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PRESS RELEASE

EM corporate bonds: MainFirst expects solid returns over the next years and perceives interesting buying opportunities

- **Fundamentals remain positive**
- **The valuations of many emerging market corporate bonds are currently very attractive**
- **Their risk-return profile is at the level of US or EUR bonds**
- **Emerging markets offer high diversification and solid growth rates**

Frankfurt am Main, 13 December 2018. Emerging market corporate bonds should deliver solid returns in the coming years. Thomas Rutz, an Emerging Market expert at the independent financial services provider MainFirst, is convinced of this. "The fundamentals of EM companies remain strong and they have more room for manoeuvre than companies in developed countries," says Rutz. In his view, many emerging market corporate bonds are currently very attractive. Bonds in the JP Morgan Corporate Emerging Market Bond Index (CEMBI), for example, have an identical risk-reward profile to US and EUR High Yields. In addition, many EM companies still have upside potential, as they are considerably less levered. Moreover, in contrast to industrialized countries, emerging markets are still early cycle or at most in the middle of the cycle and there is, therefore, still a lot of potential.

Points in favour of Emerging Markets

In retrospect, emerging market assets have generated significantly better risk-adjusted returns than comparable investments in developed markets. For example, CEMBI High Yields achieved equity-like returns while their volatility was only one-third as high. A comparable portfolio without emerging market positions performed weaker than one with EM positions. According to Thomas Rutz, the fund manager of the MainFirst Emerging Markets Corporate Bond Fund Balanced and the MainFirst Emerging Markets Credit Opportunities Fund, this trend will continue in the coming years. The EM and frontier markets are very heterogeneous, and although some of the CEMBI zero volatility spreads have widened in recent months, the majority of emerging markets have proved quite resilient. Many of them now offer attractive entry opportunities, and the high yield market has not been as cheap as it is now since December 2016. In addition, EM default rates have fallen significantly from their November 2016 peak - "a sign that we are entering a new credit cycle," says Rutz. The balance sheets of many companies are improving. The global growth trend supports corporate earnings growth and leads to higher cash holdings and lower debt. In addition, commodity markets are balanced, which is why Rutz expects the commodity cycle to continue and emerging markets to be buoyed by this.

The impact of the US dollar is limited

Rutz considers the impact of the US dollar on investments in emerging market corporate bonds to be limited. The development of the US currency remains an important factor for the performance of investments in emerging markets. "However, many EM companies hedge their currency risks or even receive cash flows in US dollar, so that the strength of the currency has only a limited impact on the balance sheets of such companies in emerging markets and can even have a positive effect," says

Rutz. Emerging market currencies, however, have lost an average of around 14 percent in value since the beginning of the year and are currently at the level of the beginning of 2016. In view of the positive fundamental data and the broader real interest rates in emerging markets compared to developed markets, Rutz expects the level to rise again and that the US dollar will not strengthen further.

Emerging markets constitute the most diversified bond markets today

More than 150 individual markets are already included in the four most important EM benchmark indices for fixed-interest securities, and there is still a great deal of upward potential. In comparison, there are a maximum of 144 individual markets in the developed countries. In other words, Emerging Markets are already the most diverse fixed income asset class in the world. "Diversification will continue to increase in the future. And the growth potential is also much faster than in developed countries. With the necessary expert knowledge, investors can find attractive investment opportunities here," says Rutz.

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About MainFirst Asset Management

MAINFIRST ASSET MANAGEMENT is an independent European multi-investment boutique with an active management approach. The firm manages mutual funds and individual special mandates. With its multi-boutique approach it focuses on investment strategies in the selected asset classes equities, fixed income, multi-asset and liquid alternatives. Experienced portfolio management teams with long-standing track records develop strategies with a high active share and individual investment processes. The firm thus combines the expertise and flexibility of focused investment teams with the strengths and clearly defined processes of a broad-based international platform.

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