

Positive Contributors	FUND	Negative Contributors
<ul style="list-style-type: none"> Countries: Saudi Arabia, Argentina, China Companies: Saudi Arabian Oil Co, Archer Daniels Midland Co, SSMS Plantation Holdings Pte Ltd 		<ul style="list-style-type: none"> Countries: Russian Federation, USA, Paraguay Companies: US Treasury, Istanbul Metro Municipality, Tencent Holdings Ltd
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> Recent data confirms a strong upturn of macro development thanks to supportive US policy and pickup in vaccination production Rebound is likely to last 		<ul style="list-style-type: none"> Slow and uneven distribution of vaccines in emerging markets Uncertainty in Turkey

Update from the lead manager Péter Varga

The first quarter of 2021 ended for the ERSTE BOND EM CORPORATE with a return of -0.44%. At least we were able to outperform the JPM CEMBI Broad Diversified by 61 basis points. However, the dominant factor was the rise in U.S. Treasury yields (+84 bps over 10 years). Unfortunately, a -17 bps tightening of the spread curve could not help much.

This is the third time since the crisis in 2010 that yields have been negative in the first quarter. In fact, the move in U.S. yields was the largest quarterly increase, surpassing even the taper-trantrum period of Q2 2013 (+62 basis points). Unsurprisingly, long-duration asset classes posted larger negative returns, such as EMBIG Diversified (-4.5%); we discussed this in our previous monthly report.

Growth

In terms of macro developments, we have noticed that recent data confirms a strong upturn, albeit not in all regions at the same time. Generally speaking, only when the negative correlation between virus development and mobility has been broken by a correspondingly high level of vaccination coverage, easing measures can be sustainable. The extent and nature of the recovery (pent-up demand) and possibly a subsequent economic boom (high growth even after full employment has been reached) is already widely discussed.

But it will take time for increased vaccination to have a significant impact on the reproduction rate. However, the recent surge dampens near-term growth prospects in continental Europe and in a number of large emerging markets. Because of U.S. policy support and a rapid pickup in vaccine production, the risk of the rebound veering off course is low.

However, vaccine distribution in EM is likely to be slower and more uneven. We can therefore expect different dynamics between growth in developed and EM markets.

Country News

The worst performing country over the month was by far Turkey (+121 bps spread widening). Food prices in this country rose by an annualized rate of 17.4% in March. Given high unemployment and a third Corona wave that Turkey and many other countries are currently struggling with, the situation for the people in the country gets even more aggravating. The former head of the central bank, Naci Agbal, had tried to get the situation under control by tightening interest rates. On 18 March, he surprisingly raised the key interest rate significantly by 2 percentage points to 19 percent and was subsequently dismissed by President Erdogan. (Erdogan is an opponent of high interest rates. He holds the view, contrary to the experts, that high interest rates drive up inflation!) The consequences: the lira plummeted, and market confidence was (once again) broken (see graph 1 and 2). The first central bank meeting in April under the new head of the central bank, Sahap Kavcioglu, was eagerly awaited. Therefore, the situation remains unclear, and we are thus underweighting Turkey and have shifted our focus to the less affected telecom sector.

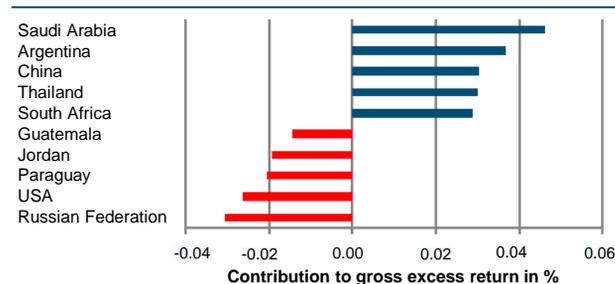
Gross Performance	March 2021	YTD	1Y	3Y	5Y	10Y
ERSTE BOND EM CORPORATE						
Fund	-0.65%	-0.44%	20.23%	18.94%	34.62%	81.01%
Benchmark*	-0.92%	-1.05%	17.22%	11.27%	26.88%	51.58%
Difference	0.27%	0.61%	3.02%	7.67%	7.74%	29.43%
ERSTE BOND EM CORPORATE IG						
Fund (USD)	-0.76%	-1.45%	13.83%	21.30%	29.48%	-
Benchmark**	-0.77%	-1.65%	12.65%	19.88%	29.51%	-
Difference	0.01%	0.21%	1.19%	1.42%	-0.04%	-
ERSTE RESPONSIBLE BOND EM CORPORATE						
Fund	-1.04%	-0.88%	15.29%	12.10%	17.93%	-
ERSTE BOND EM CORPORATE SHORT TERM						
Fund	-0.36%	0.31%	14.88%	16.14%	-	-
Benchmark***	-0.16%	0.90%	14.30%	15.67%	-	-
Difference	-0.20%	-0.59%	0.58%	0.48%	-	-

*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, March 2021

Selected new issues in March

Issuer	Coupon	Maturity	Rating	Region
INVERSIONES CMPC SA	3.00	06.04.2031	BBB-	Latin America
CLEAN RENEWABLE POWER	4.25	25.03.2027	BB	Asia
JAPFA COMFEED TBK PT	5.38	23.03.2026	BB-	Asia
HCL AMERICA INC	1.38	10.03.2026	A-	Asia

Erste AM EM CORPORATE Strategies (in mn EUR)

Pooled Funds	1,399.900
Institutional Mandates	493.051
Total	1,892.951

As of March 2021

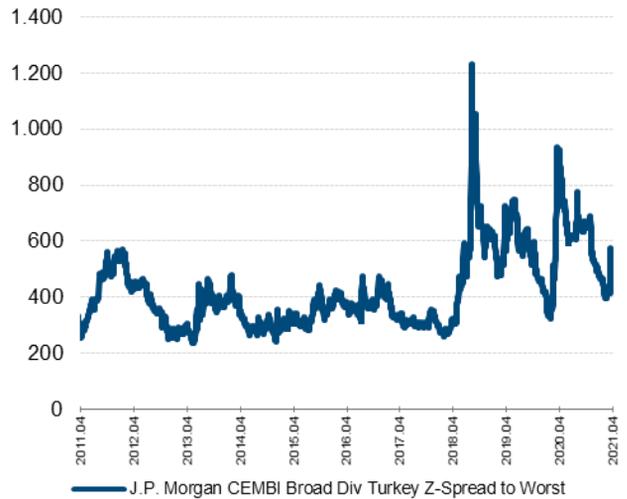
Corporate News

There were also some interesting corporate figures in March. For example, protein giant Marfrig (overweight) released solid Q4 2020 results that beat consensus estimates. Sales did decline 2% y/y to \$3.4 billion as higher volume was offset by slightly lower average prices in the US. Solid cash generation remained and now stands at USD 237 million, while net leverage (LTM) further improved to 1.7x. Sovcombank (overweight), Russia's ninth largest bank, released its Q4 financials as well. Net profit came in at RUB 17bn (+45% q/q) and asset quality continued to improve as NPLs declined by - 2.1%. Yuzhou (N), the one-time darling of Chinese homebuilders, delivered a weak FY20 result. The main reason cited was delayed revenue recognition, which led to a buildup of unreported sales. What followed was a downgrade from Moody's by one notch to B2. Beijing wants to curb rampant borrowing by real estate companies. Since the government introduced its "three red lines," investor concerns about the real estate sector remain.

Conclusion

What can we expect from the market in the near future? Historical trends suggest that the CEMBI may return to positive returns in the second quarter, but interest rate trends remain the most important swing factor. Over the past ten years, the second quarter has produced the highest average return for CEMBI at 2.0% with a median of 1.7%. Furthermore, there have only been two instances in the last ten years where CEMBI has had two consecutive quarters of negative returns. This leaves us cautiously optimistic.

Graph 1: The renewed widening of the Turkish credit spread reflects the loss of market confidence



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

Graph 2: The devaluation trend of the Turkish lira against the US dollar is likely to continue



Source: Bloomberg USD/TRY

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We believe that active management is the best way to generate value in inefficient markets. Emerging markets corporate bonds offer these kind of investment opportunities. Our clients appreciate and benefit from the integrative research and portfolio manager team approach that provide the basis for a structured and efficient decision making process. This stable process and our focus on excellence has made us the partner of choice for institutional clients all over Europe.

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