



Portfolio Manager Perspectives

BlueBay Emerging Market Debt Update

Weekly Update

November 15, 2018

Still Climbing the Wall of Worry

Emerging markets (EM) came under pressure this week as Brexit negotiations and the Italian budget took centre stage. The Federal Reserve (Fed) kept rates on hold but reiterated its plans for further gradual increases, all but ensuring a December hike. EM currencies were down on the week despite the recent US mid-term results which should ultimately prove to be a positive tailwind for the asset class. Oil prices slumped yet again despite Saudi promises of supply cuts next year to deal with the growing imbalances in the oil markets. Brent crude ended the week down 10% and has continued its decline in the last few days. This trend needs to be closely monitored as there are growing voices trying to compare the most current period back to late 2015, when weak oil and a slowing China weighed heavily on risk assets.

In EM News:

- The Mexican rollercoaster ride continued as headlines surfaced that the incoming president was planning to cut bank commissions, leading to negative price action in the financials space before AMLO came out claiming he would not make any changes for his first three years in office. Since he unveiled plans to cancel the

Mexico airport project, investors would be forgiven for being a little sceptical over this more market-friendly tone.

- In China, the current account surplus grew again on better export data, but the yuan came under renewed pressure, heading back towards seven against the US dollar as investors remain concerned around the Chinese growth outlook.
- Turkey issued EUR 1.5 billion of bonds, following on from last month's USD-denominated issuance and taking its year-to-date issuance to USD7.7 billion. The country is expected to have similar issuance needs next year.
- Mozambique bonds were the leading performers on the week as the country closed a restructuring deal with creditors after it defaulted almost two years ago. Bondholders will be rolled into a new 2033 bond and will also receive a share of gas revenues in a deal that was surprisingly favourable to bondholders.
- In Sri Lanka, President Maithripala Sirisena dissolved parliament and called fresh elections to be held on 5 January 2019. Political uncertainty is pushing bond yields towards the 9% level as Sri Lanka has a large schedule of foreign debt redemptions and its IMF facility is due to expire at the end of 2019.

Weekly Market Performance as of 9/11/2018

	Total return 1 week	Total return MTD	Total return QTD	Total return YTD	Spread change 1 week	Spread change MTD	Spread change QTD	Spread change YTD	Current spread	Current YTM
Hard currency corp	0.20%	0.34%	-0.31%	-1.97%	(1)	(7)	10	43	303	5.96%
Hard currency corp - IG	0.05%	0.02%	-0.69%	-1.75%	2	(2)	13	28	205	5.02%
Hard currency corp - HY	0.41%	0.79%	0.20%	-2.20%	(5)	(16)	9	72	448	7.50%
Hard currency sov	-0.05%	0.30%	-1.86%	-4.85%	6	(5)	26	77	362	6.81%
Local currency corp	-0.63%	0.41%	-1.92%	-3.68%	-	8	5	(28)	139	7.11%
Local currency sov	-0.13%	1.42%	-0.57%	-8.67%	n/a	n/a	n/a	n/a	n/a	6.68%
Local currency sov - rates	0.18%	0.63%	0.56%	0.79%	n/a	n/a	n/a	n/a	n/a	n/a
Local currency sov - FX	-0.31%	0.79%	-1.12%	-9.39%	n/a	n/a	n/a	n/a	n/a	n/a

Movers and shakers on the week

Sovereign credit		Corporate credit		EM FX		Local rates	
Mozambique	9.94%	Metals & Mining	0.44%	Indonesia	1.85%	Turkey	2.97%
Zambia	8.68%	Infrastructure	0.34%	Philippines	1.02%	Uruguay	1.01%
El Salvador	1.54%	TMT	0.29%	South Africa	0.67%	Peru	0.97%
Angola	-1.18%	Utilities	0.09%	Mexico	-1.40%	Dominican Republic	-1.14%
Venezuela	-1.23%	Pulp & Paper	-0.04%	Brazil	-1.55%	Russia	-1.17%
Uruguay	-1.44%	Consumer	-0.13%	Russia	-2.22%	Argentina	-2.94%

In EM corporates news:

- In Argentina, an oil & gas name reported positive results with higher EBITDA and healthy free cashflow, while net leverage came in at 1.7x – upbeat results in the face of the volatility we have seen of late in Argentine financial markets.

Outlook:

The market is once again trying to climb the wall of worry – this time round, a combination of Brexit, the Italian budget and sharply lower oil prices are all impacting sentiment. Brexit negotiations will remain a key risk for markets this week; Theresa May will ask her divided cabinet to back the draft agreement reached in Brussels against the risk that she sees ministers resign in protest and a call for new party leadership.

The Italian saga also shows no sign of a compromise with the IMF now entering the debate, claiming higher interest costs would negate any positive effect from the more liberal spending plans. The oil price, meanwhile, once again has credit investors nervously re-running their models to stress their high yield portfolio holdings at meaningfully lower oil prices than what had been envisioned only a month or so ago.

In EM, investors have spent this year climbing the wall of worry as higher US rates have exerted pressure on the asset class since the end of the first quarter. With some relief from the US mid-term results, and relatively cheap valuations, EM is in our view likely to be an outperformer into year-end but the absolute direction of travel will likely be determined by broader risk sentiment.

So while for now we remain at the mercy of developments in Europe, we do think this most recent bout of volatility will lead to another interesting entry point into certain names.

We should also not forget that the upcoming G20 meeting at the end of the month is likely to bring with it positive mood music in the lead up to the event. While the market discounts the chances of anything positive coming out of the meeting, we keep an open mind as Trump has been making more positive noises around this event and he has shown the willingness to change his position in the past. Bearish market positioning also suggests the possibility of an asymmetric return profile around the event. Watch this space...

This document is issued in the United Kingdom (UK) by BlueBay Asset Management LLP (BlueBay), which is authorised and regulated by the UK Financial Conduct Authority (FCA), registered with the US Securities and Exchange Commission (SEC) and is a member of the National Futures Association (NFA) as authorised by the US Commodity Futures Trading Commission (CFTC). This document may also be issued in the United States by BlueBay Asset Management USA LLC which is registered with the SEC and the NFA. In Japan, by BlueBay Asset Management International Limited which is registered with the Kanto Local Finance Bureau of Ministry of Finance, Japan. In Switzerland, by BlueBay Asset Management AG where the Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. The place of performance is at the registered office of the Representative. The courts of the registered office of the Swiss representative shall have jurisdiction pertaining to claims in connection with the distribution of the shares in Switzerland. The Prospectus, the Key Investor Information Documents (KIIDs), the Articles of Incorporation and any other applicable documents required, such as the Annual or Semi-Annual Reports, may be obtained free of charge from the Representative in Switzerland. In Germany, BlueBay is operating under a branch passport pursuant to the Alternative Investment Fund Managers Directive (Directive 2011/61/EU). In Australia, BlueBay is exempt from the requirement to hold an Australian financial services licence under the Corporations Act in respect of financial services as it is regulated by the FCA under the laws of the UK which differ from Australian laws. In Canada, BlueBay is not registered under securities laws and is relying on the international dealer exemption under applicable provincial securities legislation, which permit BlueBay to carry out certain specified dealer activities for those Canadian residents that qualify as “a Canadian permitted client”, as such term is defined under applicable securities legislation. The registrations and memberships noted should not be interpreted as an endorsement or approval of any of the BlueBay entities identified by the respective licensing or registering authorities. To the best of BlueBay’s knowledge and belief this document is true and accurate at the date hereof. BlueBay makes no express or implied warranties or representations with respect to the information contained in this document and hereby expressly disclaim all warranties of accuracy, completeness or fitness for a particular purpose. The document is intended only for “professional clients”

and “eligible counterparties” (as defined by the FCA) or in the US by “accredited investors” (as defined in the Securities Act of 1933) or “qualified purchasers” (as defined in the Investment Company Act of 1940) as applicable and should not be relied upon by any other category of customer. In Hong Kong, the Fund is not authorised by the Securities and Futures Commission for sale to the retail public and this document is only available for professional investors (as defined in the Securities and Futures Ordinance (Cap 571)) only. This document does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product in any jurisdiction and is for information purposes only. Except where agreed explicitly in writing, BlueBay does not provide investment or other advice and nothing in this document constitutes any advice, nor should be interpreted as such. No BlueBay Fund will be offered, except pursuant and subject to the offering memorandum and subscription materials (the “Offering Materials”). This document is for general information only and is not a complete description of an investment in any BlueBay Fund. If there is an inconsistency between this document and the Offering Materials for the BlueBay Fund, the provisions in the Offering Materials shall prevail. An investment in the Fund will involve significant risks and may fluctuate in value and investors may not get back the amount invested. You should read the offering memorandum carefully before investing in any BlueBay fund, in particular the risk section. No part of this document may be reproduced in any manner without the prior written permission of BlueBay. In the United States, this document may be provided by RBC Global Asset Management (U.S.) Inc. (“RBC GAM-US”), an SEC registered investment adviser. In Asia, this document may be provided by RBC Investment Management (Asia) Limited, which is registered with the Hong Kong Securities and Futures Commission. RBC Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) which includes BlueBay, RBC GAM-US, RBC Investment Management (Asia) Limited and RBC Global Asset Management Inc., which are separate, but affiliated corporate entities. Copyright 2018 © BlueBay, is a wholly-owned subsidiary of RBC and BlueBay may be considered to be related and/or connected to RBC and its other affiliates. ® Registered trademark of RBC. RBC GAM is a trademark of RBC. BlueBay Asset Management LLP, registered office 77 Grosvenor Street, London W1K 3JR, partnership registered in England and Wales number OC370085. All rights reserved.

