

Candriam Sustainable Equity Emerging Markets

Market Overview

In September, the Emerging Markets delivered robust returns (+6.4% in USD), outperforming developed markets (+1.7%).

In US, the Fed recalibrated rates policy and announced a first 50bps cut in over four years. Chair Powell insisted on a balanced approach, weighing between US economy resilience and labour market weakening.

China (+23.5%) saw a sharp rebound fuelled by substantial stimulus at the end of month. An unprecedented joint press conference was held by Chinese central bank, Chinese SEC, and other financial regulators. Supportive measures included rates cuts of reserve requirement ratio, policy rate, and mortgage rates. Liquidity support targeting stock market was also announced. Investment institutions, such as funds, insurance, and banks, will be allowed to pledge their stock holdings at the central bank in exchange for funding that can only be re-invested in equities.

India (+2.2%) saw further rise of its weight in the benchmark, supported by resilient earnings and healthy long-term outlook. Furthermore, India's full year inflation outlook was in line with the central bank's expectations.

In Taiwan (+1.2%), exports figures in August reached record highs. This was driven by resilient demand from AI and other computing needs, apart from a recovery from delayed shipment in July. In Korea (-3.6%), expectations rose on the Bank of Korea's possible pivot in the coming months. The government's value-up initiative continued its course with a launch of "value-up index" covering related companies.

In LatAm, Brazil (-1.0%) entered rate hiking, but full year GDP outlook remained healthy. Mexico (+1.1%) saw inflation eased. Its legal system is being reviewed by the President's ongoing judicial reform proposal.

In other markets, Southeast Asia saw improvement, helped by the Fed's rate policy. In the beginning of the month, Bank Indonesia cut base interest rate by 25bps. Elsewhere, South Africa (+6.4%) also joined the easing with a 25bp cut. Turkey (-1.9%) had a successful sale of 10-year dollar bond to support the economy.

For commodities, crude oil declined -8.9% during the month. Gold rose +5.2% and silver increased +9.5%. US yields finished the month at 3.81%.

Portfolio Highlights & Strategy Review

In September, the portfolio delivered strong outperformance relative to the benchmark.

Country wise, the portfolio's performance was helped by positive sustainable alpha especially in China and Korea. Stock picking worked particularly well in China, and the portfolio's top Chinese holdings rose nicely on improving fundamentals combined with government's supportive measures. Meituan (food delivery and e-grocery) benefited from good results and business expansion into ticketing. Bilibili (video platform & video games) enjoyed more success from new game publication. JD.com saw recovery following consistent cost discipline. KE Holdings (online property agency) was encouraged by more easing measures in the Chinese property market. In India, Shriram Finance (Indian retail credit) gained on solid loan growth and stable Net Interest Margin. Zomato (food delivery) continued to gain market share. Meanwhile, in other regions, the portfolio's timely rotation to ASEAN markets also supported the performance due to weaker USD post the Fed pivot. Theme wise, the portfolio's investments in the Information Technology sector continued to benefit from the AI trend and China's localization in semiconductors. Relative performance was negatively affected by not holding PDD and Tencent (both screened out on ESG grounds). The Apple supply chain players such as LG Innotek and AAC Technology saw profit taking following tepid iPhone 16 demand. For KB Financial (Korean financial services), despite its full eligibility, the company was excluded from the Korea Exchange's new value-up index. The market maintained confidence for a future inclusion.

Regarding position adjustments, we initiated CS Wind (Korean renewable) as we like its leadership in global wind power



infrastructure. We introduced PICC P&C (Chinese leading non-life insurer) given China's recent stimulus. We took profits in Indian holdings including ICICI Bank and Power Grid Corporation of India, and Eurobank in Greece to be better prepared for market rotations.

Fund Outlook

Emerging Markets equities have demonstrated a robust recovery this year, with emerging countries playing a crucial role in global economic growth.

The Fed finally unveiled an easing cycle with a 50bps cut, beating consensus. Chair Powell also confirmed the possibility of further cuts this year. Consequently, some Asian currencies are gaining tailwinds from a weakening USD, which also offers more flexibility for central banks to react.

Chinese authorities have introduced monetary and fiscal measures to combat deflation and stabilize the economy, triggering a significant market rally. While these steps are a positive start, more government intervention, particularly in consumer spending, the property market, and employment, is needed for sustained recovery. Investors are optimistic about potential structural reforms and stronger government support, though further fiscal action is expected. Chinese stocks, trading at multi-decade lows compared to US markets, have room for growth, but execution on policy will be critical. Increased exposure to internet, financial, consumer, and property sectors reflects market confidence, though US elections may pose external risks.

India is being used as a source of funding for China, but we remain confident in the prospects of the country. India continues to gain momentum through infrastructure investments, supply chain diversification, and rising consumption, while Indonesia and South Africa have begun easing cycles, adding to the Emerging Markets resilience.

In the tech sector, Taiwan and Korea, both leaders in semiconductors, are collaborating with US chipmakers. Despite short-term market volatility and being also a funding resource for China, the long-term demand for AI investments remains strong, reinforcing our positive outlook for these regions.

Aligned with our strategy, we dynamically calibrate the portfolio's risk appetite in response to evolving market dynamics, when maintaining a balanced position. We are monitoring US policy, as well as and China's potential economic recovery, fundamental factors for Emerging Markets outperformance.

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