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https://blog.en.erste-am.com/emerging-markets-bonds-in-demand/

Emerging markets bonds in demand

Paul Severin

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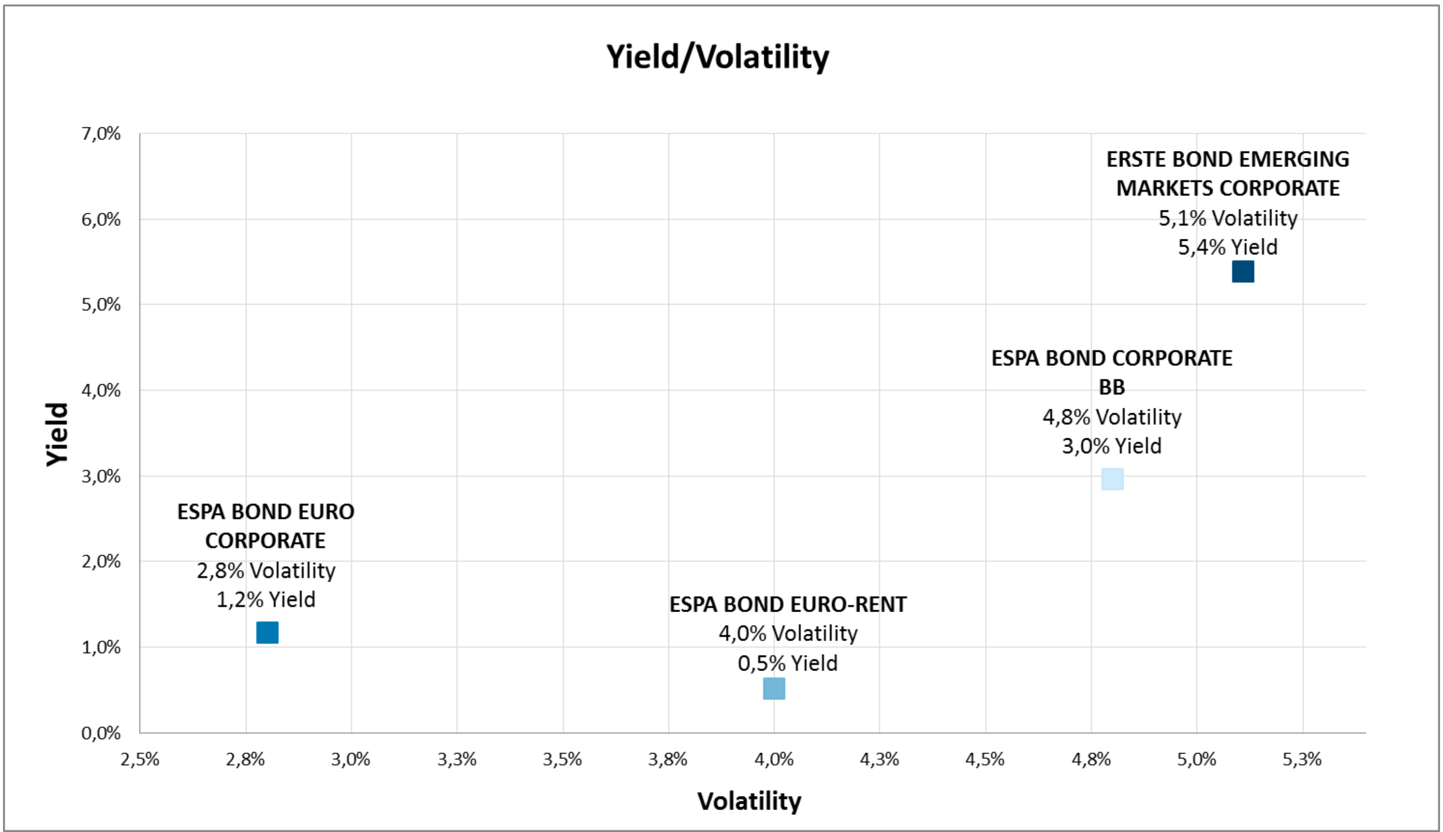
Economic growth in the emerging markets has picked up substantially, while that in the industrialised economies has been rather stable. This has led to an increase in the growth differential in the emerging markets' favour. Investor demand for emerging markets bonds has been on the rise in search of higher yields and interest rates.

High liquidity, key-lending rates at zero percent in the Eurozone, and in some cases negative interest rates support the riskier bond segments. Corporate bonds from the emerging markets are particularly interesting by comparison.

Yield and volatility in comparison (data as of 30 September 2016) *)



Data as of per 30 September 2016; Source: ERSTE-SPARINVEST KAG

***) Note: the fund ratio “yield” is equal to the average yield of the securities held by the fund prior to the deduction of costs arising from hedging foreign exchange risks; please bear in mind that this yield ratio is not equivalent to the fund performance. The chart above does not take into account any costs that would diminish returns such as management fees or individual account management or deposit fees. In statistics, the term volatility denotes the propensity of a time series to fluctuate. In finance, it serves as measure for the risk of an investment. The risk of fluctuation rises along rising volatility.**

European corporate bonds more attractive than government bonds

The segment of European government bonds is still not overly attractive. The historical volatility of these bonds is 4.0%, with an expected yield of currently only 0.5% priced in. By comparison, Eurozone corporate bonds are more attractive: expected yield amounts to 1.2%, at a clearly lower volatility than for euro government bonds.

Interest rate policy and US presidential elections driving the markets

The interest rate policy of the US Fed is a more crucial factor for market participants than the imminent US presidential election on 8 November, where according to polls Clinton is clearly ahead. The US Fed has already signalled it is prepared to raise interest rates. An increase in December is likely.

If the stock exchanges were to react negatively to the rate hike in December, this might create an interesting opportunity to invest in high-yield bond segment such as emerging markets corporate bonds.

Risk notes according to 2011 Austrian Investment Fund Act

In accordance with the fund provisions approved by the Austrian Financial Market Authority (FMA), ESPA BOND EURO-RENT intends to invest more than 35% of its assets in securities and/or money market instruments of public issuers. A detailed list of these issuers can be found in the prospectus, para. II, point 12.

Paul Severin

Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company’s product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds at Pioneer Investments Austria in Vienna.

His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

He studied international business at Innsbruck University and Marquette University in Milwaukee, WI, USA. Before his university studies, he worked at Dornbirner Sparkasse in letters of credit and export financing.

Paul Severin is a member of the board at ÖVFA (Austrian Association for Financial Analysis and Asset Management) and a CEFA charter holder.