

## Emerging Markets Corporate Value Bonds

FIXED INCOME

# Strong start to 2017

## FED is off for now

**Markets** The US central bank (FED) hiked rates in December and the market is now expecting three rate hikes this year. The president of the FED, Janet Yellen, called off another rate hike at the late January meeting. She informed the market that the FED is on course to hike rates later this year, but did not give a hint as to when.

Expectations of future inflation (expectations regarding the 5 year inflation rate in 5 year) has been rising since the election in November, but has stayed very much in a range of 2.40% to 2.50% since then. US rates also stayed relatively constant in January, with US treasury rates at a steady 2.45%.

The market is clearly positive about future economic growth and various economic indicators are pointing to more wage inflation coming from a tight labor market in the US.

Another reason why US inflation may rise further is Trump's pro growth agenda that includes:

- Huge infrastructure spending via expansionary fiscal policy
- America first, which means potential protectionist trade policies

Oil has also remained stable in December and January with oil trading in a range between 54 and 51 USD a barrel. This was made possible because of an oil production cap agreed in the beginning of December.

It seems that the market has taken a breather after the volatile month of November when Trump was elected. While Trump is talking to world leaders and is busy banning people from entering the US, the reality of Trump's economic policies seems to be all forgotten and the market is calm and positive for now.

## Positive returns in January

**The Portfolio** With a stable oil price and rising metals prices, Latin America and African credits outperformed other regions in the benchmark. The other regions did well with positive total returns across all geographic regions. The main underperformer was Asian credits.

Industry-wise, it was oil, gas and metals as well as mining companies that outperformed the rest.

The portfolio is overweight Latin America and underweight Asian credits, which benefitted the performance in January. The portfolio is overweight oil related names, which also benefitted performance. However, as the portfolio is slightly underweight metals and mining companies (the best performing sector in January), the portfolio underperformed in January.

Best performing company in January was a Ukrainian poultry producer and a Brazilian oil producing company. Worst performing credit was a Chinese oil producing company.

[See performance and fund data](#)
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### Strategy

Emerging Markets Corporate Value Bonds 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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