

## REDUCING GROWTH MOMENTUM

### Presidential election in Zambia

**Markets.** August ended with a positive return for Emerging Markets (EM) government bonds of 0.9%. The return was primarily driven by decreasing credit spreads. 10Y American interest rates increased by 11 bps. The credit spread moved in the opposite direction, decreased by 12 bps, and ended the month at 348 bps.

The growth-related key figures are beginning to paint a more explicit picture of declining momentum. Industrial confidence indicators have fallen further in the past month in the key economies of the OECD area. The corresponding indicator for China shows a decline for the fifth month in a row. This development does not seem to be in line with the general market expectations. The "Economic Surprise Indices" published by Citi have fallen from record highs in mid-2020 to now negative levels for both the U.S., Europe and China. This is an indication that a broad basket of economic key figures in the mentioned economies now has outcomes that do not live up to market expectations. An increase in COVID infections from the delta variant also played a role. However, the main reason is most likely a consequence of the change from the strong growth momentum we experienced in the first part of 2021 in the wake of mass vaccinations.

This macro-economic development led the economists in the monthly Bloomberg survey to reduce their expectations U.S. interest rates at the end of 2021. The new expectation is now more aligned to the current interest rates and thus supportive of an improved the expected total return for Emerging Markets Bonds.

In terms of specific country news, the biggest headlines came from Zambia that held presidential elections. The Zambians defied long queuing lines and to many pundits surprise elected the oppositional candidate with a very strong mandate. The newly elected president quickly announced that state finances and a credit facility with the IMF was top priority. This message was well received by the bond markets and bond prices rose by 20%.

### Strong relative return

**The Portfolio** had a positive return of 1% in June, which was 0.1 % above the benchmark before costs. In general, it was risky assets that achieved the highest monthly returns in August. The fund has an overweight in HY segment, which is the main reason to the strong relative return.

The biggest contributors to the absolute return in July was from the high yield countries – Argentina and Egypt, but the IG country Indonesia had a strong impact. Opposite, high yield countries of El Salvador, Brazil and Morocco that had a marginal negative contribution to the fund return.

The relative return was supportive of overweight in Argentina, Egypt and Indonesia. Underweights in Turkey and Peru had a negative contribution to the relative return.

During the month of August, we have adjusted our curve exposure in certain countries and reduced our slightly reduced our exposure in Jordan and Gabon. However, on an overall level the portfolio composition is unchanged.

[See performance and fund data](#)

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### 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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