



## Emerging market debt Opportunities hide in plain sight



**Som Bhattacharya**  
Portfolio Manager

### Marketing Communication

Published June 2022

Emerging markets (EM) have had a tough run so far this year. While global markets have been rocked by well-documented geopolitical shocks, alongside monetary policy tightening efforts, it's fair to say EM went into freefall during the first four months of 2022.

The EM sovereign index was perhaps the standout sub-sector, down some 15% on the year<sup>1</sup>, but it was by no means alone – local currency, corporates and even EM equities have all underperformed year-to-date to varying degrees.

Investors are understandably cautious about the EM asset class given the recent performance profile and numerous nervous headlines. But opportunities emerge from tough times, and following such an aggressive sell-off, we believe some of the most compelling opportunities could be hiding in plain sight.

**“Capturing this upside potential means being exposed to the right investment manager and the right strategy for the current market conditions.”**

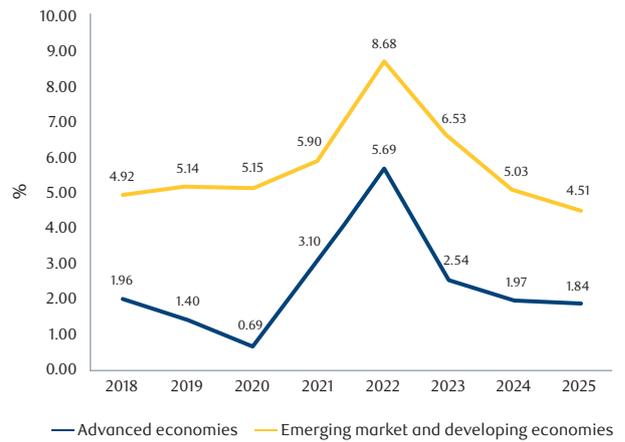
<sup>1</sup>JP Morgan EMBI Global Diversified Index, as at 30 April 2022

**Chart 1: EM still expected to grow faster than DM**



Source: JPMorgan, Goldman Sachs Research, IMF WEO as of April 2022

**Chart 2: Headline inflation likely to peak in EM and DM this year**



Source: JPMorgan, Goldman Sachs Research, IMF WEO as of April 2022

## What's driving our positioning?

### 1. Growth

Even in the challenging macro environment, EM growth is likely to continue to outperform developed market (DM) growth this year (see chart 1).

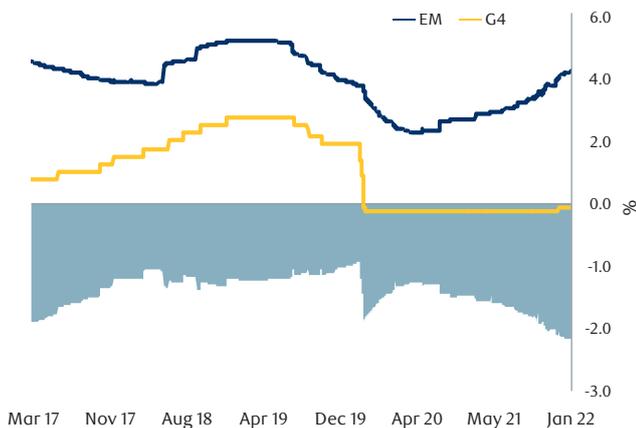
'Growth alpha' – the growth differential between DM and EM, has the potential to expand in favour of EM countries. However, differentiation within EM is also crucial; China growth is likely to suffer this year more than it did in 2020 due to highly restrictive zero-Covid policies.

### 2. Inflation & monetary policy

The US Federal Reserve has been raising rates alongside providing a hawkish narrative, which has contributed to the EM sell-off. Although inflation is a big focus for EM in general, a number of EM central banks have been proactively raising rates (such as Brazil, starting from early 2021) and are now arguably ahead of the curve in terms of monetary policy tightening (see chart 3). The result of these progressive efforts is a clear real rates differential versus DM (see chart 4).

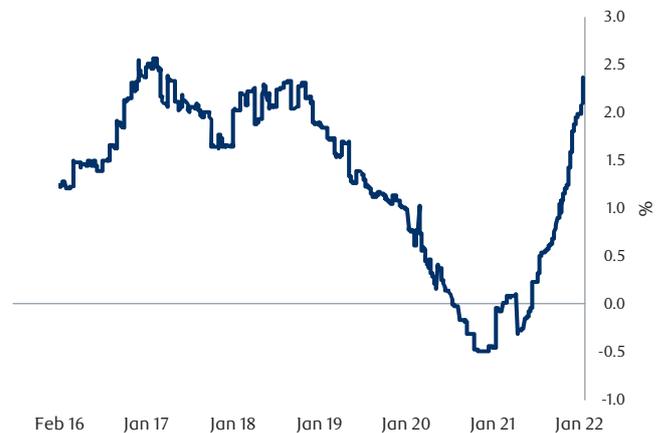
Favourable EM real rates relative to DM have, in part, contributed to the relatively better performance of EM currencies year-to-date, which are down some 3% for the first four months of the year. There is plenty of differentiation within FX though, which provides a source of potential relative value generation.

**Chart 3: Nominal policy rates differential EM vs DM**



Source: Bloomberg, BlueBay Asset Management as at January 2022

**Chart 4: Real policy rates differential EM vs DM**



Source: Bloomberg, BlueBay Asset Management as at January 2022

### 3. Commodity supply disruption

Energy shortages are the dominant talking point today, but it is worth noting that despite the rally in oil prices, a number of oil-exporting EM credits have sold off aggressively and offer good value, in our view.

At the same time, agricultural and food shortages arising out of supply disruptions for wheat and fertiliser exports from Russia/Ukraine/Belarus could quickly become as serious an issue, potentially triggering widespread social unrest and adding fuel to the inflation fire.

We believe correct positioning around commodity disruption will define alpha generation opportunities.

### 4. Stressed issuers

Stressed issuers could offer an opportunity to generate positive returns but timing will be key. We are closely monitoring for signs of turnaround in sovereign names, such as Sri Lanka, and corporate sectors, such as Chinese real estate.

## Capturing upside

### Attractive investment solutions for today's EM debt landscape

Illiquid & hedge fund strategies	High conviction & blended strategies	Hard currency aggregated strategies
<ul style="list-style-type: none"><li>▪ Capitalising on dispersion and dislocation across the entire EM credit market</li><li>▪ Maximum flexibility and return from potential shorts or illiquid positions</li><li>▪ Bottom-up fundamental analysis driven across a broad range of countries / sectors</li></ul>	<ul style="list-style-type: none"><li>▪ Dynamic and broad management of investment themes in EM interest rates, currencies and credit</li><li>▪ As we move past the EM hiking cycle, local markets could be a leading source of returns</li></ul>	<ul style="list-style-type: none"><li>▪ Pure hard currency credit exposure, primarily US dollars</li><li>▪ High conviction ideas across EM sovereign and corporate universe with significant macro input</li></ul>
<b>We believe, alternative and illiquid opportunities could potentially see double-digit returns in 2022</b>	<b>EM local markets have notably outperformed EM hard currency YTD. We expect this theme to continue</b>	<b>Muted beta environment, but plenty of differentiation opportunities across regions and sectors</b>

[More info on BlueBay's investment solutions](#)

This document may be produced and issued by the following entities: in the European Economic Area (EEA), by BlueBay Funds Management Company S.A. (the ManCo), which is regulated by the Commission de Surveillance du Secteur Financier (CSSF). In Germany and Italy, the ManCo is operating under a branch passport pursuant to the Undertakings for Collective Investment in Transferable Securities Directive (2009/65/EC) and the Alternative Investment Fund Managers Directive (2011/61/EU). In the United Kingdom (UK) by BlueBay Asset Management LLP (BBAM LLP), which is authorised and regulated by the UK Financial Conduct Authority (FCA), registered with the US Securities and Exchange Commission (SEC) and is a member of the National Futures Association (NFA) as authorised by the US Commodity Futures Trading Commission (CFTC). In Switzerland, by BlueBay Asset Management AG where the Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich, Switzerland. The place of performance is at the registered office of the Representative. The courts of the registered office of the Swiss representative shall have jurisdiction pertaining to claims in connection with the distribution of shares in Switzerland. The Prospectus, the Key Investor Information Documents (KIIDs), where applicable, the Articles of Incorporation and any other applicable documents required, such as the Annual or Semi-Annual Reports, may be obtained free of charge from the Representative in Switzerland. In Japan, by BlueBay Asset Management International Limited which is registered with the Kanto Local Finance Bureau of Ministry of Finance, Japan. In Australia, BlueBay is exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of financial services as it is regulated by the FCA under the laws of the UK which differ from Australian laws. In Canada, BBAM LLP is not registered under securities laws and is relying on the international dealer exemption under applicable provincial securities legislation, which permits BBAM LLP to carry out certain specified dealer activities for those Canadian residents that qualify as “a Canadian permitted client”, as such term is defined under applicable securities legislation. The BlueBay group entities noted above are collectively referred to as “BlueBay” within this document. The registrations and memberships noted should not be interpreted as an endorsement or approval of BlueBay by the respective licensing or registering authorities. Unless otherwise stated, all data has been sourced by BlueBay. To the best of BlueBay’s knowledge and belief this document is true and accurate at the date hereof. BlueBay makes no express or implied warranties or representations with respect to the information contained in this document and hereby expressly disclaim all warranties of accuracy, completeness or fitness for a particular purpose. Opinions and estimates constitute our judgment and are subject to change without notice. BlueBay does not provide investment or other advice and nothing in this document constitutes any advice, nor should be interpreted as such. This document does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product in any jurisdiction and is for information purposes only. This document is intended only for “professional clients” and “eligible counterparties” (as defined by the Markets in Financial Instruments Directive (“MiFID”)) or in the US by “accredited investors” (as defined in the Securities Act of 1933) or “qualified purchasers” (as defined in the Investment Company Act of 1940) as applicable and should not be relied upon by any other category of customer. No part of this document may be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, in whole or in part, for any purpose in any manner without the prior written permission of BlueBay. Copyright 2022 © BlueBay, is a wholly-owned subsidiary of RBC and BBAM LLP may be considered to be related and/or connected to RBC and its other affiliates. ® Registered trademark of RBC. RBC GAM is a trademark of RBC. BlueBay Funds Management Company S.A., registered office 4, Boulevard Royal L-2449 Luxembourg, company registered in Luxembourg number B88445. BlueBay Asset Management LLP, registered office 77 Grosvenor Street, London W1K 3JR, partnership registered in England and Wales number OC370085. The term partner refers to a member of the LLP or a BlueBay employee with equivalent standing. Details of members of the BlueBay Group and further important terms which this message is subject to can be obtained at [www.bluebay.com](http://www.bluebay.com). All rights reserved.

Published June 2022



Global Asset Management  
BlueBay Asset Management