

# CONTINUED DARKNESS IN CHINA

## Declining order intake and rising prices

**Markets.** October ended with a return for Emerging Markets (EM) government bonds of 0%. 10Y American interest rates increased by 6 bps and the credit spread increased by 1 bps and ended the month at 358 bps.

The latest set of leading growth-related indicators still paints a picture of declining momentum. Figures from U.S. and Europe show, for example, that the ratio between order intake and inventories has fallen further. This probably means that industrial production will have to continue to adapt to lower activity in the coming period. Despite the prospect of lower growth momentum in the manufacturing industry, the latest indicators point to, even higher, end prices. End prices continued to act as a buffer despite signs of lower activity. This merely indicated extraordinarily large imbalances in the global manufacturing industry. Part of that development was due to broken supply chains and built-up bottlenecks in the wake of Corona-related restrictions. The remaining part can be attributed to a generally strong demand. At present, there is no sign that the existing imbalance between supply and demand is showing material improvement.

Developments in China in particular have worsened since the summer. China is currently experiencing electricity and energy supply problems that exceed previous periods of bottlenecks. This comes on top of the debt problems in the Chinese real estate sector that

have been going on for several months. Data from September and October indicate somewhat lower activity in the housing market in China and a negative spillover on prices. This sector alone accounted for approx. 60% of the negative index return for the month.

## Negative return in October

**The Portfolio** had a negative return of 0.2% in June, which was 0.2% below the benchmark before costs.

In October, it was the least risky bonds that delivered the best returns. The fund has an overweight in High Yield, which is the main reason for the weak relative return.

The biggest contributors to the absolute return in October came from Mexico, Sri Lanka and Oman. Opposite, High Yield countries of Ghana, Egypt and Argentina had the biggest negative contribution to the fund return.

The relative return was supportive of overweight in Bahamas, El Salvador and Oman. Overweight in Egypt, Ghana and Malaysia had a negative contribution to the relative return.

During October, we adjusted our exposure in Peru's oil company. We have sold our exposure in Honduras, Jordan and a Chinese chemical company. On an overall level, the portfolio risk has been reduced a bit, but still holds a risk level that is a bit higher than the benchmark.

[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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