

Positive Contributors	FONDS	Negative Contributors
<ul style="list-style-type: none"> At country level: China, Turkey, Ukraine At issuer level: Shima Group Holdings Ltd, US Treasury, Logan Property Co Holdings 		<ul style="list-style-type: none"> At country level: Colombia, Romania, Qatar At issuer level: Colombia Govt, Russian Railways, Cap Sa
Opportunities	MARKET	Challenges
<ul style="list-style-type: none"> EM companies have continued to report stable figures. Despite illiquid days in November, the outlook for 2022 is cautiously positive 		<ul style="list-style-type: none"> Spread of Omicron variant causes uncertainty Sales figures for private real estate in China continued to decline

Update from the Lead Manager Péter Varga

Another turbulent year is drawing to a close and this was also reflected in the last days of November, which were characterised by lower liquidity.

Traditionally, investment banks are closing their books and are "polishing" their balance sheets during this period, meaning that open positions in the trading books are closed as far as possible, and that there is no more accumulation buying. However, if there is a "rush" of important, market-moving news during this time, as was the case in November, price jumps can easily occur, which can then be magnified by movement of funds or market placements.

Risk premia were quoted at 290 or 307 basis points (depending on the CEMBI index), approximately 25 basis points higher, and the performance of the CEMBI Broad Div. index (hedged in EUR) was -0.78%. The U.S. 10-year yield traded 10 basis points tighter than the previous month at 1.45% - the yield curve continued to flatten.

On the macro side, the FED delivered what for me was the most important news when the central bank chief himself accepted and announced that inflation was unlikely to be a quickly passing phenomenon (by the way, the ECB staff thinks so too: <https://www.politico.eu/article/ecb-union-seeks-bigger-pay-hike-in-face-of-inflation/>).

The interest rate markets took this news quite calmly, as it is currently rather the new Covid19 variant that is doing the rounds and causing uncertainty as far as economic growth is concerned. Lockdowns, some of which were imposed again in Europe, faster spread of the new variant and, on top of that, the existing and not improving supply bottlenecks (see chart 1). This is too much negative news - even for optimists - although according to a DB survey, a majority does not believe that Omicron will have a major impact on the financial markets (see chart 2).

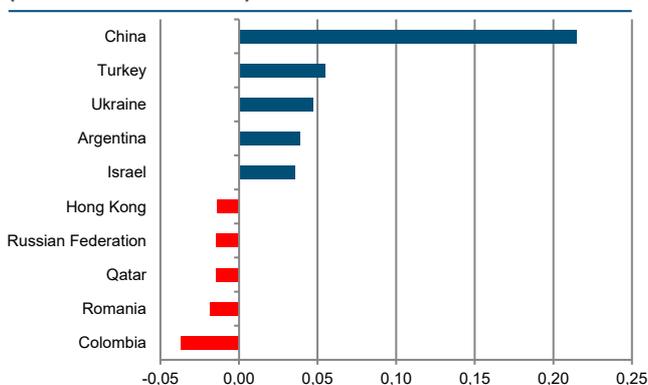
In China, we are seeing the continued managed cooling of the economy that we already expected. Purchasing managers' indices are neutral, but do not point to an acceleration in growth. Domestic demand remains tepid, and private home sales continued to decline in November.

Add to this the contraction in credit growth, and this also implies a slowdown for the global economy (due to the run-up nature of credit growth) in the months ahead (see chart 3). Homebuilding bonds remained very volatile, with stronger demand for IG-rated bonds. Quite a number of issuers sought to extend rather than redeem bonds maturing in the short term.

Gross Performance	YtD	2020	2019	2018	2017	2016	since edition 2007
ERSTE BOND EM CORPORATE							
Fonds	-0.01%	10.25%	10.50%	-3.40%	7.46%	10.67%	144.01%
Benchmark*	-0.29%	5.41%	10.62%	-5.25%	7.67%	12.15%	97.67%
Difference	0.28%	4.84%	-0.12%	1.85%	-0.21%	-1.48%	46.34%
ERSTE BOND EM CORPORATE IG since edition 2012							
Fonds (USD)	-1.90%	8.48%	12.51%	-0.76%	6.04%	4.80%	41.68%
Benchmark**	-0.19%	7.33%	12.74%	-0.58%	6.24%	6.96%	40.24%
Difference	-1.71%	1.15%	-0.23%	-0.18%	-0.20%	-2.16%	1.44%
ERSTE RESPONSIBLE BOND EM CORPORATE since edition 2013							
Fonds	-1.83%	6.63%	9.17%	-4.58%	4.77%	4.91%	29.83%

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

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



Source: Erste AM, November 2021, contribution to gross excess return in %

Selected new issues in November

Issuer	Coupon	Maturity	Rating	Region
TELEFONICA MOVILES CHILE	3,53	18.11.2031	BBB-	Latin America

Erste AM EM CORPORATE Strategies (in mn EUR)

Pooled funds	1,701
Institutional Mandates	500
Total	2,201

As of: November 2021

We added to Seazen in HY in November (Fitch confirmed BB+ on Dec 01, 2021) and reduced Shima, similar to Logan, after good performance. Apart from tactical trades like Seazen, our current goal is to run a broadly diversified portfolio with benchmark-neutral sector weightings.

The situation on the EU's eastern external borders has further deteriorated (see chart 4). Belarus has now also formally tied itself closer to Russia by becoming the "barking dog of Putin," who for his part is keen to keep a moderate voice. Ruler Lukashenko is accused by the EU of flying in refugees from the Middle East and smuggling them to the EU's eastern border with Poland in order to exert pressure.

Ukraine is losing its own negotiating power and importance as a transit country for European gas supplies because of Nordstream 2 and wants to tie the EU and NATO closer to it, which in turn is directed against Putin. Result: a "ping-pong" of news between West (EU, US) and East (RU), like in the 60-ies. Bonds from Ukraine have been under strong pressure and have lost up to 10 points in value in some cases.

We are nevertheless overweight in Ukrainian corporate bonds in absolute terms, but ride a shorter spread sensitivity compared to the market, simply to be able to earn some carry without volatility. In recent days, we increased our overweight a bit with companies that corrected strongly in the illiquid market and/or reported good numbers like Vodafone Ukraine and Metinvest. In Russia, we have moved our overweight to Neutral, here the impact has not been great so far.

EM companies continued to report good or stable figures. The latter was the case for NEXA from Peru. Here, the company expects an increase in the mining tax by the government. Unigel, our long-term top pick, also reported stable numbers. The company's traditional businesses suffered from the margin squeeze in the chemical market (styrene, acrylics), but the new fertilizer division cushioned this well.

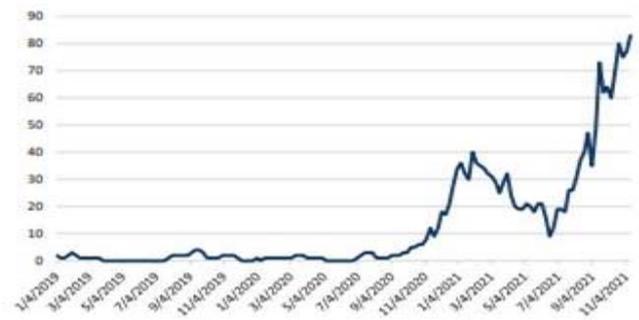
After a good performance, we halved the overweight here, but this remains in place. Klabin (packaging, paper pulp) also reported good numbers, but the bonds, like with other companies, suffered from market sentiment in Brazil and illiquidity in the market.

We were able to guide our fund quite well through the volatile, illiquid days in November, generating an excess return over the market. Our outlook for 2022 is cautiously positive. We believe EM Corporate fundamentals will remain excellent; we see little risk in this regard at this time.

What will have a greater impact on the performance of the asset class is the evolution of U.S. interest rates and the poor, fiscal health of some EM countries or elections, as in the one most recently in Chile, where a candidate from the far left made it to the final round against one from the far right.

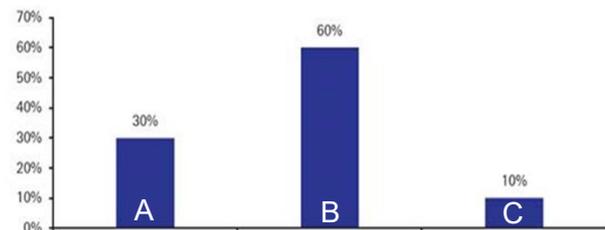
This polarity reflects a major split among voters and is generally evident in many other EM countries as well: missed reforms in recent years, covid strains and covid-induced savings losses, disappointed the electorate in many places. However, if risk premiums widen further by the end of the year due to the declared situation, I consider this a good initial entry level for 2022.

Chart 1: Container Ships Anchored at Port of L.A. and Port of Long Beach



Source: Marine Exchange of Southern California

Chart 2: With regard to the new covid variant Omicron, by the end of the year do you think this will be ...



A – Largely forgotten about within financial markets
 B – Still an issue within financial markets BUT only of moderate importance
 C – The biggest topic within financial markets

Source: dbDIG Survey, Deutsche Bank Research
 Note: Includes 1,569 responders over 8 hours on 29th November 2021

Chart 3: Global manufacturing activity looks like it faces downside risks thanks to China's efforts to change its economic structure



Source: Citi Research, National Sources PMI

Chart 4 Explanation:

Number 1:

The three baltic states regularly host Nato war games to counter any potential threat from Moscow. Britain plays a keyrole.

Number 2:

Russia and Belarus held huge joint military exercises in September in the Baltic region, Belarus and Western Russia.

Number 3:

Belarus has pushed migrants into the EU for months.

Number 4:

British troops joined 15.000 polish forces at its Belarus border to give advice on building fences

Number 5:

Russian nuclear bombers flew over Belarus last week.

Number 6:

Russian paratroopers performed military drills near the Polish border.

Number 7:

8.500 Ukrainian troops sent to Belarus border.

Number 8:

Russian armour and troop build-up on Ukrainian border sparked recent US warning of invasion.

Number 9:

Moscow supports Bosnian serb leaders pushing to break up multi- ethnic Bosnia & Herzegovina.

Number 10:

Moldova is softening its pro-western stance after being forced to sign a gas deal with Moscow.

Number 11:

Russia has teamed up with Serbia for joint Military drills.

Number 12:

North Macedonia has been targeted by Moscow since joining the Nato.

Number 13:

Russia invaded and annexed Crimea, part of Ukraine, in 2014.

Number 14:

Over 13.000 killed since 2014 in war over region of Ukraine controlled by Russian backed separatists.

Number 15:

2 US warships entered the Black Sea this month.

Chart 4: Not so quiet on the eastern front



Source: The Times and The Sunday Times

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