

Candriam Sustainable Equity Emerging Markets

Market Overview

In January, MSCI EM index gained +1.7% (in USD), underperforming developed markets (3.5%). The month started on a positive note, with a weaker USD, improving sentiment in AI-driven tech stocks, and resilient commodity prices. However, optimism faded toward month-end following the announcement of new US tariffs on Canada (25%), Mexico (25%), and China (10%). After negotiation efforts, tariffs on Canada and Mexico were paused.

Latin America staged a notable recovery (+9.4%), rebounding from last year's macroeconomic volatility (Latam currencies also gained). Meanwhile, China's AI sector saw a major catalyst with the release of DeepSeek, an advanced AI model that delivered top-tier global results while maintaining cost efficiency. This shifted investor preference toward AI application software over traditional hardware and data centre investments.

In commodities, Brent crude rose +2.8%, while gold (+6.6%) and silver (+10.3%) surged on safe-haven demand amid geopolitical uncertainties. US Treasury yields ended the month at 4.58%, retreating from mid-month highs.

Portfolio Highlights & Strategy Review

In January, the portfolio had positive returns and outperformed the benchmark primarily attributed to a positive selection effect.

Country wise, Korea was the portfolio's largest contributor, due to positive selection. SK Hynix (memory chip) posted record-high profits for AI demand. Doosan (holdings in power generation and smart machinery) announced large-scale measures to enhance shareholder returns, including dividend increase and buybacks. Samsung Biologics (pharma) delivered a strong Q4 earnings beat, on the back of FX tailwind. As for Coway (home appliances), activist investors sought for higher shareholder returns and more transparent governance.

China was another standout performer. JD.com was bolstered by the government's new trade-in subsidies. NetEase (video game studio) rebounded on new game launch and the renewed partnership with Blizzard. Giant Biogene (biotech beauty) also outperformed, driven by strong sales and R&D advancements. India detracted on cyclical concerns and profit-taking impacting holdings such as Zomato (food delivery), Indian Hotels (hotel chain), and Info Edge (IT consultant).

As for position adjustments, we added to NetEase. We initiated some insurers names like PZU in Poland following solid results and BB Seguridade in Brazil for a quality, defensive business. We took profits in Indian names such as Zomato and Coforge (IT consultant). We cut Sumber (Indonesian supermarket retail) due to tepid performance.



Fund Outlook

As 2025 unfolds, geopolitics remain central to the dynamics of EM and beyond. The Trump administration introduces new trade policy uncertainties. Markets will closely monitor upcoming trade negotiations, but the scope and impact of potential tariffs remain a wildcard especially for EM economies reliant on exports.

The Chinese market demonstrated an uptrend, driven by expectations of further targeted stimulus. Policymakers face a critical moment in restoring social confidence, with key signals to watch, including property market support, credit easing, and tech-sector investments.

Thematically, AI continues to drive sectoral growth in the emerging markets. The rise of DeepSeek highlights that the AI investment opportunities in emerging markets is proving far more expansive than initially anticipated, extending beyond AI infrastructure into globally competitive AI software development.

Amid heightened market volatility, a reactive, selective, and flexible investment approach is essential. The portfolio benefits from its strengths to dynamically calibrate risk exposure, capitalize on macroeconomic shifts, and position in high-conviction structural themes in the long term.

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