COMMENTARY | FOR THE MONTH OF NOVEMBER 2020 | DECEMBER 2020

Jupiter Global Emerging Markets Short Duration Bond

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- Jupiter Global Emerging Markets Short Duration Bond (the "Fund") primarily invests in debt securities from emerging market countries that have, on average, short durations.
- The Fund's investment portfolio may fall in value with no guarantee of the repayment of principle. Its investment may be subject to strong price fluctuations and the investment in debt securities is also subject to credit/counterparty risks, interest rate risks, volatility and liquidity risks, downgrading risks, sovereign debt risks, valuation risks, credit rating risks and risks associated with high yield bonds/debt securities rated below investment grade. The value of the Fund may be more volatile as the portfolio may be concentrated in high yield bonds. Investment in emerging and less developed markets may involve increased risks and special considerations not typically associated with investment in more developed markets, such as liquidity risks, currency risks/control, political and economic uncertainties, legal and taxation risks, settlement risks, custody risk and the likelihood of a high degree of volatility. The underlying investments or a class of shares denominated other than the base currency of the Fund may also be subject to foreign exchange risks.
- The Fund may make use of any one or a combination of the following instruments hedging or efficient portfolio management purposes only: options, futures, portfolio swaps, and forward currency contracts ("FDI"). Risk associated with FDI include counterparty/credit risk, liquidity risk, valuation risk and over-the-counter transaction risk. In adverse circumstances, the Fund's use of FDI may become ineffective in hedging/efficient portfolio management and the Fund may suffer significant losses in relation to those investments.
- Income ("Inc") Class of the Fund may at its discretion pay dividend out of gross income while charging/paying all or part of the Fund's fees and expenses to/ out of the capital of the fund, resulting in an increase in distributable income for the payment of dividends by the Fund and therefore, the Fund may effectively pay dividend out of capital. Payment of dividends out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends effectively out of the Fund's capital may result in an immediate reduction of the net asset value per unit.
- This investment involves risks which may result in loss of part or the entire amount of your investment. Investors should not base their investment decision on this document alone and must refer to the Hong Kong offering documents of the Fund for further details (including risk factors) prior to investing.

Performance and positioning

Emerging market debt (EMD) rose in November, supported by news of successful Covid-19 vaccine trials, which came earlier than expected and had higher success rates than anticipated. The outcome of the US presidential election at the beginning of the month was also supportive for markets, as a Biden administration is expected to remove the uncertainty and instability surrounding global trade, particularly in Asia. Emerging markets (EM) were further supported by news that G20 is close to an agreement to boost IMF reserve assets by $500 billion. In terms of country-specific newsflow, Turkey replaced its central bank governor and the minister of economy, in a bid to restore credibility of its economic policymaking. The new governor hiked policy rate by 475bps followed by various market-friendly orthodox policy actions. Meanwhile, in Latin America, Brazil reported better-than-expected employment and budget numbers of October, and the Mexican economy grew by 12% in the third quarter, which was the highest level in three decades. Argentina's Chubut province reached an agreement with the majority of the bond holders, which was supportive for wider Argentina risk sentiment; and Peru suffered a brief period of political upheaval after congress impeached President Vizcarra, though the interim president Sagasti brought in a centrist cabinet and some stability.

In the post-March rally, investors had been increasing their allocations to higher quality debt. This trend reversed in November, however: higher yield, lower quality debt outperformed; local currency bonds outperformed hard currency bonds; sovereign bonds outperformed corporate bonds; and longer duration bonds outperformed shorter duration bonds.

Against this backdrop, the Jupiter Global Emerging Markets Short Duration Bond fund returned 2.6% in November[1], bringing the fund's year-to-date return to 3.2% (in US dollar terms).

The fund benefitted from its corporate bond allocation during the month, with the majority of the performance coming from high yield-rated names. We increased the fund's high yield allocation given several positive drivers, both on a macro level and in terms of EM-specific newsflow. The fund's rating remains unchanged at BB.

On a regional level, our exposure to Latin America contributed most positively to the fund's performance in November. While the region was originally one of the worst hit by the pandemic, we are now seeing the strongest recovery there.

[1] *Source: Morningstar Direct, based on Jupiter Global Emerging Markets Short Duration Bond L USD M Inc Dist, data as at 30.11.2020. Fund's past performance: YTD: 3.2%; 2019: 9.4%; 2018: 0.2%. NAV to NAV, gross income reinvested, net of fees in USD. The launch date of Jupiter Global Emerging Markets Short Duration Bond L USD M Inc Dist is 03.12.2018.*

Our allocation to Argentina (notably YPF and the Province of Neuquén), for example, performed well in November, further helped by the recovery in oil prices.

Our exposure to Europe was positive for the fund; Russia and Ukraine were the best performing countries in Europe. Our Russian local currency exposure was a key driver of performance; we took advantage of the sell-off before US elections to open this new position.

We also benefited from our Asia exposure, led by China. We remain favourable on the Chinese real estate sector, in particular, and we also have some exposure to the consumer services sector.

We increased our allocation to Africa (Egypt, Morocco), Asia (India, Indonesia) and the Middle East (the UAE), in names that we considered to be offering attractive yields and that should benefit from positive investor sentiment. We also added some local currency exposure in areas we viewed as being particularly cheap: the Russian ruble, the Mexican peso and the Indian rupee.

Outlook

We are positive about the outlook for the EMD asset class in 2021, given a wide range of factors. EMD offers a significant yield premium relative to developed markets, particularly in a world where 90% of the fixed income universe yields less than 3%. The recent breakthrough with Covid-19 vaccines can also be viewed as even more important for those emerging markets countries that do not have the reserve currencies, deep pockets and access to credit markets that developed markets enjoy. Ongoing monetary and fiscal policy is likely to drive dollar weakness into 2021, which will continue to benefit EM as a whole too. Finally, investors are currently under-allocated to EMD, though according to several market surveys, many investors have expressed their desire to increase their exposure next year, which should give more scope for EMD to rally.

We continue to believe a focus on fundamentals, along with differentiation by security and country, is key. We are generally constructive on countries that have room to take on higher fiscal deficits and high reserve balances, while we are more defensively positioned towards, or look to completely avoid, countries that are running high debt-to-GDP ratios and are particularly vulnerable to currency shocks.

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