

MARKETS BUOYANT AT YEAR END

Markets driven by potential for rate cuts

Markets. In December, emerging market equities (measured by MSCI Emerging Markets in Euros) gained 2.63%, slightly less than the 3.62% return of developed markets (MSCI World). Over the full 2023, emerging market equities gained 6.11% - well behind the 19.60% gain in developed markets, where U.S. equities were strong despite significant monetary tightening. Emerging markets arguably had less concerning inflation dynamics and earlier rate cuts, and some markets performed strongly – but for the index, a key factor was China, which generated negative returns of around -15% in 2023. Sentiment on Chinese equities was affected by disappointing reopening momentum.

In December specifically, the catalyst for the market rally was the final Federal Reserve (Fed) meeting of the year. Fed chair, Jerome Powell, reflecting ever improving inflation figures and signs of a weakening US economy, called the peak for U.S. interest rates and opened the door to rate cuts in 2024. Equity markets reacted positively, seeing higher potential for a soft landing.

Over 2023, performance gaps between countries were large – and that continued in December. Latin America and India led the way. Peru rose over 27%, but it is a thin market, and the return was explained by miner Buenaventura rallying almost 60% after Antofagasta announced the acquisition of a stake. India rallied around 7% as Narendra Modi's BJP party won strong victories in three major state elections.

Meanwhile, China continued the pattern of 2023, delivering negative returns in December, after macroeconomic data such as retail growth and CPI disappointed. Index heavyweight Tencent also fell on market fears over new Chinese regulation on gaming.

Utilities was the strongest sector, followed by Information Technology and Materials. From a sector perspective, Communication Services performed weakly, driven by Tencent's declines. The fall in Tencent was also a major reason that MSCI EM Value – the value index – outperformed in December, since it lacks exposure to Tencent.

Significant geographic disparities

The Portfolio. In December, the fund gained 2.09%, somewhat less than MSCI EM's return of 2.63%, this means that for the full year 2023, the fund gained 8.76%, somewhat ahead of MSCI EM's return of 6.11%

MSCI EM Value, a broad measure of value equities, gained 4.09% in December and 10.34% over the full year. The fund lagged the value index in December, and in turn this meant it finished the year somewhat behind. Compared to both MSCI EM and MSCI EM Value, a key reason for the fund's lag in December was geographic in nature: the fund had less exposure to India and Taiwan, two markets that performed strongly within the indexes.

In December, strong contributors for the fund included Peruvian bank Credicorp (up 18%), Indian gas distributor Mahanagar Gas (14%), and Grupo Financiero Banorte (7%) of Mexico. Not owning Tencent was also beneficial. In terms of detractors to relative returns, a key driver was the absence of certain equities that performed strongly, such as Samsung Electronics (Korea), Reliance (India), and Mediatek (Taiwan). Among fund holdings, weaker performers included China Lesso – a maker of plumbing and building products - and SK Telecom.

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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