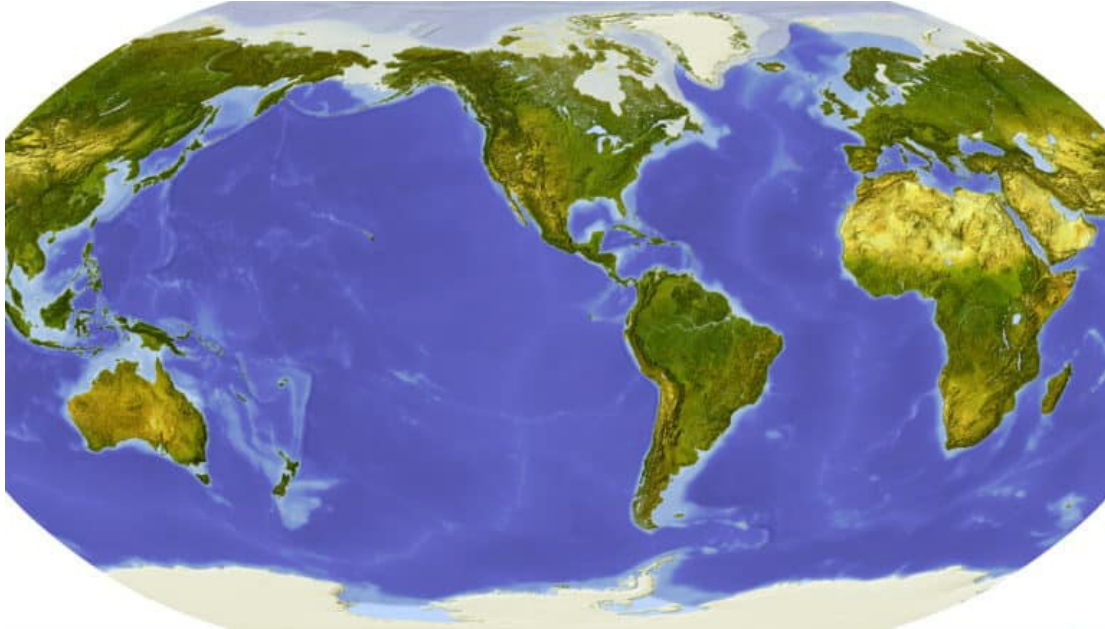


<https://blog.en.erste-am.com/high-yields-and-a-potential-turnaround-make-latam-bonds-an-interesting-investment/>

High yields and a potential turnaround make LATAM bonds an interesting investment

Gast-AutorIn / Guest Author



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Autor:

Christian Gaier, Head of Fixed Income Rates, Sovereigns & FX, Erste AM

I would like to share my impressions from my latest investor conference in London that I attended on 16th January 2017. The conference was organized by Banco Bilbao Vizcaya Argentaria (BBVA), a leading global financial group with a strong franchise in 35 countries and a leading position in the Spanish market and in Mexico. For us, a perfect partner when it comes to research on countries and companies in Latin America (LATAM).

At the conference, top representatives from Central Banks in Colombia, Argentina, Peru, and Mexico shared their insights with us. The general tone for international investors turned out to be quite friendly. Please find out why.

2017 looks to be a turnaround for some LATAM countries

Although facing a tough environment, 2017 looks to be a turnaround year for some of the struggling Latin American (LATAM) countries. External factors weighing on them are the sluggish global growth outlook, expectations of rising US interest rates, tightening external conditions that potentially come with a negative impact on portfolio flows, and probably no upside surprises in commodity prices. On top of that, political risk is on the rise on a global scale with Mr. [Trump](#) as the new US president. This risk can be interpreted as asymmetric with a downside bias for LATAM.

We expect [LATAM](#) to post higher growth rates in 2017 than in 2016, with the exception of Mexico, the country the most exposed to changes in US trade policies. The major growth drivers are externally dominated and are based on improvements in terms of trade, which means that for every unit of exports sold a country can buy more units of imported goods. Peru, Colombia, and Argentina are also said to have a well-stocked investment pipeline. Furthermore, stable commodity prices during 2017 could generate more stable cash flows for states that strongly rely on commodities such as Chile, Colombia or Peru and could therefore act as buffer to higher US rates, which could in turn lead to tighter financial conditions.

About one third of emerging markets government bonds stem from LATAM issuers

Let us take a closer look at the market size. With regard to hard currency issues, Latin America makes up almost 40% of the total face value of bonds outstanding in emerging markets globally. We are talking about a total market value of about USD 170bn (source: JP Morgan). The local currency market is even larger with a market value of about USD 420bn and LATAM issuers accounting for 30% of this pie (source: JP Morgan). The relevance of the quality and rating of these issuers to the manager of an emerging markets fixed income fund is obvious.

LATAM currently offers the highest yields within the GEM (global emerging markets) universe

LATAM is the high-yield region in the [emerging markets](#). Having struggled economically and politically already during 2016, these countries were forced to do their homework earlier than others. Current account and fiscal adjustments will start to materialize during 2017. The relief from inflationary pressure gives some of the central banks room to manoeuvre and to cut rates.

Key rates / central bank rates in comparison (Brazil, Mexico, Colombia, Peru) 2011-2017

Source: Bloomberg; data as of 26.1.2017

Heterogeneous fundamentals across countries in this region show the need of diversification and differentiation. LATAM assets make up a significant part of our global emerging market government bond strategies. From our point of view, the outlook for these bonds is positive, given the yield premium that they offer in comparison with euro-denominated assets. If you share this view, one of the following bond strategies could be interesting for you as well:

Emerging market bonds in US dollars and euros, with currency hedging:

- [ERSTE BOND EMERGING MARKETS](#)

Bonds in local currencies from emerging markets:

- [ERSTE BOND LOCAL EMERGING](#)

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