

UBAM – EMERGING MARKET CORPORATE BOND SHORT DURATION

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

- Despite pressure early in the quarter, when rising bond yields and conflict in the Middle East weighed on emerging market (EM) returns, overall EM debt was strong in Q4 2023. Signs of a “soft landing” for the US economy and increased expectations for interest rate cuts in 2024 were supportive. However, China continued to be a drag on broad EM performance.
- In the US, lower energy prices and the strong jobs market gave households renewed confidence and underpinned consumer spending. However, sentiment in the manufacturing sector remained weak, with regional survey readings lower than expected and a manufacturing PMI of less than 50 (as opposed to 51.3 in the service sector). Headline inflation fell to 3.1% in November while core inflation remained at 4.0%. As expected, the Fed did not adjust its key interest rates in its final meeting of the year, but the FOMC is expecting to make three rate cuts in 2024 and Jerome Powell acknowledged that the governors have discussed when those cuts could begin, and this news was very well received by the markets triggering a continuation of US rates’ rally in December.
- In the eurozone, economic indicators remained depressed overall. Eurozone retail sales stabilised, but confidence indicators for the manufacturing and service sectors suggested that output was continuing to fall, and at an even faster rate in manufacturing. Weak demand and sharply falling energy prices meant that eurozone inflation continued to drop to 2.4% year-on-year in November, from 2.9% in October. The ECB kept its official rates at their record highs and stated that the Governing Council had not discussed rate cuts because inflation is still too high.
- In China, economic indicators were mixed, although there was a slight acceleration in retail sales and industrial output. Credit spreads on corporate and emerging-market bonds tightened almost across the board in December, which meant that returns for 2023 as a whole were very solid. Equity markets gained over 4% on average in December, with the US market slightly outperforming and Japan underperforming. Overall, equities returned over 20% in 2023. The increasing probability that official US interest rates will be cut several times in the relatively near future was bad news for the dollar.
- The economic and geopolitical environment was helpful for gold, the price of which rose 1.3% in December after hitting a new all-time high of over USD 2,100 per ounce during the month. As regards oil, investor doubts about whether voluntary production cuts by OPEC+ members would materialise dragged down oil prices, with Brent crude falling by 7%.
- EM investment grade corporate bonds index was up by 3.1% (JPM CEMBI BD IG), led mainly by the rally in US base rates but also by the tightening in spreads (spreads tightened by 11bp to 154bp). By region, Asia IG spreads tightened by 6bp, Latam IG by 22bp, EM Europe by 33bp and Middle East by 11bp.
- At a country level, the best performing countries over the month were Kazakhstan (+10.8%), Thailand (6.5%) and Mexico (+6.1%). The worst performing countries were Philippines (0.7%), Qatar (1.7bps) and China (1.7%). At a sector level the best performing sectors over the month were Oil & Gas (+6.8%), followed Pulp & Paper (+6.5%). The worst performing sectors were Financial (+2.0%) and Infrastructure (+2.2%).

Sources: *UBP, Bloomberg Finance LP, JP Morgan*



Performance Review

- Over the quarter, the fund returned 6.04% gross of fees. The fund benefited from its duration allocation. Issuer selection was also beneficial to performance.
- In Q4, the best performing countries were Colombia, China and Peru. Conversely, Egypt and Ukraine constituted the main laggards.
- All sector remained positive. Being Industrial, Financial and Consumer the best performing sectors.

Portfolio Activity

- Over the quarter, at regional level, the exposure to Latin America was increased, whilst the exposure to Africa was reduced.
- In Asia, the allocation to China, India, Malaysia and Philippines remained unchanged.
- In Latin America, the exposure to Colombia (Oil & Gas).

Outlook

- We expect a Goldilocks environment that is encouraging for the EM asset class as we enter 2024. Since late Oct 2023 our call has been that global financial conditions have reached their peak and that there was no need of additional hikes from the US Fed or the ECB. These central banks will let higher real rates do the tightening job going forward as inflation expectations decline.
- The growth outlook for the US and the EU is for a slowdown. In such a Goldilocks environment (“not too hot, not too cold”) EM corporate fixed income is set to thrive supported by stabilizing to moderately declining US Treasury rates, companies’ much stronger credit metrics vs its US and European peers, and positive technicals as investors have been under allocated the asset class since the beginning of 2022 and will be attracted to lock-in the high yields that the asset class is offering now that US rates’ hiking cycle is over. Our sensitivity analysis shows potential returns in the range of 6.5% to 7.5% for EM Corporate IG asset class, on the back of high carry, additional moderate declines in US Treasury rates and some moderate additional spread compression.
- On aggregate EM corporate credit metrics and fundamentals remain solid and going into 2024 will be supported by easing inflation pressures and gradually decreasing financial costs in the margin as various EM countries have already started easing monetary conditions or are expected to start lowering interest rates in the short term. Additionally, China stabilization is positive news for EM companies. China is flying on 1.5 engines, real estate bottoming, services and consumption bouncing and Chinese exports growth to continue to be restrained by nearshoring trend into Mexico and Latin America more broadly.
- Given the high intrinsic carry, the expectation of some additional spread compression and US base rates tightening, expect returns north of 6.5% for hard-currency EM IG corporate bonds.
- A clearer landscape of the US Fed and the ECB monetary policy paths shall entail reduced uncertainty and volatility in global and EM markets. Risk appetite has been muted throughout 2023 on the back of the uncertain monetary policy tightness coming from the Fed and the ECB. As the global environment becomes less volatile, investors shall be moving out of cash to chase high single digit returns.
- With DM slowing down into 2024, expect more demand for duration than equities. In a juncture of tightening monetary conditions, fixed income assets have been at the mercy of volatility and repricing. The current initial conditions of downward inflation expectations and slowing demand suggest that duration instruments should be the preferred asset class. Amongst FI assets EM debt has the strongest technical position as it has remained an underweight since Covid.

Disclaimer

This is a marketing document and is intended for informational and/or marketing purposes only. It is confidential and is intended to be used only by the person(s) to whom it was delivered. It may not be reproduced (in whole or in part) or delivered, given, sent or in any other way made accessible, to any other person without the prior written approval of Union Bancaire Privée, UBP SA or any entity of the UBP Group (UBP). This document reflects the opinion of UBP as of the date of issue. This document is for distribution only to persons who are Professional clients in Switzerland or Professional Clients, or an equivalent category of investor as defined by the relevant laws (all such persons together being referred to as "Relevant Persons"). This document is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. It is not intended for distribution, publication, or use, in whole or in part, in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it directed at any person or entity at which it would be unlawful to direct such a document. In particular, this document may not be distributed in the United States of America and/or to US persons (including US citizens residing outside the United States of America). This document has not been produced by UBP's financial analysts and is not to be considered financial research. It is not subject to any guidelines on financial research and independence of financial analysis. Reasonable efforts have been made to ensure that the content of this document is based on information and data obtained from reliable sources. However, UBP has not verified the information from third sources in this document and does not guarantee its accuracy or completeness. UBP makes no representations, provides no warranty and gives no undertaking, express or implied, regarding any of the information, projections or opinions contained herein, nor does it accept any liability whatsoever for any errors, omissions or misstatements. The information contained herein is subject to change without prior notice. UBP gives no undertaking to update this document or to correct any inaccuracies in it which may become apparent. This document may refer to the past performance of investment interests. **Past performance is not a guide to current or future results.** The value of investment interests can fall as well as rise. Any capital invested may be at risk and investors may not get back some or all of their original capital. Any performance data included in this document does not take into account fees, commissions, and expenses charged on issuance and redemption of securities, nor any taxes that may be levied. Changes in exchange rates may cause increases or decreases in investors' returns. All statements other than statements of historical fact in this document are "forward-looking statements". Forward-looking statements do not guarantee future performances. The financial projections included in this document do not constitute forecasts or budgets; they are purely illustrative examples based on a series of current expectations and assumptions which may not eventuate. The actual performance, results, financial condition and prospects of an investment interest may differ materially from those expressed or implied by the forward-looking statements in this document as the projected or targeted returns are inherently subject to significant economic, market and other uncertainties that may adversely affect performance. UBP also disclaims any obligation to update forward-looking statements, as a result of new information, future events or otherwise. The contents of this document should not be construed as any form of advice or recommendation to purchase or sell any security or funds. It does not replace a prospectus or any other legal documents, which can be obtained free of charge from the registered office of the fund(s) mentioned herein or from UBP. The opinions herein do not take into account individual investors' circumstances, objectives, or needs. Each investor must make their own independent decision regarding any securities or financial instruments mentioned herein and should independently determine the merits or suitability of any investment. In addition, the tax treatment of any investment in the fund(s) mentioned herein depends on each individual investor's circumstances. Investors are invited to carefully read the risk warnings and the regulations set out in the prospectus or other legal documents and are advised to seek professional counsel from their financial, legal and tax advisors. The tax treatment of any investment in a fund depends on the investor's individual circumstances and may be subject to change in the future. This document should not be deemed an offer nor a solicitation to buy, subscribe to, or sell any currency, funds, products, or financial instruments, to make any investment, or to participate in any particular trading strategy in any jurisdiction where such an offer or solicitation would not be authorised, or to any person to whom it would be unlawful to make such an offer or solicitation. Telephone calls to the telephone number stated in this presentation may be recorded. UBP will assume that, by calling this number, you consent to this recording.

Pursuant to Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the "Disclosures Regulation" or "SFDR"), funds are required to make certain disclosures. Funds falling under the scope of Article 6 of the SFDR are those which have been deemed not to pursue an investment approach that explicitly promotes environmental or social characteristics or has sustainable investment as their objective. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities. Notwithstanding this classification, the Investment Managers may take account of certain sustainability risks as further described in the fund's prospectus. Funds falling under the scope of Articles 8 or 9 of the SFDR are those subject to sustainability risks within the meaning of the SFDR. The sustainability risks and principal adverse impacts as stipulated in the SFDR are described in the prospectus. In addition, unless otherwise specified, all funds apply the UBP Responsible Investment Policy, which is available on <https://www.ubp.com/en/investment-expertise/responsible-investment>.

Any subscriptions not based on the funds' latest prospectuses, KIIDs, annual or semi-annual reports or other relevant legal documents (the "Funds' Legal Documents") shall not be acceptable. The Funds' Legal Documents may be obtained free of charge from Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland (UBP), from UBP Asset Management (Europe) S.A., 287-289 route d'Arlon, 1150 Luxembourg, Grand Duchy of Luxembourg, and from Union Bancaire Gestion Institutionnelle (France) SAS, 116 avenue des Champs-Élysées, 75008 Paris, France. The Swiss representative and paying agent of the foreign funds mentioned herein is UBP. The Funds' Legal Documents may be obtained free of charge from UBP, as indicated above.

This content is being made available in the following countries:

Switzerland: UBP is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA). The head office is Union Bancaire Privée, UBP SA, 96-98 rue du Rhône, P.O. Box 1320, 1211 Geneva 1, Switzerland. ubp@ubp.com | www.ubp.com

United Kingdom: UBP is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA.

France: Sales and distribution are carried out by Union Bancaire Gestion Institutionnelle (France) SAS, a management company licensed with the French Autorité des Marchés Financiers, - licence n° AMF GP98041 ; 116, av. des Champs Elysées I 75008 Paris, France T +33 1 75 77 80 80 Fax +33 1 44 50 16 19 www.ubpamfrance.com.

Hong Kong: UBP Asset Management Asia Limited (CE No.: AOB278) is licensed with the Securities and Futures Commission to carry on Type 1 – Dealing in Securities, Type 4 – Advising on Securities and Type 9 – Asset Management regulated activities. The document is intended only for Institutional or Corporate Professional Investor and not for public distribution. The contents of this document have not been reviewed by the Securities and Futures Commission in Hong Kong. Investment involves risks. Past performance is not indicative of future performance. Investors should refer to the fund prospectus for further details, including the product features and risk factors. The document is intended only for **Institutional Professional Investor** and not for public distribution. The contents of this document and any attachments/links contained in this document are for general information only and are not advice. The information does not take into account your specific investment objectives, financial situation and investment needs and is not designed as a substitute for professional advice. You should seek independent professional advice regarding the suitability of an investment product, taking into account your specific investment objectives, financial situation and investment needs before making an investment. The contents of this document and any attachments/links contained in this document have been prepared in good faith. UBP Asset Management Asia Limited (UBP AM Asia) and all of its affiliates accept no liability for any errors or omissions. Please note that the information may also have become outdated since its publication. UBP AM Asia makes no representation that such information is accurate, reliable or complete. In particular, any information sourced from third parties is not necessarily endorsed by **UBP AM Asia**, and **UBP AM Asia** has not checked the accuracy or completeness of such third-party information.

Singapore: This document is intended only for accredited investors and institutional investors as defined under the Securities and Futures Act (Cap. 289 of Singapore) ("SFA"). Persons other than accredited investors or institutional investors (as defined in the SFA) are not the intended recipients of this document and must not act upon or rely upon any of the information in this document. The financial products or services to which this material relates will only be made available to clients who are accredited investors or institutional investors under the SFA. This document has not been registered as a prospectus with the MAS. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of this product may not be circulated or distributed, nor may the product be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to institutional investors under Section 274 or 304 of the Securities and Futures Act (Cap. 289) of Singapore ("SFA"), (ii) to relevant persons pursuant to Section 275(1) or 305(1), or any person pursuant to Section 275(1A) or 305(2) of the SFA, and in accordance with the conditions specified in Section 275 or 305 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This advertisement has not been reviewed by the Monetary Authority of Singapore.

MSCI : Although Union Bancaire Privée, UBP SA information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.