JPMorgan Funds – Emerging Markets Dividend Fund

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Topline

Monthly commentary – February 2024

Markets – February was a fairly good month for global stock markets, with resilient economic data and relatively strong earnings reports both contributing to year-to-date gains. The US 10-year Treasury yield climbed up 32 bps.

Helped – Stock selection in Taiwan and Brazil.

Hurt – Chinese stock selection and an overweight to Mexico.

Outlook – Economic data continues to show resilience in global growth, particularly in the US, whereas inflation, while moderating, remains persistently at levels necessitating a cautious approach to monetary policy for the foreseeable future. That said, this has been less of issue across EM; an earlier start to hiking cycles helped contain inflation, with a growing number of emerging markets now poised, or starting to cut policy rates. For Emerging Markets, China's economy is in a multi-year adjustment with weakness in real estate and manufacturing weighing on aggregate activity. Elsewhere in emerging markets, there are clearer signs of economic resilience/ recovery, of inflation having peaked, and a turn in the technology cycle after a prolonged period of weakness.

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 Mexico detracted, while contribution was led by Taiwan and Brazil, with Korean exposure also contributed.
- In China, despite contribution from long-standing exposure to consumer related names (Fuyao Glass, Wulingye Yibin, Haier Smart Home), a lack of exposure to Li Auto and Meituan detracted. Li Auto, rose after delivering much better than expected earnings. However, competition remain intense and other EV producers continue to lower prices. Meituan responded contributed to consumption data for the lunar year new which looked "better than feared", though by most metrics it does not yet appear to have recovered to pre-COVID levels.
- Mexico continues to be a positive active position for the Fund, however the overweight exposure hurt during the month as the market lagged the broader asset class rally. Wal-Mart de Mexico and Grupo Aeroportuario del Pacifico were top ten stock detractors.
- Stock selection in Korea contributed as the Korean government's "Value-up" programme saw several holdings rise on expectations of potential improvements in corporate disclosure and ultimately shareholder returns.
- In Brazil, relative contribution came from zero exposure to a Brazil petroleum company and a Brazil mining company.
- Taiwanese stock selection contributed given continued surrounding AI and semiconductor demand. Novatek Micro contributed on the back of its success in breaking into the iPhone supply chain, though there are concerning signs of a slowdown in its core mobile and auto segments.
- From a dividend perspective, there are visible positive trends across geographies, for example Korea and China. During the month Netease, Banco do Brasil and SCBX all raised their payout ratios, and there is anticipation for more positive moves from Korean corporates given the 'Value Up' initiative.
- From a positioning standpoint, key changes included initiating positions in energy name and a tech stock. The energy name's share price has languished after announcing a capex reduction and another potential placement, however this opens the door to higher dividends given the implications of an improving free cashflow profile.
- Taiwanese technology name has been held previously, and the company's successful pivot towards AI and auto has made it an attractive addition. Other changes followed expected return and yield signals including trimming several strong performers.
- 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

- Despite the improvement in inflation in developed markets, the interest rate narrative remains higher for longer as risks abound. In contrast, many EM central banks have relatively high policy rates, especially compared with domestic inflation. Consequently, EM central banks have ample capacity to cut rates assuming inflation remains on its current downward trajectory: Brazil, The Czech Republic, Chile, Hungary and Poland have started.
- China's economic recovery looks to be two-speed with weakness in real estate and manufacturing weighing on growth, while consumption looks to be stabilising and valuations, at close to record low levels, appear supportive. 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.
- For India and Indonesia, while valuations look stretched near term, the two countries look to be enjoying an investment led expansion, supported by positive policy actions over the last several years which is expected to continue.
- North Asian technology companies look to be entering a new cycle with structural demand for AI, cloud adoption and EVs set to drive growth.
- After a year of weak earnings growth driven by falling margins, higher rates and cyclical pressures, expectations are for double digit growth in 2024/5.

Provided for portfolio update and reporting purposes only to report on portfolio positioning, not to be construed as offer, research or investment advice. Diversification does not guarantee positive returns or eliminates risks of loss.
Source: Fund related information and market commentary – J.P. Morgan Asset Management, other market data – various public sources. Data is as of date of the commentary unless stated otherwise.
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NEXT STEPS

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Refer to Risk Factors in the Prospectus for further information on risks of the product.

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