

Emerging market debt in a shifting world

Victoria Harling and Tomas Venezian





Target audience

Audience

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The value of investments, and any income generated from them, can fall as well as rise. Costs and charges will reduce the current and future value of investments.

Past performance does not predict future returns. Investment objectives may not necessarily be achieved; losses may be made.

Target returns are hypothetical returns and do not represent actual performance. Actual returns may differ significantly.

Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

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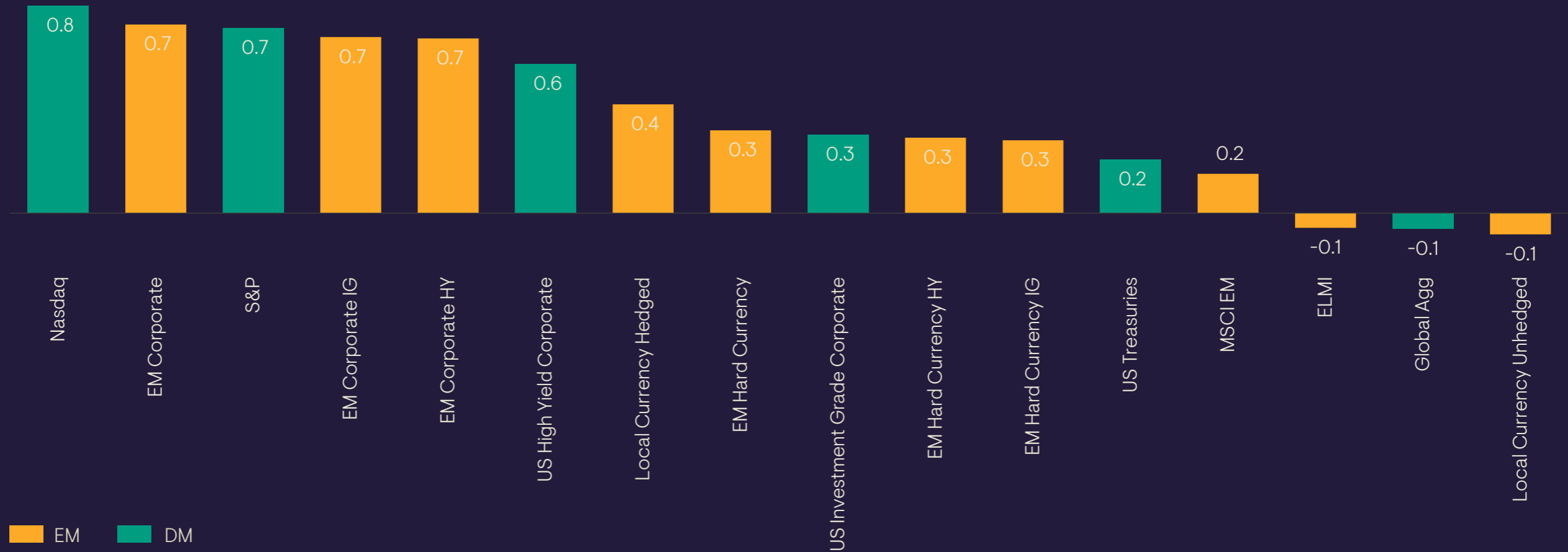
Victoria Harling





EM credit is an often overlooked and misunderstood asset class

10-year risk vs. return



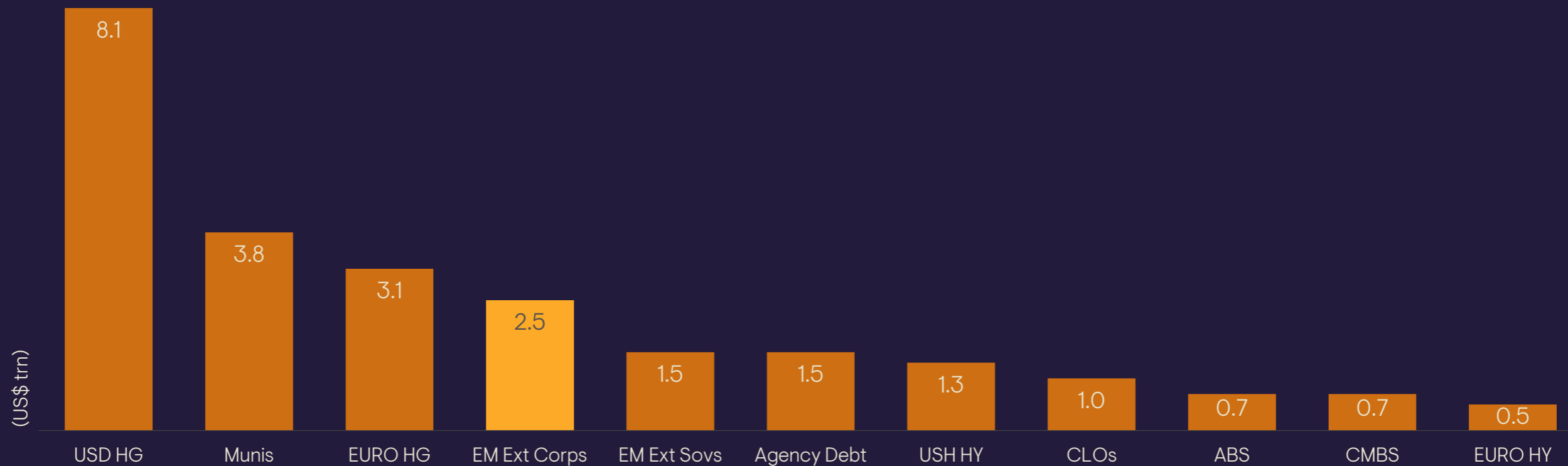
No assurance can be given that the Strategy will be successful or that investors will not lose some or all of their capital.

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

Source: JP Morgan, MSCI and Bloomberg. Compiled by Ninety One as at 30 June 2024.

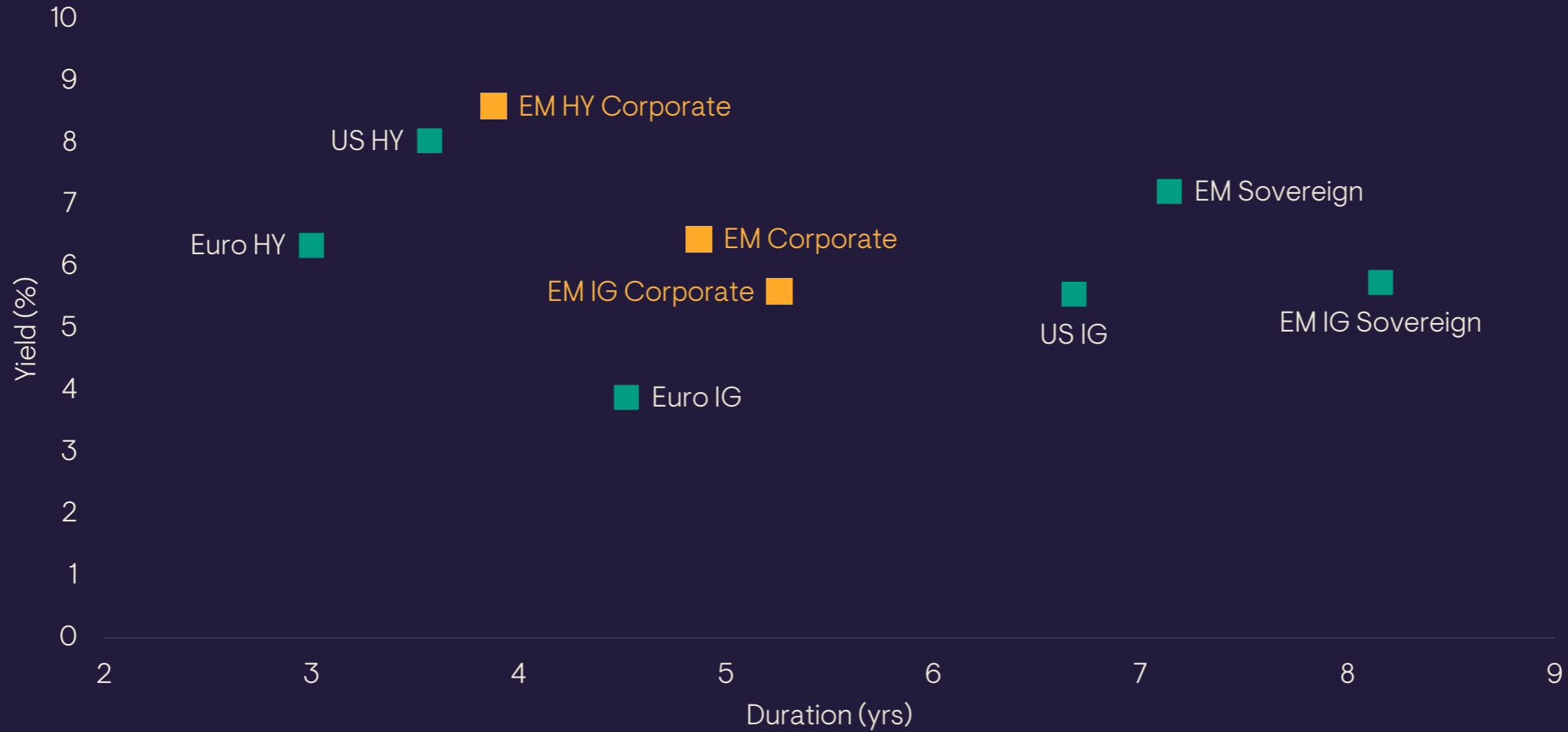
There is no reliable source of private investment data. Data is often sub-sets of data voluntarily reported by investment managers, which may skew the data.

The asset class has exhibited significant growth



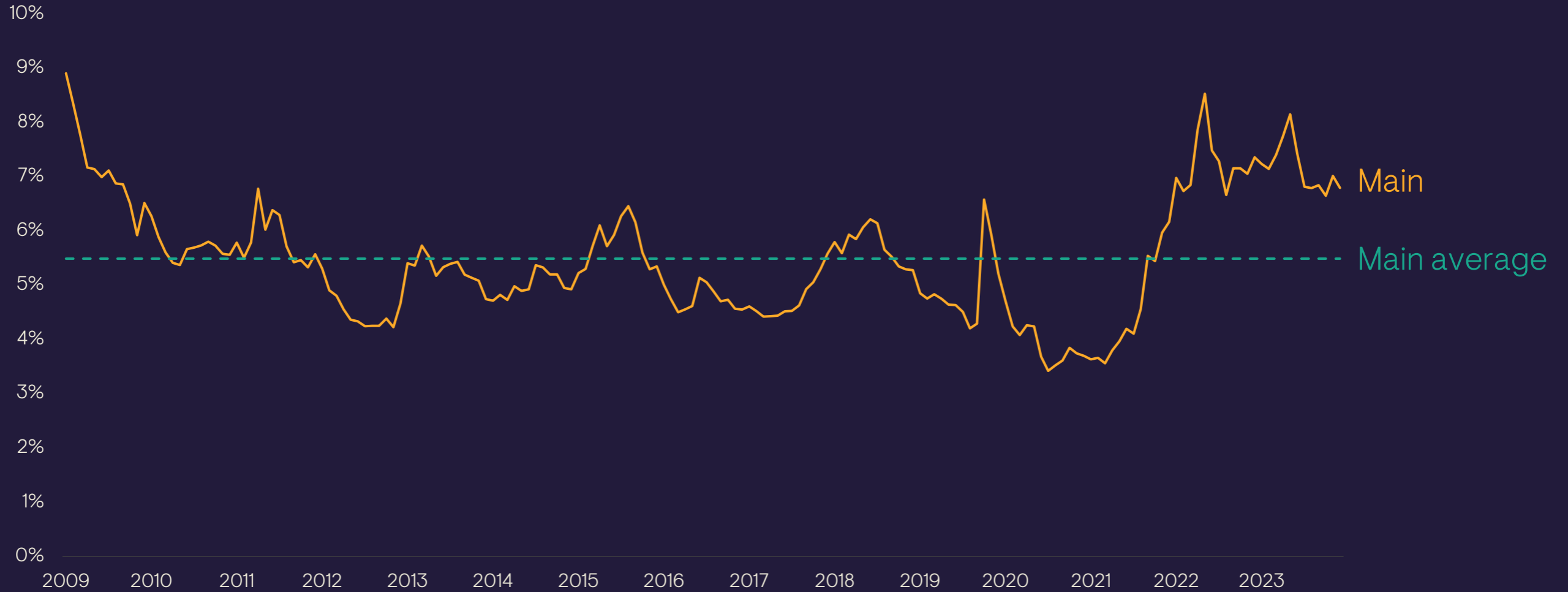


EM credit continues to look attractive relative to other FI assets





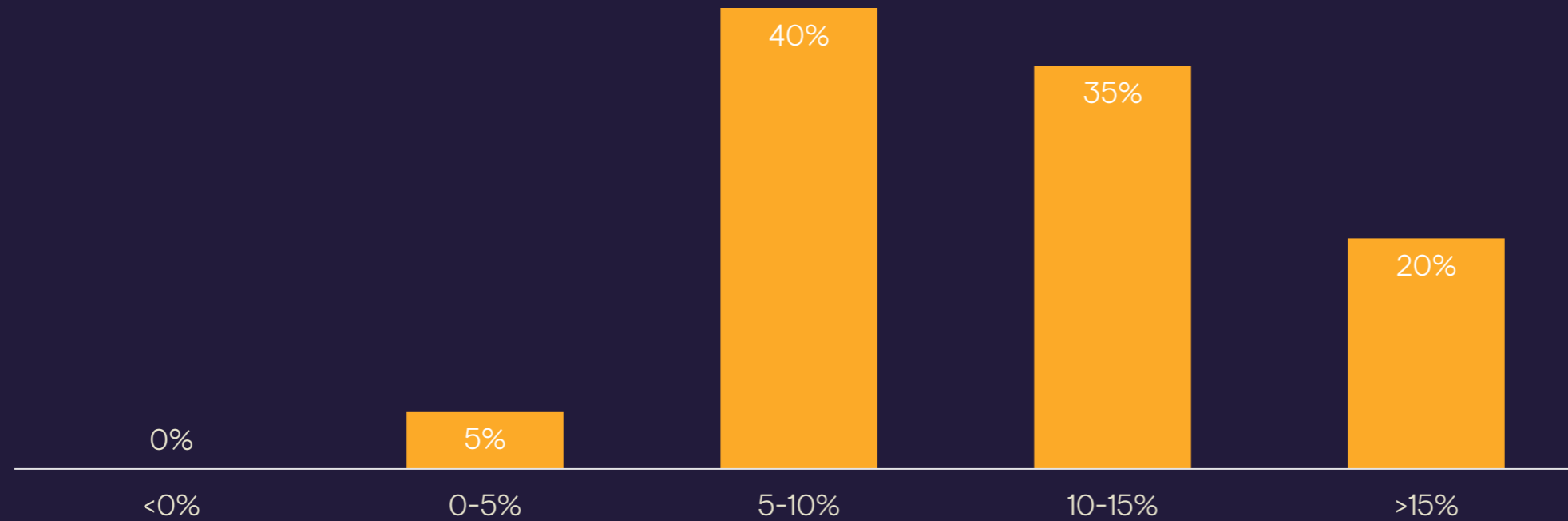
These yield levels have not been seen since the aftermath of the GFC





History paints a positive picture for forward-looking returns

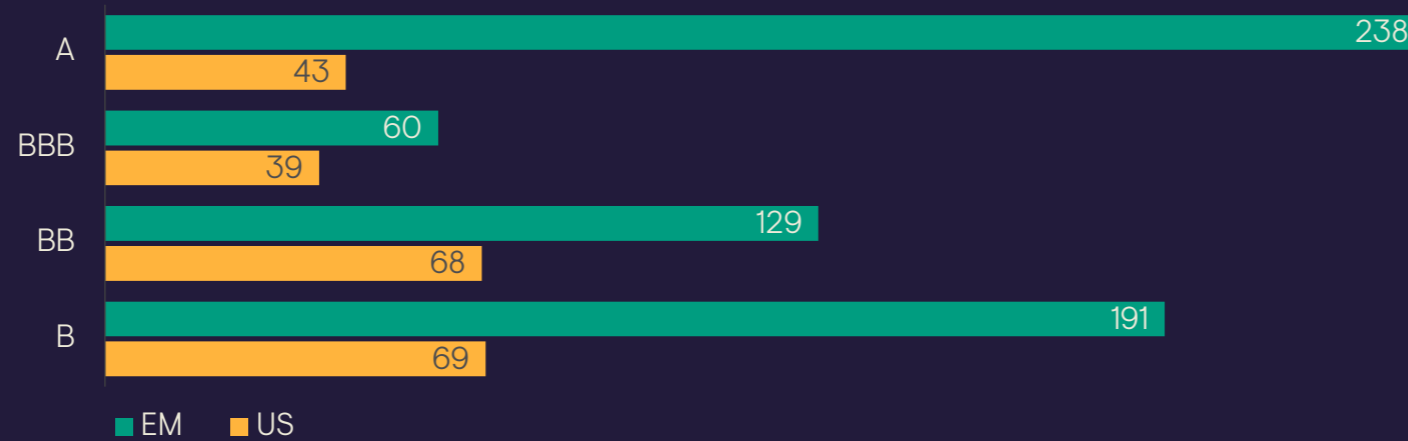
CEMBI 12m returns when yield >6%



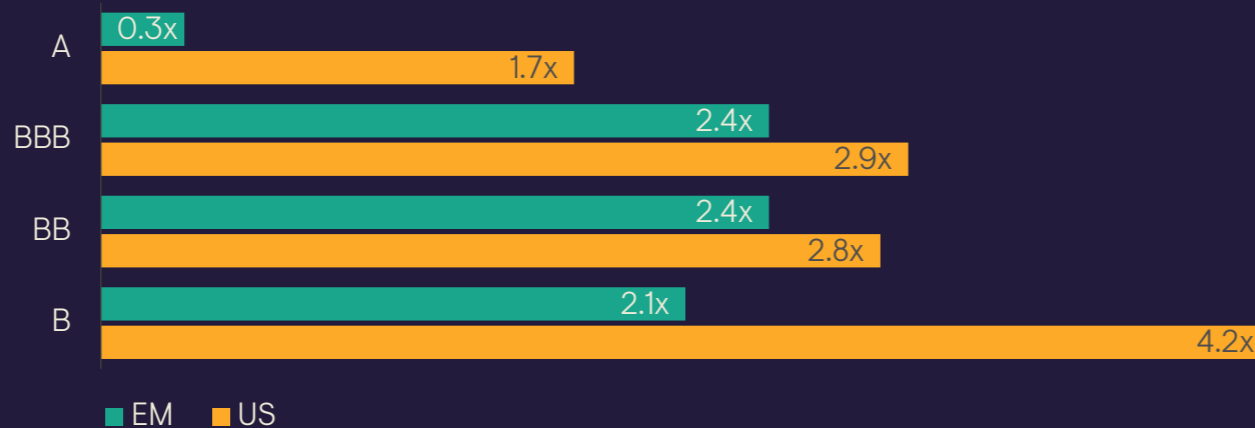


Risk-adjusted value looks attractive vs US credit

Spread per turn of Leverage (bp/x)



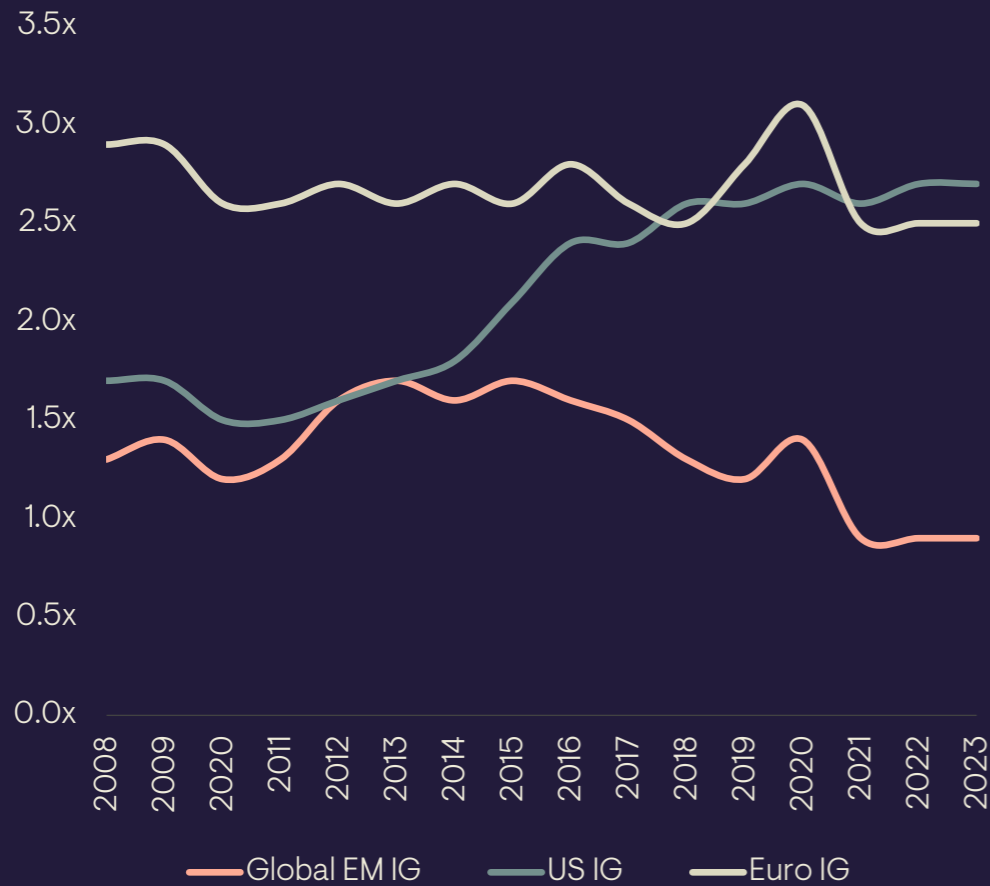
Net Leverage (Q2 2023)



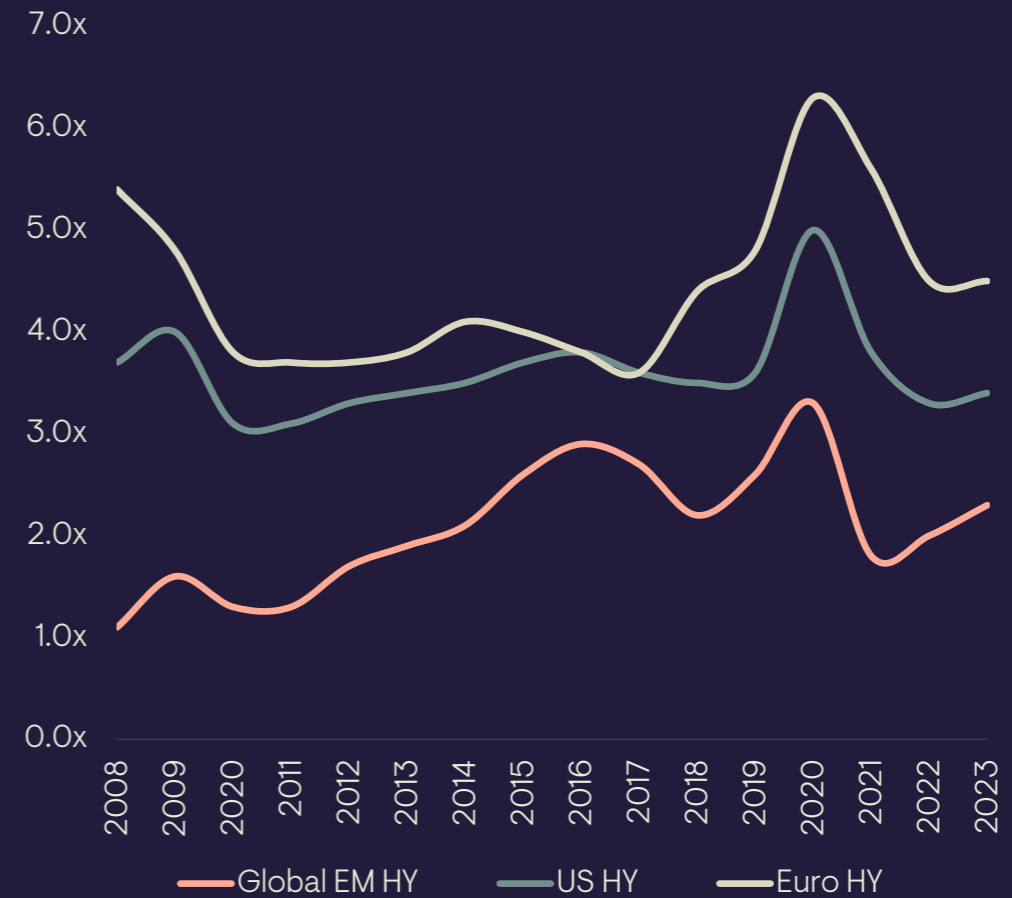


EM corporate leverage remains well below DM equivalents

EM vs. DM Investment Grade net leverage comparison



EM vs. DM High Yield net leverage comparison



Source for all: J.P. Morgan. Note: Excluding 100%-quasis, financials, real estate, and defaulted companies. 2022 and YTD additionally exclude Russian corporates. Numbers as at December 2023. For further information on indices, please see the important information section.



Spread pick up for EM credit across both IG and HY

CEMBI Investment Grade



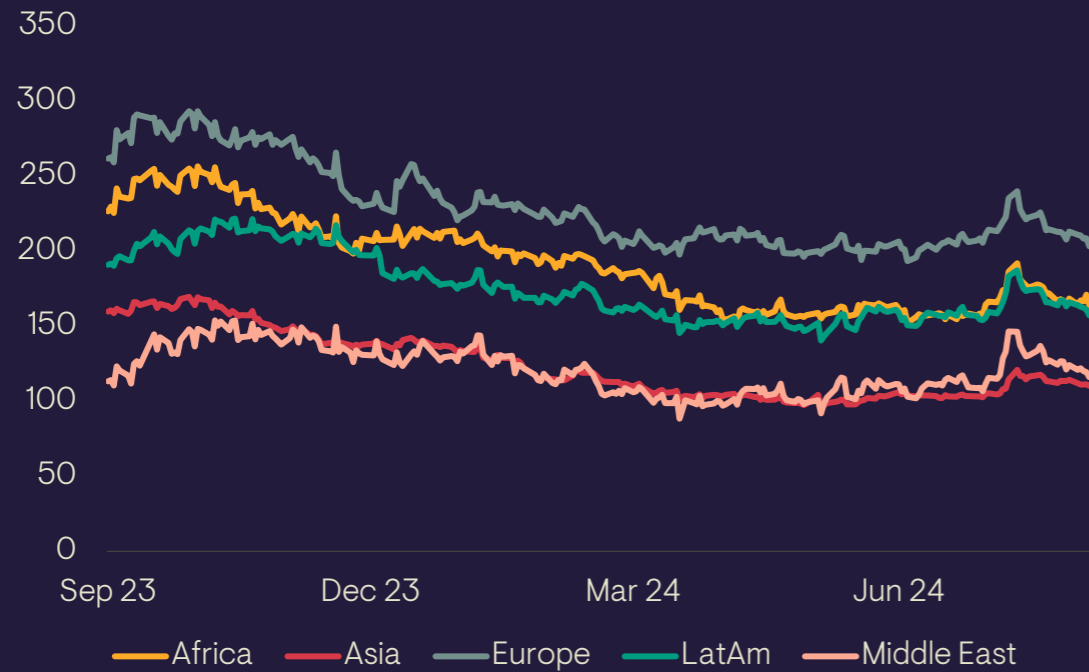
CEMBI High Yield





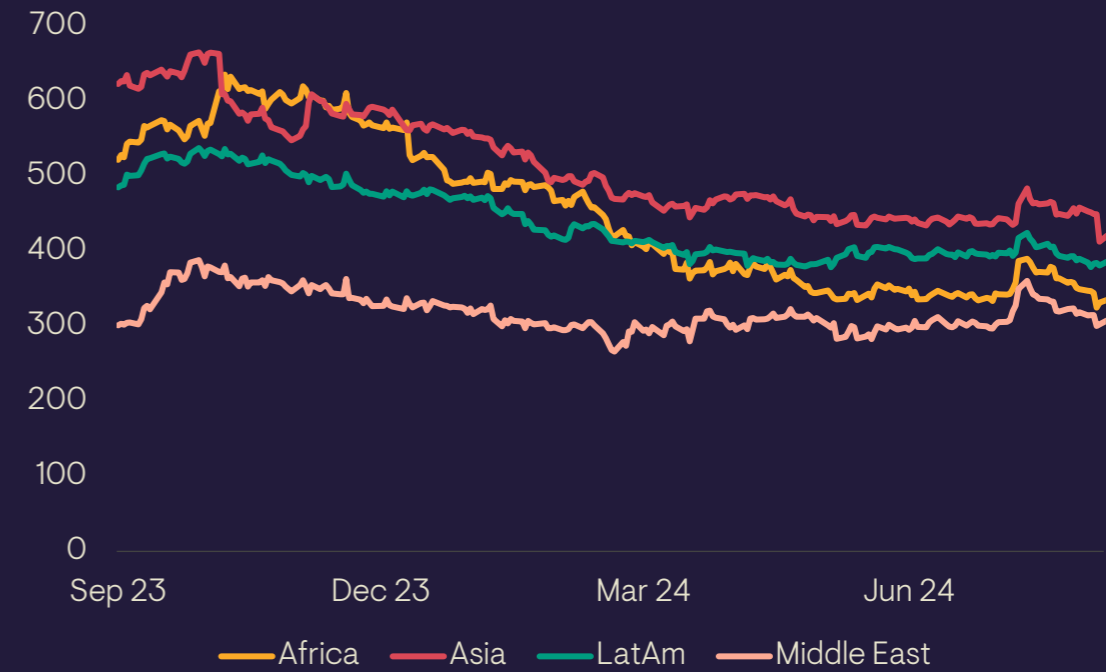
There is significant variation in spread and return across the EM credit universe

IG spread by region



	Africa IG	Asia IG	Europe IG	LatAm IG	Middle East IG
YTD total return	6.98%	5.12%	6.37%	6.23%	4.92%
Yield to Worst	5.62%	5.06%	6.15%	5.59%	5.12%

HY spread by region



	Africa HY	Asia HY	LatAm HY	Middle East HY
YTD total return	13.28%	10.78%	10.17%	5.60%
Yield to Worst	7.24%	8.05%	7.68%	6.90%

02

Tomas Venezian

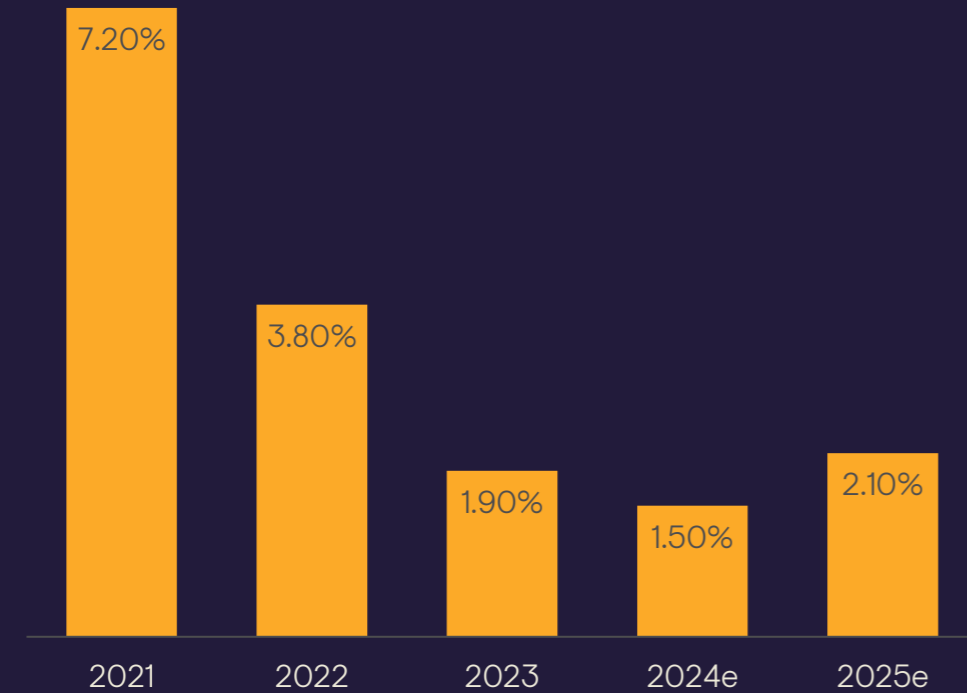




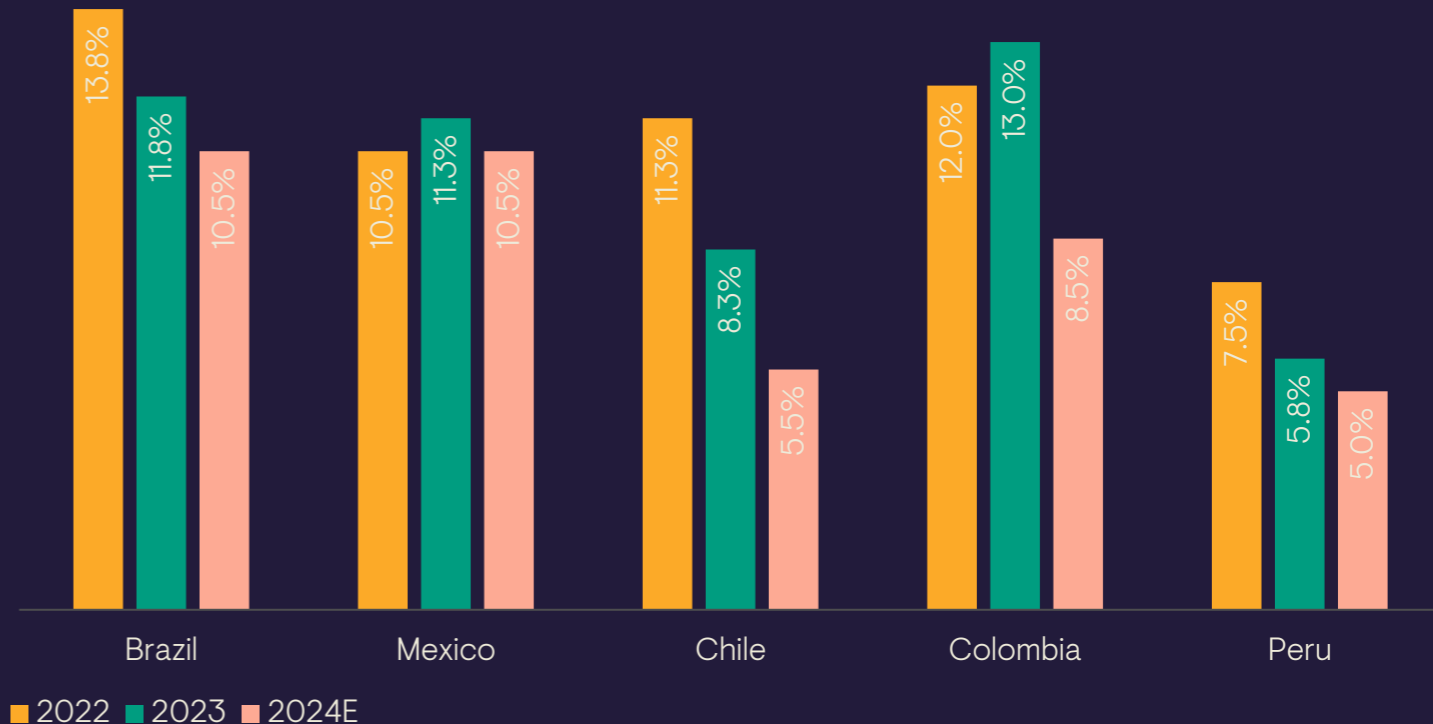
Latam macro expectations

- Latin America to modestly grow in 2024 while inflation should continue its downward trend
- With current hiking cycle over in the region, the easing cycle that already started should broaden in 2024

LatAm* growth to improve in 2025



... while Central Banks easing cycle should broaden in the region

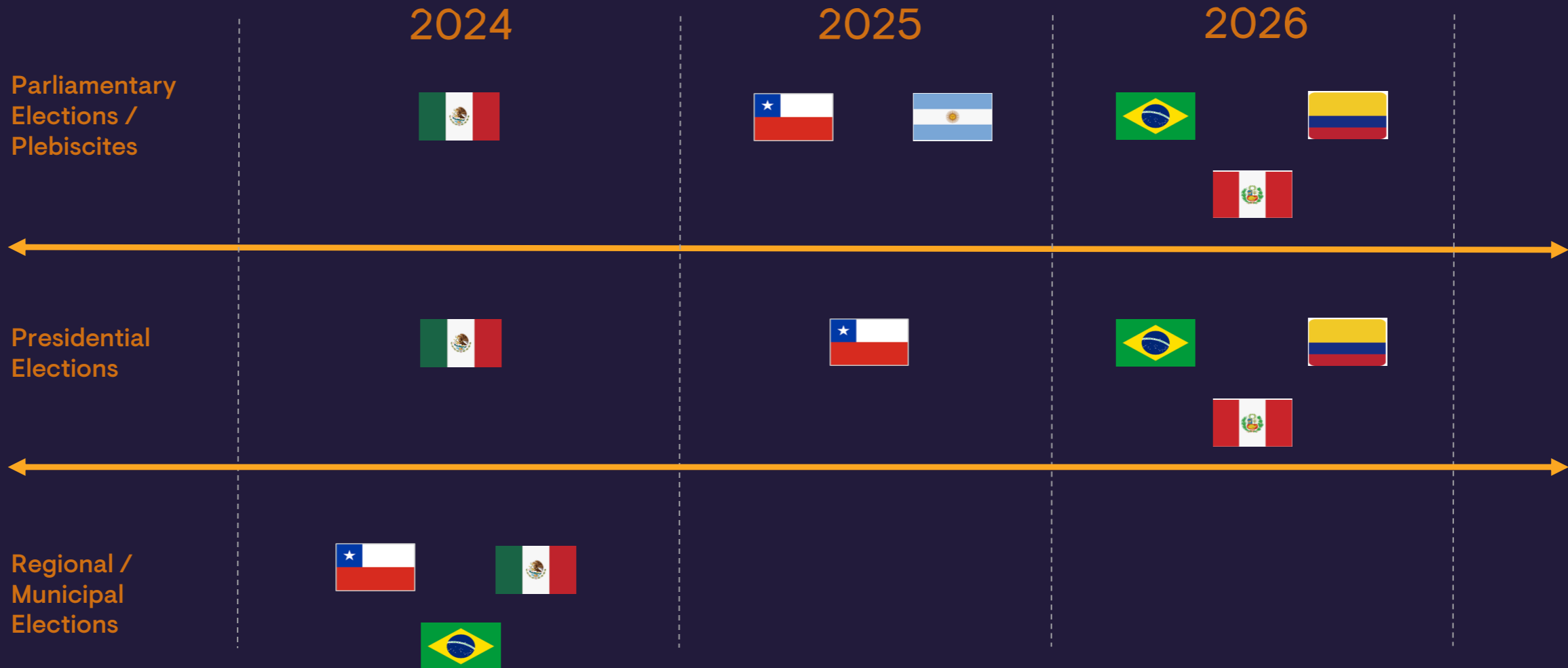


Source: JPM estimates. Data as at 30 August 2024.

*GDP Growth includes Brazil, Mexico, Chile, Colombia and Peru.

A tight election calendar

During the second half of 2024 and in 2025, the region will enjoy low political uncertainty.



LatAm is well prepared to navigate a more challenging scenario for EM

Structural and cyclical factors are favourable for the region

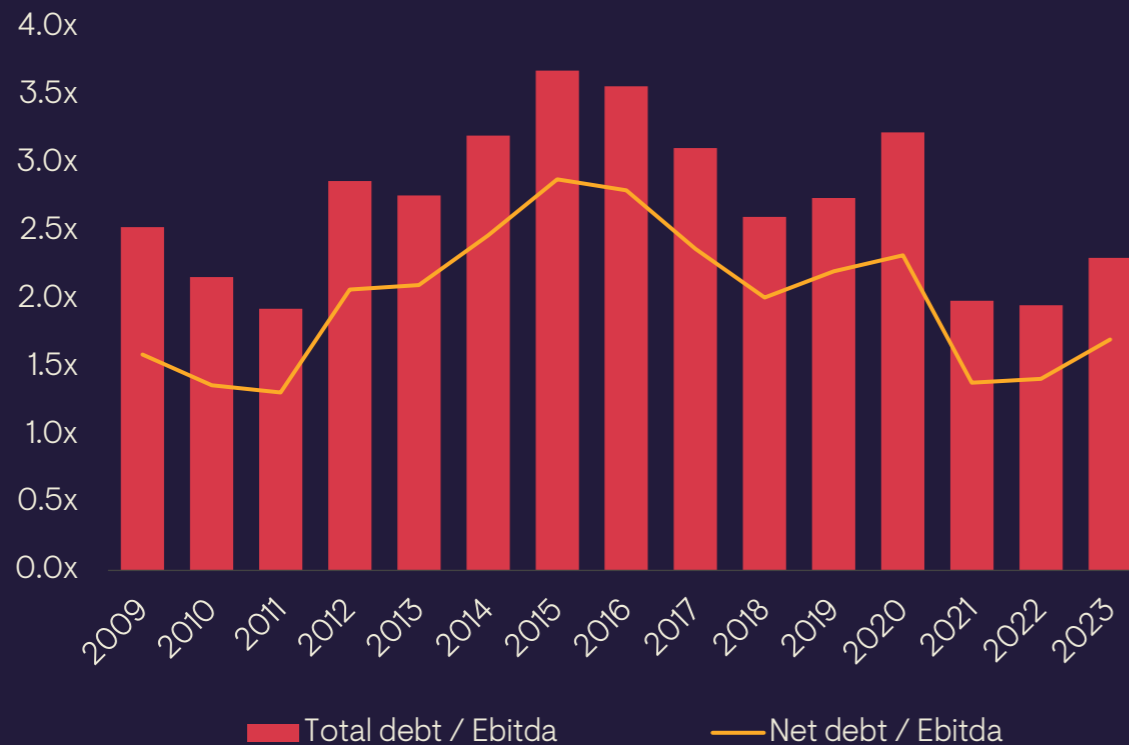




Credit selection remains key

- Corporate balance sheets are healthy, and we expect defaults rates to decrease in 2024
- LatAm credit fundamentals improving since 2015. Companies have been able to muddle through and adapt to a “new normal”

Leverage ratios peaked in Q2 2016**



Emerging Markets Default Rates (%)*

Region	2020	2021	2022	2023	2024 YTD	2024F
Asia	3.4	13.3	16.8	10.0	2.3	4.5
Emerging Europe	3.3	0.0	31.4	20.8	0.0	2.0
Latin America	4.4	2.5	3.7	5.4	2.4	4.6
M.E. and Africa	2.1	0.0	0.6	0.0	0.6	0.6
Global EM Corp HY	3.5	7.1	14.1	8.7	1.8	3.6

Forecasts are inherently limited and are not a reliable indicator of future results.

*Source: JP Morgan. Data as of 08 July 2024. Default rates are par weighted and exclude 100%-quasi-sovereigns

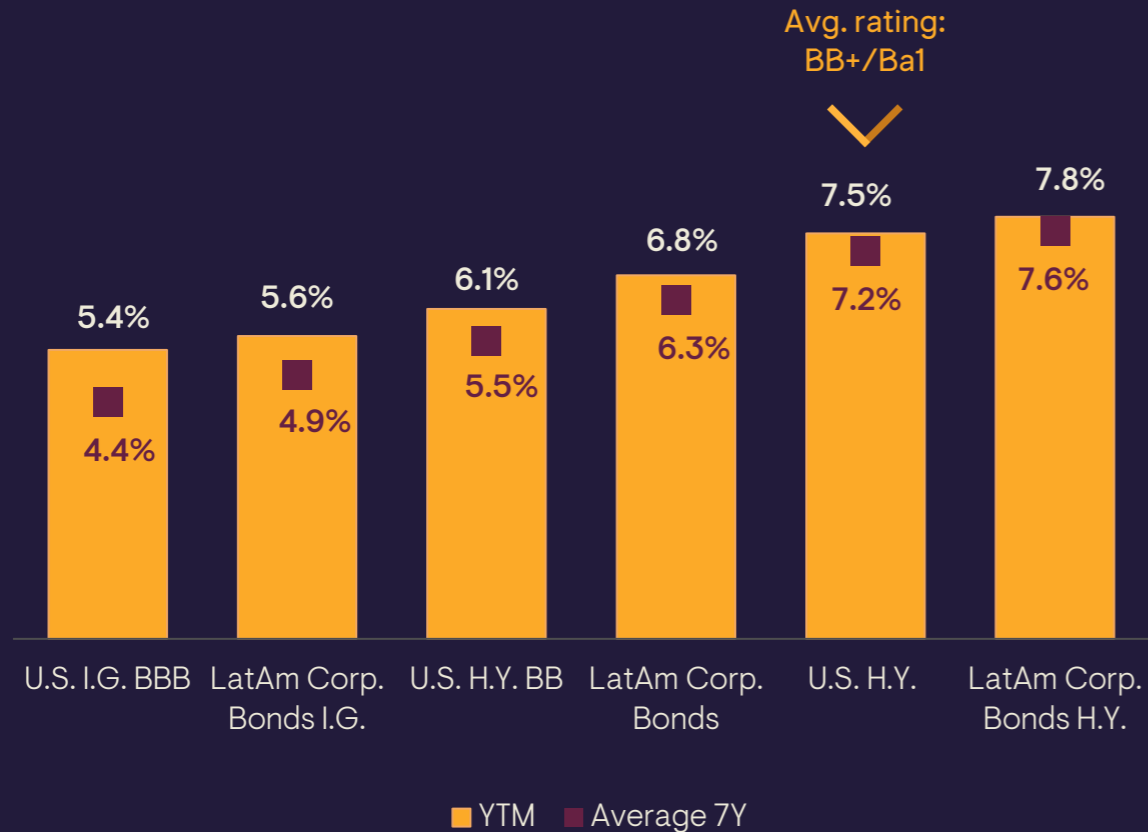
**Source: JP Morgan estimates. Data as of 31 December 2023.

Still finding relative value in LatAm corporates

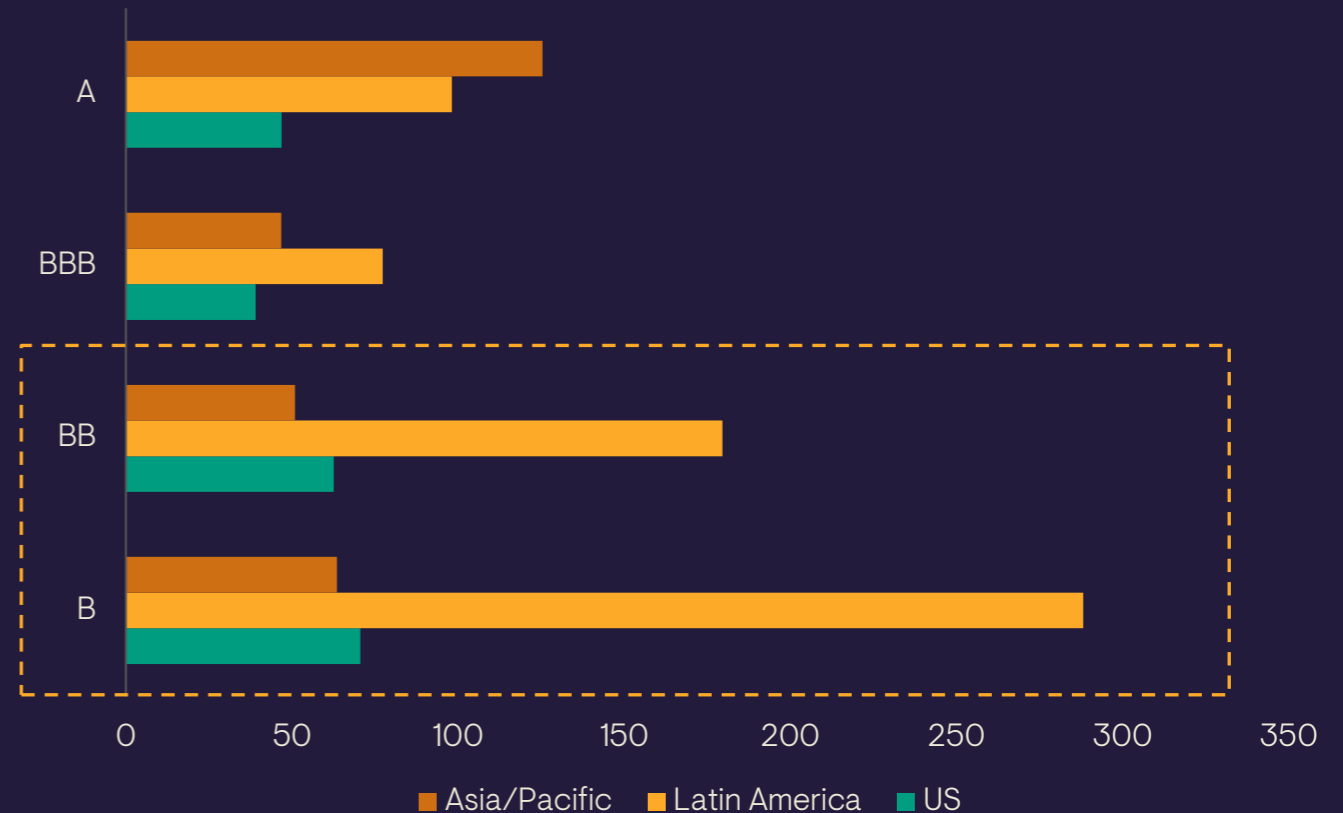
Latin American corporate bonds offer:

- Attractive yields relative to many other fixed income alternatives
- Higher spreads per unit of leverage than U.S. corporates for the HY ratings especially

Corporate bond index yields (YTM)*



Spread per turn of leverage (bps/x)**



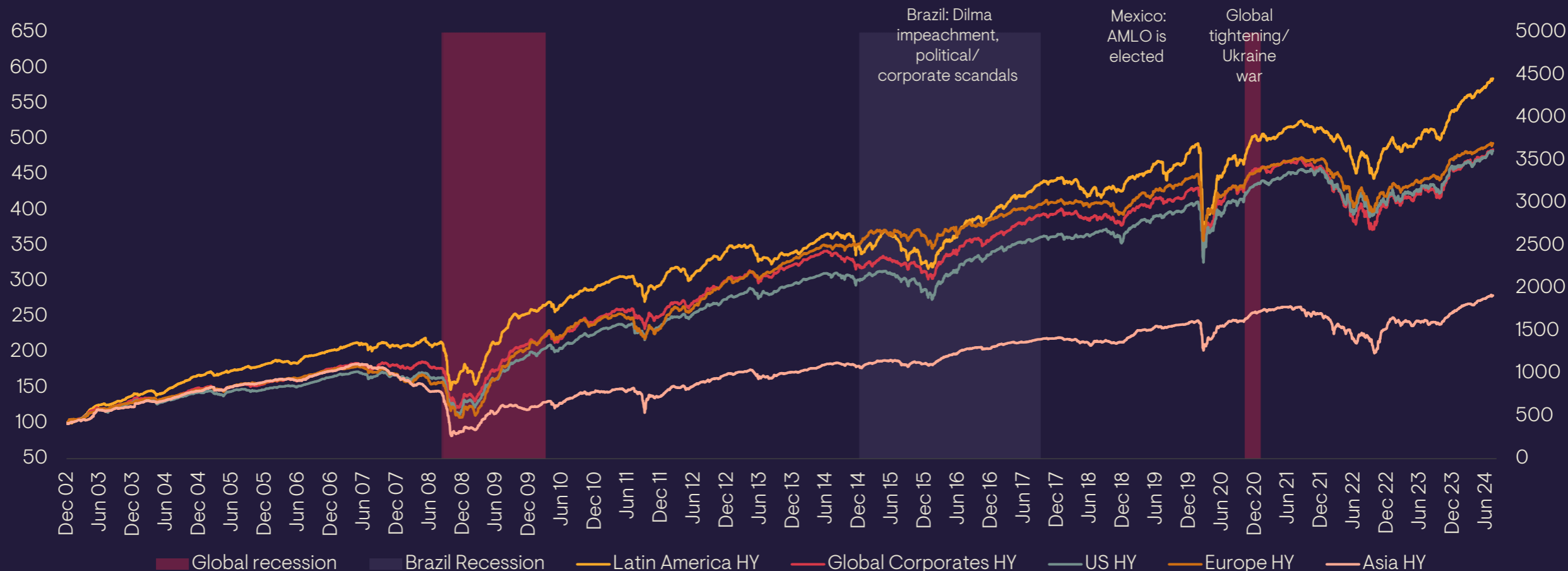
*Source: JP Morgan Index. 30 August 2024.

**Source: Bank of America Merrill Lynch leverage estimates, 4Q23; spread data as at 31 July 2024.



LatAm Credit: resilience, consistent growth and outperformance

Cumulative Performance Base 100 = 31 December 2002



Past performance is not a reliable indicator of future results, losses may be made

Source: Compass & Bloomberg, data as of 12 August 2024. Base 100 starts on 31 December 2002. Past performance is not indicative of future results because of, among other things, possible differences in market conditions, investment strategy and regulatory climate. There can be no assurance that the Strategy will be successful or that your investment objectives will be achieved. The index information is included to show general market trends in the periods indicated and is not intended to imply that portfolios employing the Strategy were similar to the indices either in composition or element of risk. *One year correlation on daily returns.

**Pseudo Ration, 3 years annualized. Data as of 12 August 2024. The indices refers to CEMBI Broad Diversified Latin American Index, Bloomberg Global High Yield Total Return Index, Bloomberg US Corporates High Yield Total Return Index, Bloomberg Pan-European High Yield Total Return Index y CEMBI Diversified High Yield Asia Index respectively.



LatAm Credit: resilience, consistent growth and outperformance

	Correlation (Latin America HY)*	3 year Std dev	Sharpe ratio**
Asia HY	0.57	6.46%	0.35
Global Corporates HY	0.8	5.91%	0.2
US HY	0.77	5.40%	0.42
Europe HY	0.59	3.82%	0.32
LatAm HY	1	3.60%	1.16

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03

Rest of EM vs. LatAm





The pickup in primary market activity has been driven by Asia and CEEMEA

YTD gross issuance (\$bn)

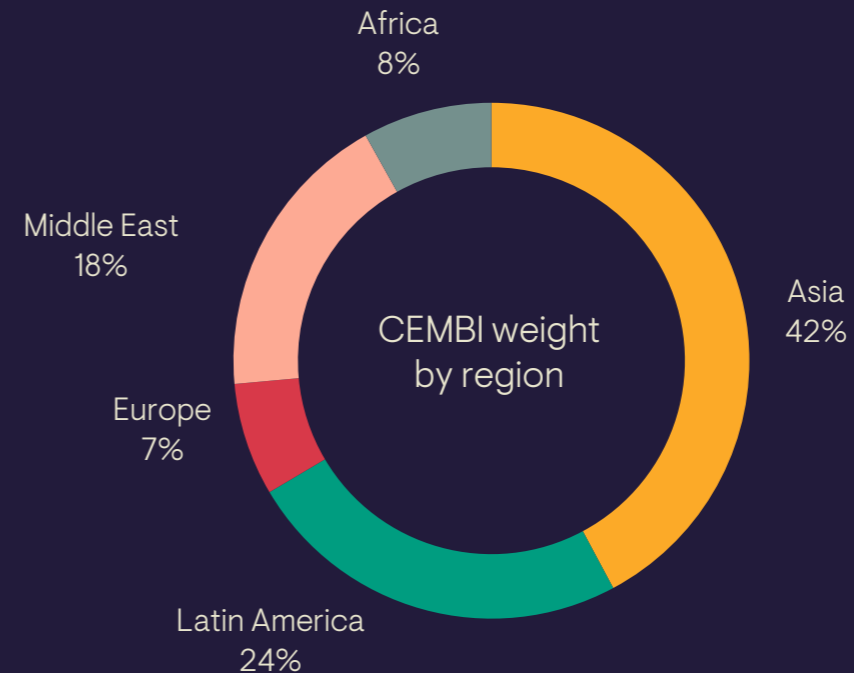
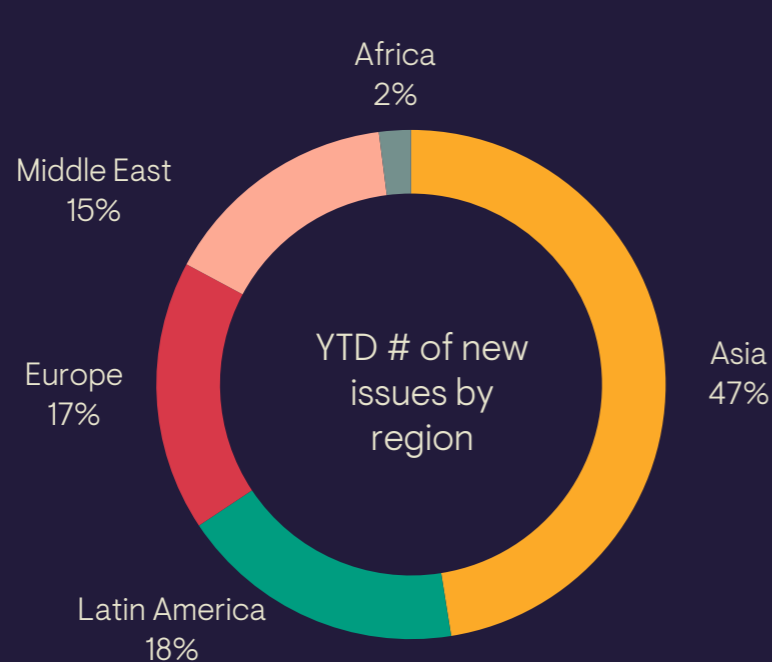
TOTAL	Asia	EMEA	LatAm
258	118	99	42

EM corporate debt debut issuers (2020-2024)

TOTAL		Asia		EMEA		LatAm	
IG	HY	IG	HY	IG	HY	IG	HY
184	320	127	206	31	59	26	51

Performance after issuance

	T+5 days	T+25 days
LatAm	+0.88%	+2.57%
Middle East	+0.25%	+1.52%
Africa	+0.36%	+3.20%
Asia	+0.22%	+0.82%
Europe	+0.47%	+1.23%



Company example: CAMPOSOL



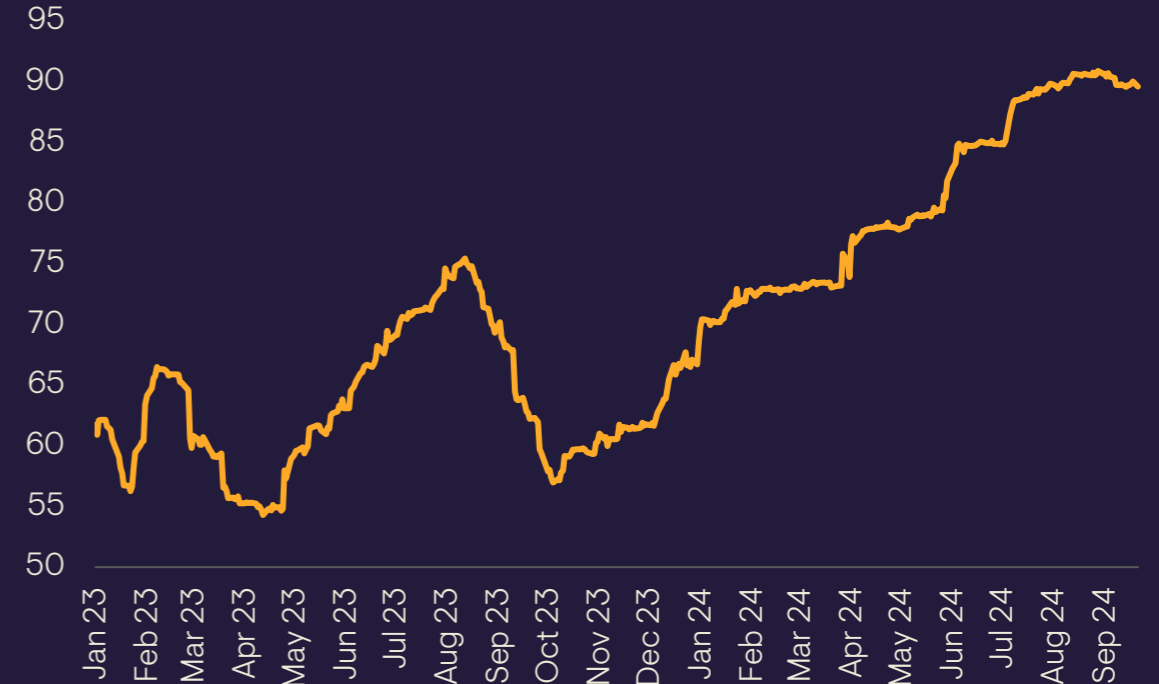
- Agricultural exporter with operations in Peru, Colombia and Uruguay. Main crops being blueberries and avocados
- Camposol has over 20,000ha with half of them already planted and average yields above global competitors
- Owned by the Dyer family, one of the wealthiest in Peru with presence in the fishing sector too



Financials

Camposol (USD mm)	2021	2022	2023	LTM 2Q24	2024e
Revenues	386	465	464	493	532
EBITDA	102	65	109	138	136
EBITDA margin	26.4%	14.0%	23.6%	27.9%	25.6%
Net Debt/EBITDA	4.0x	8.9x	5.0x	4.0x	3.8x
Interest Coverage	3.6x	1.9x	2.5x	3.8x	4.8x

Bond price





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