

Positive Contributors	FUND	Negative Contributors
<ul style="list-style-type: none"> <li>Countries: Brazil, Indonesia, Chile</li> <li>Companies: Petrobras, Digicel, Celulosa Arauco Y Constitucion, Delta Merlin Dunia Tekstil PT</li> </ul>		<ul style="list-style-type: none"> <li>Countries: Saudi Arabia, China</li> <li>Companies: Pemex, Sands China Ltd., Saudi Electricity Co.</li> </ul>
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> <li>Possibility of rate cut or a buy programme for corporate and government bonds</li> </ul>		<ul style="list-style-type: none"> <li>Lack of sufficient funding for Chinese SMEs</li> <li>Declining economic activity in Mexico</li> </ul>

## Update from the lead manager, Péter Varga

Supported by continuous inflows, July again showed a positive total return in our asset class. This also reflects the fact that there were 28 out of 30 weeks of inflows this year. The 10-year US yield ranged between 1.95% and 2.15%, which was a slight headwind for performance. Risk premia were about 15 basis points lower than at the end of June. There were two important decisions this month. One came from the ECB, which, as expected, signaled that it would announce new measures to support the economy from September onwards. The market expects a rate cut and/or a buy programme for corporate and government bonds. This will certainly provide for a further, moderate narrowing or stabilisation of risk premia and will also indirectly support other asset classes such as EM government and corporate bonds.

The second important decision was made on Wednesday. As expected by the market, the FED lowered the interest rate range by 25 bps - the first rate cut in ten years. And yet it was too little for Trump: "Powell let the country down," he tweeted eagerly. Wall Street prices also plunged as Powell made it clear that this was not the beginning of a new cycle of interest rate cuts. They would "act appropriately to support growth"...leaving the back door open for further steps.

On the commodities side, very little was done in July, including iron ore, with most securities trading virtually unchanged. The Chinese government wants to start an investigation into possible market manipulation regarding iron ore. The Chinese Association for Iron Ore and Steel, CISA, said that current iron ore prices did not reflect the situation on the steel market in China.

China's new economic policy is not yet producing real results in the field of small and medium-sized enterprises (SMEs). The aim was to help these mostly export-dependent companies with discounted loans, as they logically suffer from the effects of the Sino-American rivalry. According to the central bank, the average return on SME loans has risen by 50 basis points since 2016; over the last 12 months it has remained stable at around 6%. According to our research on this issue, most of the time only the four biggest banks (as instructed by the government) are lending to SMEs - but on a limited scale. Many SMEs are complaining that they do not get the necessary financing. The indebtedness of households has also risen strongly in recent times and it could happen that the necessary, qualitatively "good" credit demand in the economy will be lacking in the future (see Chart 1).

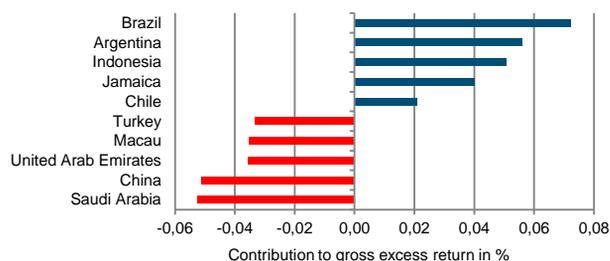
It appears that in China the already existing imbalances below the surface have grown stronger. Restructuring in the area of local banks (recently Jinzhou Bank, with a balance sheet total of around USD 100 bn) also points to this. We are monitoring the situation closely, have not increased our holdings in the HY area and remain selective with maturities of up to 2 years.

Meanwhile, the Mexican government has promised Pemex further tax cuts for at least the next three years.

Gross Performance	July 2019	YTD	1Y	3Y	5Y	10Y
<b>ERSTE BOND EMERGING MARKETS CORPORATE</b>						
Fund	0.77%	8.45%	7.26%	13.38%	23.07%	114.06%
Investment Universe*	0.71%	8.54%	6.37%	11.15%	16.47%	87.00%
Difference	0.05%	-0.08%	0.89%	2.23%	6.60%	27.06%
<b>ERSTE BOND EMERGING MARKETS CORPORATE IG</b>						
Fund (USD)	0.97%	9.28%	10.23%	13.09%	20.76%	-
Investment Universe** (USD)	0.91%	9.58%	10.26%	13.70%	19.97%	-
Difference	0.06%	-0.30%	-0.03%	-0.61%	0.79%	-
<b>ERSTE RESPONSIBLE BOND EMERGING CORPORATE</b>						
Fund	0.85%	7.21%	5.39%	5.58%	14.51%	-
<b>ERSTE BOND EMERGING MARKETS CORPORATE SHORT TERM</b>						
Fund	0.63%	5.45%	6.57%	-	-	-
Investment Universe***	0.33%	5.28%	6.69%	-	-	-
Difference	0.30%	0.17%	-0.13%	-	-	-

\*BoA ML Q505 – Customized EM Corporate Credit Index until 30.06.2019, JP Morgan CEMBI Broad Diversified EUR hedged Index from 1.7.2019  
 \*\*BoA ML Q608 – Bond EM exBB1 Total Return Index until 30.6.2016, JPM CEMBI Broad Diversified IG in USD from 1.7.2016  
 \*\*\*JP Morgan CEMBI Broad Diversified (1–3 years)

### Best and worst relative performance contributors by country (relative to the investment universe)



Source: Erste AM, July 2019

### Selected new issues in July

Issuer	Coupon	Maturity	Rating	Region
Pampa Energia S.A.	9.125	15.04.2029	B	Latin America
Adani Ports&Special Eco.Zo.Ltd	3.375	24.07.2024	BBB-	Asia
Telecom Argentina S.A.	8	18.07.2026	B+	Latin America
Usiminas International S.a.r.l	5.875	18.07.2026	BB-	Latin America

### Erste AM EMERGING MARKETS CORPORATE Strategies (in mn EUR)

Pooled Funds	1,011.17
Institutional Mandates	485.84
<b>Total</b>	<b>1,497.01</b>

As of July 2019

However, this "plan" will have little impact on the fundamental situation of the company. According to local newspaper reports, the Senate in Mexico has approved an amendment to the relevant law so that state-owned companies such as Pemex can also be reorganized. It remains to be seen whether the House of Commons will approve this law. However, it can hardly be considered a positive change.

Finance Minister Urzua may have resigned because of differences of opinion on Pemex's fate. Economic activity is also declining in the country, and many market participants are postponing their decisions due to the uncertain climate. We remain fundamentally underweighted and the necessary positive factors are missing (apart from the valuation versus Mexico). In general, we have somewhat reduced Mexican credits such as Cemex or Mexichem. The timing was good, as Cemex (partly Mexichem) reported very weak figures afterwards. We had reduced the latter due to low prices and margins for relevant chemicals due to the worldwide increase in capacities. BASF's profit warning also fits into this picture.

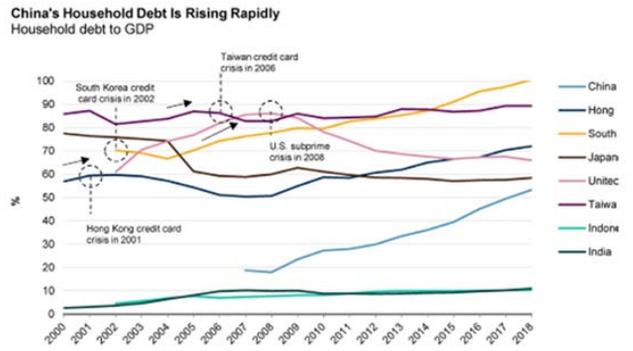
Sappi from South Africa has again lowered the outlook and the debt of Suzano from Brazil (one of the largest and cheapest global producers of paper pulp) has risen above the 4x EBITDA mark (looking at annualised figures). Here, we have reduced our overweight and have closed the entire position.

Turkey has lowered key interest rates by 425 basis points (falling inflation and improvement of current account), but the market reaction has been close to zero. In Argentina, bonds traded somewhat weaker after good weeks - the outcome of the elections remains uncertain, although we believe Macri will win in the end. There have also been some new issues from the country, improving the availability of corporate bonds.

South Africa has big problems with "its Pemex" – ESKOM, which is nothing new. However, the fact that the country ultimately has to provide so much money for the rescue came as a surprise. In any case, the rating will suffer in a phase of countless global uncertainties. We recently downgraded another South African company to "sell": For fundamental reasons and due to mistimed investments (Lake Charles), we do not find the chemical group SASOL attractively valued at present.

In my opinion, market valuations are currently giving an "overstretched" impression. There is hardly any differentiation in credit quality; the money flows flowing into the asset class are determining prices. It is to be expected for an indefinite period of time that the search for yield (there was a record number of negatively yielding securities worldwide) will distort prices & valuations as is the case on the stock market.

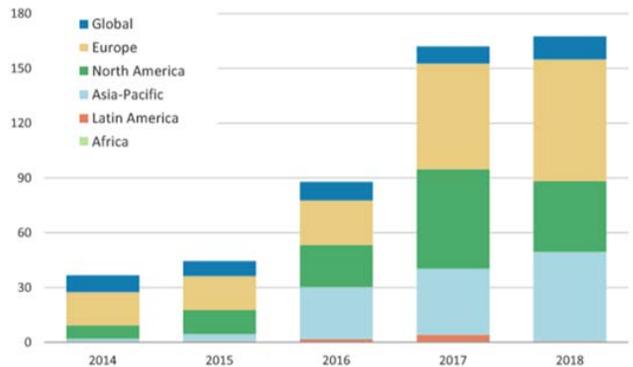
**Chart 1: China's household debt is rising rapidly**



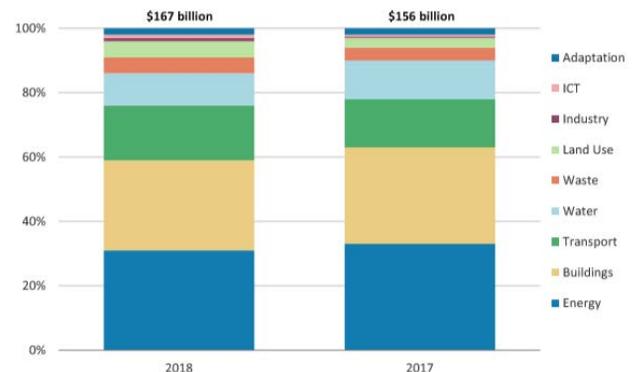
Source: CEIC, 2019

**Charts 2-3: SRI corner – Green Bonds Market**

**Global issuance by market (\$ billion)**



**2018- global use of proceeds of green bonds**



Source: Climate Bonds Initiative, Morgan Stanley Research

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