UBAM – EMERGING MARKETS FRONTIER 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

- US interest rates continued their rise over the quarter; 2-year US Treasuries were up 15bps to 4.43%, while 10-year US Treasuries rose by 5bps to 3.88% as the Fed delivered 125bps of hikes cumulatively in November-December.
- The asset class saw outflows at -$16.4bn in Q4 2022, according to data from JP Morgan. This makes the asset class end the year with -$89.2bn in cumulative outflows. EM Fixed Income funds saw an inflow of $52.5bn in 2021.
- The pace of the rise in US Treasury yields moderated and China reopening plans coupled with the support of the real estate market by Beijing had a positive effect on returns in Q4 2022. In this context, Frontier Debt delivered a positive performance of +11.62% according to the JP Morgan NEXGEM index. Moreover, spreads tightened by 183bps, to 947bps over the quarter.
- At a regional level, the strongest returns were from the Africa (+13.46%), the Middle East (+11.34%) and Latin America (+10.57%). Asia and Europe returned +10.28% and +9.00% respectively.
- At a country level, the best performance came from Ethiopia (+24.79%), El Salvador (+24.95%) and Gabon (+22.76%).
- In contrast, the countries that performed the worst were Suriname (-11.07%), Zambia (-6.74%) and Ghana (-5.83%).

Sources: UBP, Bloomberg Finance LP, JP Morgan

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 period, the fund returned +13.51% net of fees.
- Credit spread tightening (carry spread + spread effects) was the main contributor to positive performance in Q4 with +12.77%. The duration positioning also contributed positively with +47bps. The curve positioning, however, detracted slightly with -14bps.
- At a regional level, all regions contributed positively. The best performance came from our holdings in Africa and Latin America with +8.38% and +4.81% respectively.
- Country-wise, the largest contributors to performance were from our holdings in Angola, Kenya and Ivory Coast. In contrast, our holdings in Ukraine and Lebanon detracted slightly.

Portfolio Activity

- In Africa the exposure increased significantly over the quarter du to the performance of some countries. We also selectively increased exposure to Tunisia and Zambia and reinitiated exposure to Ghana. Conversely, we decreased our exposure to Benin.
- In Asia, we completely sold our exposure to Azerbaijan.
- In Emerging Europe, the exposure slightly increased over the quarter.
- In Latin America, we trimmed our exposure to several countries, especially the Dominican Republic, Paraguay, El Salvador and Guatemala. Conversely, the exposure to Uruguay was increased.
- We maintained our exposure to EM local currencies at 12%, similar to the last quarter.

Outlook

- The outlook for 2023 is encouraging for Emerging Markets (EM) Debt.
- With the evidence of US inflation starting to cool down, the Fed might slow its tightening policy. This should be a positive for US rates (Hard Currency EM bonds) as well as for local currency but a negative for the USD.
- The sooner than expected Chinese reopening is seen as a positive for GDP growth globally, other Asian countries that could benefit from an increase of Chinese tourism and commodity-based countries in South Africa and Latin America could benefit from the expected terms of trade improvement once China's economic activity normalizes. Moreover, China policymakers are determined to increase growth this year as measures have been taken to simplify tech regulations and to support the real estate market.
- Inflation is falling faster than expected in Emerging markets. Indeed, by starting rising interest rates earlier, these have been able to manage inflationary pressures better than developed markets during the past two years.
- Geopolitics remains the main risk to watch for 2023: the investment team is attentive to the risk of a renewed escalation of the conflict in Ukraine. It is also aware that social risks from the significant increase in food and fuel prices could cause some countries to tip into a period of political instability. This means that ESG attributes will continue to have a strong influence in the country allocation decisions.
- We have chosen to exit or implement underweights in some clearly deteriorating stories such as Ghana and Nigeria while we are sanguine on Angola and Egypt. Within the EM Fixed Income universe, frontier names have lost the most value last year, but also have the most scope to outperform in case the macro situation and investor sentiment were to improve.
- At a country level, our largest positions remain in Africa mostly, with Angola (8.3%), Kenya (8.1%) and Cote D'Ivoire (6.9%) accounting for the top 3 country exposures. We also count significant allocation in Uruguay (5.7%).
- In EM local currencies, our largest exposures are Uruguayan Peso (4.7%), Kazakh Tenge (2.9%), Dominican Peso (2.5%) and Uzbek Som (1.8%). The portfolio allocation to EM local currencies currently accounts for 12%.

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