UBAM – EMERGING MARKET SOVEREIGN BOND

Quarterly Comment

For Professional Investors in Switzerland or Professional Investors as defined by the relevant laws.
The classification of the fund(s) as per the Sustainable Finance Disclosure Regulation (SFDR) is available on ubp.com or in the latest prospectus.

Market Comment

- The year started with optimism with the roll-out of vaccines around the globe, and the decision of the US new administration to provide a huge stimulus package of USD 1.9 trillion to support activity.
- Expectations of a sharp rebound in the US economy rapidly led to fears of an acceleration of inflation, however, which in turn, resulted in a steepening of the US rate curve. The 2-year US Treasury rates went up by 4 bps to 0.16% while 10-year rates increased by 83 bps to 1,74%.
- In parallel, commodity prices also shot up. The CRB index rose by 10.2%, thanks notably to the rally in oil (Brent +22.7%) and in basic metals (copper +13.4%). Precious metals, however, underperformed, with gold down 10.0% and silver down 7.5%.
- Overall, EM sovereign bonds took a loss (-4.54% over the quarter), due to rising US Treasury yields.
- Performance-wise, due to their longer duration Investment Grade bonds underperformed (-5.30%) with spreads tightening by 6 bps to 146 bps. High Yield bonds returned -3.66%, with spreads up 11 bps to 619 bps.
- At a regional level, the best performance came from Asia (-2.6%). The worst performance came from Latin America (-6.7%), Europe (-4.4%) and Africa (-4.0%).
- At a country level, the best-performance came from Venezuela (+16.5%), Sri Lanka (+10.1%), Zambia (+9.8%) and Costa Rica (+6.9%).
- In contrast, Argentina was the worst performing country (-15.1%), followed by Belize (-14.0%), Ecuador (-13.1%) and Panama (-8.8%).
- The first three months of 2021 saw inflows into EM debt, reaching USD 29.1 bn of which USD 11.7 bn were in hard currency and USD 17.4 bn into EM local currency bonds.

All performance figures are given net of fees. Past performance is not a guide to current or future returns. See full disclaimer at the end of the document.

Performance Review

- Over the quarter, the fund returned -3.81% net of fees over the quarter, compared to -4.44% for the JP Morgan EMBI Global Diversified Index*.
- Most sources of alpha contributed positively over the period (carry and spread) except for our duration positioning, which led to negative performance.
- Main contributors to relative performance:
  - Country-wise, the best performance came from our overweight and selection in Ukraine. Our overweight in Venezuela and our overweight and selection in Oman also contributed positively.
  - In contrast, our overweight in Ivory Coast, overweight and slection in Senegal, as well as zero exposure to Costa Rica proved costly.
  - Outside of sovereigns, sector-wise, the fund benefited from its selection in Financials, Metals & Mining and Oil & Gas, but suffered from selection in Utilities.
  - Cash holdings detracted from performance.

**Index provided for comparison and information purposes only. The fund has no official benchmark.*

Portfolio Activity

- Over the quarter, our scorecard remained in the “dynamic” territory.
- We slightly reduced our off-benchmark exposure to corporates in favour of sovereign and quasi-sovereign issuers.
- Region-wise, we added exposure to Latin America and the Middle East at the expense of Asia, Africa and Europe.
- At a country level, among the main changes, we increased holdings in Egypt, Peru, Mexico (quasi-sovereign), Poland, Chile and Cote D’Ivoire.
- In contrast we closed our position in Gabon. We also slightly reduced our exposure in Benin, Ukraine, Lebanon, Kazakhstan, Russia, Romania and Saudi Arabia.

Outlook

- Despite some delays in the roll-out of vaccines across the world, the global economy is expected to rebound sharply this year thanks notably to the large support packages that many countries have pledged. This rebound should be faster in Emerging Markets, led by Asia, than in Developed Markets.
- In parallel, and despite the rise in US rates, investors are expected to continue to look at EM debt as an asset class of choice providing attractive carry. This should lead to new inflows as experienced in the first quarter of 2021.
- Indeed, with the stock of negatively yielding debt at USD 13 trillion and the still low yields of DM credit markets, investors are expected to continue to look at EM debt as an asset class of choice, leading to new inflows as experienced in late 2020.
- Within EM sovereign debt, we continue to favour high yield bonds, which offer attractive carry. They also present a lower duration (6.4 years) than investment grade bonds (9.1 years), which should be favourable in case of further steepening of the US curve.

- At a regional level, we favour Africa and Europe at the expense of the Middle East and Asia
- At a country level, our largest cash overweight positions are Russia, Guatemala, Senegal, Benin and Cote d'Ivoire.
- In contrast, our largest underweights are China, the Philippines, Colombia, Panama, and Bahrain.

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