Portfolio Manager Perspectives
BlueBay Emerging Market Debt Update
Weekly Update

December 19, 2018

Annus Horribilis

Global growth concerns continued to dominate the market this week; poor Chinese and European data prints added to investor pessimism, with the S&P index falling over 11% from its peak. EM hard currency assets have been the clear beneficiary in this environment as strengthening core rates supported returns, while the more growth-sensitive EM assets in the form of equities and FX generated negative total returns.

In EM News:

- China continued to push through measures aimed at easing trade relations with the US as they scrapped a 25% tariff on autos. For now, the mood music around trade remains positive with both sides seemingly working towards an agreement, despite the recent arrest of a Chinese telecoms CFO.
- Chinese industrial production and retail sales missed estimates, fuelling concerns over growth but, perversely, supporting Chinese risk markets later in the week as expectations grew that another round of easing measures could be in the offing.
- Ecuador announced that it had secured a USD900 million loan from the Chinese Development Bank in a move which should buy the country some time as it heads into local elections in the first half of 2019. Ultimately, IMF support is likely to be needed in 2019 given the country's lack of market access.
- Mexico released its 2019 budget forecasting a 1% primary surplus, which was positively received by the market. The main takeaway was the slower ramp up in social and infrastructure spending, which should help mitigate fiscal slippage and keep the ratings agencies at bay for the time being. Mexican assets rallied on the announcement with a prominent quasi-sovereign also benefiting as the budget implied lower-than-expected funding needs.
- Oman was downgraded to BB+ by Fitch, making the sovereign a fallen angel as it loses its investment-grade status. Bonds widened 20-30bps on the news, although spreads are already more reflective of a BB- credit, so spread widening should be more contained from here, despite the sovereign's heavy issuance needs next year.

Weekly Market Performance as of 12/14/2018

	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	Spread	Yield
Hard currency corp	0.27%	0.46%	-0.20%	-1.85%	-7	27	44	77	337	6.01%
Hard currency corp - IG	0.31%	0.69%	-0.02%	-1.09%	-8	24	38	53	231	4.98%
Hard currency corp - HY	0.21%	0.13%	-0.45%	-2.84%	-5	37	61	124	500	7.71%
Hard currency sov	0.59%	1.01%	-1.17%	-4.18%	-9	23	54	104	389	6.80%
Local currency corp	-0.85%	1.12%	-1.22%	-3.00%	1	3	16	-17	150	7.07%
Local currency sov	-1.01%	2.15%	0.15%	-8.01%	n/a	n/a	n/a	n/a	n/a	6.67%
Local currency sov - rates	-0.07%	1.68%	1.60%	1.84%	n/a	n/a	n/a	n/a	n/a	n/a
Local currency sov - FX	-0.94%	0.47%	-1.43%	-9.68%	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	
Senegal	2.60%	Real Estate	0.67%	Peru	0.37%	Argentina	0.68%
Gabon	2.47%	Metals & Mining	0.55%	Thailand	0.08%	Brazil	0.58%
Mexico	2.08%	Transport	0.47%	Dominican Rep	-0.10%	Chile	0.50%
Costa Rica	-1.41%	Consumer	0.13%	Chile	-1.90%	Thailand	-0.64%
Oman	-1.75%	Utilities	0.11%	South Africa	-2.50%	Turkey	-0.69%
Argentina	-2.02%	TMT	-0.07%	Argentina	-2.77%	Uruguay	-1.45%

Source: Bloomberg, JPMorgan. Past results are not indicative of future results.

In EM Corporates News:

- The Mexican government improved its tender offer for the Mexican airport bonds, offering to pay par plus accrued in a significant concession to bondholders. This benefited the airport bonds but also impacted the leading petroleum name, where spreads tightened materially on the week.
- A Jamaican telecom further amended its exchange offer, which means the deal is now likely to go through, staving off near-term default fears but still leaving the company with much work to be done to turn around its operations.

Outlook:

As we approach year-end, there is one more Fed meeting to negotiate (this evening) where a hike is extremely likely, despite the recent weakness in risk markets. The Fed's messaging around 2019 will be closely watched as markets have all but priced out hikes for 2019, despite still-robust data coming out of the US. Whether weaker equities, slower growth in China and Europe, and now sharply lower oil prices will be enough to move the Fed to a significantly more dovish stance will be crucial to the near-term performance of risk markets.

As we conclude what turned out to be an 'annus horribilis', we can reflect on a year that started with high hopes and a FOMO rally in January only to become the year of 'sell the rallies'. As we look to the new year, we remain cautiously optimistic that a more mature US rate hiking cycle, combined with improved valuations and cleaner positioning, could be a harbinger of better things to come for EM in 2019...

Note: This is the final EM weekly for 2018; distribution will recommence the week of 7 January. Until then, we wish our readers a relaxing festive break and a successful start to 2019!

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