Global Asset Management

BlueBay Asset Management

Portfolio Manager Perspectives
BlueBay Emerging Market Debt Update
Weekly Update

February 28, 2018

Calm But Not Convinced

Macro markets were much calmer this week with the VIX index substantially lower and equity markets trading up, with EM leading the way. Oil prices bounced and core rates stabilised – an impressive feat given the moderately hawkish tone in the FOMC minutes. In a change of trend, EM local markets were down marginally on the week as the US dollar showed some signs of life.

In Emerging Markets News:

- Brazil's sovereign credit rating was downgraded to BB- by Fitch given the delays in the pension reform, but the market took this in its stride given it was largely a catch-up move to align the rating with the other main agencies.
- Russia was upgraded to investment grade by S&P as the country returned to the investment grade indices after three years languishing in high yield. This brought some incremental demand for Russian bonds, which appreciated on the announcement.
- South Africa's President Cyril Ramaphosa made some progress on the reform front with the implementation of a sales tax, following on from the well-received budget. He did, however, appoint a new cabinet where he made some political compromises, highlighting that the path ahead will be a rocky one.
- Argentine local assets came under further pressure as the drought conditions worsened, impacting crop levels and reducing future export capacity.
- The Chinese President, Xi Jinping, consolidated his grasp on power as the two-term limit on the presidency was revoked.
- Saudi Arabia sacked many of its top military commanders in a bid to modernise and improve its armed forces and in recognition of the increased regional tensions in the Middle East.

In EM Corporates News:

- A Chinese insurer was put into receivership as the regulator temporarily took over the company, which has become known for aggressive overseas expansion, including the purchase of the Waldorf Astoria. This highlights President Xi's drive to punish those companies and individuals who have failed to fall into line with the government's anticorruption and deleveraging drives of the recent years.
- A Jamaican telecom operator reported weak earnings and the market showed that its patience was running out with bonds trading down over five points post results. With high leverage and a heavy debt maturity profile ahead, we believe this will be one to watch in the coming months.
- Rumours circulated that a Brazilian industrial conglomerate, had hired advisors to work on a restructuring of the company's financial liabilities. The company denied this but the sharp move down in bond prices told a different story.

Outlook:

This week, the markets are getting acquainted with the new Fed Chair, Jerome Powell, as he testifies to Congress. We also have a jumbo M&A deal in the works in developed markets. Additionally, the seventh round of NAFTA negotiations gets underway. We believe these three events embody the key risks for the near term: Fed policy, supply risk and trade tensions. Against that, the broader backdrop remains supportive in our view, with inflation well behaved enough for now, corporate earnings coming out supportive and the threat of retaliation likely to keep US trade policy in check. Chinese data will be key as we expect some noise around Chinese New Year data adjustments. All in all, the path ahead is likely to be more volatile and our bias is to trim overall exposure on the funds so as to be best able to take advantage of the next bout of volatility.

Performance to 23 February 2018:

	Contributors/detractors	+/-
EM Corporates	A long in a Russian real estate name that continued to bounce back contributed as the company improved its communication with investors, which broadened the buyer base. A long in an Argentine utility also contributed as it brought new plants on line.	+
EM Sovereign	The key contributors were Nigeria, along with some tactical trades we put on in Iraq and Oman to take advantage of the recent sell-off.	+
EMFX.	A short in the Colombian peso was the main detractor as we used it as a hedge to long oil exposure in other parts of the book.	-
Macro Hedges	Shorts across the US rates curve proved a drag but we are maintaining these as hedges against our long credit exposure.	-
Local Rates	Received positions across South African sovereigns and quasi-sovereigns were the top contributors.	+

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RBC Global Asset Management (U.S.) Inc.
Minneapolis | Boston | Chicago
800.553.2143 | **us.rbcgam.com**