For professional clients only
December 2021
Monthly Perspectives
Fixed Income

Emerging Market Debt

Fed increase expectations of tighter policy

• The Fed said it will double the pace of asset purchase tapering and suggested they may need to hike three times in 2022

• Flows into the asset class were fairly static this month and ended the year at +$52.6 billion

• Both of our Emerging Market Debt strategies had positive returns on gross basis in December.

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Portfolio Manager, Emerging Market Debt

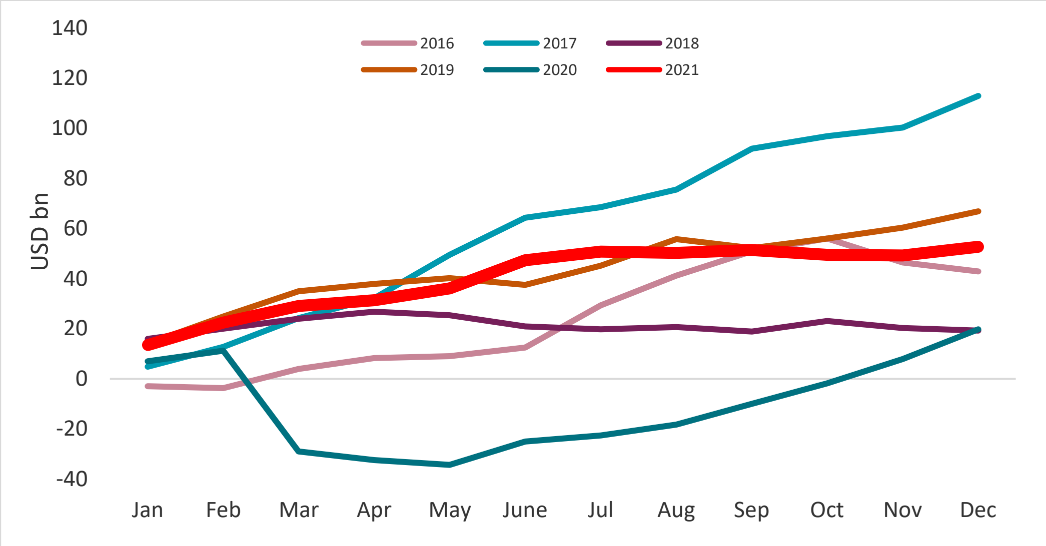
What's happening?

- The FED doubled the pace of tapering and suggested there may be a need to raise rates three times in 2022 as inflation is now seen as a big threat. Of developed central banks the BOE surprised markets with a 15bp hike to 25bps, its first hike in three years.

- The benchmark JP Morgan Hard Currency Sovereign Index posted a return of +1.40%, while the JP Morgan Hard Currency Corporate Index returned +0.4%. Flows into the asset class were static this month and year-to-date inflows currently stand at +$52.6 billion.

- The new Covid-19 variant continued to spread across the globe as countries tried to speed up their vaccine roll out programs. OPEC+ said it had agreed to proceed with its January output hikes. The US increased further sanctions on China over abuse of Uyghurs as well as individuals in North Korea.

Figure 1: Emerging Markets fund flows



Source: JPMorgan as of 07/01/2022

- **CEEMEA**: Turkey stole the headlines in CEEMA this month we President Erdogan fired his finance minister and replaced him with Nureddin Nebati. The central bank continued its rate cutting cycle cutting rates 100bps to 14% but did suggest it's come to the end of its rate cutting cycle where rates have been cut 500bps. President Erdogan in response to the Turkish Lira's continual depreciation cited that there was no backing away from the new economic model and not to enact anything but interest rate cuts. New FX measures were announced aimed at curbing local FX demand and increasing investment incentives for TRY denominated assets which saw a sharp rebound in the currency which had depreciated over 70% since November. Other central banks in the region continued their rate hiking cycles to combat inflation with Poland and Ukraine both hiking 50bps and maintaining a hawkish bias. The Czech Republic hiked 100bps, which was more than anticipated while Hungary hiked 30bps which was less than the market expected and finally, Russia hiked 100bps suggesting they could continue to hike further. S&P upgraded Serbia's outlook to positive while it revised its outlook on Turkey to negative and Fitch affirmed Russia's ratings and moved South Africa's outlook to stable.

- **LatAm:** Gabriel Boric won more than 50% of the vote in Chile's presidential election in the first round. Chile's central bank hiked rates 125bps to 4% in a unanimous vote and had debated larger hikes. The Brazil central bank hiked 150bps, its seventh hike in the cycle and suggested to expect the same in February's meeting. Peru hiked rates 50bps to 2.5% while Mexico unexpectedly hiked rates by its largest amount in 5 years with a 50bps hike on rising inflationary fears. Fitch affirmed Brazil, Colombia's and Dominican Republic's ratings but moved the latter's outlook to stable, and Brazil to negative.

- **Asia:** The PBOC cut the RRR rate by 50bps, as much as a move was forecast it came slightly earlier than was anticipated. Sri Lanka suggested that it may plan to meet the IMF seeking a bailout but commented that as much as the INMF demands a lot of conditions, a country doesn't necessarily need to accept them all.

Portfolio positioning and performance

Emerging Markets Short Duration

Activity

There was very little activity this month. We fund rotated a couple of names but with the primary market all but shut for the year we didn't see many opportunities in the secondary market to alter overall positioning. We will maintain investments in hard currency bonds and are unlikely to add any local or FX risk.

Positioning

We aim to remain disciplined in the names and sectors in which we invest. Despite this we still believe that differentiation and credit fundamentals remain crucial to stock selection but coupled with that one needs to be conscious of liquidity in these markets.

Performance

Top positive contributor: LIGTBZ 4 3/8 06/18/26. No particular market factor.

Top negative contributor: REDSUN 9.95 04/11/22. Another casualty of the volatile Chinese property sectore.

Global Emerging Markets

Activity

Like the previous month we weren't that active in either the primary or secondary market. We switched down the curve in Turkey after dislocation from large currency moves distorted the cash curve. We continued to alter holdings in Asia, namely China as well as reduce its exposure to quasi oil and gas names.

Positioning

We maintain tail risk hedges in both US Treasury futures as well as single name CDS positions. Cash levels remain low and we will remain active in seeking out opportunities and rotating positioning dependant on news flow.

Performance

Top positive contributor: EGYPT 6 3/8 04/11/31. Rebound after sell-off in December.

Top negative contributor: UKRAIN 4 3/8 01/27/30. Concern over conflict with Russia..

Outlook

- **Our outlook**: EM central banks in this time zone and Latin America are continuing with their hiking cycles, some of which we anticipate will come to an end in early 2022. Developed central banks have started to sound more Hawkish and the market now expects the FED to start its hiking cycle once it completes tapering with three hikes already priced in for 2022. As we keep saying, differentiation remains key in stock selection as fundamentals will in our minds still be the ultimate driver of performance. A topic that has resurfaced onto the world's radar is Covid and we have been reminded that the risks from new variants and mutations is still very real. Close attention is still being paid to how things unfold in China both on the current stresses in the Chinese property sector but also policy reaction and how that translates on to growth too. We aim to remain disciplined in the names and sectors in which we invest. Despite this we still believe that differentiation and credit fundamentals remain crucial to stock selection but coupled with that one needs to be conscious of liquidity in these markets.

No assurance can be given that the Emerging Market Debt strategies will be successful. Investors can lose some or all of their capital invested. The Emerging Market Debt strategies are subject to risks including Derivatives and leverage, Emerging markets, High yield debt securities, Sovereign debt and Contingent convertible bonds

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