

Schroder Emerging Markets Sustainable Fund (Wholesale Class)

Fund commentary

The strategy underperformed the MSCI EM index in April, after outpacing the benchmark during the first quarter. EM equities fell 1.1% in USD terms over the period, trailing developed market global equities which rose 1.8%. Markets were rotational during the period, with stable quality value stocks outperforming, while high structural growers (primarily in China) were more challenged.

The portfolio's top performing region was EM EMEA, led by favourable positioning in Poland and Hungary. Positive stock selection in cheap high quality banks underpinned strong relative performance in Poland, while the defensive quality attributes of Hungarian pharma group Richter Gedeon were supportive, as the shares advanced nearly 16%. More broadly, at a sector level the portfolio benefited from positioning in communication services and utilities. An underweight stance in Chinese internet platform giant Tencent was a tailwind as the shares declined on profit taking despite reporting solid Q422 results driven by favourable ad recovery trends. Finally, Brazilian utilities with attractive valuation and defensive characteristics also added value.

EM Asia was the largest detractor in April, primarily driven by performance trends in China and South Korea. Chinese consumer staples and discretionary faced headwinds, with stable quality holdings in the home products space succumbing to profit taking. In South Korea, semis detracted slightly after a nice run of outperformance. Samsung Electronics remains extremely inexpensive with solid financial strength characteristics, with earnings expectations reset to reasonable levels.

At a high level, the strategy remains exposed to a range of themes and is well diversified across the different facets of quality and value. We expect such diversification will reduce the risk of a single market environment significantly dominating relative performance.

At the end of the month, some of the largest overweights in the strategy were to industrials and technology, where we focus on stocks which are attractively valued, and with strong business quality characteristics. Conversely, the strategy continues to maintain an underweight exposure to real estate in recognition of current market headwinds from a relatively higher interest rate environment. From a regional perspective, the strategy is underweight EM Asia, driven by a lower than benchmark exposure to China, while being overweight EM LatAm, driven mainly by a higher exposure to Mexican home products. In summary, we continue to ensure the portfolio maintains the proper breadth of holdings to efficiently capture the broad range of defensive quality and cyclical value opportunities in the current market environment.

Market review

Global equities had a mixed month, with developed markets posting modest gains while emerging markets declined. In contrast with the opening months of the year, April saw lower levels of volatility, with markets mostly trading water against a backdrop of uncertainty due to ongoing concerns regarding the US banking sector. Still high inflation alongside concerns around slowing growth also hamstrung sentiment. A positive start to the US earnings season did however provide a more positive tailwind.

US economic data provided conflicting signals regarding inflationary pressures. While there have been some signs of a slowdown in economic activity, inflation remains well above central banks targets and elements of inflation remain sticky, creating a policy dilemma. Adding to the mixed data, the first quarter earnings season has so far been better than feared. This positive momentum supported risk assets despite further stress in the banking industry, with nine of the eleven sectors positive in April, some of the strongest being staples, communications, financials, and health care. In contrast, more cyclically-sensitive sectors such as technology, materials, consumer discretionary and industrials all took a breather. Mega cap growth names continued to perform well, most notably Meta, following a well-received earnings update.

Regionally, economic data in both the Eurozone and UK generally surprised to the upside, which, supported equity markets. All sectors in the Eurozone advanced during the month aside from information technology, driven by weakness in semis, with the top performing sectors including energy and real estate. Meanwhile, UK equities rose over the month. Financials were one of the top contributors, driven in large part by a relief rally in the banking sector while energy and consumer staple sectors also contributed, driven by globally diversified names.

Within emerging markets, geopolitical tensions weighed on Chinese equities. Adding to this, potential US investment regulations also meant that communication services and consumer discretionary stocks were particularly badly hit. This underperformance resulted in EM Asia being the worst performing regional equity market, with positive returns outside of Asia helping partially offset this.

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