# JPMorgan Funds – Emerging Markets Dividend Fund

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## Topline

**Monthly commentary – January 2024**

**Markets** – Global equity markets ended January in positive territory even as hopes for a 'soft landing' were slightly tempered at the end of the month, when the Federal Reserve struck a less dovish tone at its January meeting. The US 10-year Treasury yield rose modestly after falling the previous two months.

**Helped** – Stock selection in China and Korea.

**Hurt** – Longstanding underweight to 'yield poor' India and zero exposure to Turkiye.

**Outlook** – Economic data is continuing to show resilience in global growth, particularly in the US, whereas inflation, while moderating, remains 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. However, consumption looks to be stabilising with signs of a tentative recovery and overall valuations are supportive. While the USD fell in real terms from multi-decade highs even more rapidly than expected, its anticipated downward trajectory is likely to remain volatile. 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.

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

## Month in Review

- China and Korea were the key market contributors, with India and Turkiye detracting.
- Despite the continued pressures on the Chinese market, led by worries over economic trajectory and lack of consumer confidence, China contributed to relative returns, notably through consumer related names including NetEase, Midea and Haier Smart Home.
- NetEase continued its rebound as the December shock announcement on further gaming curbs faded away and were essentially walked back by the regulator. In contrast, JD.com detracted as market continues to worry about the company's true potential growth rate considering the competitive dynamics and lack of overall market growth.
- Broadly it is worth highlighting that there are more stocks entering the 'income plus growth' space in China, primarily as a result of derating but also slowly improving capital allocation policies resulting in steady yields.
- Korea contributed as the potential Korea "Value Up" programme helped parts of the market as various measures were signalled which could improve valuations.
- The key detector was India, the underweight exposure hurting as the market once again outperformed. HDFC Bank dragged at stock level. The merger with HDFC has not been as smooth as hoped for and the merged entity is now facing a much tighter liquidity environment. However, this remains a long term, high quality business and the position was added to during the month.
- The zero exposure to Turkiye was a minor detractor given market outperformance.
- From a dividend perspective, Korean auto company Kia announced a 60% increase in the annual dividend, tracking in line with impressive earnings growth for 2023.
- From a positioning standpoint, changes through the month were primarily rotation towards names with higher conviction or more attractive expected returns, whilst trimming those where confidence or expected returns had weakened.
- Further to the comments above about China's yield opportunities increasing, a new position was initiated in a Chinese gaming company, which fits into the lower yield segment of the portfolio. We have a strong view on company fundamentals, from the games business to regaining momentum in advertising to growth in fintech/payments. This Chinese ecommerce giant was historically an example of stocks which didn't work for the portfolio, not least as it was very growth orientated. Today however their dividend policy and commitment to buybacks, highlights the pivot that now makes it attractive from an income investors perspective.
- 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**

For further information, please visit:
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