

Positive Contributors	FUND	Negative Contributors
<ul style="list-style-type: none"> Countries: China, Mexico, Columbia Companies: Unigel Participacoes SA, Gran Tierra Energy INTL, Lenovo Group 		<ul style="list-style-type: none"> Countries: Indonesia, Macao, Jamaica Companies: Digicel Group LTD, AMS AG
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> Stable EM currencies Promising fundamentals of EM companies 		<ul style="list-style-type: none"> Signs of speculation make rapid market corrections increasingly likely Unsustainable public debt in some EM countries

Update from the lead manager Péter Varga

The last month of the year ended with the market being at its zenith. Risk premia were just 12 basis points above the level seen at the end of 2019. In December, absolute performance was around 1.3%. Looking at the whole year, performance was just below 5.5%. US yields were up by 10 basis points at the long end.

In terms of economics and politics, December was relatively uneventful. Worth mentioning is the achievement of a Brexit deal before Christmas, although this was to be expected. Even though the deal was signed, much remains to be elaborated in more detail over the coming months. Meanwhile, Turkey's new central bank chief raised the key interest rate in several steps to stabilise the currency, and President Erdogan promised democratic reforms. Media coverage was clearly heavier on the roll-out of vaccines against Covid-19 and new approvals of alternatives to BioNTech-Pfizer's product.

On a micro level, the "battle of giants" in China - Jack Ma, Alibaba versus Xi Jinping, head of state - offered interesting insights. The Chinese internet conglomerates (Tencent and Alibaba) have achieved relevant size with their holdings in various service sectors (including finance, insurance & logistics) (see charts 1 and 2) so that the two enterprises partly counteract the transmission of the head offices' policy and thus are tough competition to Chinese state-owned companies and banks. The regulatory entity has removed savings products from online providers that involve small, local banks (an estimated USD 500 billion in non-performing loans is "in the fire"). Given the size of these FinTechs, their rapid growth and, in some cases, lack of risk management, increased regulation seems appropriate. The government's goal is not to ban them (the supply of loans is of essential interest), but to maintain the stability of the financial economy.

Commodity markets, which are very relevant to the emerging markets, were in good if not in extremely good shape. Iron ore alone gained 25% in December (speculators, various production delays and strong demand from China). Oil price was up by 8% (OPEC+ stuck to production cuts for the time being) and copper closed at its highest level in 5 years. Industry is booming thanks to global construction activity and general demand for commodities, but services continue to suffer due to the Covid19 measures.

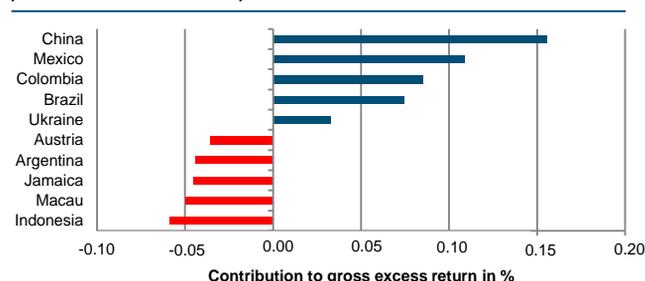
Gross Performance	December 2020	YTD	1Y	3Y	5Y	10Y
ERSTE BOND EM CORPORATE						
Fund	1.43%	10.25%	10.25%	17.68%	39.95%	87.19%
Benchmark*	1.37%	5.41%	5.41%	10.48%	33.42%	57.63%
Difference	0.06%	4.84%	4.84%	7.20%	6.53%	29.56%
ERSTE BOND EM CORPORATE IG						
Fund (USD)	1.05%	8.48%	8.48%	21.12%	34.61%	-
Benchmark**	0.82%	7.33%	7.33%	20.31%	36.71%	-
Difference	0.23%	1.15%	1.15%	0.82%	-2.10%	-
ERSTE RESPONSIBLE BOND EM CORPORATE						
Fund	1.02%	6.63%	6.63%	11.08%	22.09%	-
ERSTE BOND EM CORPORATE SHORT TERM						
Fund	1.03%	6.37%	6.37%	-	-	-
Benchmark***	1.38%	5.06%	5.06%	-	-	-
Difference	-0.35%	1.30%	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, December 2020

Selected new issues in December

Issuer	Coupon	Maturity	Rating	Region
BANCO CONTINENTAL S.A.E.	2.75	10.12.2025	BB+	South America
TURKIYE VAKIFLAR BANKASI	6.5	08.01.2026	B+	Europe
KAISA GROUP HOLDINGS LTD	6.5	07.12.2021	B	Asia

Erste AM EM CORPORATE Strategies (in mn EUR)

Pooled Funds	1,106.71
Institutional Mandates	513.70
Total	1,620.41

As of December 2020

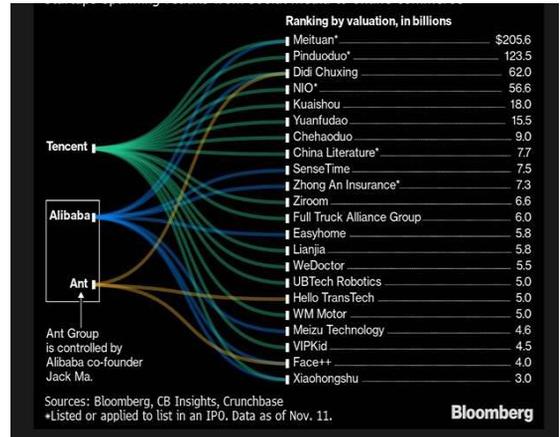
Usually, at the end of the year one looks back and also ventures an outlook, which is by far more difficult. What did we do well in 2020? Well, fortunately, a lot! At the beginning of the year, we were rather defensively positioned as in a historical context the prevailing valuations seemed too "sporty & ambitious". During the pandemic-related sell-off, we bought companies with first class fundamentals in important sectors such as construction and food, which also recovered the fastest. In the second phase of the crisis, during the summer, this allowed us to take profits on some positions and focus on those players that were hit hard by the pandemic (airlines, for example). In hindsight, we were perhaps not aggressive enough to fully participate in the last phase of the rallye. Although we were able to outperform, the numbers were not as strong as in the months before. However, we know from experience - and it became apparent time and again over recent years - that illiquid, weak companies often show the greatest performance in the final phase of a rallye ("missing the rallye" phenomenon). This happened again in November and December. And so, we have come full circle regarding December 2019 when, as mentioned initially, the situation was very similar. Back then we also did not follow the crowd either and we deliberately did not fill our portfolios with weak, illiquid companies. Despite our less aggressive macro positioning we did our usual excellent individual bond selection and weighted our favourites heavily (an example is Unigel from Brazil or individual convertible bonds). In the case of Unigel, for example, we also participated in an exclusive update call in December where we also were able to offer our expertise in ESG (engagement). The company was very happy to respond to that offer and we have arranged a call with our ESG analysts for early January 2021. We also had another call with Gol (airline, Brazil) to get an outlook there as well.

That was the easier part, but what can we expect from 2021? Commodity prices will remain high as the recovery should move forward thanks to global infrastructure policies (green deal, hydrogen push, etc.) from governments. The US currency should continue to depreciate as the FED will probably not think about how to deal with US yields at all for another 2-3 years, meaning EM currencies will remain relatively well supported by these two factors. The steep local yield curves will tend to show a "bull flattening" in contrast to the US curve, which means that long maturities will perform best. The fundamentals for EM companies also look good, especially compared to those in developed markets, as chart 3 shows quite clearly. For example, the debt levels of HY companies in EM are lower than those of EU companies with investment grade ratings....

The risk premia are considered fair and, in the absence of attractive alternatives, a certain narrowing of the premia is certainly still possible (see chart 4). Hence, a performance range of 2%-6% on a euro basis would be possible in an optimistic scenario depending on the degree of the risk premia narrowing and depending on the development of US yields.

What could go wrong? Well, the valuations on the markets should be understood as "priced for perfection" and there are clearly signs of excessive speculation (see chart 5). Rapid correction phases are therefore very likely in 2021, depending on how far the market valuation of the economy deviates from reality. Many EM countries will have to implement reforms soon as the high deficits are not sustainable, and this could of course have a negative impact on bond prices in the respective EM countries. We remain vigilant.

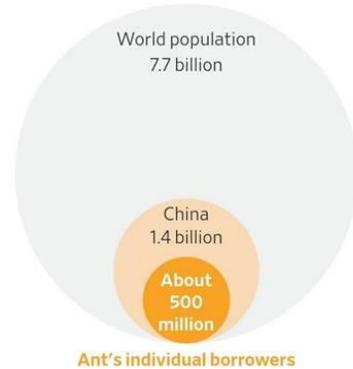
Graph 1: Tencent, Alibaba und Ant Group have invested in a vast array of Chinese startups spanning realms from social media to online commerce



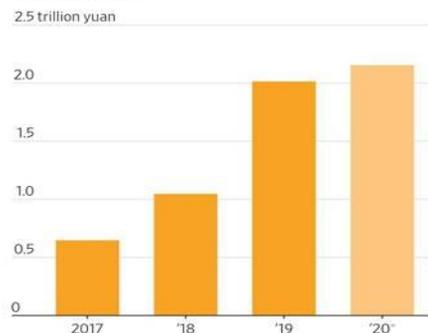
Source: Bloomberg

Graph 2: The sheer size of Ant Group's online lending business in China suggests why there is regulatory intervention.

Number of borrowers



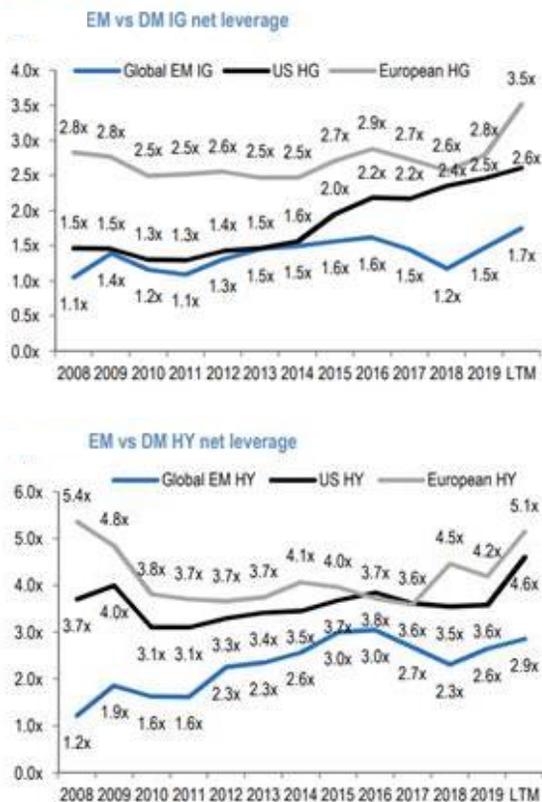
Credit balance



Note: 1 trillion yuan=\$151 billion *As of June
Sources: United Nations (world population); National Bureau of Statistics of China (China population); Ant Group

Source: WSJ

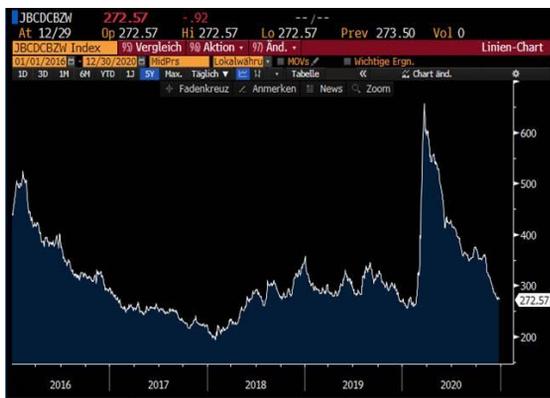
Graph 3: EM companies have comparatively lower debt levels



Note: For EM, LTM metrics represent blended 3Q20 reports as well as earlier LTM metrics for those issuers which either do not report quarterly results or do not have 3Q20 metrics updated. For US/European HY and European IG, credit metrics are as of 2Q20. For US HG, metrics are as of 3Q20.

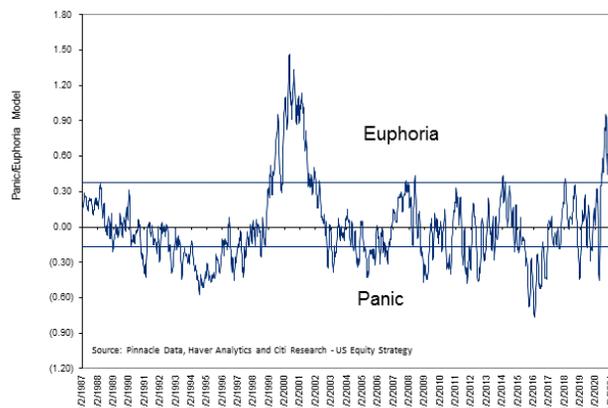
Source: J.P Morgan, Bloomberg Finance L.P., CapitalQ

Graph 4: The historical spread development shows that there is still potential up to the low from 2018



Source: Bloomberg, J.P. Morgan CEMBI Z-Spread to Worst

Graph 5: Comparatively high market euphoria at the beginning of 2021



Source: Pinnacle Data, Haver Analytics and Citi Research – US Equity Strategy

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