

Emerging Market Bonds – EUR R

FIXED INCOME

Momentum flattened out

Mass layoffs in El Salvador

Market. April ended with a positive return for Emerging Markets (EM) government bonds of 1%. The return was driven by a combination of decreasing U.S. interest rates and credit spreads. 10Y American interest rates decreased by 1 bps. The credit spread decreased by 7 bps.

During the spring, there has been a tendency for more sideways movement in the financial markets. This applies to a wide range of areas, including credit spreads on corporate bonds, U.S. government interest rates, leading stock indices and cyclical versus defensive stock sectors. These may be initial reactions to “max. momentum” in the growth-related key figures, which in turn coincide with confidence indicators, which have recently expressed high investor optimism.

Growth-related key figures rose to levels that are typically characterized by a climax in economic momentum. The high-frequency data series published by the Federal Reserve rose almost vertically until mid-April in connection with the reopening of the societal activity in the United States. Since mid-April, the index has moved sideways. This is reflected in market expectations for the growth profile of U.S. GDP over the coming quarters. According to Bloomberg, growth is expected to peak in the current quarter. It is market expectations that growth will slow but remain high in the third quarter - before falling to somewhat lower growth rates until the end of 2022. The latest business confidence indicators from Asia paints the same picture of growth-momentum close to the climax.

Return is calculated gross of fees and excluding swing.

This is reflected in declines in PMIs in South Korea, Taiwan and a mixed development from the Chinese indicators.

In terms of specific country news, the biggest headlines came from El Salvador where the newly elected congress dismissed all Supreme Court judges and the attorney general. These dismissals raised large criticism from the international community led by the U.S. This criticism led the bond markets to wonder about the viability of the expected announcement of an IMF deal. The president of the country have subsequently rejected all demands to reinstate the judges and attorney general.

Ahead of benchmark

The Portfolio had a positive return of 1% in May, which was in line with the benchmark before costs.

The biggest contributors to the absolute return in April was high yield countries Egypt, Ukraine and Argentina. Opposite, it was El Salvador and Colombia that had the biggest negative contribution. Colombia's bonds fell because the rating agency S&P downgrade the country to high yield from investment grade. Moody's and Fitch still rates the as investment grade.

The relative return was supportive of overweight Egypt, Bahamas and Argentina. Underweights in Saudi Arabia, South Africa and Turkey had a negative contribution to the relative return.

During the month, we sold our position in an El Salvadorian utility and we had our bonds called in a utility in the Dominican Republic.

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 extend non-rated corporate bonds.

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