COMMENTARY | FOR THE MONTH OF NOVEMBER 2020 | DECEMBER 2020

Jupiter Global Emerging Markets Short Duration Bond

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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 2.7% in November, bringing the fund's year-to-date return to 3.8% (in US dollar terms). The fund remains top quartile in its peer group since launch (in September 2017).

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. 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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