

UBS Emerging Economies Corporates

Manager Commentary

UBS Emerging Market Funds > Bonds

Name of fund

UBS (Lux) Bond SICAV - Emerging Economies Corporates (USD)

ISIN

LU0896022034

Share class

UBS (Lux) Bond SICAV - Emerging Economies Corporates (USD) P-acc

Reference Index

JPM CEMBI Diversified

Past performance is not a reliable indicator of future results.

Performance in % (net of fees)¹

in %	2015	2016	2017	2018	2019 YTD ²	May 2019	5 years p.a.	5 years p.a.
Fund (USD)	1.57	8.76	7.21	-3.82	6.24	0.21	17.93	3.35
Ref. Index ³	1.18	10.43	7.89	-1.72	6.75	0.50	25.55	4.66

The performance shown does not take account of any commissions, entry or exit charges.

¹ These figures refer to the past. Source for all data and charts (if not indicated otherwise): UBS Asset Management

² YTD: year-to-date (since beginning of the year)

³ Reference Index in currency of share class (without costs)

Risks

The fund offers higher return potential than a high-quality fixed income portfolio and therefore bears a higher risk. Emerging markets are at an early stage of development, which can typically involve a high level of price volatility and other specific risks, such as lower market transparency, regulatory hurdles, corporate governance as well as political and social challenges. Long-term investments are subject to greater fluctuations in value than short- or medium-term investments and money market instruments. Changes in interest rates and credit spreads may have an impact on the fund's value. The fund is denominated in US dollar, but may opportunistically invest in bonds denominated in euro. The fund can use derivatives, which may result in additional risks, particularly counterparty risk. All investments are subject to market fluctuations. Every fund has specific risks, which can significantly increase under unusual market conditions.

Portfolio manager summary & review (May 2019)

- Performance was slightly negative in May.
- May saw a sharp reversal in positive sentiment towards a range of asset classes seen so far in 2019. A number of developments in the international trade arena were widely unwelcomed by investors, as were further signs of weakening global economic growth.
- Globally, political developments also took centre stage during May, with EU parliamentary elections late in the month, a general election in India and Theresa May announcing her resignation as UK prime minister. As a result, emerging market corporate debt spreads widened over the course of the month while developed market government bond yields fell sharply.

EM corporate debt spreads widened by 18 basis points during the month, finishing at 333 bp (CEMBI Diversified.) US Treasury yields declined significantly, with the 10-year US Treasury yield down 38 bp at 2.12%. The primary driver of total returns during the month was the decline in Treasury yields.

Portfolio manager outlook (May 2019)

EM corporate fundamentals continue to improve as reflected in lower leverage and earnings growth in most sectors and regions. Value can be found in deleveraging high-yield issuers, in investment grade credit that has lagged the US Treasury rally and in new issuance. On the other hand, caution is warranted in Turkey, where we expect to see continued volatility, an economic slowdown and stress placed on financial institutions and domestic oriented businesses.

In China, the caution shown in 2018 due to a slowdown in economic activity and high leverage metrics are now benefiting from market access, stimulus and policy measures directed towards the domestic market. Chinese real estate has benefited greatly from this uplift, but we see limited upside at current levels. Furthermore, we are maintaining our positive stance towards systemically important state-owned enterprises in China.

Risk appetite in emerging markets credit continues to be driven by headlines. We continue to monitor trade negotiations between the US and China – and more recently the US and Mexico – in addition to Argentina's political uncertainty in an election year and additional sanctions on Russia and Iran, as well as political headlines in Turkey.

For more information

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UBS Emerging Economies Corporates

Please note that additional fees (e.g. entry or exit fees) may be charged. Please refer to your financial adviser for more details. Investors should read the Key Investor Information Document (KIID), Prospectus and any applicable local offering document prior to investing. For a definition of financial terms refer to the glossary available at www.ubs.com/glossary.

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