

## Value Bonds - Emerging Market Corporates

FIXED INCOME

# Turbulent month

## Weak macro and lower oil prices

**Market** November was another weak month. The most risky asset classes like equities, corporate and emerging market bonds experienced high volatility. Emerging market corporates lost 0.4 percent, which outperformed global High Yield and Investment Grade, which lost 1.2 and 0.5 percent respectively.

Rows of weak macroeconomic figures were released in both the Eurozone and the U.S. during November sparking the negative sentiment. U.S. and German 10-year rates responded by dropping 16 and 7.0 basis points respectively. Even in Italy, long interest rates dropped as the government apparently made concessions to the EU in the quarrel over the budget deficit. However, the political and economic challenges of the Eurozone remain unsolved.

In addition, a sharp drop of more than 20 percent in the oil price pushed spreads out in the Energy sector resulting in Energy being the most negative sector in the benchmark for the month followed by Industrials. Real Estate was the only sector positive in the benchmark driven by Asian Real Estate.

Expectations to monetary policy was also influenced by a change in rhetoric by Fed Chair Jerome Powell at the end of the month. Where he previously stated that short interest rates were "a long way from" the natural rate of interest, he stated that they are now "just below". This change had the biggest impact on the risky asset classes that subsequently enjoyed a rally. This stabilized the spread widening in the U.S towards the end of the month whereas spreads in Europe and Emerging Market continued to widen

## Negative returns

**The Portfolio** delivered a negative return of 0.7 percent (gross of fees) in November, which was 0.2 worse than the benchmark. This brings the excess return to 0.4 percent year to date.

Negative relative performance was driven by overall high exposure to High Yield versus Investment Grade issuers, offset partially by cash holdings.

Biggest negative contribution during November came from our investment in a construction company involved in major infrastructure projects in several emerging markets regions. Further, the fund lagged on its exposure to Mexico. The strongest positive contribution during the month came from our holding in a Ukrainian steel producer.

We only made minor changes to the portfolio in November. The slight overweight in risk and marginal underweight on duration has been maintained. We sold out of a Chinese lithium producer in anticipation of downgrade from Investment Grade after an acquisition.

We remain prepared to exploit further sell-off with a decent cash balance.

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

### Strategy

Value Bonds - Emerging Market Corporates 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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