

Positive Contributors	FUND	Negative Contributors
<ul style="list-style-type: none"> Countries: Brazil, Colombia, Ukraine Companies: Gran Tierra Energy Intl, Raizen Energia SA, Metinvest Group, Gol Transportes Aereos S.A. 		<ul style="list-style-type: none"> Countries: Argentina, Thailand Companies: PT Modernland Realty Tbk
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> Optimism in vaccine development 		<ul style="list-style-type: none"> Massive growth of debt in EM countries and selected companies

Update from the lead manager Péter Varga

The last report I highlighted a certain "euphoria", which was particularly noticeable in the high yield sector. This has now come to an end over the course of June. The first third of the month was extremely strong, while afterwards the trend was more or less sideways. The absolute performance of the universe was around 2.75%, driven by further narrowing risk premia and slightly lower US yields. At the end of June, the relevant risk premia stood at 390 basis points.

A glance at the macro side shows that we have seen a relatively strong recovery in consumer spending in Europe and the US. The US government even issued checks for this purpose, but these are going to expire in August. Even some EM Countries (with the exception of countries such as Thailand, which is still completely crowded by tourists, or individual regions in Latin America) saw an increase in consumption. However, it remains a race against the coronavirus as shown by the recent rapid increase in cases in several US states: increase in new cases versus relaxation of the economically highly restrictive measures to contain them. As for a vaccine, there is still hope - China is reportedly already administering a vaccine to its army that has so far passed the necessary hurdles for approval. Pfizer has also recently expressed optimism that it will be able to produce a vaccine in large quantities by the end of the year. We maintain our long-standing opinion that the result for many EM countries and some companies will ultimately be a massive increase in debt, which in some cases will be unbearable. Debt relief or restructuring will therefore accompany us in the coming years.

The commodity markets, which are now very relevant for emerging markets in particular, have reflected the improving economic indicators in corresponding price premia and in some cases have returned to their price levels from the beginning of the year. Iron ore and copper performed strongly, the oil price was still volatile but was able to increase further, and the gold price continues to benefit undiminished from central bank money printing.

At the (geo)political level, the tension between China and the US regarding Hong Kong has further intensified, but so far without any relevant impact on our markets. However, what is happening in India is much more exciting in our opinion: on the one hand, the country is struggling with the devastating consequences of the virus and has once again maneuvered itself into conflict with China in the Galvan River valley in the Himalayas - as it has done a few times before over the last 60 years since the "mini-war" with China.

(<https://theprint.in/opinion/china-believes-india-wants-aksai-chin-back-thats-why-it-has-crossed-lac-in-ladakh/430899/>).

India's relations with Nepal, Pakistan and China have long been tense because of the border in Kashmir. A conflict between the relatively weak Indian army and these three countries would certainly not be wise - China is also speculating on this. But of course there are other aspects in the background, such as the "belt and road" (economic) policy propagated by China,

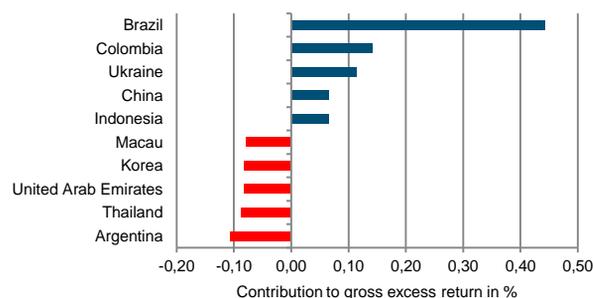
Gross Performance	June 2020	YTD	1Y	3Y	5Y	10Y
ERSTE BOND EM CORPORATE						
Fund	2.80%	3.11%	5.86%	13.02%	26.06%	85.93%
Benchmark*	2.74%	-1.11%	1.51%	6.38%	18.85%	57.24%
Difference	0.05%	4.22%	4.35%	6.64%	7.20%	28.69%
ERSTE BOND EM CORPORATE IG						
Fund (USD)	2.48%	2.32%	6.37%	16.25%	24.74%	-
Benchmark**	2.12%	1.86%	5.74%	16.14%	26.28%	-
Difference	0.35%	0.47%	0.62%	0.11%	-1.54%	-
ERSTE RESPONSIBLE BOND EM CORPORATE						
Fund	2.34%	0.69%	3.42%	6.43%	13.60%	-
ERSTE BOND EM CORPORATE SHORT TERM						
Fund	2.18%	1.21%	3.59%	-	-	-
Benchmark***	1.90%	0.02%	2.28%	-	-	-
Difference	0.27%	1.19%	1.30%	-	-	-

*J.P. Morgan CEMBI Broad Diversified Composite Index Hedged in EUR

**J.P. Morgan CEMBI Broad Diversified IG in USD

***J.P. Morgan CEMBI Broad Diversified, Maturity 1-3 years Index

Best and worst relative performance contributors by country (relative to the benchmark)



Source: Erste AM, June 2020

Selected new issues in June

Issuer	Coupon	Maturity	Rating	Region
CLP Power HK Financing	2.125	30.06.2030	A+	Asia
Fuqing Investment Mgmt	3.25	23.06.2025	BBB-	Middle East
HTA Group Limited	7.00	18.12.2025	B	Africa
Seazen Group Ltd	6.45	11.06.2022	BB-	Asia

Erste AM EMERGING MARKETS CORPORATE Strategies (In mn EUR)

Pooled Funds	967.74
Institutional Mandates	421.24
Total	1,388.99

As of June 2020

in which India does not want to participate. But Americans are now looking at India with different eyes. Never before has the country been in conflict with the US, unlike China (see chart 2) it has a young and rapidly growing population (potential market), is not as strong as China in terms of military and economy, but it shares a common border. Facebook, Amazon, Walmart and Intel have already made large investments or recently announced that they will secure this market for themselves. At the same time, India has blocked 59 Chinese apps due to security concerns. A stronger, economic and (political) involvement of the US in India would certainly not be a disadvantage for the country, especially in terms of the economic situation. One can imagine what Russia, which supplies India with oil and uranium among other things, would say about this.

Incidentally, a state of emergency was declared in the Krasnoyarsk region after 20,000 tons of diesel leaked from a Norilsk Nickels plant. Greenpeace has named this as the greatest disaster in the Arctic Circle and it is already being compared with that of Exxon-Valdez in Alaska in 1989.

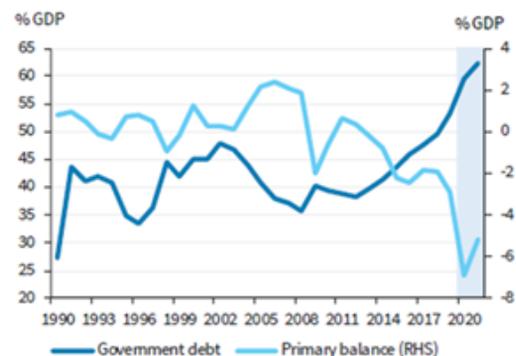
At the corporate level, however, things were relatively "quiet" in June. Cemex was downgraded by Fitch to BB- with negative outlook. The forthcoming quarterly figures and the outlook for the second half of the year are eagerly awaited.

On a fund level, we were pleased to close our trade (Buy Raizen versus Petrobras, see May report) after a 100 bps rally (see lower part of chart 3).

Overall, the fund performance was close to the benchmark. The first half of June was very positive for us in terms of performance. However, we were relatively underweight in yield-sensitive countries and companies (Asia, Middle East), which then outperformed in the second half of the month.

Graph 1a: The massive extension of debt is now having an affect on ratings

EM gross government debt is well in excess of historical high levels, as primary balances have significantly worsened

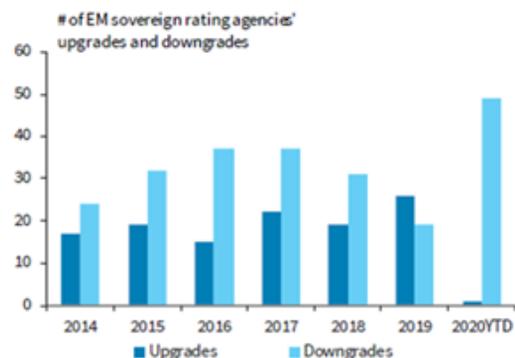


Note: GDP weighted average of EM gross government debt and primary balances. Blue area refers to IMF forecasts for 2020 and 2021.

Source: Haver Analytics, Barclays Research

Graph 1b: The massive extension of debt is now having an affect on ratings

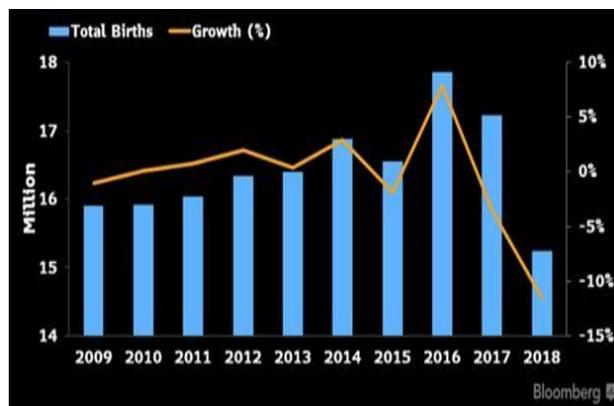
Rating agencies have taken note



Note: Yearly rating changes by any of the three major rating agencies, irrespective of the magnitude of rating change. Source: Moody's, S&P, Fitch.

Source: Bloomberg, Barclays Research

Graph 2: The birth rate in China is declining sharply



Source: Bloomberg

Graph 3: Successful Relative Value Trade - Raizen versus Petrobras



Source: Bloomberg

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