

## Emerging Markets Corporate Value Bonds

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# Stormy November in EM

## Trump happened – now what?

**Markets** The market had been nervously awaiting the US presidential election on the 8th of November. Ahead of the election, consensus was that Hillary Clinton would be the best president from an equity market perspective. At the same time, though, she was seen as the worst candidate for bond markets. None the less, when Donald Trump was elected, the equity market rallied strongly. Short-term interest rates were relatively stable, while long interest rates increased strongly.

Even ahead of the election, macroeconomic variables were improving in both the US and in Europe. The bond market's reaction is an indication that Donald Trump's proposed economic policy is seen as a potentially big easing of fiscal policy through large infrastructure programs, underfinanced tax reliefs and some form of protectionism.

The election of Trump affected emerging markets in a negative way. Especially his rhetoric regarding protectionism which will – if executed – have a direct negative effect on trade relations with the US. Trump's rhetoric on deportations of illegal immigrants also is hurting emerging markets, since several Latin American and Caribbean countries rely on money being sent home from immigrants in the US. Latin American sovereign and corporates have underperformed relatively to other regions in November.

It seems that OPEC agreed on an oil production cap. The news was released by the end of November and oil prices went from around 45.5 USD to 49 USD on the very last day

of the month. More news is expected about this and the market is still in a "wait and see mode".

## Outperformance in November

**The Portfolio** The benchmark was down in November yielding negative total returns. The region least affected was Eastern European credits with Russian credits insulated from the negative effect of the US presidential election. The fund has an overweight to Russian credit names and this was one of the reasons why the fund outperformed the benchmark in November. On the other hand, the fund also has an overweight in Ukraine which underperformed, also because of the US election. This position affected the fund negatively.

Mexico was hurt by the US presidential election because of protectionist rhetoric by Trump. The fund had a small overweight to Mexican corporates and was affected marginally negatively versus the benchmark.

With US treasury rates on the rise in November, because of the US election result, longer bonds underperformed the short dated bonds significantly. The fund has a lower duration than the benchmark and the fund benefitted from this.

One of the best performing credits was a short dated bond issued from a Russian metals and mining company. One of the worst performing credits was a long dated bond issued from a Mexican chemical company.

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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