Press Release

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Why invest in emerging market corporate bonds in 2020?

The current economic situation offers very little clarity on asset returns, especially in the European and US markets: yields are set to remain low, or even negative, for a long time and investment grade can no longer provide a regular return. This inauspicious setting is prompting investors to seek new opportunities in 2020 and they are increasingly turning to emerging markets for these prospects.

Indeed, these markets benefit from many positive factors. Firstly, statistics for 2019 published by the IMF show growth of 6.3% for emerging markets in Asia and 4.9% for other emerging countries, while for the eurozone it is estimated to be 1.4%. This trend is expected to continue over the next few years. Demography also plays a favourable role: the picture differs considerably from the reality in developed countries, as the population is young and growing. This momentum is generating demand in infrastructure, health care and education and stimulating consumption. Lastly, central banks have generally adopted an accommodative stance in order to support growth, especially in the summer of 2019. Interests rates were lowered in many countries, including South Korea and South Africa. In Turkey, interest rates are now 12.75 percentage points below their highest level.

In the corporate sector, successful, innovative and global companies with high growth potential can now be found amongst emerging market issuers; this is a far cry from the outdated notion that reduces these countries to just their sovereign debt or to oil groups. In 2019, income increased for practically all of these companies and the emerging market default rate for high yield issuers was extremely low (1.2%). Moreover, emerging market companies are on average less burdened by debt than their European or US counterparts. They have solid fundamentals, even if emerging market bond spreads are generally higher than those in developed markets. Taking advantage of attractive returns from emerging market countries does not necessarily entail accepting greater risk as regards the quality of companies in the portfolio. This is especially true since the size of emerging market bond markets nowadays allows for the construction of highly diversified portfolios.

Finally, and again contrary to the preconception of large, contaminating groups with little concern for non-financial controversies, many companies in the emerging economies are paying increasingly close attention to environmental questions and how these affect their business. They can therefore be compatible with investors' most stringent SRI criteria.

Our investment approach to emerging market corporate bonds is an appropriate response to the situation at present. The fund management team at Anaxis Asset Management draws on a wealth of expertise in these markets to build a balanced and diversified portfolio. We favour securities with little exposure to economic cycles in order to offer a solid and high-performing investment solution for our clients. The selection of securities also includes an exacting sector filter. In particular, we exclude the weapons, oil and pesticide sectors, whose business activity is incompatible with our commitment on environmental protection.

About Anaxis Asset Management

Anaxis specialises in corporate credit for investors who firmly believe in fundamental investing based on in-depth knowledge of issuers. For more than 10 years, Anaxis has focused on corporate credit strategies and has developed comprehensive expertise and methods renowned for their reliability by its clients.

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