Emerging Markets

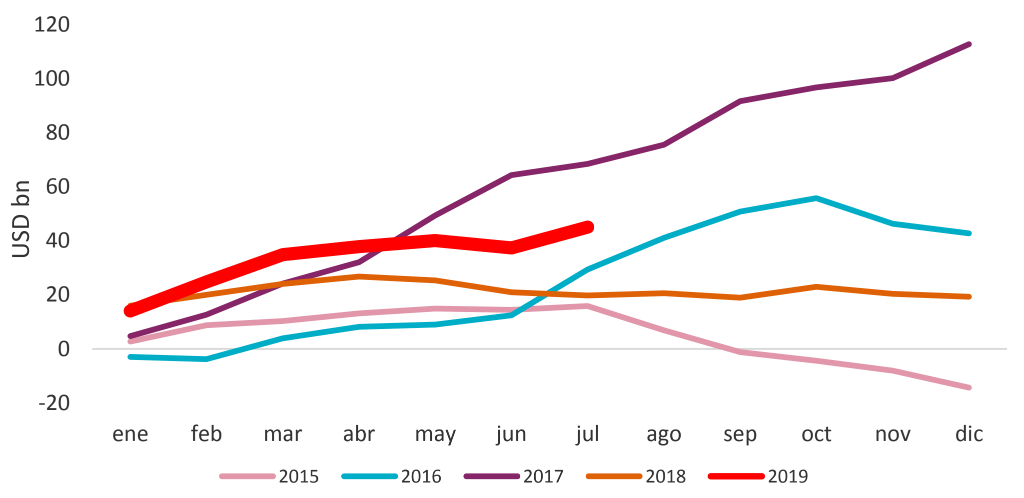
- Central banks in developed countries reinforced their bias towards lowering rates
- Asset class inflows picked up in June, and the 2019 year-to-date figure now stands at just over $45 billion.
- AXA WF Emerging Markets Short Duration Bonds and AXA WF Global Emerging Markets Bonds both achieved positive returns on gross basis in June

What's happening?

- Central banks in developed countries reinforced their bias towards lowering rates in the face of slowing global growth and the impact of the ongoing trade tensions. Following the European Central Bank conference, US President Donald Trump accused Europe of unfairly manipulating the euro. All eyes will be on the upcoming G20 summit and the planned meeting between the US President and China's leader discussing resolutions to the ongoing trade war. President Trump signed an executive order to hit Iran with fresh sanctions.

- The benchmark JP Morgan Hard Currency Sovereign Index posted a return of +3.04%, while the JP Morgan Hard Currency Corporate Index returned +2.20%. Inflows into the asset class continued their strong pace, with the 2019 year-to-date figure now standing at just over $45 billion.

Figure 1: Emerging Markets fund flows



Source: JPMorgan as of 27/06/2019

- **CEEMEA:** Turkey opposition candidate won the re-run Istanbul mayoral elections by a landslide. President Trump is weighing fresh sanctions on Turkey over buying the Russian F400 defence missile system. The Turkish central bank left rates unchanged again however Moody's downgraded the sovereign rating to B1. Ukraine left rates unchanged, while Russia cut rates by 25 basis points (bps) and communicated further cuts are possible. Fitch downgraded Zambia to CCC and affirmed Gabon while Moody's changed their outlook to negative.Securitized assets including US MBS lagged the rally due to negative convexity. Inflation market underperformed other fixed income market this month with negative momemtum on inflation expectations.

- **LatAm:** President Macri of Argentina announced moderate Peronist senator Miguel Pichetto will be his running mate in Octobers elections. Argentine and Brazilian government officials said they discussed the possibility of a common currency. Brazil and Mexico both left rates unchanged but suggested a slightly dovish bias. Chile surprised markets by reducing rates by 50bps, while Colombia left rates unchanged. Mexico and the US reached an agreement on immigration avoiding the imposition of tariffs on Mexican exports to the US and the Mexican senate approved the USMCA trade agreement. Fitch downgraded Mexico's ratings to BBB, while Moody's changed their outlook to negative but downgraded Pemex to BB- with a negative outlook and affirmed Peru's ratings.

- **Asia:** India imposed tariffs on select US goods as trade tensions spread beyond China. The Indian central bank surprised markets by cutting 25bps, while deputy RBI governor Viral Acharya resigned. Indonesia left rates unchanged but said there is room to cut rates. Pakistan's ratings were affirmed by Fitch and the IMF said they were delaying money for Mongolia until after bank capitalisations had been completed.

Portfolio positioning and performance

AXA WF Emerging Markets Short Duration Bonds

Activity

The Fund remained active, adding to both Mexican and Brazilian corporate holdings. We continued to consolidate and rotate Middle East and Chinese holdings while reducing Indian bank exposure. We continue to ensure that the overall portfolio remains well diversified. We maintained our investments in hard currency bonds and are unlikely to add any FX risk.

Positioning

There has been a marked increase in volatility in markets resulting from the change in rhetoric from developed central banks and expectations that a resolution to current trade tensions will be prolonged. As much as we remain constructive to the asset class, we are also cognisant of macro headlines and remain disciplined in the names in which we invest. We believe that differentiation and credit fundamentals remain crucial to stock selection.

Performance

Top positive contributor: BUENOS 9.125% 2024s. Argentina benefited from subsiding noise around political risks as well as the positive backdrop of the lower UST environment.

Top negative contributor: NOGLN 7% 2025s. Largely driven by the announcement of a strategic business review.

AXA WF Global Emerging Markets Bonds

Activity	Positioning	Performance
The Fund reduced its Oman holdings adding to its overweight in Bahrain. The fund took profits on its long end holding in Romania taking country exposure to underweight. The fund participated in the new Ukraine and Serbia EUR denominated bonds adding to the funds overweight as well as switching its long end Ecopet holdings based on valuations. The fund also added to its Tunisia and Russia sovereign holdings and Brazilian and Chinese corporate holdings.	We maintain our overall constructive on the asset class, although the fund now has a slightly less positive stance with a duration more neutral versus the benchmark keeping cash levels relatively low. The fund aims to exploit the differentiation in growth opportunities throughout the Emerging market universe.	Top positive contributor: ROMANI 4.675% 2049s. Driven my market sentiment and positioning. Top negative contributor: VENZ 9.25% 2027s. Driven my market sentiment and positioning.

Outlook

- **Our outlook :** There has been a marked increase in volatility in markets resulting from the change in rhetoric from central banks in developed countries and the expectations that a resolution to current trade tensions will be prolonged. As much as we remain constructive to the asset class, we are also cognisant of macro headlines and remain disciplined in the names in which we invest. We believe that differentiation and credit fundamentals remain crucial to stock selection.

- **Global Macro View from the Fixed Income CIO :** Fixed income returns were positive in June as investors focussed on the growing possibility of easier monetary policies. Comments from US Federal Reserve and European Central Bank officials suggested that monetary easing could be provided should risks to the global expansion increase. The biggest risk is the possible impact of any escalation in global trade tensions and protectionist policies. Global manufacturing output growth has already slowed, as indicated by purchasing manager surveys, and there is concern that this could broaden to other sectors of the major economies. While credit spreads have narrowed since the beginning of the year, a further increase in global recession risks would likely reverse this trend, especially if equity market volatility also increased. Hence, going into the third quarter the determinants of market behaviour will be the economic data – to gauge how trade tensions have already impacted on economic activity, the evolution of discussions between China and the US on trade, and the willingness of the central banks to meet market expectations of easier policy. Our view is that rates will generally be lower and that a recession will be avoided. However, valuations are less attractive in both rates and credit markets and there are considerable uncertainties in the outlook. As a result, fixed income returns may be less appealing than so far in 2019.

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