

Positive Contributors	FUND	Negative Contributors
<ul style="list-style-type: none"> Countries: Mexico, Brazil, Cote d'Ivoire Companies: Banco Daycoval SA, Pemex, Marfrig Alimentos SA, YPF S.A. 		<ul style="list-style-type: none"> Sectors: Utilities Companies: Tullow Oil plc, Teva Pharmaceutical Industries Ltd
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> US - China: Agreement to halt additional tariffs – partial reduction of prior duties YPF: Guillermo Nielsen is appointed CEO 		<ul style="list-style-type: none"> High debt levels and slow economic growth of some African countries Asia: Low inflation in Thailand and Singapore

Update from the lead manager Péter Varga

The bull market year 2019 came to a dignified end! The absolute performance was just below 1%, boosted by a narrowing of spreads (26 basis points) and of the carry trade. The development was only slowed down by the rise in USD yields (10 basis points in the 10-year range).

Commodities traded relatively stable or even stronger. The price of oil (Brent) rose by 10%, iron ore by about 8% and gold by over 3% (in USD).

Trade war news: the US and China have agreed that there will be no new tariff increases. The tariffs set in September will be halved if the Chinese open their economy further and buy more than USD 40 billion (p.a.) worth of soybeans from the US over the coming years. The markets took this "deal" slightly positively, but US yields corrected immediately (yield curve gets steeper) and equities, as well as risk premia on bonds in general, continued their positive trend. The stability of such an agreement can be seen with the example of Brazil and Argentina: Trump had demanded tariffs on steel for these countries because the currencies had depreciated against the dollar. Meanwhile, the Chinese have threatened Germany with measures against the car sector if Huawei is excluded from the bidding process for the 5G licenses. Admittedly, in this tangle of announcements it is sometimes difficult to keep track. The chart on page 2 may provide some guidance here.

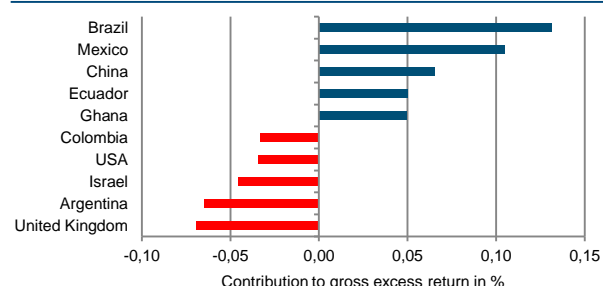
Almost unnoticed was the warning by Standard & Poors that several Asian countries (including Thailand, Singapore) might have to resort to QE and thus negative returns (!) to combat low inflation. The IMF also urged many African countries to be cautious, given their debt levels at or above those of the 1990s (debt crisis). The problem is that budget deficits are financed purely by new bonds or loans, however the bond proceeds are barely used for productive investments. If market conditions were to deteriorate, there is a risk of hardship as the respective economic growth is too weak. Uganda plans to raise USD 600 million in new loans in 2020 to plug the budget deficit. Moody's has lowered the outlook for Nigeria (B2) from "stable" to "negative". As a result of Brazil's reform steps, S&P has raised its rating (BB-) from "stable" to "positive".

Argentina has announced the first steps of the new cabinet. These include an increase in the tax on agricultural exports,

Gross Performance	Dec. 2019	YTD	1Y	3Y	5Y	10Y
ERSTE BOND EMERGING MARKETS CORPORATE						
Fund	1.03%	10.50%	10.50%	14.70%	27.58%	93.50%
Investment Universe*	0.75%	10.62%	10.62%	12.86%	25.28%	69.41%
Difference	0.28%	-0.12%	-0.12%	1.84%	2.29%	24.09%
ERSTE BOND EMERGING MARKETS CORPORATE IG						
Fund (USD)	0.66%	12.51%	12.51%	18.40%	24.75%	-
Investment Universe** (USD)	0.52%	12.74%	12.74%	19.08%	25.86%	-
Difference	0.14%	-0.23%	-0.68%	-0.68%	-1.11%	-
ERSTE RESPONSIBLE BOND EMERGING CORPORATE						
Fund	0.77%	9.17%	9.17%	9.14%	16.24%	-
ERSTE BOND EMERGING MARKETS CORPORATE SHORT TERM						
Fund	0.97%	7.25%	7.25%	-	-	-
Investment Universe***	0.61%	7.30%	7.30%	-	-	-
Difference	0.36%	-0.05%	-0.05%	-	-	-

*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, December 2019

Selected new issues in December

Issuer	Coupon	Maturity	Rating	Region
Wanda Properties Overseas Ltd.	6.95	05.12.2022	BB+	Nord America
Banco Daycoval S.A.	4.25	13.12.2024	BB-	Latin America
Braskem Idesa S.A.P.I.	7.45	15.11.2029	BB	Nord America

Erste AM EMERGING MARKETS CORPORATE Strategies (in mn EUR)	
Pooled Funds	1,033.16
Institutional Mandates	482.62
Total	1,552.77

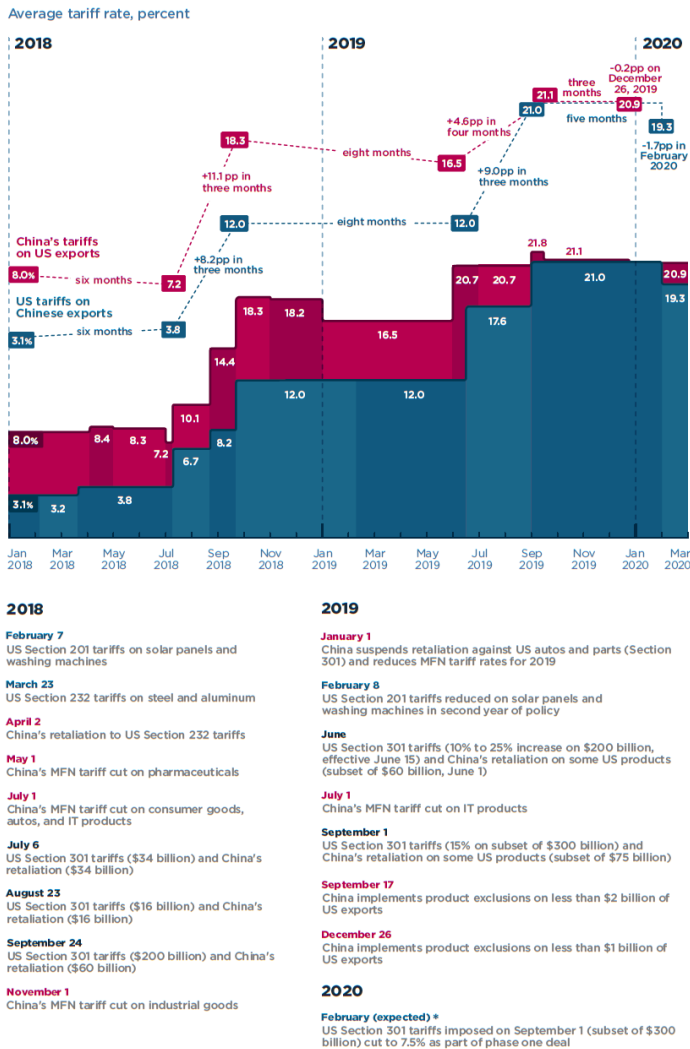
As of December 2019

credit card tax for foreign deployment (30%) and the financing of the budget by the central bank. Similarities with the era of Cristina Fernández de Kirchner do not seem coincidental. However, it is not quite clear what could indicate a positive and thought-out structural change. Nonetheless, Argentine corporate bonds in particular have risen sharply in recent weeks. Hence, that some of them are only a few points away from pre-selection levels. We cannot see any positive aspects of the new government programme and have reduced our position in this rally.

Corporate news: Vale from Brazil plans to aggressively pursue its ESG transformation. The company wants to be CO2-neutral by 2050, acquire ISO14001 certification, link executive compensation to ESG targets and establish an audit committee. Cemex also shows a positive development and has rolled out its e-commerce platform to 90% of its customers and 45% of all orders. In contrast, Tullow Oil bonds were among the biggest losers of the month after the company had to revise its 2019 targets downwards for the third time and "only" heavy oil was found in Guyana. At its peak, the share lost around 90% of its last high. Our position in convertible bonds has cost some performance, but we are now underweight. YPF has a new CEO in Guillermo Nielsen. Nielsen is, among other things, the driving force behind the development of the shale gas and oil fields in the Vaca Muerta region, which can be rated as a positive development.

We are starting the year 2020 in a positive mode. The risk premia still allow for some narrowing (especially in the high yield segment), but the levels are already very ambitious and the US election year will probably provide some surprises.

Graph: US – China Trade War Tariffs: An Up-to-Date Chart



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pp = percentage point; MFN = most favored nation

* The US tariff reduction is expected to be implemented 30 days after both countries sign the phase one legal agreement, which the Trump administration anticipates to be January 2020.

Note: Trade-weighted average tariffs computed from product-level (6-digit Harmonized System) tariff and trade data, weighted by exporting country's exports to the world in 2017.

Source: Updated on December 19, 2019, with data available in Chad P. Bown's blog post, "Phase One China Deal: Steep Tariffs Are the New Normal."

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