

AMUNDI FUNDS EMERGING WORLD EQUITY

Monthly
Portfolio
Update

28/02/2025

Meet the Team



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Market environment

The MSCI Emerging Markets index (+0.5%, net in USD) posted small positive returns in February, outperforming the MSCI World index (-0.7%) as strong initial gains led by China were reversed towards month-end amid incremental tariff reports. EM outperformed DM equities in February with the MSCI USA index (-1.6%) recording small contractions. The rally at the start of the month was fuelled by the postponement of 25% tariffs on Mexico and Canada while continued optimism on AI drove re-rating in China information technology stocks. A major sentiment lift was driven by a potential Russia-Ukraine ceasefire, though the likelihood of a sustainable peace deal remains uncertain thus far. The dollar continued its trend of a mild monthly decline (-0.7% in February) while US 10year yields declined 33bps to 4.2%.

Crude oil prices retreated in February. Brent finished -4.7% lower while WTI declined -3.8%.

Among regions, the MSCI EM Asia index (+0.7%) was the best performing market over the month followed by the MSCI EMEA index (+0.6%), while the MSCI Latin America index (-1.8%) lagged.

Among countries, the MSCI China index (+11.8%) was the best performer over the month, driven by a continued optimism on AI expansion post the release of DeepSeek. A notable development in the internet space in China was President Xi's symposium with top internet/tech firms which was read by the markets as an attempt to revive the private tech sector. Alibaba and Tencent have performed strongly in expectation of healthy AI-related demand and projected AI capex. However, a re-escalation of US-China tensions pushed China equities lower at month close as a fresh 10% tariff from the US is set to hit on 4 March, just a month after a similar levy on 4 February. Conversely, the worst performer was the MSCI Indonesia index (-15.9%) on signals of economic slowdown that showed up in earnings misses and foreign outflows. In Indonesia, investors are worried about tight liquidity conditions in the banking system, the formation of the sovereign wealth fund Danantara, and reshuffle in government spending.

Among key markets, the MSCI Taiwan index lost ground (-4.4%) notably due to Information Technology and Health Care. The MSCI Korea index (-0.3%) edged down as the focus was on earnings results and Trump's tariff policies, as well as AI capex concerns. The MSCI India index (-8.0%) lost ground driven by persistent Foreign Institutional selling, uncertainty around tariffs, a depreciating rupee and domestic growth concerns. The MSCI Brazil index retreated (-4.8%) as the BRL was the second most depreciated currency versus the USD in Latin America. The MSCI South Africa index edged up (+0.5%) supported by Naspers strong performance, while the MSCI Saudi Arabia index lost -1.5% as oil prices retreated.

Portfolio performance

The fund outperformed its benchmark this month, which was due to all three engines of performance.

Country allocation's contribution was positive, stemming from underweighting Taiwan, India and Saudi Arabia while dragged down by the negative impact of underweighting China while overweighting Brazil and Indonesia.

Sector allocation had a positive effect on the relative performance, benefiting on one side from underweighting Financials and overweighting Information technology, both in China, as well as overweighting Consumer staples in Thailand, while dragged down on the other side by underweighting Financials in Taiwan, overweighting Consumer staples in China and overweighting Consumer discretionary in South Korea.

Stock selection was the largest positive contributor this month. Among the main contributors were a Brazilian aircraft manufacturer, an Indian aluminum producer, a financial services company and a gold miner, both listed in South Africa, a bank engaged in Eastern Europe as well as underweighting a Chinese internet services company.

In terms of movements, we exited a bank in Indonesia. We have moved to a more cautious view on the country given concern over economic policy, and as one of the largest State Owned Enterprises, the stock is likely to remain very sensitive to macroeconomic development.

We also exited a printed circuit board manufacturer headquartered in Taiwan. Previous investment case in 2024 relied on utilization rate bottoming, potential improvement in demand (related to higher mix from AI/ASIC and PC/server bottoming) and delays in supply additions (supply at mid-single digit vs 15-20% at peak, potentially resulting in sizeable margin recovery from 20 to 30% Gross Profit Margin). The conviction is low now given ongoing capacity increase and technological threat of glass substrate.

Outlook

The willingness of the Chinese government to arrest the decline in the property market and use fiscal spending to help consumption has been welcome by investors. There is no denying that issuing special bonds to subsidize household is a positive and it is a departure from past stimulus focusing on the supply side of the economy. Nevertheless, so far, the amount has been rather small and is just marginally helping consumption in the short term. The Chinese government is aware of the risk of front loading consumption and also needs to find sustainable fiscal resources to accelerate improvement in social welfare policy. The Chinese government also remains committed to avoid stimulating artificially the property market as long-term demand is likely to be weak.

We tend to view diversification of the global supply chain, which new US administration policy is likely to reinforce, as a positive for Emerging Markets as it leads to a more balance growth within Emerging Markets, while also pushing China to support domestic demand. Concerns over evolution of inflation in the US and its impact on US rates and USD have also been largely priced in as most Emerging Markets countries enjoy relatively high level of real rates with relatively cheap FX.

With a longer-term view, we also continue to think that improvement in capital expenditure discipline, the lack of major macroeconomic imbalances, and increasing pay-out ratio, should help emerging economies to reduce economic and profit volatility.

NB: EM stands for Emerging Markets and DM for Developed Markets, WTI for West Texas Index, FX for foreign exchange, BRL for Brazilian real, ASIC for Application Specific Integrated Circuits, ERP for Enterprise Resource Planning.

All returns shown above are expressed in USD.

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