

Emerging Markets Corporate Value Bonds

FIXED INCOME

Higher rates in June

Monetary policy at center stage

Markets In the last couple of days of June, rates increased in Europe and in the US. 10 year US treasury rates rose from a level of around 2.2% to 2.3%. The cause for rates to increase – both in the US and in Europe – was comments made by ECB president Draghi that policy makers might start to wind down their bond purchases. Earlier in the year, the Fed hinted something similar.

It is difficult to know if this will in fact happen just now, as inflation is nowhere to be seen. Inflation in June was 1.3% in the Euro-area, down from 1.4% a month earlier. This means that inflation is further away from the ECB target of 2%. In the US, inflation was 1.4%, the lowest level in six months. The Central Banks – both in Europe and in the US – expect inflation to catch up eventually, as the labor market is getting tighter.

Over the past six months, economic data from around the world has improved relative to the US. As a result, we have seen a weaker dollar, going from the strongest level in the beginning of the year at 1.0 to the EUR to 1.1.

Oil also continued lower in June, as it was clear that oil production in Libya and Nigeria was increasing. In the last couple of days of the month, the price of oil increased, as the number of oil rigs in the US was falling – for the first time in 24 weeks.

A crisis flared up in the Middle East as Qatar was met with a list of demands from its neighboring countries. Some of the demands was about scaling back ties with Iran and shutting down the state broadcaster Al Jazeera. The crisis remains unresolved by the end of June.

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.

On a technical note, inflow into dedicated Emerging Market funds continued in June – which keeps supporting the asset class.

Underperformance in June

The Portfolio Higher interest rates put pressure on fixed income markets in general in June. Emerging Market credit spreads compensated for higher rates by declining, while the total return in the benchmark was marginally positive. The fund underperformed the benchmark in June.

Some commodity related segments performed well in June, as prices of base metals increased over the month. This was also reflected in the country segments, where countries like Peru and Chile performed very well. The fund is underweighted the segment and underperformed compared to the benchmark.

Oil was down in June and oil related countries, like Russia and Iraq was under pressure. The fund has an underweight to oil and energy related companies, but an overweight to Iraq-related oil activities that did not perform well in June.

The crisis in Qatar made bonds from the region underperform, but the fund is underweight Middle Eastern countries and gained relatively to the benchmark.

Best performers were a chemical company in Mexico and an Indian bank. Worst performers were a telecom company with exposure to Qatar and an oil company with activities in Iraq.

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