Monthly commentary / 30.9.2024

Vontobel Fund – mtx Emerging Markets Leaders ex China

Marketing document for institutional investors in: AT, CH, DE, ES, FI, FR, GB, IT, LU, NL, NO, SE.

Summary

— Emerging markets ex China equities returned +1.2% for September.
— The mtx Emerging Markets Leaders ex China (EMLX) fund was flat (gross of fees) in September.
— The EMLX fund underperformed the benchmark by -3.8% (gross of fees) during the nine months to the end of September.

Market developments

After starting the month in negative territory, emerging-market (EM) equities rebounded to track just above +1% higher, spurred by an unexpected wave of stimulus measures from Chinese authorities aimed at boosting the world's second-largest economy. The initial announcement focused on reducing the main policy rate, cutting existing mortgage rates by 0,.5%, lowering the down payment requirement ratio for homebuyers from 25% to 15%, and injecting additional funds into local stock markets. Further market optimism was driven by the subsequent Politburo meeting, where officials reviewed the country's economic situation and discussed key policies to achieve its annual economic goals.

The market reaction to this renewed determination was decisive, with the MSCI China Index jumping almost +24% for the month (China A onshore equities were also up approx. +23% for the month). This exceptional performance helped propel the MSCI EM Net Return Index to +6.7% for the month, almost +5% higher than developed-market (DM) equities. Given the extraordinary rebound from Chinese equities, it is unsurprising that the MSCI EM ex China 10/40 Index lagged behind for the month, returning +1.2%.

Within the EM ex China 10/40 Index, all sectors finished the month in positive territory with the exception of energy and information technology/IT. The best performing sectors for the month were materials, consumer discretionary and utilities. From a country perspective, Thailand and South Africa were two of the best performers for the month. On the negative side, South Korea and Brazil were among the worst performers for the month.

Portfolio review

Over the course of the month, the strategy was flat (gross of fees), underperforming the benchmark return by -1.2%. Negative stock selection was the key driver of this underperformance, particularly within information technology/IT and financials. Allocation impact was also negative for the month, primarily due to the overweight position to IT and underweight position to materials. From a country perspective, stock selection in South Korea and Taiwan were among the largest detractors for the month.

At the end of September, our portfolio comprised of 38 companies (41 holdings, two holdings each for HDFC Bank, Infosys and TSMC). During the month, we sold our position in Hypera (health care, Brazil).

Some of the salient points for performance in September are summarized below.

Performance analysis

IT: The portfolio's IT holdings had a difficult month, in particular Samsung Electronics was the biggest detractor to performance, with the stock down around -15% for the month. While our view remains that Samsung is making good progress on its high bandwidth memory (HBM) solutions and could play catch up with its major competitor, SK Hynix, ongoing delays in official Nvidia qualification and recent weakness in the DRAM spot price (driven by higher smartphone and PC inventories) heaped more pressure on the stock during the month. Given the weakening DRAM spot price and concerns regarding demand, we started to reduce our position. However, we believe the market's reaction has been excessive and for this reason we decided not to reduce any further.

Elsewhere within IT, Lotes and Wiwynn Corp both had a difficult month and help explain the portfolio's negative stock selection in Taiwan. In the case of Lotes, the stock struggled on the back of delays to Nvidia's Blackwell architecture for datacenters, which many in the market believe could provide an opening for Lotes' competitors when it comes to liquid cooling solutions. In addition, the market readjusted down the expected selling prices for Lotes solution in this space. We have always maintained a conservative approach to the impact on Lotes' earnings as a result of its liquid cooling solution, nevertheless, we did reduce our position in the stock in favor of higher conviction ideas elsewhere.

Consumer discretionary: On the positive side, the portfolio's consumer discretionary holdings had a strong month. This is a result of our holdings in Naspers (South Africa) and Bajaj Auto (India). Naspers benefitted from its holding in Tencent, which rose almost +17% for the month on the back of the Chinese stimulus announcement. In the case of Bajaj Auto, the stock continued its strong momentum into September as the company continues to benefit from strong demand momentum given that two-wheeler bikes are the fastest growing segment within Autos in India. Bajaj is expecting to grow faster than the market with its compressed natural gas motorcycles also starting to gain traction.

Outlook

The official start of the easing cycle in the US and a show of determination from the Chinese authorities to reinflate the world's second largest economy, have combined to provide EM equities with a welcome boost. While challenges lie ahead, expected earnings growth for EM corporates remains solid, relative valuations continue to look appealing and the gap between real GDP growth in the emerging and developed world is expected to widen.

Operations

EM corporates are estimated to post solid earnings growth of +16 in 2024, which compares very favorably with earnings growth expectations in the developed world of +13%. From a regional perspective, earnings growth in EM Asia is predicted to be among the strongest with South Korea (+30%) and Taiwan (+17%) standing out as particularly strong given the reacceleration in earnings for leading technology companies in these countries. India, the largest country in the index by market cap, is also expected to generate good earnings growth in 2024 of +15%. Elsewhere within EM, earnings expectations have notably picked up in South Africa post the general election, with expectations of +24% earnings growth in 2024.

Looking ahead to 2025, earnings growth for EM corporates is expected to remain strong, with projections of +11%. This continues to compare favorably with forecasts for both the US (+13%) and DM (+11%). EM Asia stands out as attractive, with Taiwan predicted to deliver earnings growth of +16%.

Profitability margins, such as return on equity, held up reasonably well in 2023 for the average company in the MSCI EM ex China Index (c.11.2%). In a similar picture to what we see for earnings, margins are expected to increase in 2024 with consensus expectations around +11.9% for the year.

Momentum

Over the past three months, analyst earnings expectations for EM corporates have increased for 2024 by +0.7%. This contrasts with the developed world where earnings expectations were revised upwards by +1.1%.

Within EM, Taiwan (+1.8%), South Korea (+1.6%) and Mexico (+1.2%) were among the largest positive revisions during the past three months.

Valuation

Despite the strong performance during the third quarter, EM ex China equities continue to look relatively attractive compared to developed market equities, with 2024 earnings trading on a multiple of 15.2x and 2025 earnings trading at 12.9x. In comparison, developed market equities are trading at 20.6x for 2024 earnings and 18.3x for 2025 earnings.

On a Shiller P/E basis (the cyclically adjusted price to earnings ratio that adjusts 10 years of earnings for inflation), EM equities continue to trade at a significant discount to DM equities. We believe this is a powerful signal that long-term investors should consider.

From a regional perspective, Latin America (LatAm) continues to screen as very good value with markets such as Brazil trading at 8.6x for 2024 earnings. Within EM Asia, South Korea continues to stand out as relatively attractive trading at 10.2x for 2024 earnings, while India continues to look very expensive trading at 26.9x for 2024 earnings.

Growth

Real gross domestic product (GDP) expectations for EM economies are strong with consensus estimating that EM economies will grow by +3.9% in 2024 and +4.3% in 2025. In comparison, expected real GDP growth in the developed world is +1.7% in both 2024 and 2025.

The biggest growth in real GDP expectations for 2024 continues to come from EM Asia with economies such as India (+6.9%), Indonesia (+5%) and China (+4.8%) expected to grow the fastest. This trend is expected to continue into 2025 with India once again predicted to be one of the fastest growing economies in the world at +6.6%.

Elsewhere within EM, we note strong real GDP growth expectations in the Middle East for 2025 with economies such as Saudi Arabia and the United Arab Emirates (UAE) both expected to grow by approx. +4.5%. LatAm economies are still predicted to experience subdued growth in 2025, with Brazil and Mexico only expected to grow by +2% and +1.6% respectively.

Risk

Red or blue? The US presidential election in November is likely to have a major impact on investor sentiment towards EM equities in the final quarter of the year. A potential return of Donald Trump to the White House is generally viewed as negative for EM equities, particularly due to his stance on hiking tariffs on Chinese imports.

EM performance during US easing cycles: Although a weaker US dollar is typically considered favorable for EM equities, it is not guaranteed that the current easing cycle in the US will benefit EM performance. Historical events, such as the global financial crisis, have shown that some previous easing cycles did not result in EM equity outperformance.

Hard or soft landing? A hard landing for the US economy would likely have a negative impact on EM corporate earnings. While the US economy appears to be slowing yet resilient, the delayed effects of monetary policy mean that a recession remains possible. The key question is the extent of this potential slowdown.

Goodbye inflation? While the US has officially entered its easing cycle, there battle against inflation may not yet won. A Trump victory could lead to substantial hikes in tariffs on imports, which could be inflationary.

Flows

EM equity flows have been negative year-to-date, with JP Morgan estimating outflows of approx. -$21 billion as of September 26, 2024.

The average global investor's allocation to EM equities remains significantly underweight, with JP Morgan data suggesting it is 2-3% lower than the long-term average EM allocation.

Fund characteristics

Fund name	Vontobel Fund – mtx Emerging Markets Leaders ex China
ISIN	LU2601939379
Share class	I USD
Reference index	MSCI Emerging Markets Index ex China TR Net 10/40
Inception date	20.9.2023

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	-0.2%	1.2%
YTD	8.5%	12.2%
1 year	21.9%	26.8%
3 yrs p.a.	–	–
5 yrs p.a.	–	–
10 yrs p.a.	–	–
ITD p.a.	18.7%	22.9%

Time period	Fund	Ref. index
2023	–	–
2022	–	–
2021	–	–
2020	–	–
2019	–	–
2018	–	–
2017	–	–
2016	–	–
2015	–	–
2014	–	–

Past performance is not a reliable indicator of current or future performance. Performance data does not consider 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.

Investment risks

- Investments in emerging markets entail increased liquidity and operational risks as these markets tend to be underdeveloped and more exposed to political, legal, tax and foreign exchange control risks.
- Using derivatives generally creates leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
- The sub-fund also includes sustainability criteria in its investment process. This may mean that the sub-fund's performance is more positive or negative than a conventionally managed portfolio.
- A company's stock price may be adversely affected by changes in the company, its industry or economic environment and prices can change quickly. Equities typically involve higher risks than bonds and money market instruments.
- The sub-fund’s investments may be subject to sustainability risks. The sustainability risks that the sub-fund may be subject to are likely to have an immaterial impact on the value of the sub-funds’ investments in the medium to long term due to the mitigating nature of the sub-fund’s ESG approach. The sub-funds' performance may be positively or negatively affected by its sustainability strategy. The ability to meet social or environmental objectives might be affected by incomplete or inaccurate data from third-party providers. Information on how environmental and social objectives are achieved and how sustainability risks are managed in this sub-fund may be obtained from vontobel.com/sfdr.

and the correct execution of the ESG strategy. As investors may have different views regarding what constitutes sustainable investing or a sustainable investment, the fund may invest in issuers that do not reflect the beliefs and values of any specific investor.

Past performance is not a reliable indicator of current or future performance.

Performance data does not consider 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, e.g. 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.

Interested parties may obtain the above-mentioned documents free of charge from the authorized distribution agencies and from the offices of the fund at 11-13 Boulevard de la Foire, L-1528 **Luxembourg**, the facilities agent in **Austria**: Erste Bank der oesterreichischen Sparkassen AG, Am Belvedere 1, A-1100 Vienna, the representative in **Switzerland**: Vontobel Fonds Services AG, Gotthardstrasse 43, 8022 Zurich, the paying agent in Switzerland: Bank Vontobel AG, Gotthardstrasse 43, 8022 Zurich, the European facilities agent for **Germany**: PwC Société coopérative - GFD, 2, Rue Gerhard Mercator B.P. 1443, L-1014 Luxembourg, Email: lu_pwc.gfd.facsvs@pwc.com, gfdplatform.pwc.lu/facilities-agent/. Refer for more information on the fund to the latest prospectus, annual and semi-annual reports as well as the key (investor) information documents (“K(I)ID”). These documents may also be downloaded from our website at vontobel.com/am. A summary of investor rights is available in English under: vontobel.com/vamsa-investor-information. In **Spain**, funds authorized for distribution are recorded in the register of foreign collective investment companies maintained by the Spanish CNMV (under number 280). The KID can be obtained in Spanish from Vontobel Asset Management S.A., Sucursal en España, Paseo de la Castellana, 91, Planta 5, 28046 Madrid. **Finland**: The KID is available in Finnish. The KID is available in French. The fund is authorized to the commercialization in **France**. Refer for more information on the funds to the KID.The fund authorised for distribution in the **United Kingdom** and entered into the UK’s temporary marketing permissions regime can be viewed in the FCA register under the Scheme Reference Number 466625. The fund is authorised as a UCITS scheme (or is a sub fund of a UCITS scheme) in a European Economic Area (EEA) country, and the scheme is expected to remain authorised as a UCITS while it is in the temporary marketing permissions regime. This information was approved by Vontobel Asset Management S.A., London Branch, which has its registered office at 3rd Floor, 70 Conduit Street, London W1S 2GF and is authorized by the Commission de Surveillance du Secteur Financier (CSSF) and subject to limited regulation by the Financial Conduct Authority (FCA). Details about the extent of regulation by the FCA are available from Vontobel Asset Management S.A., London Branch, on request. The KIID can be obtained in English from Vontobel Asset Management S.A., London Branch, 3rd Floor, 70 Conduit Street, London W1S 2GF or downloaded from our website vontobel.com/am. **Italy**: Refer for more information regarding subscriptions in Italy to the Modulo di Sottoscrizione. For any further information: Vontobel Asset Management S.A., Milan Branch, Piazza degli Affari 2, 20123 Milano, telefono: 0263673444, e-mail: clientrelation.it@vontobel.com. **Netherlands**: The Fund and its sub-funds are included in the register of Netherland's Authority for the Financial Markets as mentioned in article 1:107 of the Financial Markets Supervision Act (“Wet op het financiële toezicht”). **Norway**: The KID is available in Norwegian. **Sweden**: The KID is available in Swedish.

This document is not the result of a financial analysis and therefore the “Directives on the Independence of Financial Research” of the Swiss Bankers Association are not applicable. Vontobel and/or its board of directors, executive management and employees may have or have had interests or positions in, or traded or acted as market maker in relevant securities. Furthermore, such entities or persons may have executed transactions for clients in these instruments or may provide or have provided corporate finance or other services to relevant companies.

The MSCI data is for internal use only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data (the “MSCI Parties”) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Although Vontobel believes that the information provided in this document is based on reliable sources, it cannot assume responsibility for the quality, correctness, timeliness or completeness of the information contained in this document. Except as permitted under applicable copyright laws, none of this information may be reproduced, adapted, uploaded to a third party, linked to, framed, performed in public, distributed or transmitted in any form by any process without the specific written consent of Vontobel. To the maximum extent permitted by law, Vontobel will not be liable in any way for any loss or damage suffered by you through use or access to this information, or Vontobel’s failure to provide this information. Our liability for negligence, breach of contract or contravention of any law as a result of our failure to provide this information or any part of it, or for any problems with this information, which cannot be lawfully excluded, is limited, at our option and to the maximum extent permitted by law, to resupplying this information or any part of it to you, or to paying for the resupply of this information or any part of it to you. Neither this document nor any copy of it may be distributed in any jurisdiction where its distribution may be restricted by law. Persons who receive this document should make themselves aware of and adhere to any such restrictions. In particular, this document must not be distributed or handed over to US persons and must not be distributed in the USA.

T +41 58 283 71 11, info@vontobel.com
vontobel.com/am