

## Emerging Markets Corporate Value Bonds

FIXED INCOME

# Healthy Correction

## Rates, rates & rates

**Markets** January started with a rally in credit and emerging markets debts. This however did not last long. The trend of rising interest rates from the previous quarter continued and accelerated in January.

The bond markets are now anticipating an even faster normalization of monetary policy in especially the U.S., but the long interest rates have also increased in Europe in January. Higher interest rates are normally associated with positive returns in equity markets, but the movement in interest rates at the end of January was so symbolic that equity returns in the same days were negative. At the same time as we saw rates widen, companies and sovereigns across emerging markets countries were busy issuing new bonds to refinance and extend maturity profiles.

In Latin America, Mexico was the main topic as we continued to see volatility on the back of a potential NAFTA break up headlines and expect this to continue until we see more clarity. A potential extension of sanctions against Russia coming from the U.S. was counter-balanced by an upgrade from the rating agencies. In Africa, the refinancing of Eskom, the state electricity company, which is also implicated in the Gupta corruption scandal, has been a major driver for spread moves.

Following the very strong inflows into emerging markets in 2017, there is always a risk that we may see some outflows from our asset class; this however did not materialize despite the significant moves in interest rates.

## New issuance

**Portfolio** The portfolio ended January slight behind benchmark with a negative return of 0.14 percent driven by investment grade positions in the portfolio.

The primary positive driver of performance in January was an Indian telecommunication company, which announced a restructuring late December, followed by two energy companies benefitting from rising oil prices. The worst performing position was a Middle Eastern real estate company, which dropped on the back of a related party transaction, which resulted in deteriorating credit quality.

At a rating level, high yield rated bonds were best performing and worst performing were our A rated bonds in the portfolio, which moved in line with the widening interest rates.

In addition to reducing our exposure to Chinese corporates, we reduced our exposure to Russian credits in order to participate in the long list of new issues in the market. The fund participated all in eight new deals. The best performing issues in the fund were from first time issuers, among them a hospital chain in Brazil, a rail operator in Brazil and a port operator across Asia. In addition, we added five new higher risk with low duration at the end of the month. We believe the portfolio is well positioned for the current period of volatility in the market with significant capacity to add risk on weakness.

Return is calculated gross of fees and excluding swing.

See performance and fund data [Click here >](#)

### 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 extend non-rated corporate bonds.

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