JPMorgan Funds – Emerging Markets Dividend Fund

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Topline

Monthly commentary – July 2024

Markets – Developed equities were marginally up in a volatile month with a number of notable economic and political developments. While Growth stocks were weak as investors grew more sceptical about the potential for future returns from investment in artificial intelligence (AI). A weaker than expected US Consumer Price Index (CPI) reading early in the month, combined with weaker US labour market data, reassured bond investors that the Federal Reserve (Fed) will soon begin cutting interest rates.

Helped – Stock selection in South Africa and Taiwanese exposure.

Hurt – Overweight Mexico given post-election volatility.

Outlook – Economic data continues to show relatively stable global growth, even if there are signs of slowing momentum. More encouragingly, inflation is now showing more sustained moderation, which is increasing the likelihood that interest rates will soon start to fall across many developed markets, even if it may be a gradual process. While this has been less of an issue across EM; an earlier start to hiking cycles helped contain inflation which allowed a number of emerging markets to cut policy rates, it may help sentiment. For Emerging Markets, China's economy is in a multi-year adjustment with weakness in real estate and to a lesser extent manufacturing weighing on aggregate activity, though there are signs of greater policy support for the former.

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

- By market, Taiwan detracted overall while both Korea and India contributed to relative returns. Sector impact was more muted, with IT contributing while Consumer (discretionary and staples) detracted.
- Taiwanese Technology names have long been a sweet spot for income plus growth opportunities across the asset class, however this area was the main detractor through July as datacentre and AI related names fell in tandem with US tech leaders.
- There was nowhere to hide in global semiconductors this month and Taiwan was no exception. A focus on second quarter earnings, shows a distinct uptrend in AI-related demand while broad-based semiconductors were weak.
- The fund is well-placed in this regard with exposure to datacentre, advanced packaging and memory while having reduced exposure to broad-based semi names over the last couple of months.
- Stock selection in China, Mexico and Indonesia all showed a moderate detraction on relative returns.
- One bright spot for performance was Korea. The exposure here has gradually increased over the past few couple of years, notably in financials, and the market is now an active overweight against MSCI EM Index.
- The Korean government's "value-up" program is gaining traction and this looks to be working its way into corporate behaviours. During July, Korean banks announced plans to accelerate capital returns.
- Elsewhere in Asia, India contributed to relative returns as IT services rebounded strongly on the back of Infosys' revenue guidance upgrade. The small single digit upgrade was taken to mark the bottom of the current slowdown, after many quarters of relative weakness, showing an improvement not only in revenue, but also in margins leading to greater conviction that the worst of the cyclical slowdown is behind it. Tata Consultancy Services and HCL were top ten stock contributors along with Infosys.
- The contribution from these IT outsourcers mitigated the pressure from Taiwanese semiconductor names, meaning technology contributed mildly overall.
- From a dividend perspective, several Korean names announced during the month, reinforcing the improved dividend culture on the market over recent years. KB Financial increased their quarterly dividend whilst indicating steadily rising quarterly dividends with buybacks on top, while both Shinhan Financial and Hana Financial maintained their quarterly dividends.
- From a positioning standpoint, changes followed expected return and yield signals, resulting in taking advantage of recent market movement to reduce South African exposure and add further into Mexico and Brazil.
- 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

- Post month end, a surprisingly weak US jobs report, coupled with a more hawkish BOJ has caused a major spike in volatility leading to a surge in the Yen against many currencies as carry trades unwind.
- With recession 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. While consumption looks to be stabilising 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. 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 entering a new cycle with structural demand for AI, cloud adoption and EVs set to drive growth.
- After weak earnings growth in 2023 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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ASSET MANAGEMENT

NEXT STEPS

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