

Dear Investor

Please note that information regarding companies (issuers) and financial instruments (e.g. shares or bonds) in this investor letter shall not be considered as investment recommendations to buy, sell or hold any financial instruments. Information about companies and financial instruments shall only be considered as information concerning the fund's portfolio and risk profile for that quarter.

July registered a clearer dovish signal with weakness in US CPI numbers as well as industrial and services indicators. The month ended with a "dovish" hold from the FED which acknowledged a change in the balance of risks with employment being more closely watched going forward (particularly as the Beveridge curve indicated a more normal labor market after the COVID induced distortions). Elsewhere, questions surrounding the unwinding of carry trades in the JPY, weaker earnings from big tech names in US, and still disappointing numbers out of China (with commodities still trending weaker) set the tone for more caution. CEMBI returned 1.5% with IG papers catching up to HY as the month unfolded. EMBI had already gone through this in June, with some catch-up of HY in July. Our EUR denominated institutional share class returned 1.8% (gross) in July, which was about 20bps ahead of its benchmark. Similarly, our USD I and II share classes returned 1.9% (gross), about 15bps ahead of the benchmark.

Asia came out on top in July with a return of 1.7% (1.8% IG / 1.7% HY). Chinese credits biased the aggregate regional performance with a return of 1.7% (1.6% IG / 2.1% HY) as the momentum in HY real estate continued in July while the broader market shifted to IG later in the month. No final solution has been provided for the real estate quagmire in China and only small indirect hints of support have been made public. The gathering of government officials in July to discuss economic matters did not yield more relevant information but confirmed concerns over fundamental weakness in the economy. Our underweight exposure to Chinese credits yielded neutral relative performance as we have cautiously dipped into real estate names in recent weeks. Indian credits also delivered strong returns of 2.1% (2.1% IG / 2.1% HY) after having lost momentum in recent months. Our overweight exposure to Indian credits delivered positive relative performance despite our avoidance of Vedanta, which performed strongly in July, as our footprint in industrials and utilities performed well.

LatAm names also performed well in July on aggregate with a return of 1.6% (1.7% IG / 1.6% HY). Mexican credits produced a solid 2.0% return (2.1% IG / 2.0% HY) after lagging on the back of political turmoil in June. The bid for IG dominated albeit some idiosyncratic stories in HY also did well. Our overweight in Mexican names yielded small negative relative performance since we have abstained from going too deep into the longest duration papers in the IG space and we have also avoided some of the weakest HY names. Credits from Argentina also returned about 2.0% in July, with a revival of primary activity in the corporate space. We participated in deals for the local "blue chip" names with dominant market positioning and strong balance sheets and our exposure to Argentina yielded neutral relative performance in July. Lastly, battered credits from Panama staged a comeback with a return of almost 2.2% (1.6% IG / 2.2% HY). Our overweight in names from Panama yielded neutral relative performance since we have favored the mid-beta credits but the riskiest names outperformed in July.

LMM – Bankinvest Emerging Markets Corporate Debt

CEEMEA names were left behind with a return of 1.2% (1.1% IG / 1.3% HY). The low spread low beta high duration papers from the Middle East only delivered a return of about 1% each (e.g. Saudi Arabia, UAE, Qatar, Kuwait, Jordan) hence limiting outperformance for the regional block relative to Asia and LatAm. Our aggregate underweight positioning across papers from these jurisdictions yielded neutral relative performance and our largest relative exposure continues to be in the UAE. Conversely, deeply distressed jurisdictions like Ukraine performed well (+3.0%) after a preliminary agreement for the restructuring of sovereign debt for the country was reached hence lifting returns for the local corporates. Our overweight exposure to names from Ukraine contributed positively to relative performance. Lastly, credits from Israel held in well with a return of 1.5% (1.6% IG / 1.4% HY). Nevertheless, troubled TMT name Altice dominated performance in this jurisdiction. Our underweight in Israeli papers yielded neutral relative performance as our exposure to Energean and Teva offset our avoidance of Altice.

EM corporate issuance came in at USD35bn which was an acceptable level of participation for the month. About USD14bn came from Asia while close to USD13bn came from the Middle East and Africa. Emerging Europe issued close to USD7bn and the remainder came from LatAm. It is worth noting the speed at which corporate issuers reacted to dovish signals earlier in the month hence hinting at still latent supply seeking the appropriate trading windows to reach the market. It remains to be seen if issuers have front-loaded their primary market activity for the year in anticipation of volatility related to the US presidential elections later in 2024.

05/08/2024	Return last month (USD)	Return YTD	Yield to Worst	Last month	Δ YTD	OAS Spread	Last month	Δ YTD
CEMBI EUR hedged	0.81	5.06						
EM Corporate Index	1.50	6.04	6.32	-0.10	-0.49	247	3	-34
CEMBI Investment grade	0.88	4.57	5.34	-0.09	-0.21	146	3	-8
CEMBI High Yield	1.00	8.24	8.15	-0.32	-0.96	435	2	-75
EMBI	0.62	4.75	8.12	-0.01	0.27	421	11	37
EMBI Investment grade	1.10	2.50	5.37	-0.08	0.13	135	2	18
EMBI High Yield	1.91	7.06	11.58	-0.27	0.59	774	8	73
Developed USD IG (JPM)	2.34	3.30	5.14	-0.03	0.00	118	8	7
US High Yield Corp (BarCap)	0.94	4.26	7.70	-0.09	0.11	359	5	36
5Y US Treasury bond	1.97	3.35	3.58	-0.13	-0.27	n.m.		
10Y US Treasury bond	1.25	3.30	3.77	-0.10	-0.11	n.m.		

Returns in USD except CEMBI EUR hedged

Kind regards,

Aksel Madslie, Chresten Hagelund, Eduardo Ordoñez, Jakob Christensen, and Søren Bertelsen.

BI Asset Management Fondsmæglerselskab A/S
"BankInvest"

Last edited 06th August 2024.