action remains cautious and incremental, whether it be the small reductions in prime lending rates or the targeted consumer goods stimulus. Valuations appear more supportive, but earnings revisions remain negative. While government policies can be erratic, they are more pro-growth and pro-business, and wide-ranging stimulus measures are expected to deliver cumulative benefits as 2024 unfolds. However, the authorities are 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 look stretched near term, the outcome of recent elections looks 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.

J.P.Morgan
ASSET MANAGEMENT

NEXT STEPS

For further information, please visit:
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