

Monthly commentary / 31.10.2019
Vontobel Asset Management

Vontobel Fund - mtx Sustainable Emerging Markets Leaders

Approved for institutional investors in: AT, CH, DE, ES, FI, FR, GB, IT, LI, LU, NL, NO, PT, SE, SG (Professional Investors only)

Market developments

After eight consecutive months of underperformance, the MSCI EM rose 4.1% in October, outperforming developed markets (+2.5%) by 1.6%. The risk-on rally was driven by the tentative truce in the US-China trade war, the easing bias of the world's large central banks, prospects of a possible Brexit deal and a better-than-expected earnings season. Sector leaders were health care (11.3%) and consumer discretionary (7.0%), while communication services lagged behind (-0.3%).

Portfolio review

In October, we increased Samsung, China Gas and JD.com and we decreased DBS Group. The number of portfolio holdings remained unchanged at 45. The largest positions were TSMC, Samsung, Alibaba, Tencent, and Lukoil.

Performance analysis

The fund outperformed the reference index in October due to, among other things, positive stock selection in financials and utilities. The biggest positive contribution came from TSMC.

Outlook

We believe that emerging-market equities remain attractive. There are a number of possible catalysts that could drive stock market returns in the fourth quarter.

An easing of trade tensions. The likelihood of at least a partial resolution of the US-China trade conflict has increased since August with the Trade Tensions Barometer calculated by Goldman Sachs rising from 35 to 40. While we do not see a quick handshake, it is reasonable to expect that ahead of next year's presidential elections in the US, President Donald Trump will be keen to reach a deal with China to placate American farmers, who see their exports dwindle. A continued escalation – or even the status quo – would hurt the economic outlook and his chances of re-election.

Relative macro improvement is not yet priced in. According to Credit Suisse, economic growth in emerging markets will exceed that of the US by 3.8 percentage points in the second quarter of next year, with this figure already factoring in a “weak” 6% Chinese rate for 2019. In addition, the latest Chinese purchasing managers' manufacturing data (Caixin) of 51.4, the highest reading since February 2018, implies better exports. Leading indicators in emerging economies have become superior to those in developed countries, Credit Suisse says. With this in mind, it appears that the year-to-date underperformance of emerging-market equities relative to their developed-market counterparts isn't justified.

EPS revisions recovering, in particular in the tech sector. Over the course of the last months, analysts have upgraded their earnings expectations for Brazilian, Taiwanese, South Korean and Chinese companies. For instance, some Asian mobile phone or telecommunication companies are benefiting from a faster-than-expected rollout of the latest 5G mobile phone infrastructure. However, the upward revisions of analysts' earnings expectations have so far failed to translate into improved price momentum.

Valuation of emerging-market equities improving. Emerging markets still trade at a discount of 40% to developed markets based on the Shiller price/earnings ratio, which is close to historical lows. As long as trade uncertainties persist, a discount to the long-run average price/earnings ratio of 13.2 will persist, in our opinion.

Monetary policy easing and stimulus measures. According to Credit Suisse, 13 out of the largest 15 emerging economies including China have loosened monetary policy, and the trend may continue. Similarly, observers see the potential for further Chinese measures to stimulate the economy.

Our assessment could be compromised by an increased likelihood of a US recession, and the repercussions this would have on emerging economies. Likewise, a stronger-than-expected US dollar or country-specific adverse developments could be a worry.

Performance (in %)

Net returns	Rolling 12-month net returns					
	Fund	Index	Start date	End date	Fund	Index
USD						
MTD	4.4	4.2	01.11.2018	31.10.2019	17.8	11.9
YTD	15.4	10.7	01.11.2017	31.10.2018	-13.5	-12.5
2018	-15.3	-14.8	01.11.2016	31.10.2017	35.1	26.5
3 years p.a.	11.2	7.4	01.11.2015	31.10.2016	14.8	9.3
5 years p.a.	8.6	2.9	01.11.2014	30.10.2015	-4.5	-14.5
10 years p.a.	n/a	n/a	Index: MSCI Emerging Market TR net			
Since launch	5.9	1.4				
p.a.						
Launch Date		15.07.2011	Share class: I			
			ISIN: LU0571085686			

Past performance is not a reliable indicator of current or future performance. Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in the rates of exchange between currencies.

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Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in rates of exchange between currencies. The value of the money invested in the fund can increase or decrease and there is no guarantee that all or part of your invested capital can be redeemed.

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