September 2024

Why now for Emerging Market Corporate Debt?

Five reasons to consider the asset class

1. US macroeconomic developments

The US Federal Reserve (Fed) has recently cut interest rates, and further cuts are expected, which will be supportive for fixed income market returns. If the Fed is able to engineer a soft landing for the US economy – a scenario that is becoming widely accepted as the base case – this would create a supportive environment for risk assets, including emerging market (EM) corporate debt.

More broadly, the shift to a rate-cutting regime in the US opens the way for more monetary policy easing in general across emerging markets (as is already evident by China's significant policy easing announcements in the wake of the Fed's September rate cut). This should provide a tailwind for EM economies that is supportive for the EM corporate debt asset class.

2. Robust fundamentals in emerging markets

At the macro level, across EM economies, we are seeing increasingly healthy primary fiscal balances, and external resilience is improving post-COVID on stronger basic balances (current account + FDI). In addition, the structural economic growth premium of EM relative to developed markets (DMs) remains intact and above its long-term average. All of this points to EM economies being in a good position structurally. At the micro level, EM corporate fundamentals remain healthy, and as such we expect default rates to continue to trend down.

3. Attractive valuations

Valuations in EM credit currently look attractive, both on an absolute basis and relative to other asset classes. Yields in the asset class have not been seen at these levels since the aftermath of the GFC, and this paints a positive picture for the returns outlook. In instances where the yield of the JP Morgan CEMBI has been above 5.5% (at the time of writing it is around 6.0%), returns over the subsequent 12 months have been over 10% almost half of the time.[1]

Past performance does not predict future returns; losses may be made.

4. Higher spread for lower leverage

On a relative basis, EM credit continues to offer a spread pickup compared to DMs, and while the pickup vs DM isn't as large as it has been, that structural premium still exists. This is despite the fact that on average EM companies operate with lower levels of leverage than their DM peers.

5. Technical tailwinds

Looking at market technical (supply/demand dynamics), we expect the tailwind of lower issuance rates to continue to support

[1] Calculations based on data between June 2009 and June 2024.

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the asset class. We have seen this dynamic play out this year, as although issuance has picked up in EM corporate markets, it is still subdued in comparison to DM and the US investment-grade market in particular which has continued to see high levels of supply.

Why Ninety One for EM Corporate Credit?

- Ninety One was founded in South Africa, an emerging market; we have been investing in emerging markets since our firm's inception. Our business, cultural values and investment capabilities have all been shaped by our EM heritage.
- We have managed dedicated EM corporate debt mandates for our clients since 2011. Our assets under management have grown to almost US$10 billion, making us one of the largest asset managers in this space globally.
- We offer investors a high-conviction, bottom-up strategy looking to generate alpha through benchmark-aware, fundamentally driven value investing. Informed by our top-down view, our portfolio is truly built from the bottom up. We believe that relative-value credit selection is a more consistent and repeatable source of alpha.
- Our EM Corporate Debt team is part of our broader Global EM debt team platform; it is supported by our sovereign regional and top-down specialists, who provide valuable insights when we are forming our macro forecasts – relevant for forecasting financial results. The team also benefits from the expertise and insights of Ninety One's global corporate debt trading team.

For further details on the investment process please see Important information section.

General risks: The value of investments, and any income generated from them, can fall as well as rise. Where charges are taken from capital, this may constrain future growth. Past performance is not a reliable indicator of future results. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations. Investment objectives and performance targets are subject to change and may not necessarily be achieved, losses may be made. Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments. **Specific risks:** Emerging market (inc. China): These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems.

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Investment Process

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