

# UBAM – EM RESPONSIBLE INCOME OPPORTUNITIES

## Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws. The classification of the fund(s) as per the Sustainable Finance Disclosure Regulation (SFDR) is available on [ubp.com](http://ubp.com) or in the latest prospectus.

### Market Comment

- The U.S. economy continued to demonstrate robustness into the first quarter of 2024, defying the widespread anticipation of economic slowdowns. Despite market expectations leaning heavily towards rapid central bank rate cuts at the beginning of the year, U.S. economic data revealed persistent high inflation and a strong labour market, with over 300,000 jobs created in March alone. This sustained economic vitality led to a revision of growth forecasts upwards. However, the Federal Reserve, noting the economic strength, delayed any rate cuts, with the first reduction now postponed to the second quarter. Consumer spending showed resilience, though it did not match the growth rates of previous quarters.
- In contrast, Europe's economy lagged significantly behind the U.S., with the first quarter showing continued fragility. The Eurozone fluctuated between recession and stagnation, with significant disparities between its member countries. By the end of March 2024, inflation in the region had slightly decreased to 2.4%, with core inflation at 2.9%. The European Central Bank (ECB) responded by cutting its inflation forecast for 2024 to 2.3% and growth forecast to 0.6%, adopting a wait-and-see approach to further rate cuts.
- Japan faced continued challenges from a slowdown at the end of the previous year, with early 2024 remaining weak. However, there was a noticeable rebound in manufacturing confidence and exports by quarter's end. The Bank of Japan ended its negative interest rate policy and introduced a target rate range of 0-0.1%, marking a significant shift in its monetary stance.
- Emerging markets displayed a diverse performance but generally underperformed compared to developed markets, with overall gains of 2.0% in dollar terms. This was particularly marked by underperformance in China and Brazil, which saw declines in their local markets.
- China showed slight economic improvements by the end of the quarter, buoyed by the Chinese New Year and governmental measures. The growth target for 2024 was set at 5% during the National People's Congress in March, with a strategic focus on curbing inflation to 3%.
- Commodity markets saw significant activity, with oil prices rising by 16% in the first quarter, driven by OPEC+ production cuts and geopolitical tensions. Gold prices surged to a record high of over USD 2,200 per ounce by March 2024, largely as investors sought safe-haven assets amidst economic uncertainties.
- Equity markets were buoyant, with the S&P 500 and other major indices reaching all-time highs, driven by optimism for a steady recovery and potential central bank rate cuts later in the year. Despite the upbeat performance in equities, sovereign debt markets faced headwinds, with rising yields contributing to negative returns across various regions, including a -0.9% return in the U.S. and -1.9% in the UK for the first quarter.
- EM investment grade corporate bonds index was up by 1% (JPM CEMBI BD IG), led mainly by the tightening in spreads (spreads tightened by 24bp to 130bp). By region, Asia IG spreads tightened by 29bp, Latam IG by 22bp, EM Europe by 19bp and Middle East by 20bp.
- EM Government Bonds Index exhibited a positive return of 2.0% (JPM EMBI Global Diversified).

Sources: UBP, Bloomberg Finance LP, JP Morgan.

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## Performance Review

### Overall Fund Performance

The fund change name and investment strategy on February 26<sup>th</sup>. Performance metrics started from March 1<sup>st</sup>.

Although the fund follows a Total Return investment approach. The performance information is given relative to a comparative composite benchmark: 50% J ESG EMBI Global Div. IG 50% J ESG CEMBI Broad Div. IG - USD

In March 2024, the UBAM - EM Responsible Income Opportunities Fund observed a performance of 0.85%. The performance mainly came from duration positioning and issuer selection.

### Countries review

#### Top Contributors:

- Hong Kong: Showed the strongest returns from both rates and spreads.
- Dominican Republic: Positive rates returns compensated for losses in spreads, resulting in a net gain.
- Malaysia: Benefits significantly from strong performances in both rates and spreads.

#### Top Detractors:

- Panama: Although it had a positive rates return, heavy losses in spreads dragged down its overall performance.
- Romania: Minimal gains from rates were not enough to offset larger losses in spreads, leading to an overall negative impact.
- Guatemala: Despite a positive rates return, severe losses in spreads resulted in a substantial negative performance.

### Sectors review

#### Top Contributors:

- Utilities: Benefited from stable revenue generation and regulatory environments.

#### Top Detractors:

- Industrial: Faced challenges from operational inefficiencies and market conditions.
- Finance: Struggled due to adverse market conditions and credit risks.

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## Portfolio Activity

- In Africa, the sector focus was on Sovereign investments, with a slight increase in exposure driven by Cote D'Ivoire and South Africa, the latter also seeing activity in Metals & Mining and Transport sectors.
- Asia experienced a net decrease across several countries, with diverse sectoral activities. Indonesia saw movements in Consumer, Financials, TMT, and Transport sectors, while Hong Kong and India saw reductions in Financials and TMT. Significant reductions occurred in Malaysia across multiple sectors, including TMT and Transport.
- Europe showed a mixed activity with Poland engaging primarily in the Financials and Metals & Mining sectors. Turkey initiated investments in the Consumer and Transport sectors.



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- Latin America overall increased its exposure, with Brazil being active in several sectors including Consumer, Diversified, Financials, Metals & Mining, Real Estate, Transport, and Utilities. Mexico increased in Consumer, Financials, Transport, and Utilities.
- In the Middle East, overall exposure reduced, highlighted by a significant reduction in Israel's Financials sector. Kuwait had positive movements in Financials, and the United Arab Emirates showed engagement in Real Estate.

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## Outlook

- The U.S. economy continues to display resilience with growth projections remaining robust at over 2% for 2024. Despite global economic uncertainties, the U.S. stands out for its strong economic fundamentals, supported by a firm labour market and sustained consumer spending. However, inflation challenges persist, with rates expected to remain above 3% into the second quarter before gradually declining towards 2.5% by year-end. This inflationary pressure keeps the Federal Reserve cautious, delaying any significant rate cuts until inflation is firmly under control.
- In contrast to the U.S., the Eurozone's economic recovery remains tepid, with overall growth rates not expected to exceed 1%. The region shows signs of disparate recovery trajectories among its member countries, with Spain exhibiting stronger growth while others lag. Inflation in the region is slowly abating, allowing for potential monetary easing later in the year if the trend continues. Fiscal deficits remain a concern, with most countries projected to run deficits well above the 3% GDP mark, challenging the adherence to Maastricht fiscal rules.
- Emerging markets are set to experience varied growth in 2024. China's growth is forecasted at 4.5%, dampened by ongoing real estate sector issues. Conversely, India and other countries in Asia and Latin America are expected to achieve stronger growth, buoyed by robust domestic demand and favourable macroeconomic conditions. The investment climate in these regions is supported by significant structural shifts such as nearshoring and diversification away from traditional economic dependencies like Russian commodities.
- Countries reliant on commodities are expected to benefit from the global economic restructuring, including those in Africa, Latin America, and parts of Asia. The geopolitical landscape, particularly tensions in the Middle East, poses risks that could influence global oil prices and economic stability. These factors necessitate a vigilant investment approach, balancing the potential for high returns against geopolitical and economic uncertainties.
- Central banks globally are signalling a more accommodative monetary stance as inflation pressures begin to ease. While the U.S. Federal Reserve may be slower to cut rates, other central banks are preparing for potential rate reductions as early as June 2024, contingent on sustained decreases in inflation. This global shift towards monetary easing could support further economic recovery across both developed and emerging markets.

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