

# Candriam Sustainable Equity Emerging Markets

## Market Overview

In August, EM delivered +1.4% returns (in USD) and underperformed DM (+2.5%).

The month began with a sell-off triggered by Japanese Yen's strengthening following the Bank of Japan's sudden rate hike. Furthermore, US' July employment data were weaker than expected, intensifying the fears for a hard-landing scenario. The market overreactions proved to be short-lived, and Powell's Jackson Hole speech helped ease the sentiment. He highlighted the Fed's commitment to avoiding a weaker US job market, and "the time has come for policy to adjust", indicating possible rate cut in September.

China (+1.0%) continued to grapple with growth pressure. The July CPI increased by 0.5% being higher than expectations, but export growth slowed. At the end of the month, Chinese market gained momentum on the positive anticipations in property sector: Chinese homeowners are likely to refinance their mortgages at lower rates. On the geopolitical front, Sullivan, the US National Security Adviser, met Chinese president in Beijing. Topics were diverse, and both emphasized the importance of maintaining a stable bilateral relationship.

Taiwan (+3.2%) and Korea (-2.8%) posted mixed results in the semiconductor sectors, but related names largely remained neutral to Nvidia's results release, which offered few surprises. Moreover, Taiwan saw growing consumption and investments, and Korea was encouraged by resilient export growth and more positive news on the Value-up program.

India (+0.8%) maintained robust growth, gaining increased weight over China in the benchmark. The country made notable progress in rural development and is set to launch a platform to facilitate micro-credit across sectors, as part of the central bank's digitalization efforts. India benefits from one of the fastest growth in mobile payment worldwide, thanks to a unified platform managed by its central bank.

In LatAm, Brazil (+5.5%) saw improvement in industrial production and services, although concerns over fiscal health persist. Argentina's economic reforms have sparked optimism about a potential reclassification into the MSCI EM benchmark.

US yields finished the month at 3.91%. In commodities, crude declined by -2.4%, while gold was up by +2.3%.

## Portfolio Highlights & Strategy Review

In August, portfolio outperformed its benchmark.

Sector wise, Consumer Discretionary led the positive contribution. MercadoLibre resumed strong growth and its additional investments initiated this year paid off. Zomato (Indian food delivery) gained more potential through the acquisition of a ticketing business. Portfolio holdings in Information Technology sector demonstrated resilience regardless of the negative sentiment towards US chip heavyweights. Despite Nvidia's in-line results, overall, AI demand remained strong, benefiting Asian participants in the AI supply chain, such as Asustek (graphics card) and Aspeed (server) in Taiwan, and LG Innotek (electronic components, beneficiary of Apple Intelligence) in Korea. Financials holdings in LatAm also saw strong growth. Nu Holdings (pan-LatAm online banking) continued to deliver solid results, and Banco Macro (Argentina bank) rose on capital sufficiency being a potential candidate for Argentina potentially de-entering the MSCI EM index.

Among the laggards, Turkey detracted the most at country level, as the Turkish lira proved to be a substantial victim among EM currencies, following weaker results of some corporates and market doubts on Turkey's rate cuts end of the year. This



impacted portfolio's Turkish holdings including BIM (food retail) and Sabanci (financial holding). Amorepacific (Korean skincare) dragged for concerns over its Chinese business' restructuring progress.

Regarding position adjustments, we increased Giant Biogene (Chinese beauty biotech) for robust topline and margins. We increased Sungrow (Chinese renewables) for the sector recovery. We decreased CTBC (Taiwanese bank) as the bank was bidding for a potential acquisition, which raises risks of diluting profitability. We decreased Hero Motors (Indian two wheelers) due to peaking margins and lagging EV business.

## Fund Outlook

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

As for the Fed's next move, Powell's dovish stance encouraged expectations for the first rate cut in September, which can create a more accommodative environment for EM central banks to roll out easing policies.

Regionally, EM outside China have been showing notable resilience. India continues to show a lot of traction in infrastructure investments, global supply chain diversification, rise in consumption spending, expansion of financial services and housing growth. Elsewhere in EM, South Africa delivered gains on the reform expectations, and Mexico is waiting for an opportunity to be reclassified into the MSCI EM benchmark.

Taiwan and Korea are collaborating closely with US chip leaders. Despite near-term volatilities seen on the market, the demand for AI investments in the long term remains solid.

China continues to struggle with economic outlook. The government's guidelines remain high level, and local governments' bond issuance proves to be lower than scheduled. The sustained deflationary trend indicates an uneven path for China's recovery, which necessitates selectivity regarding investments in the country.

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 awaiting further confirmation of the US' dovish rates policy and China's recovery, contributing to the differential growth of EM.

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