AMUNDI FUNDS EMERGING MARKETS GREEN BOND

Monthly Portfolio Update

31/08/2025

Meet the Team

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Market Commentary

Risk assets performed strongly in August, supported by the absence of major tariff escalations, a robust Q2 2025 US earnings season, and growing expectations of a Fed rate cut in September following Chairman Jerome Powell's Jackson Hole speech.

In the US, the dollar index declined 2.2% for the month, while 10-year Treasury yields fell 15 basis points to 4.23%. Front-end rates priced in a 90% probability of a 25bps rate cut in September. However, concerns about Fed independence emerged after Governor Adriana Kugler's resignation on August 8 and President Trump's attempts to remove Governor Lisa Cook, leading to steepening pressure and undermining confidence in the US.

Early August saw a downside surprise in nonfarm payrolls, with only 73,000 jobs added versus the expected 115,000, alongside downward revisions of 258,000 jobs for May and June. The unemployment rate ticked up to 4.2%. Meanwhile, Q2 US GDP rebounded to 3.3% from -0.5% in Q1, and core Personal Consumption Expenditure met expectations at 2.9% year-over-year, even as the US Consumer Confidence Index declined to 97.4 from 98.7 in July.

In China, despite weaker economic data, stocks remained resilient. Industrial production and retail sales growth slowed to 4.8% and 3.7%, respectively, down from 6.8% and 5.7%. At the Shanghai Cooperation Organisation summit, China and Russia outlined a vision for a new international order, with China proposing a new SCO development bank and pledging RMB 2 billion ($280 million) in grants plus RMB 10 billion ($1.4 billion) in loans to member countries. India and China reaffirmed their commitment to development partnership amid ongoing US tariff pressures and border tensions.

Emerging market central banks continued monetary policy normalisation. In Asia, the Philippines, Indonesia and Thailand cut rates by 25bps to 5%, 5% and 1.5%, respectively. In CEEMEA, Egypt's central bank made a significant 200bps cut, lowering the overnight deposit rate to 22% and the lending rate to 23%. In Latin America, Mexico's central bank reduced rates by a smaller-than-expected 25bps to 7.75%.

In geopolitical developments, the G7 summit in Washington yielded limited progress on Ukraine, but easing US-China trade tensions and potential ceasefire talks at the Alaska Summit modestly improved global risk sentiment. The Trump administration announced plans to impose an additional 50% tariff on Indian goods, pressuring India to halt Russian crude imports.

In terms of rating changes, S&P upgraded India's sovereign rating to 'BBB' from 'BBB-', citing resilient growth, effective monetary policy, and fiscal consolidation. Moody's upgraded Pakistan to 'Caa1' with a stable outlook, reflecting improved external conditions and IMF reform progress. The Dominican Republic's rating was also raised to 'Ba2' with a stable outlook.

About notable idiosyncratic events: protests began in Indonesia on 25th August, with thousands demonstrating outside the parliament against a housing allowance for MPs that was nearly 10 times the minimum wage in Jakarta. Prabowo has simultaneously implemented strict austerity measures, including cuts to education, health and public works. In Argentina, October's legislative elections are overshadowed by a corruption scandal involving President Milei's sister, Karina Milei, linked to alleged bribes. In Türkiye, a court ruling raised concerns about the country's democratic stability and weighing on Turkish assets. The court annulled the provincial congress of the Republican People's Party (CHP), Türkiye's main opposition group, citing alleged procedural irregularities. The decision removed provincial chair Özgür Çelik from his post and ordered an interim committee to oversee the branch until a new congress is convened.

Portfolio Performance

Against that backdrop, EM Hard Currency Corporate bonds posted positive monthly returns of +1.29% based on JPM CEMBI Broad diversified, slightly underperforming EM Hard currency Sovereign Debt which returned +1.63% based on JPM EMBI Global Diversified. After a slight correction in July, EM local currency bonds resumed its upward move, returning +2.15% in US Dollar, based on GBI-EM Global Diversified Index, benefitting from stronger currencies and slightly lower rates. EM flows kept a positive momentum through the month, registering a fourth consecutive month of inflows at +$4.0 Billion across both Hard ($+2.5Bn) and Local currency ($1.5Bn) fund, increasing annual positive net flows to $6Bn.

In this environment the portfolio (I2 USD share class) returned 1.06% in August net of fees, outperforming the benchmark the JP Morgan EM Credit Green Bond Diversified, which delivered 0.92% for the month. Looking at the portfolios sector allocation, our overweight exposure to Industrials was a key contributor specifically our Capital Goods selection, which continues to be a key contributor to performance. Our underweight stance to the Energy sector was a positive contributor. Our underweight positioning in sovereign vs the benchmark were a drag, but on the corporate side it was really a combination of gains across a variety of sectors that drove outperformance last month with no major detractors. From a country perspective it's a similar story, our overweigh exposure to Brazil was a strong contributor unphased by the much higher trade tariffs rhetoric threatened to be imposed by the US, our underweight China continues to be a good contributor to overall performance.

Portfolio Changes and Outlook

Although primary market activity from EM Corporates was muted in the initial part of August due to the summer lull, activity picked up in the last week of the month to close monthly supply around 40% in excess of the past five year average for the month of August. GSS Bonds supply remained relatively strong both in absolute term, with $6bn of newly issued bond, however the supply was essentially driven by new sustainable bonds ($4Bn) with less than $2bn of Green bond issued by EM corporates. In that context, we purchased a new Green Bond from a Saudia Arabian issuer where we like their enabling activities. We finished the month with an attractive yield of 5.68%, a duration stance in line with the benchmark and an average credit rating of BBB-

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We remain reasonably constructive on EM debt markets as we believe the worst of trade tensions market impact are behind us. Although US growth is slowing amidst an effective tariff rate settling in a range between 15% to 20% depending on the end of some sectorial exemptions, economic activity withstand while fiscal policy is expansionary. US monetary policy, however, is restrictive, and the Federal Reserve rhetoric is turning decidedly more dovish and aligning more with our views. There is room for the Central Bank to resume interest rate cuts this year, and in our view, more than what the market is currently pricing. Our base case is US growth will slow below trend, allowing the Fed to resume its rate cuts as the tariff impact on inflation should be temporary. In the event tariff agreements are not reached with his major partners or significantly higher than expected, we could see a sharper slowdown in global growth or a recession as consumers and businesses retrench and pull back on spending. The price shock from tariffs and a slowing economy may also complicate the US rate outlook, especially if unemployment is rising concurrently to inflation picking up.

In the current environment, we believe the emerging market asset class can deliver mid-high single digit returns, with the next leg of the rally driven by technical factors with the resumption of inflows and lower US rates. The growth premium versus development markets remains positive and in favour of emerging countries, supported by stimulus measures led by Asia, especially given recent upward growth revisions in India and China. Other countries also retain the flexibility to offset the negative impact of higher US tariffs through monetary and/or fiscal stimulus. Some have also pursued IMF programs and/or debt restructuring subject to adherence to structural reform measures. Lastly, investor positioning is light with $160 bn of outflows since 2022 to date with tentative signs that inflows are resuming. Credit quality is also improving with upgrades representing 57% of total rating actions including outlook in 2025, across credit spectrum and regions. EM debt keep offering an attractive diversification opportunity away from the US credit markets with absolute yield levels near a 15-year high despite the recent rally which extended through the summer. Some of the higher yielding segments of the market still also offer attractive spread levels relative to their US equivalents. The resumption of easing monetary policy cycle in the US, even if gradual, should also reduce the attractiveness of US assets and drive the search for alternatives. USD weakness and lower US treasury yields underpin EM local rates and currencies. On balance, most EM countries are still in policy rate cutting mode while a few higher yielding countries that have recently hiked rates may have room to cut rates aggressively.

EM corporate fundamentals, in the meantime, have been solid, partially benefiting from the front-loading of economic activity during the first quarter. Q2 earnings reporting season suggest decent results with the exception of the commodity-related sectors, especially Chemicals, given that the uncertainties around the new trade regime dominated most of the period. We also expect the HY Corporate default rates to stay low, below 3% this year vs its long-term average of 4.4%. Technicals have turned supportive as flows are gradually returning to EM and the primary markets remain active helping corporates to extend maturity profiles. While we get a bit more clarity on the tariffs, their economic impact is yet to be felt on growth and inflation. Combining this with relatively tight valuations, the like hood of a goldilocks scenario for the asset class remains limited for the reminder of the year, as such we keep focusing our research efforts to identify quality and idiosyncratic stories to generate alpha.

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