

## Emerging Markets Corporate Value Bonds

FIXED INCOME

# Volatility, but good performance

## Monetary policy focus

**Markets** Credit markets were strong through July with a sharp tightening of credit spreads across the board. The broad markets, High Yield and Investment Grade, surged respectively 0.9 percent and 0.5 percent during the month.

The positive markets were prompted by a solid start to the Q2 2017 earnings release season. Earnings growth among European and US blue chips amounted to 20 percent and 11 percent respectively. The good reporting season swept away concerns about June's wind-down of two Italian and one Spanish bank as well as the muddy outcome of the UK general election. Also, the persistent uncertainty related to the ongoing Brexit process as well as the Eurozone's fundamental challenges were pushed out of the market agenda.

The president of the ECB - Mr. Draghi - made comments about a possible wind down of the quantitative easing policy at the very end of June. The arguments that support this is a lower rate of unemployment and encouraging economic growth figures in the Eurozone. The comments from Mr. Draghi triggered some outflows from Emerging Market bond funds and we saw some underperformance in the beginning of July. This quickly turned around, money was flowing back into the asset class and the month ended on a very positive note.

The dollar continued its slide versus other currencies in July and dropped over three percent against the Euro. The price of oil increased in July from a low of 44 USD a barrel to 50 USD adding further to the positive sentiment in Emerging markets.

## Following the market

**The Portfolio** Total return in the benchmark was 0.63 percent in July and the fund performed well, but slightly less than the benchmark. The best performing credits were an Indonesian oil company and a Brazilian bank. Worst performing credit was an energy company in Venezuela and a cable TV operator in Argentina.

Precious metals as well as base metals rallied in July. In particular, the price of copper rose to two-year highs by the end of July. Continued demand from China is pushing up the price. This made metals and mining the outperforming sector. The fund has an underweight in this sector and underperformed relatively.

One of the best performing countries were Brazil benefitting from good sentiment, as - unexpectedly - labor reforms were implemented in July. The fund is neutral on corporates in Brazil and hence performed in line with the benchmark.

In the last part of July, the ECB got more dovish and the market was searching for yield and the higher yielding corporates were outperforming. The fund is slightly tilted to safer names and as such underperformed slightly in the rally.

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 extent non-rated corporate bonds.

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