

# CHINA GAINS DROVE MARKET

## Signs of support from Politburo late in month

**Markets.** In July, emerging market equities – as measured by MSCI Emerging Markets in euros – rose 5.11%. They regained some ground against developed markets (MSCI World), which rose 2.28% in July. However, year-to-date, developed markets returns remain well ahead at 15.15%, versus 7.85% in emerging markets.

Globally, markets continued their search for clarity on the direction of the global economy, inflation and central bank policy, with further hikes from the U.S. Federal Reserve and ECB. U.S. CPI came in below expectations, raising expectations that the Fed might be near the end of hiking.

In emerging markets, the direction was set by China. The authorities indicated that the crackdown on fintech platforms was easing, and shifting to a more normalized regulatory tone. In late July, the Politburo meeting brought suggestions of policy to boost consumption, support the troubled real estate sector, and address local government debt issues.

Chinese equities rallied sharply, particularly late in the month, and gained close to 10%. Other strong markets included South Africa, which rose almost 12%, with the currency also stronger; South Africa has continued difficulties with electricity supply, but July brought further hopes that the worst-case scenarios may be avoided. Taiwan was the weakest major market, as benchmark heavyweight TSMC fell close to 4% after cutting its revenue outlook at quarterly earnings.

Among sectors, Consumer Discretionary stood out with close to 13% returns, driven by large gains at internet heavyweights Alibaba and Meituan. IT was the weakest sector, with TSMC a key reason.

## Fund lagged in July, solid year to date

**The Portfolio.** In July the fund rose 3.07%, lagging MSCI Emerging Markets, which gained 5.11%. MSCI EM Value, a broad index of emerging market value equities, rose 5.41%, on par with the wider market. This means that so far in 2023, the fund has gained 9.39%, compared to MSCI Emerging Markets' gain of 7.85%.

In July, the fund's relative exposures to countries and sectors did not have a particularly significant impact on returns. Rather, the primary reason for the fund lagging the wider market was its selection of individual stocks, primarily within the Consumer Discretionary and Financials sectors.

Looking at the Consumer Discretionary segment, the wider market benefitted strongly from a share price recovery of almost 20% at internet giant Alibaba. In contrast, one of the fund's holdings - LG Electronics, of Korea – fell around 12% in July. Second quarter revenues declined, with a delay in recovery of consumer demand for appliance and TVs, while the company also recorded a one off cost related to a past recall of GM Bolt cars in its Vehicle Solutions business. LG remains positive on the longer-term outlook. Despite the volatile returns in July, it is worth placing this in context: year-to-date, LG Electronics in fact remains slightly ahead of names such as Alibaba. In any case, our focus remains on long-term intrinsic value.

In July, the portfolio's stronger performers included South African bank Absa Group, Chinese automaker Geely, and Mexican food producer Gruma.

See performance and fund data

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## Strategy

Ethical Emerging Markets Value invests in equities issued by companies from Emerging Markets, cf. the fund's prospectus. Stocks are selected using the value strategy, meaning that through careful fundamental analysis, the team strives to identify companies that trade at healthy discounts relative to intrinsic value. A risk-aware approach to the portfolio construction ensures a well-diversified portfolio and broad exposure across sectors and countries.

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