

# GAM Multibond - Local Emerging Bond

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## Market environment

JP Morgan's Government Bond Index Emerging Market (GBI-EM) Global Diversified Index was up strongly in May (+1.61%) after a series of weak months, as US bond yields declined and the USD weakened. All regions recorded positive returns, but Central and Eastern Europe, Middle East and Africa (CEEMEA) led the way (+3.31%) and Asia followed (+1.49%). LatAm suffered a more difficult month due to weakness in Brazil, but Chile surged on rising copper prices.

## Performance

May was a constructive month overall for the strategy despite the emergence of a somewhat softer trading pattern in the run-up to general elections in South Africa, Mexico and India. The fund closed May up +1.59% (USD Inst), thereby marginally lagging JPM GBI-EM Global Diversified benchmark returns by -0.03%.

- In gross terms and from a top-down angle, the strategy's May performance was driven higher by FX, Rates and Carry.
- In bottom-up terms, our aggregate allocations towards Mexico, Poland, the Czech Republic, Malaysia, Chile, Indonesia and Hungary contributed most positively, while our positions in Brazil and Colombia detracted from returns.

## Positioning

In allocation terms, once again we engaged in only a handful of select adjustments to our positioning – both from a top-down and bottom-up angle – while in the aggregate, we remain modestly overweight EM FX and broadly neutrally positioned rates duration, at least in nominal terms.

Our allocations are structured around the following unchanged cyclical top-down themes:

- Overweight EM Rates in countries with steeper yield curves, positive real yields and a sustainable fiscal outlook.

- Underweight EM Rates in countries with low/negative real yields.
- Overweight EM FX where balance of payments fundamentals appear most solid and/or in countries that are best positioned to outperform the global economic and/or commodity price cycle.
- Underweight EM FX where balance of payments fundamentals and/or fiscal/monetary policy are most challenged.
- Underweight or avoiding markets exposed to adverse political and/or economic event risk.

## Outlook

We expect a moderation in inflation in both EM and Developed Markets (DM), supported by softer but nevertheless resilient Gross Domestic Product (GDP) growth. As a result, the fund continues to hold long positions in FX and rates in some of the higher-yielding countries. USD risks are hedged by shorts in DM currencies such as the EUR, AUD and CAD, and lower-yielding EM currencies such as China's CNY/CNH.



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JPMorgan GBI-EM (Government Bond Index-Emerging Markets) Global Diversified Composite Index is a comprehensive global local emerging markets index that consists of regularly traded, liquid fixed-rate, domestic currency government bonds and includes only the countries that give access to their capital market to foreign investors (excludes China, India and Thailand). This index is unhedged USD.

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