

## Emerging Market Bonds – EUR R

FIXED INCOME

# Economic activity kept increasing

## New president in Ecuador

**Market.** April ended with a positive return for Emerging Markets (EM) government bonds of 2.1%. The return was driven by a combination of decreasing U.S. interest rates and credit spreads. 10Y American interest rates halted the increasing trajectory from previous months and decreased by 10 bps. The credit spread decreased by 15 bps.

Several leading equity indices hit record high levels again in late April. The development coincided with the implicit volatility, expressed by the VIX index (indicating the level of nervousness in the market), last month falling below index 20, which is the lowest level since the outbreak of the corona pandemic. The low level of implicit volatility had a positive effect on corporate bonds.

In recent weeks, the positive outlook has begun to have a strong impact on growth-related key figures. According to the ISM, optimism in the U.S. manufacturing industry is at its highest level since 1983. In the service sector, optimism is at its highest level since the start of the data series in 1997. The development is reflected in market expectations for the growth profile of U.S. GDP. According to Bloomberg, growth is expected to peak this quarter at a level exceeding 8% on an annualized basis. It is the market expectation that growth will slow but remain high in the third quarter.

In terms of specific country news, the biggest headlines came from Ecuador that held presidential elections at the beginning of April.

Return is calculated gross of fees and excluding swing.

The election outcome was a big surprise to the markets, as the market friendly candidate managed to pull a surprise win over the socialist front running candidate. This outcome implied a greater cooperation with the IMF. The cooperation will help the country meet its financing needs. The price of the country's bonds increased around 30% in April. However, a daunting task to deliver on his promises awaits the newly elected president, as his party and supporting parties only have 37 of 137 in the national assembly. For this reason, we are still a bit concerned on the valuation for the medium term, but in the short term this is definitely a positive development for the pricing of the country's bonds.

## Ahead of benchmark

**The Portfolio** had a positive return of 2.3% in March, which was 0.2% better than the benchmark before costs.

The biggest contributors to the absolute return in April was Ecuador, Mexico and Egypt. Opposite, only Ukraine had a negative contribution to the fund return. Geopolitical tensions with Russia led to increased uncertainty why the price of the country's bonds decreased in April.

The relative return was supportive of overweight in Indonesia, Egypt and Ghana. This month the underweight in Turkey delivered a negative contribution, as the country's bonds recovered some of last month's losses.

We participated in new issues from Ukraine, Columbia and a Nigerian oil company. In addition, we sold our bonds in a Chinese oil company and swapped some of our short dated Turkish bonds.

See performance and fund data [Click here >](#)

### Strategy

Value Bonds - Emerging Market Corporates primarily invests in Emerging Markets corporate bonds, cf. the fund's prospectus. Bond selection is based on the value approach, meaning that the team focuses on bonds issued by companies with healthy long-term earnings power and strong balance sheets as well as an expected ability to service outstanding debt. The portfolio is diversified across sectors, regions and credit ratings. The investment universe includes Investment Grade bonds, High Yield bonds and to a limited extent non-rated corporate bonds.

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