Q4 2022

UBAM - EM RESPONSIBLE LOCAL 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. EM Sovereign external debt delivered a positive return of +8.11% over the quarter according to the JP Morgan EMBI Global Div index. Ecuador (+39.3%), Argentina (+37.6%) and Ethiopia (+26.8%) led the performance. Conversely, Suriname (-11.1%), Zambia (-6.7%) and Ghana (-5.8%) were among the worst performers.
- EM Local bonds outperformed sovereign hard currency indices in Q4 2022, with the J.P. Morgan GBI-EM Global Diversified returning +8.45%. At a country level, the best performance came from Chile (+25.2%), followed by Hungary (+21.3%) and Poland (-16.6%). Worst performance came from Egypt (-20.6%) and Dominican Republic (-3.5%).

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

- UBAM – EM Sustainable Local Bond delivered +6.98% over the course of Q4 2022 (net of fees, Institutional Share class). In comparison, the J.P. Morgan ESG GBI-EM Global Diversified* returned +9.46% (the non-ESG index* returned +8.45%).
- Main contributors to total returns:
  - Poland (+98bps), Thailand (+96bps) and Brazil (+96bps)
- Main detractors from total returns:
  - Colombia (-36bps), Indonesia (-19bps) and Dominican Republic (-12bps)

Portfolio Activity

- Top 5 positions by Currency:
  - IDR (14.2%), ZAR (11.0%), BRL (7.5%), THB (10.9%) and MYR (9.8%)
- Top 5 positions by Duration Contribution (in years):
  - Mexico (0.7y), Thailand (0.6y), Indonesia (0.6y) Malaysia (0.6y) and South Africa (0.5y)
- ESG Characteristics:
  - Exposure to Green, Social and Sustainable bonds: 14.3%
  - Exposure to Supranational Bonds: 22.8%
  - **ESG Quality Score**: 6.4 (equivalent to an MSCI ESG Rating of A).

    Source: @2022 MSCI ESG Research LLC – Reproduced by permission; data as at 30.12.2022

Outlook

- The outlook for 2023 is encouraging for Emerging Markets (EM) Debt including EM Local Bonds.
- 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 like currencies that stand to benefit from China re-opening such as Korea, Thailand and Indonesia. And also, those currencies which enjoy high real yields and improving terms of trade such as Brazil, Chile and Colombia.
- In the duration space, the disinflation theme is global and we expect curves which are very close to end their hiking cycle to perform the best. These include Indonesia, Colombia and Mexico.

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