

## Emerging Markets Corporate Value Bonds

FIXED INCOME

# Continued tailwind in EM

- Another great month for Emerging Markets
- The US central bank continued its support
- Oil continues to perform well

## A replay of March

**Market drivers** The good sentiment from March continues. Although the returns in April were not as good as the returns we saw in March, the market still delivered half of that. And that is still pretty good.

Has anything changed from March ? Nothing at all. The market was still riding on the support given by the central banks in the past couple of months. By the end of April, the central bank in the US reiterated their dovish stance outlined in March and kept the policy rates unchanged. The six weeks between now and their June meeting could very well determine if the US central bank will increase rates this year or not. The economic output in the US advanced at a 0.5% seasonally adjusted annual rate in the first quarter. That marked the economy's worst performance in two years. This number was held down by global headwinds and a strong dollar that depressed US exports. At the same time, the US labour market is doing fantastic. Layoffs are near their lowest level in more than 40 years and wages are showing some sign of acceleration. But, not enough for the central bank to hike rates so far in 2016.

Oil did particularly well in April and printed in the mid 40s. A lot of talk and speculation was wasted on a potential production cap, but in the last minute Saudi Arabia did not want to commit and left the negotiations altogether. Oil dropped as a result, but then reversed and oil was up

because of a drop in US production and an expected drop in production in Mexico, Norway and Kazakhstan.

Argentina finally settled a long dispute with investors and returned to the market with a historic bond issue of 15bn. USD. The return to the market was well received by investors. Meanwhile in Brazil, it looks more and more likely that the current president will have to face an impeachment process, which is also well received by the market.

## Commodity related names were up

**Performance** The fund outperformed the benchmark in April. It was the lower rated names that performed in April and – as in March – the best performing bonds were longer maturity bonds. Looking at the geographic split on performance, the regions with the highest commodity exposure performed the best: Latin America and Africa.

The fund has a lower duration than the benchmark and has lost some relative performance in April on that account. Overall, the outperformance was caused by an overweight to lower rated companies with exposure to commodities.

Best performing credit was a company with significant exposure to oil production in Kurdistan, Iraq. The contracts with the Kurdish government has significantly improved with oil now over and above the break even level for the local government. Worst performing credit was a Brazilian low fare airline company.

## Increased weight to financials

**Portfolio Changes** In April we have reduced the overweight to energy related names and increased our weight to financials and telecom companies.

## Strategy

The strategy focuses on companies with strong or improving underlying credit fundamentals and good growth prospects, across the entire rating universe. It also aims to limit concentration risk by diversifying across countries, industries and issuers. The strategy combines top down macro-economic research with bottom-up fundamental credit and country analysis.