JPMorgan Funds – Emerging Markets Dividend Fund

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Topline

Monthly commentary – June 2024

Markets – June was another good month for returns from equities as the ongoing investor optimism about the economic outlook continued to support risk assets

Helped – Stock selection in South Africa and Taiwanese exposure.

Hurt – Overweight Mexico given post-election volatility.

Outlook – Economic data continues to show resilience in global growth, most recently in a pickup in global trade flows, whereas inflation, while moderating, remains at levels necessitating a cautious approach to monetary policy, specifically in the US. This has been less of issue across EM; an earlier start to hiking cycles helped contain inflation, with a number of emerging markets having cut policy rates. 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. However, consumption looks to be stabilising with signs of a tentative recovery and overall valuations are supportive. While the USD fell in real terms in 2023 from multi-decade highs even more rapidly than expected, its anticipated downward trajectory over the medium term is likely to remain volatile. Elsewhere in emerging markets, there are clearer signs of economic growth, 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 South Africa and China, as well as the Taiwan overweight all contributed, while the main drag on performance was the continued overweight to Mexico
- In South Africa, after the sell-off into the elections, stocks rallied as it became clear that the new government was likely to be formed of a coalition of “national unity”which might be able to tackle some of the worst economic woes facing the country. Consequently, holdings in Standard Bank and FirstRand contributed to returns in anticipation of better economic conditions.
- Stock selection in Taiwan contributed to relative returns during June. The demands of AI computing, along with capacity discipline, are seeing expectations for how this cycle unfolds evolve rapidly. With limited supply and seemingly ever greater demand, the potential for returns has seen investors continuing to buy the likely winners. Consequently, a number of Taiwanese names, such as Quanta, TSMC and Vanguard International Semiconductor contributed during the month.
- Having no exposure to both a Chinese e-Commerce company and a Chinese multinational technology company in the Chinese ecommerce space aided relative returns, as did stock selection in India, notably through positions in IT outsourcers, Infosys and HCL.
- The key detractor was Mexico, where the portfolio is overweight. A surprisingly strong showing by the incumbent party in the Mexican elections triggered a sell-off in Mexican assets. While the incumbents were expected to win, the scale of the win took the markets by surprise, leading to concerns amongst investors regarding the constitutional reforms the government may try and make, as the ruling coalition has the majority to pass constitutional reforms without opposition support. This impacted Grupo Aeroportuario del Pacifico, Banorte, Wal-Mart de Mexico and Kimberly Clark de Mexico (which was also sensitive to the currency move).
- Also in Latin America, stock selection in Brazil detracted as the market pulled back further on a combination of better than expected employment data and on the back of comments that President Lula was not looking to cut government spending to address fiscal concerns, which has heightened inflation worries. Consequently, expectations for further interest rate cuts have been pared back. This led to weakness in the portfolio's holdings with Banco do Brasil, and TIM falling.
- From a dividend perspective, two Brazilian stocks held in the portfolio made announcements during June. Stock exchange B3 announced its regular dividend payment bringing one year dividend growth to 7%. While Telecom business, TIM Brasil, paid interest on capital which means the company has delivered a 40% increase in dividends on a one year basis. The stock is trading on just over a 7% trailing yield.
- From a positioning standpoint, changes followed expected return and yield signals, resulting in adding to Mexico and Indonesia, taking advantage of market weakness, while rotating within technology, trimming a Taiwanese tech name and moving into cheaper 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

- Despite the improvement in inflation in developed markets, the interest rate narrative remains higher for longer. In contrast, many EM central banks have relatively high policy rates, especially compared with domestic inflation. Consequently, EM central banks have capacity to cut rates assuming inflation remains on its current downward trajectory: Brazil, Mexico, Czechia, Chile, 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, though government action on the former is seeking to improve the supply-demand mismatch, while consumption looks to be stabilising. Valuations, even after the recent rebound, 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.
- 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 a year of weak earnings growth in 2023 driven by falling margins, higher rates and cyclical pressures, expectations are for double digit growth in 2024/5.

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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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