

Emerging Market Bonds

FIXED INCOME

EM ready to take the growth lead

El Salvador introduces Bitcoin

Market. June ended with a positive return for Emerging Markets (EM) government bonds of 0.7%. The return was driven by decreasing U.S. interest rates. 10Y American interest rates decreased by 15 bps. The credit spread moved in the opposite direction and increased by 10 bps.

In the U.S. and Europe, vaccinations have led to increasingly open societies with increased economic activity, which eventually will result in a normalization of the economies. The economic development contradicts a continuation of the current loose monetary policy, which now includes monthly bond purchases of USD 120 billion in the U.S. and EUR 80 bn. in Europe. The latest FOMC meeting revealed that the central bank had to revise the economic forecast towards higher inflation in 2021 and lower unemployment in 2022. Several board members expressed a desire to tighten monetary policy sooner than previously expected.

The US and China have so far been the leading global growth engine following the start of vaccinations with Europe with a slight lag. Now, as large-scale vaccinations start reaching EM, we will expect to see the EM countries take the lead and become the primary driver of the global growth.

In terms of specific country news, the biggest headlines once again came from El Salvador where the newly elected congress approved a law making Bitcoin legal tender in the country along with the USD.

Return is calculated gross of fees and excluding swing.

This law complicates the IMF negotiations further on an upcoming financing facility. The country have set up a fund that will guarantee the conversion of Bitcoins into USD. The IMF therefore need to analyze further, how this new law will impact the financial risks of the country. In addition, this raises the risk that the country becomes a hub of money laundering for Bitcoins acquired from illegal activity.

Ahead of benchmark

The Portfolio had a positive return of 0.5% in June, which was slightly below benchmark before costs.

The biggest contributors to the absolute return in June was from the investment grade countries Indonesia, Chile and Qatar. Opposite, high yield countries of El Salvador, Sri Lanka and Egypt had the biggest negative contributions to the fund return.

The relative return was supportive of overweight in Indonesia, Ukraine and Argentina. Underweights in Saudi Arabia and Peru as well as an overweight in El Salvador had a negative contribution to the relative return.

During the month of June, the new issue market really kicked off again. We participated in new issues from Georgia railway, Saudi Arabia's oil company, Senegal, Mongolia and Kenya. In addition, we bought into Peru's oil company post the results and statements from the presidential elections. Finally, we adjusted our positions in Turkey and Oman. We sold our position in Suriname after the government announced a very aggressive restructuring proposal and we reduced our Bolivia exposure.

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.

This material does not constitute individual investment advice and cannot form the basis for a decision to buy or sell (or an omission thereof) of investment certificates. The material has been prepared for information purposes only and investors are encouraged to seek necessary professional advice before buying or selling investment certificates. Sparinvest does not undertake any responsibility for the advice given and actions taken or not taken in respect of this material. The mentioned sub-fund is part of Sparinvest SICAV, a Luxembourg-based, open-ended investment company. Investors are urged to read the prospectus, the key investor information document and the current annual / semi-annual report of Sparinvest SICAV prior to investing. The documents are available at sparinvest.lu. There are always risks involved when investing and it is stressed that past performance or past return cannot be considered as a guarantee for future performance or return. Investors may not get back the full amount invested. Sparinvest makes reservations for possible typing errors, calculation errors and any other errors in the material.