

# Schroder Global Emerging Markets

## Performance overview

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The fund underperformed the index and delivered negative returns in April. Both country allocation and stock selection were negative over the period.

The underweight positions to India and Saudi Arabia, both of which outperformed, detracted from returns. Conversely, the overweight positions in Brazil, Poland and South Africa, which outperformed, contributed to returns.

Stock selection was negative in China (o/w Alibaba; u/w Ping An), Taiwan (o/w Mediatek and TSMC) and Korea (o/w Samsung SDI and Korea Zinc). It was positive in Chile (o/w Banco Santander and Banco de Chile).

## Market Summary

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Emerging market (EM) equities declined in April, and underperformed developed market equities, as renewed US-China tensions arose. These concerned Taiwan, as well as potential new restrictions from the US administration on foreign direct investment into China.

China was the worst performing index market, despite some positive macroeconomic data which included better-than-expected Q1 GDP growth and export performance. Taiwan was also notably weak.

Turkey, where political uncertainty is rising ahead of May's presidential elections, declined for a second month. Voting polls indicate opposition leader Kemal Kilicdaroglu is proving meaningful competition for President Erdogan.

Chile underperformed on the announcement of a national lithium policy, in which government partners with the private sector to share the benefits of the country's abundant reserves. Korea also fell, although by less than the index, as the local currency's depreciation against the dollar weighed on returns.

South Africa recorded a small positive gain in the month, finishing behind the Latin American markets of Mexico, Brazil and Colombia. India outperformed too, supported by some positive macroeconomic data including better industrial production and easing inflation, which meant the central bank kept monetary policy unchanged. Saudi Arabia posted a positive return as oil prices rose after OPEC production cuts were announced. Indonesia, where the rupiah appreciated against the US dollar, also outperformed. The CE3 markets of Czech Republic, Hungary and Poland delivered strong returns, particularly Poland which was up double-digits in US dollar terms and was the best-performing index market in the month. European gas prices fell again in April as concerns over the Russia-Ukraine war faded and the European winter ended with gas storage near record highs.

## Outlook/positioning

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It was a quarterly meeting, and we made the following changes to our country allocation targets. We increased the magnitude of the overweights to South Africa and Brazil, moving closer to the model recommended weights. In South Africa, the need for structural reform persists but valuations remain reasonable. In Brazil, government policy under the new administration has created the risk of negative earnings revisions. Policy expectations have to some extent been reset but in the meantime sentiment has moved markedly negative, with valuations now reflecting significant risk. Real rates remain high and there is potential for interest rate easing later this year. We followed the model and took Indonesia from neutral to overweight. Reform progress has been encouraging and the long-term outlook is positive, even if this is now better recognised by the market. We also increased the size of the off-benchmark allocation to

Argentina, owing to a strong stock opportunity, and reduced the magnitude of the underweight to Saudi Arabia. The long-term outlook in Saudi Arabia is underpinned by societal change and the economic transformation programme. However, aggregate valuations are unattractive and there is negative earnings risk. These changes were funded by taking South Korea and China from overweight to neutral. In Korea, the weak cyclical outlook is discounted but the timing of a recovery remains uncertain. In China, the economic rebound continues, aided by policy support, but geopolitical tensions are rising again. We also increased the magnitude of the underweight to Thailand. These moves led to a small increase in cash.

*Actual asset allocation may differ depending on the specific product or portfolio*