

## Emerging Market Bonds

FIXED INCOME

## EM underperformed DM

## El Salvador introduced Bitcoin

**Market.** July ended with a positive return for Emerging Markets (EM) government bonds of 0.4%. The return was driven by decreasing U.S. interest rates. 10Y American interest rates decreased by 23 bps. The credit spread moved in the opposite direction, increased by 15 bps, and ended the month at 355 bps, which is higher than where we started the year.

July offered mixed returns for risky assets in an environment with relatively large declines in government interest rates. Equity markets in developed countries (DM) returned 1.7% while Emerging Markets (EM) fell by 6.1% - driven by large declines in China. The HY market was also affected by EM developments, with the positive contribution from U.S. and Europe being more than offset by the negative contribution from EM, in particular China. China's regulatory intervention in the shape of higher accounting requirements for property developers and demands made to private education firms to turn non-profit and ban foreign ownership, led to increased volatility.

The events in China led to the first week of outflows in Asian ex Japan hard currency bond funds for almost year. This also had an impact on the market for EM sovereign bonds. However, the impact was limited. It is not our expectation that these events in China will have a significant impact on the sovereign bond markets going forward.

In terms of specific country news, the biggest headlines came from Peru where the newly elected president announced his cabinet of ministers. The administration contained many radical left wing profiles where the announced prime minister raised a few eyebrows. The president announced a radical profile that allegedly has defended acts of terrorism and called Cuba a democratic role model.

## On par with benchmark

**The Portfolio** had a positive return of 0.4% in June, which was at the same level as the benchmark before costs.

The biggest contributors to the absolute return in July was from the investment grade countries - Mexico, Russia and Qatar. Opposite, high yield countries of El Salvador, Sri Lanka and Ghana had the biggest negative contributions to the fund return.

The relative return was supportive of overweight in Kazakhstan and Ivory Coast and an underweight in Peru. Underweights in Turkey and China as well as an overweight in El Salvador had a negative contribution to the relative return. The price change in the Chinese sovereign bonds show the described price fall in Chinese risky assets is isolated to the private sector.

During the month of July, we changed our Middle East exposure from Abu Dhabi to Saudi Arabia state owned oil company. In addition, we changed our curve exposure in the Dominican Republic.

Return is calculated gross of fees and excluding swing.

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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