



# Eurizon SLJ Local Emerging Market Debt

May 2022

# EURIZON : Leadership and Tradition



- **EUR 586 bn** Asset Under Management
- **EUR 105 bn** in ESG and Sustainable Funds
- **10 Management centers** globally (Milan, London, Luxembourg, Bratislava, Hong Kong, Shenzhen ...)
- **772** Employees with more than **250** Investment Professionals and **50** Risk Managers
- **172 Funds** – SFDR Article 8 and 9
- **26 Years** commitment in integrating ethical and sustainability factors

# Eurizon SLJ Emerging Local Market Debt

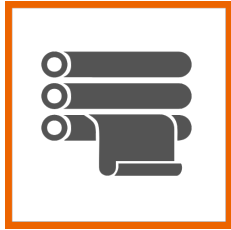
## Why Local Currency Emerging Market Debt?

Why now?

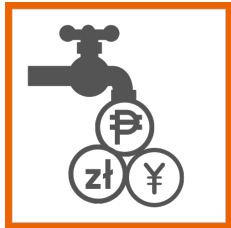
Why us?

# Local Currency Emerging Market Debt

A more stable ship than the traditional hard currency market.



**The local printing press.** Unlike hard currency, where the availability of funds depends on the countries' balance of payments, an EM can never face a scarcity of their own local currency – which is issued/printed by their respective central banks. In fact, throughout the Covid crisis (and even before, in a few cases), we have seen central banks of some EM outright purchasing local sovereign debt – in quantitative easing programmes resembling the ones in DM. Indonesia is the most notable case.



**Tapping domestic savings.** Over recent decades, certain EM countries have shifted their funding sources into their own local markets – cutting their reliance on foreign flows to fund their public deficit. Of course, not all EM have financial markets that are developed enough to boast a large pool of savings in local currencies. But the ones that have sufficiently large domestic financial markets are able to channel household savings into their local-currency bond and equity markets through local asset managers, pension funds and insurance companies.



**The ability to manage their own funding costs.** This creates a far more stable and manageable source of funding for the sovereign; and far more reliable returns for local investors' savings, immune to foreign currency risks. Indeed, there is certainly a symbiotic relationship between the emergence of such institutional investors and expansion of local bond markets and the development of local currency yield curves.

Our outlook for the remainder of the year is that, notwithstanding stormy seas, EM local bonds will continue to stride the waves with full sails.

# Eurizon SLJ Emerging Local Market Debt

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# Stormy seas, but full sails in 2022

Carry trumps gloom

**Despite hostile geopolitics, a slowing China, inflation and a fast-moving Fed...**

**(1) Global recovery**

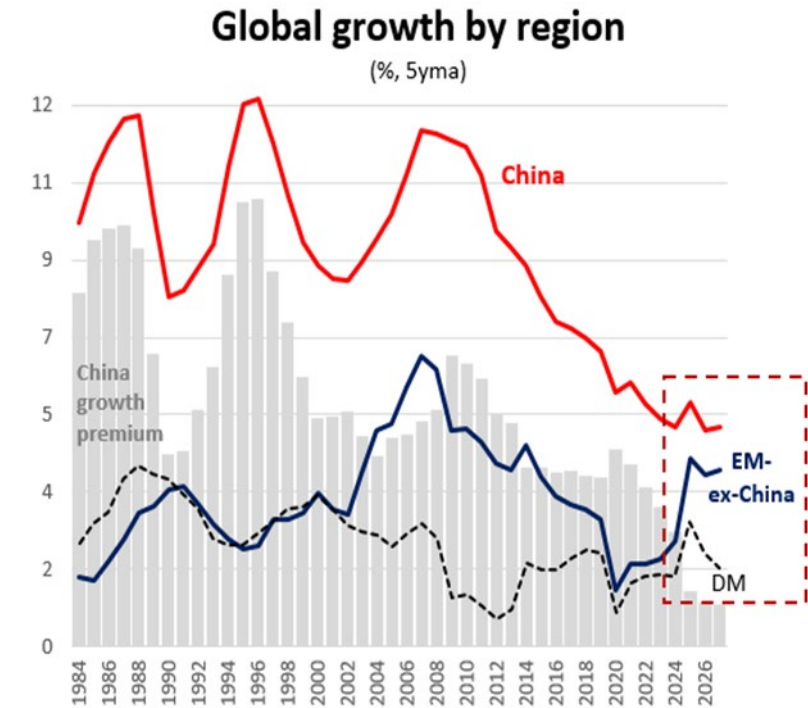
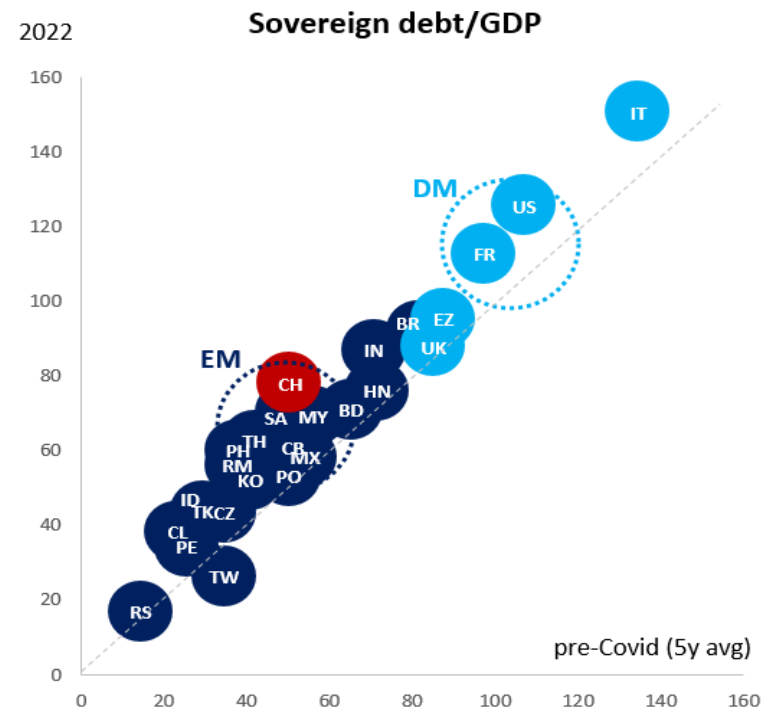
**(2) Terms of trade**

**(3) Real carry**

**(4) Positioning**

# The beginning of the post-Covid world

Despite geopolitical tensions, macroeconomic backdrop is solid



- Covid has not altered the fundamentals across EM. Debt levels have risen globally, not just in EM, but also in DM.

- At the same time, while China continues to slow and DM maintains reverts to its long term growth trends, EM ex-China is set to stand out.

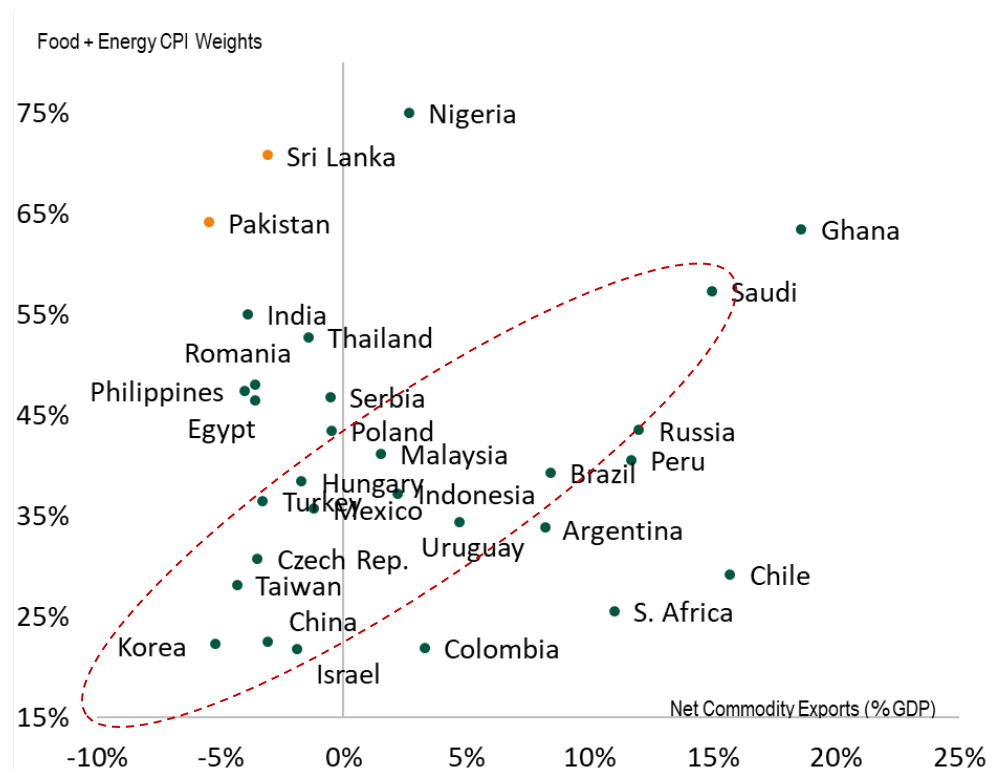
Source: IMF and Eurizon SLJ Capital

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# The terms-of-trade tailwind for EM

Selection is key

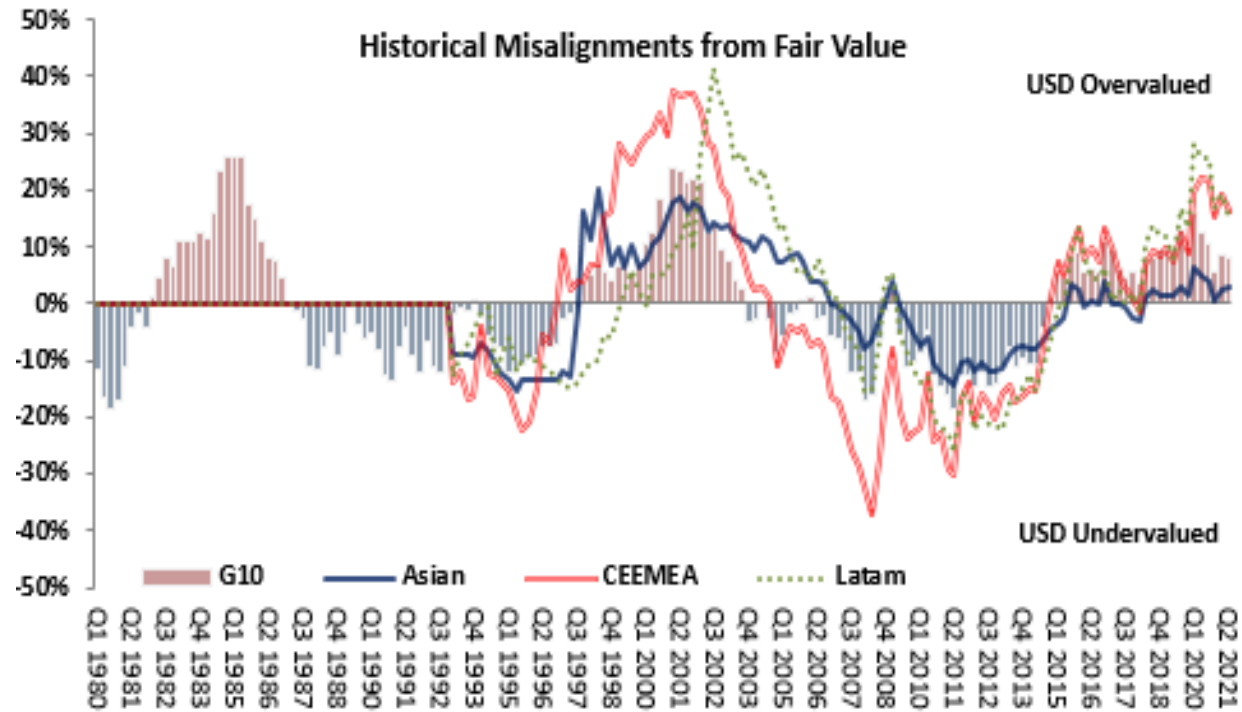
- Outside of frontier markets, the core EM facing the most pressure on inflation via commodities are also the biggest commodity exporters
- EM trade balances, fiscal balances, currencies and bonds have benefitted, unequally



Source: J.P. Morgan Research - Eurizon SLJ Capital

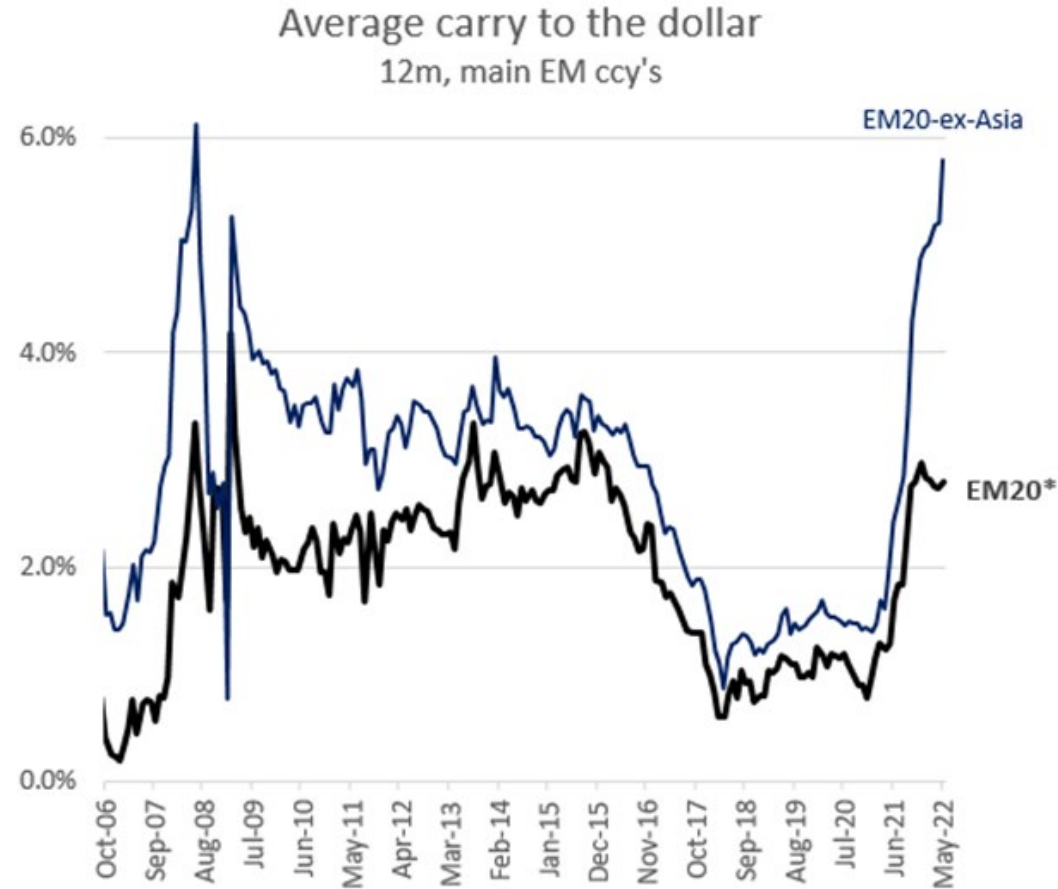
# Valuation

EM currencies are significantly undervalued against the USD ...



- ... especially in LATAM and CEE

# Carry is high in most EM



- High carry relative to global peers and to historical trends, even excluding the heightened risks in Russia and Turkey.

\*Equally weighted averages, top 20 EM excluding Turkey and Russia

Sources: Bloomberg and Eurizon SLJ Capital

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# EM is well prepared for the Fed

With some better prepared than others

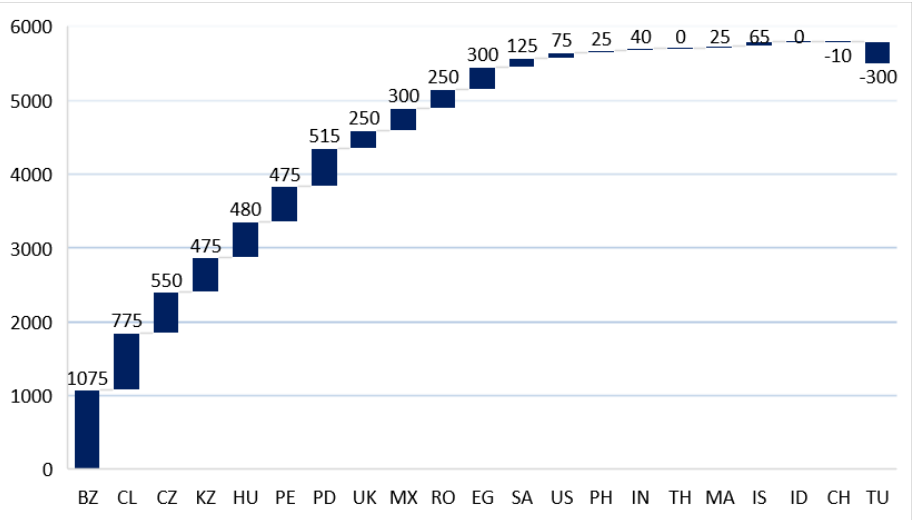
- EM moved well ahead of the Fed

'The Fed is asleep at the wheel' (Paulo Guedes, Brazil Finance Minister, Feb 2022)

- Carry is back, and it is big:  
Relative to peers, relative to history...

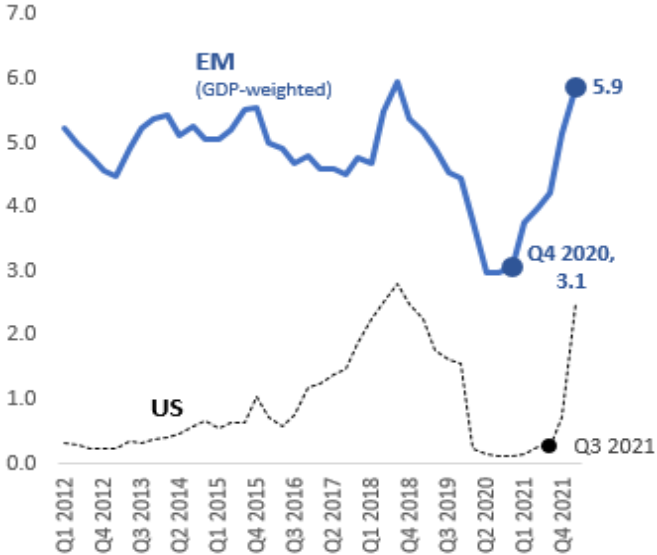
- ...and even relative to inflation

Rate hikes across EM

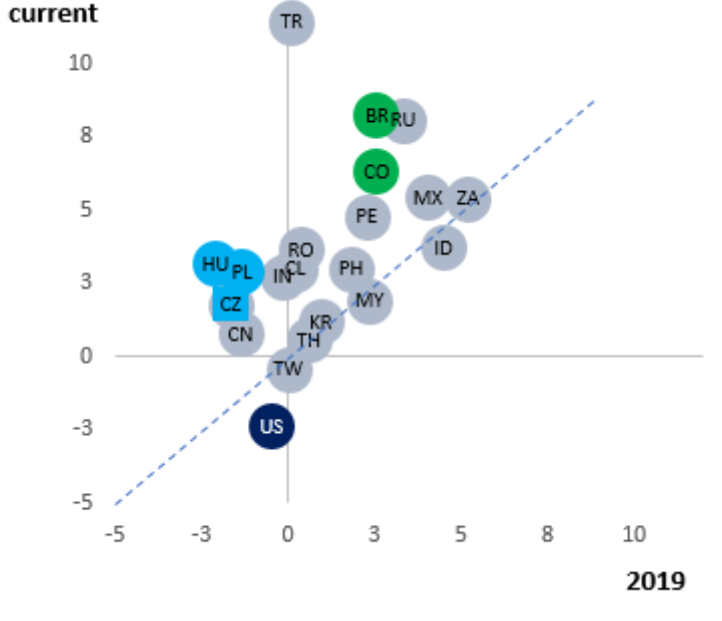


Source: Bloomberg, Datastream, IMF and Eurizon SLJ

2-year nominal yield



10-year real yields



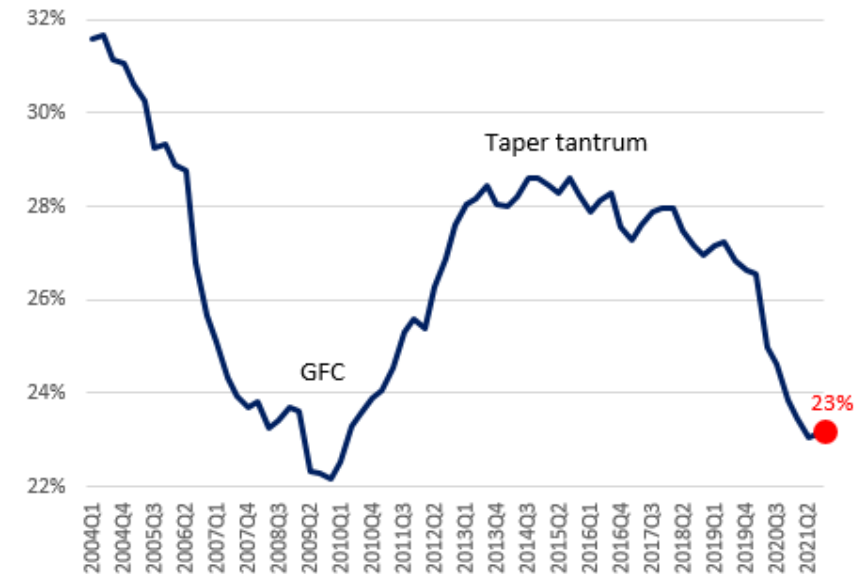
# The world is underweight EM

“A bent stick will never be straight” - Brazilian proverb



- Following the violent selloff market participants are already in a broadly neutral stance when it comes to local bonds or EMFX.

Foreign ownership of EM debt  
(share of total local currency debt, GDP weighted,  
16 top EM excluding China)



- Taper tantrum and years of strong DM asset performance have led to a structural underweight weight position by locals and foreigners

# Eurizon SLJ Emerging Local Market Debt

Why Local Currency Emerging Market Debt?

Why now?

**Why us?**

# Our teams

Cutting-edge research; local expertise; global perspectives

**Monica Y Wang, PhD**

汪阳正璇,

**Senior Portfolio Manager**

Research & Trading

11 years

**Wenting Deng, MSc, FRM**

邓文婷

**Assistant Portfolio Manager**

Research & Trading

3 years

**Zoe Shen, MSc**

沈钰杭

**Assistant Portfolio Manager**

Research & Trading

1 year

**Yuyao Zhang, MSc**

张雨峤

**Assistant Portfolio Manager**

Research & Trading

1 year

**Full Time Onshore Consultants**



12 years

11 years

## China Strategies

**CEO & FOUNDER**

**Stephen L Jen, PhD**

任永力

**London, UK**

Global macro, FX and FI  
Management

30 Years

## Emerging Markets

**CO-CIO & FOUNDER**

**Fatih Yilmaz, PhD**

London, UK

Global macro, FX and FI  
Management

25 Years

**Yasmine Ravai**

**Senior Portfolio Manager**

Emerging Market Debt  
and FX, FI Management  
Since 1992

**Alan Wilson**

**Portfolio Manager**

Emerging Market Debt  
and FX, FI Management  
Since 2009

**Neil Staines**

**Senior Portfolio Manager**

Global macro, FX, EM and  
FI Management  
Since 1998

**Joana Freire**

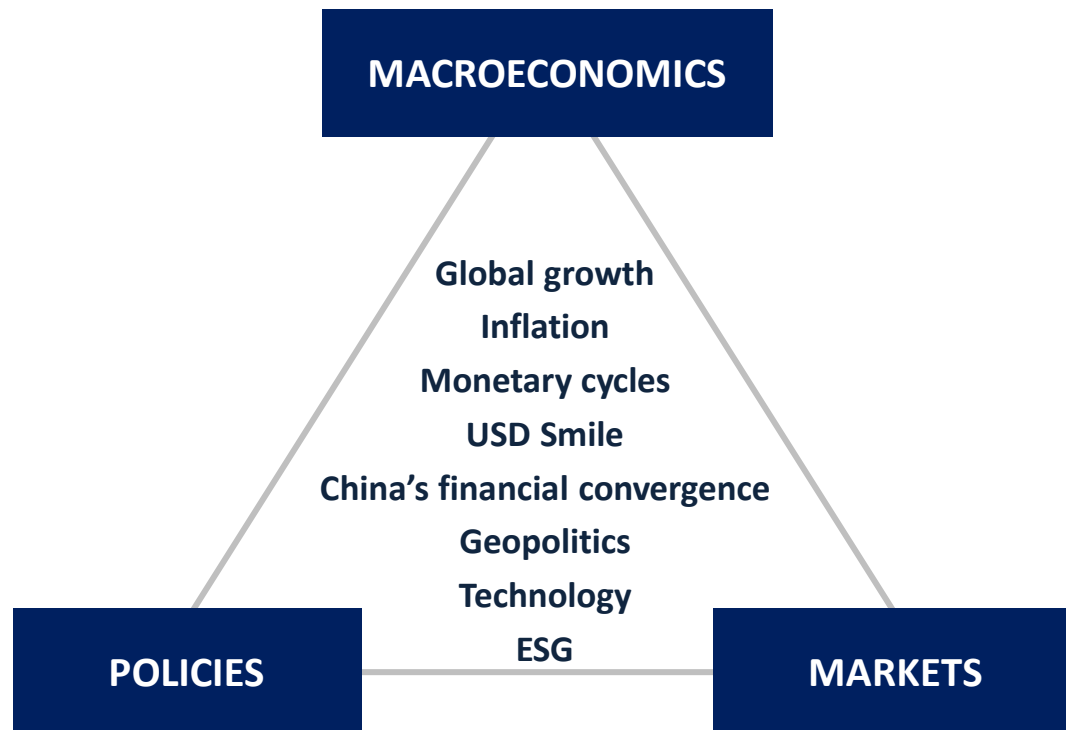
**Portfolio Manager**

EM Debt, Global macro, FX, FI  
Management and Economist  
Since 2009

# Investment principles

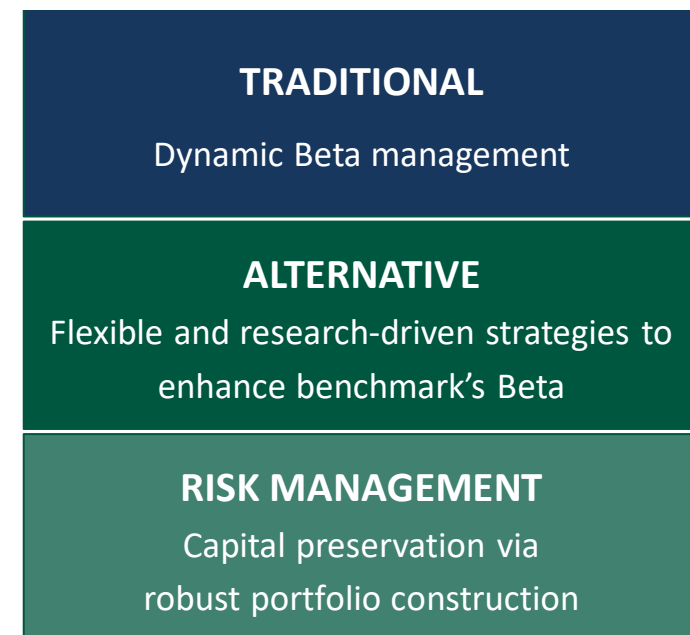
“The bamboo that bends is stronger than the oak that resists” – old Asian proverb

**Research**  
forms the foundation of our Investment Process



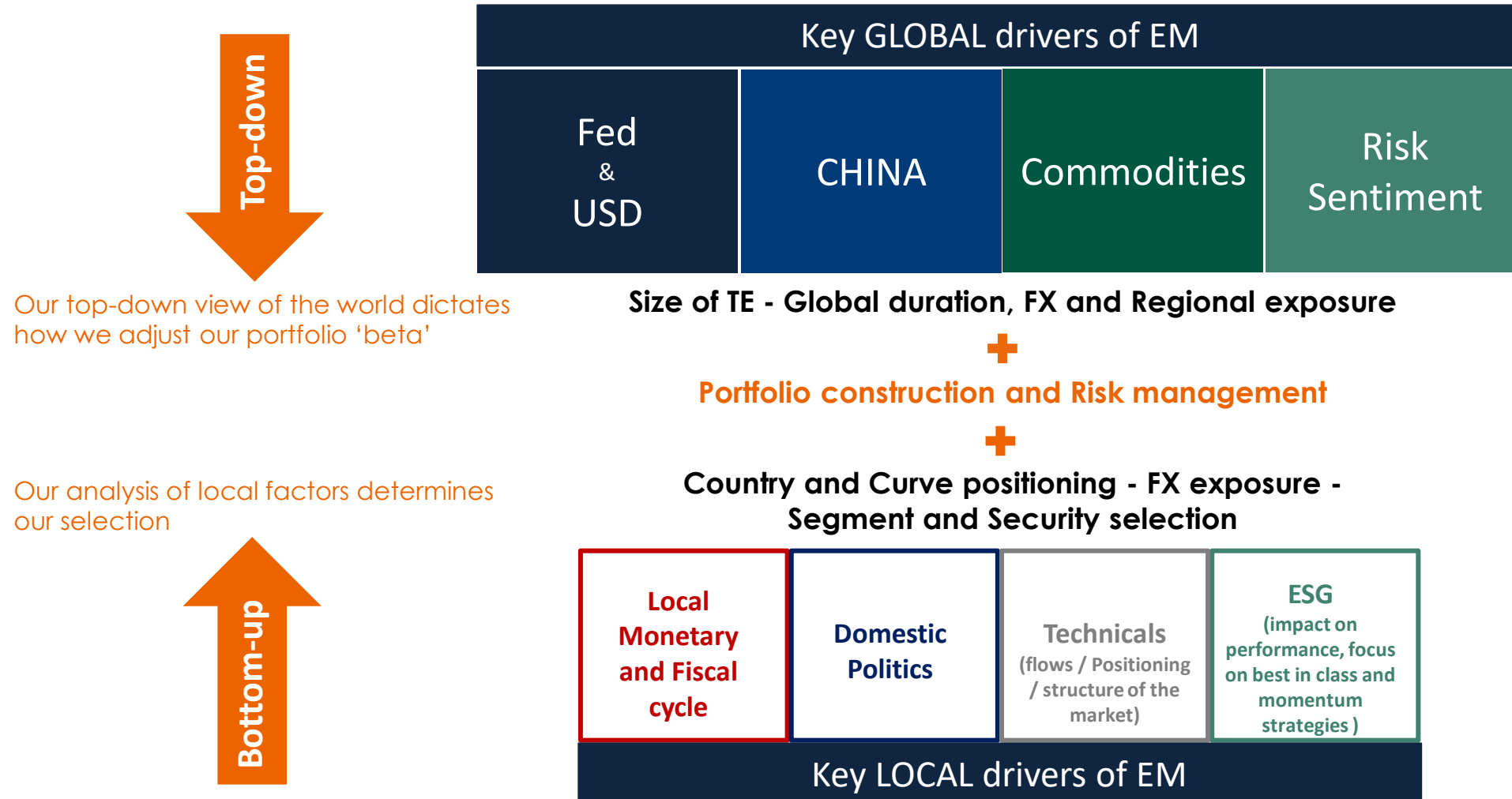
- Led by our Co-CIOs
- Subscribed to by some of the largest CB, SWF, HF and AM in the world
- 'One of the world's best known foreign exchange strategists' – FT
- 'Cutting edge research' – Bloomberg

**Flexibility**  
defines our Approach



# Investment Process

Rigorous, Flexible and Comprehensive



# Fund Performance

5<sup>th</sup> anniversary and strong results

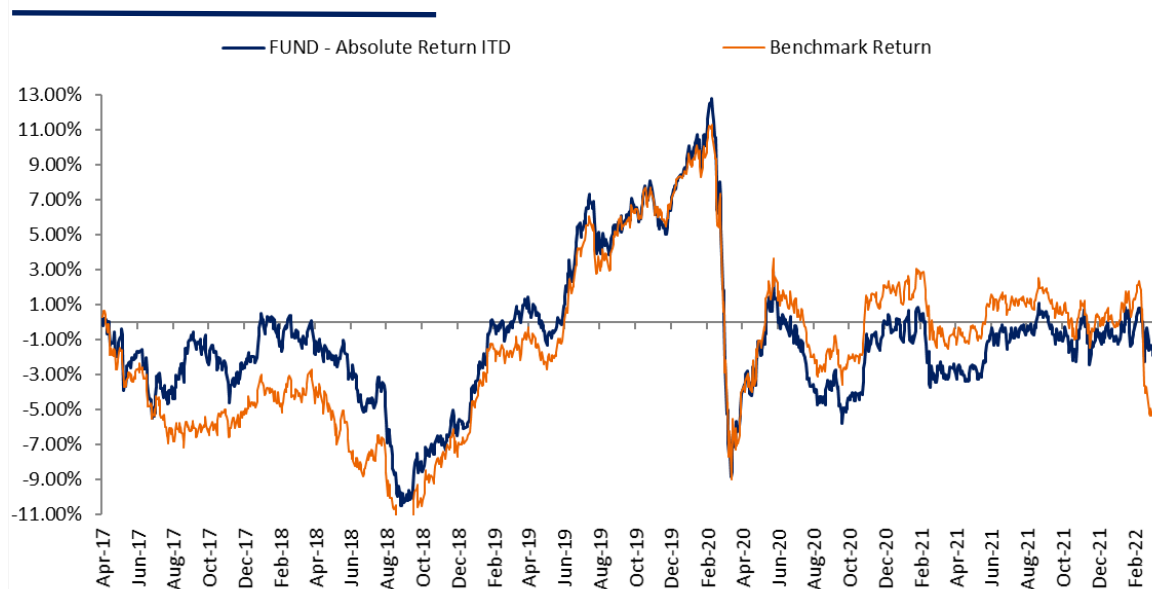
Performance 31 March 2022	Mar-22		Feb-22		Jan-22		YTD		1-Year		2-Year		3-Year		4-Year		ITD **	
	Absolute	Relative	Absolute	Relative	Absolute	Relative	Absolute	Relative	Absolute	Relative	Absolute	Relative	Absolute	Relative	Absolute	Relative	Absolute	Relative
EC SLJ Emerging Local Market Debt (EUR) Reference Index chained *	1.88%	0.44%	-2.82%	2.36%	1.49%	0.05%	0.48%	4.88%	2.27%	5.65%	5.55%	3.60%	-0.45%	2.02%	0.15%	1.42%	-0.40%	3.83%
	1.44%		-5.19%		1.44%		-4.40%		-3.38%		1.95%		-2.47%		-1.27%		-4.23%	

\* JPPUELM until 14 Dec 2017 then JGENVUEG

\*\* Apr 11, 2017

Source: Eurizon SLJ Capital - Bloomberg

## Performance since inception



Source: Bloomberg, Eurizon SLJ Capital; \*Net performance relative to JPPUELM until 14 Dec 2017 and to JGENVUEG Index going forward.

**Past performance is not a reliable indicator of future returns.**

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# Summary



## Why Local Currency Emerging Market Debt?

*A more stable ship than the traditional hard currency market*

## Why now?

*Despite geopolitical tensions, the macroeconomic backdrop is solid for this under-owned segment of emerging market debt. Carry trumps the gloom.*

## Why us?

*A research-led, outcome-focused approach to emerging market fixed income.*

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