JPMorgan Funds – Emerging Markets Dividend Fund

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Topline

Monthly commentary – March 2024

Markets – March was another good month for global stock markets as the likelihood of a soft-landing has increased as evidenced by PMIs firming up and stickier inflation. The US 10-year bond yields fell modestly.

Helped – Stock selection in Peru and overweight in Taiwan.

Hurt – Indian and Indonesia stock selection.

Outlook – Economic data continues to show resilience in global growth, which now seems to be broadening out beyond just the U.S., 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 (five so far in 2024) starting to 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. 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.

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

Month in Review

- Stock selection in India and Indonesia detracted, while Peru exposure and the overweight in Taiwan contributed.
- The long-standing, structural underweight to 'yield poor' India contributed in March as the market took a breather, however this impact was eroded by weak stock selection. Infosys was the largest individual stock detractor, falling after guidance from Accenture was relatively weak and pointed to potentially continued sluggishness amongst IT services. The same sentiment also impacted HCL Technologies.
- In Indonesia, the weakness was primarily due to Telekom Indonesia, who released weaker results than expected due to lower average revenue per user (ARPU) and higher costs. Bank Rakyat also detracted with nascent NPL (non-performing loan) concerns.
- Stock selection in Korea detracted, given the zero exposure to a Taiwanese multinational electronics manufacturer as well as a Korea semiconductor company, which both performed well given the anticipation for a longer upcycle for memory manufacturers.
- The portfolio's sole exposure in Peru, Southern Copper, contributed materially to relative returns as it rose 32% (USD) in March, boosted by an increase in the price of Copper.
- The overweight in Taiwan contributed given continued positivity surrounding AI and semiconductor demand. ASE and Quanta both rose strongly off the back of the continued positive AI narrative.
- Relative contribution from China was flat, as lack of exposure to Alibaba, Li Auto and Pinduoduo, was neutralised by weaker returns from positions including NetEase and Inner Mongolia Yili.
- From a dividend perspective, the shifting corporate lifecycle in China continues to show tangible results, with positive dividend announcements through March.
- Haier Smart Home raised the payout ratio to 45% and have committed to gradually increasing this further over the next three years, while Midea delivered a 20% increase in annual dividend.
- From a positioning standpoint, changes followed expected return and yield signals resulting in trimming several strong performers to fund additions.
- 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 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 looks to be two-speed with weakness in real estate and to a lesser extent 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 in 2023 driven by falling margins, higher rates and cyclical pressures, expectations are for double digit growth in 2024/5.

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ASSET MANAGEMENT

NEXT STEPS

For further information, please visit:
www.jpmorgan.com/sg/am/per/

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