

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

Emerging markets bonds in demand

Paul Severin



© © iStock.com

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

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-note-euro-rent_en

Legal disclaimer

This document is an advertisement. Unless indicated otherwise, source: Erste Asset Management GmbH. The language of communication of the sales offices is German and the languages of communication of the Management Company also include English.

The prospectus for UCITS funds (including any amendments) is prepared and published in accordance with the provisions of the InvFG 2011 as amended. Information for Investors pursuant to § 21 AIFMG is prepared for the alternative investment funds (AIF) administered by Erste Asset Management GmbH pursuant to the provisions of the AIFMG in conjunction with the InvFG 2011.

The currently valid versions of the prospectus, the Information for Investors pursuant to § 21 AIFMG, and the key information document can be found on the website www.erste-am.com under "Mandatory publications" and can be obtained free of charge by interested investors at the offices of the Management Company and at the offices of the depositary bank. The exact date of the most recent publication of the prospectus, the languages in which the key information document is available, and any other locations where the documents can be obtained are indicated on the website www.erste-am.com. A summary of the investor rights is available in German and English on the website www.erste-am.com/investor-rights and can also be obtained from the Management Company.

The Management Company can decide to suspend the provisions it has taken for the sale of unit certificates in other countries in accordance with the regulatory requirements.

Note: You are about to purchase a product that may be difficult to understand. We recommend that you read the indicated fund documents before making an investment decision. In addition to the locations listed above, you can obtain these documents free of charge at the offices of the referring Sparkassen bank and the offices of Erste Bank der oesterreichischen Sparkassen AG. You can also access these documents electronically at www.erste-am.com.

N.B.: The performance scenarios listed in the key information document are based on a calculation method that is specified in an EU regulation. The future market development cannot be accurately predicted. The depicted performance scenarios merely present potential earnings, but are based on the earnings in the recent past. The actual earnings may be lower than indicated. Our analyses and conclusions are general in nature and do not take into account the individual characteristics of our investors in terms of earnings, taxation, experience and knowledge, investment objective, financial position, capacity for loss, and risk tolerance.

Please note: Past performance is not a reliable indicator of the future performance of a fund. Investments in securities entail risks in addition to the opportunities presented here. The value of units and their earnings can rise and fall. Changes in exchange rates can also have a positive or negative effect on the value of an investment. For this reason, you may receive less than your originally invested amount when you redeem your units. Persons who are interested in purchasing units in investment funds are advised to read the current fund prospectus(es) and the Information for Investors pursuant to § 21 AIFMG, especially the risk notices they contain, before making an investment decision. If the fund currency is different than the investor's home currency, changes in the relevant exchange rate can positively or negatively influence the value of the investment and the amount of the costs associated with the fund in the home currency.

We are not permitted to directly or indirectly offer, sell, transfer, or deliver this financial product to natural or legal persons whose place of residence or domicile is located in a country where this is legally prohibited. In this case, we may not provide any product information, either.

Please consult the corresponding information in the fund prospectus and the Information for Investors pursuant to § 21 AIFMG for restrictions on the sale of the fund to American or Russian citizens.

It is expressly noted that this communication does not provide any investment recommendations, but only expresses our current market assessment. Thus, this communication is not a substitute for investment advice, does not take into account the legal regulations aimed at promoting the independence of financial analyses, and is not subject to a prohibition on trading following the distribution of financial analyses.

This document does not represent a sales activity of the Management Company and therefore may not be construed as an offer for the purchase or sale of financial or investment instruments.

Erste Asset Management GmbH is affiliated with the referring Sparkassen banks and Erste Bank.

Please also read the "Information about us and our securities services" published by your bank.

Subject to misprints and errors.



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.

Paul Severin is also on Twitter: [@paulseverin](https://twitter.com/paulseverin)