

A GOOD MONTH FOR EM

Good returns across risky assets

Markets. November ended with a positive return for Emerging Markets government bonds of 7.1%. 10Y American interest rates fell by 45 bps and the credit spread decreased by 74 bps from 542 bps to 468. Therefore the combined effect of interest rates and credit spread led to the strong monthly return.

There were high returns in virtually all asset classes in November. Part of the explanation can be attributed to consumer prices in the U.S. and Europe, which in certain areas began to show lower annual rates of increase. In November, the interest rate on Danish and U.S. 10-year government bonds fell from 2.5% to 2.1% and 4.1% to 3.6% respectively.

The low confidence indicators in Europe showed slight increases in November. This applied to both business and consumer confidence. The development comes in the wake of sharply falling energy prices since late summer. At the start of November, gas and electricity prices reached levels that were more than 90% lower than the August peak. However, this has changed in recent weeks, as the prices of the mentioned energy sources have increased by over 400%. In the U.S., relatively large declines in business confidence occurred in both the manufacturing and service sectors. The so-called PMIs are at index 47.6 and 46.1 (S&P Global). The Chinese data is again heavily influenced by another large outbreak of the coronavirus. During November, the development led to extensive shutdowns

in central parts of the country, including Beijing and Shanghai. The PMI index is in the range of 46.5 to 49.5 across the manufacturing and service sectors. It is to be expected that the latest developments in China will affect global supply chains for a period.

In country specific news, we saw a continuation of the restructuring talks. Ghana initiated talks with their local creditors. Zambia's discussions with their creditors seems to be lacking further progress.

Strong return – ahead of benchmark

The Portfolio had a return of 7.5% in November, which was 0.4% better than the benchmark before costs.

The largest positive contributions to the absolute fund return came from our positions in Ivory Coast, Gabon and Philippines. At the opposite end, Lebanon, Rwanda and Cameroon delivered the smallest contributions – no country had a negative contribution. The relative return was positively affected by an overweight in Egypt, Romania and Ghana. Underweights in Turkey, Uruguay and Brazil pulled in a negative direction.

In November, we reduced our exposure in Barbados, Gabon and Egypt. We added in Poland, Vietnam and North Macedonia.

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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