symbiotics
asset management

Monthly Investment Update
20 January 2023

Dear Clients and Partners,

As the new year begins, we are pleased to report that our portfolios demonstrated strong performance with positive returns generated across the board in 2022, in spite of the tumultuous economic environment that proved extremely challenging for all asset classes. Our local currency mandates in particular demonstrated strong performance in 2022, illustrating the role of our asset class as a powerful diversifier and provider of decorrelation to traditional assets.
Our outlook for emerging market local currencies is positive for 2023. We anticipate the US dollar will depreciate from current over valuations. We believe real yield in emerging markets is attractive and there is general consensus that there is better expected growth in emerging, than in developed markets, which are likely to benefit from the re-opening of China.

- **Markets**: Asset quality, loan portfolio growth, solvency and profitability of our investees have been solid throughout 2022 despite the turbulent macroeconomic context. While December 2022 figures are still being validated, preliminary numbers show an underlying loan portfolio growth of 30% in 2022, PAR30 around 4% (below previous years), and median ROE of 10%. Although we continue facing uncertainties in 2023, our partners have demonstrated a high level of resilience and have been able to recover from the pandemic to face the challenges of 2023.

  - In **Africa**, inflation remains high and uneven: it is contained and started to trend downwards in some regions, including West African Economic and Monetary Union and Kenya, while it continues to record increasing numbers in other countries, such as Ghana, Nigeria and South Africa. Most Central Banks have been reactive and further increased interest rates. Despite tighter liquidity conditions and increased funding costs, financial institutions have been able to close the year of 2022 with positive results, while lending with higher interest rates.

  - In **Southeast Asia**, we highlight the trends in certain markets – such as Mongolia, where tighter liquidity conditions have led to rising deposit and wholesale funding costs for our partners (including Khan Bank and Xac Bank). In Vietnam, the cost of deposits and borrowings have also increased, mainly driven by the corporate bond market. In the mid-term, it is expected that Financial Institutions will pass the higher costs to end-borrowers. FIs in China buck the trend, as authorities kept monetary policy loose, and local funding costs low. Under such conditions, international funding should remain limited.

  - In **South Asia**, robust credit growth is expected from the Indian FIs, followed by Bangladesh and Nepal. The growth will come as inflation is expected to normalise in 2023, along with lesser tightening of monetary policy from Central Banks leading to lower funding costs for FIs and end-borrowers. As a result, portfolio quality is expected to improve along with profitability due to growing loan portfolio.

  - Most countries in **Caucasus & Central Asia** (CCA) booked a robust GDP growth in 2022, instead of a decline – as was expected due to the Russian invasion of Ukraine. Growth projection for the CCA region in 2022 was raised in December from 3.9% to 4.8%, while the forecast for 2023 remains unchanged at 4.2% (Asian Development Bank, December 2022). Countries in this region have benefited from inflows of people and money from Russia. The inflation projection for 2022 in CCA was raised from 11.5% to 12.5%, mainly reflecting high food prices and buoyant domestic demand.

- After an estimated 3.3% GDP growth in 2022 in **Latin America**, international analysts expect GDP growth in the region to slow down to an estimated 1.5% in 2023, driven mainly by adverse external conditions (namely the recessions in the USA and Europe), leading to lower demand. Although inflation has reached an inflection point in most countries, high interest rates derived from monetary tightening will continue at least during the first half of 2023, resulting in lower credit growth. Following the rise in interest rates and lower deposits growth, some banking sectors in the region are experiencing declines in liquidity, particularly Peru and Colombia.

- **Currencies and interest rates:** Central Banks in emerging markets acted early with rate increases to contain inflationary pressure, resulting in greater control over inflation. This more advanced tightening cycle versus major central banks in developed markets means the cost of borrowing is more likely to remain stable in the coming year. With an overvalued US dollar, likely to see a correction, emerging market currencies are well placed to increase against the dollar.

- **Demand:** Symbiotics disbursed USD 136 million to 36 institutions in December 2022, for a total of USD 1.1 billion year-to-date. The strongest origination for the month came from Latin America (39% of all loans), followed by Europe and Central Asia (35%), Asia (17%) and Africa (9%).

All previous investment updates can be accessed using this link: symbioticsgroup.com/monthly-update.

Should you have any questions, please contact your relationship manager.

Sincerely,
Symbiotics Asset Management