JPMorgan Funds – Emerging Markets Dividend Fund

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Topline

Monthly commentary – May 2024

Markets – May was a good month for returns from equities. Ongoing investor optimism about the economic outlook supported risk assets, with developed market (DM) stocks delivering strong returns over the month.

Helped – Stock selection in Korea and overweight Taiwan.

Hurt – Consumer related exposure in China.

Outlook – Economic data continues to show resilience in global growth, most recently in a pickup in global trade flows, whereas inflation, while moderating, remains persistently at levels necessitating a cautious approach to monetary policy. That said, 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 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 was the key detractor, while Korean stock selection contributed albeit to a lesser degree.
- The impact on the portfolio from China was two-fold in May. Firstly strong-performing consumer names, such as Midea and Fuyao, took a breather, while internet stocks that the portfolio does not hold, including a Chinese e-commerce company, contributed on strong results and market sentiment.
- A sharp selloff in Indonesia caused a detraction, led by Bank Rakyat's disclosure of rising non-performing loans in their micro loans book. Falling commodity prices are also pressuring Indonesia's current and fiscal accounts, leading to broader profit taking in the market.
- Bank Rakyat was the largest stock level detractor for the portfolio, with Telekom Indonesia also a top ten stock-level drag following poor operating numbers.
- For the first time in several months, India had a more muted impact on performance during May as the market slowed, and waited, for the election announcement, post month end.
- In terms of contributors, Korean stock selection contributed, led by Samsung Fire & Marine and KB Financial, as the 'Value-up' program continues to boost the market.
- Elsewhere in North Asia, the Taiwanese market posted strong contribution, reflecting a rebound of the technology and AI theme globally, following strong results in the US and Nvidia's Jensen Huang's positive commentary on accelerating AI growth. Contribution here came from holdings in Vanguard International, ASE, Realtek and Accton Technology.
- Underweight exposure to Saudi Arabia and more broadly across the GCC contributed. This was predominantly a result of lacklustre oil markets and ongoing tight financial conditions as markets continued to push-out expectations of lower US interest rates which feeds directly into the region given its USD peg.
- From a dividend perspective, the maturing corporate lifecycle in China again benefitted the portfolio; during May, NetEase announced quarterly dividends in line with 30% pay-out ratio, while Wuliangye Yibin announced a proposed cash dividend pay-out ratio of 60%, a 5% year-on-year increase
- From a positioning standpoint, changes followed expected return and yield signals resulting in trimming several strong performers, notably Chinese appliance manufacturers, to fund Chinese additions that still offer a valuation opportunity.
- 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 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.
- 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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NEXT STEPS

For further information, please visit:
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