



## VALUE IN EMERGING MARKETS FIXED INCOME



Best Credit Hedge Fund - Emerging Market Debt

Blue Diagonal Capital

April 2024

## Demetris Efstathiou

- Demetris is the Chief Investment Officer of Blue Diagonal Capital, a specialist Emerging Markets fixed income manager.
- Demetris has over 25 years of experience working with emerging markets – 20 years as a trader and portfolio manager, and 5 years as investment strategist.
- Previously he was head of cross-asset strategy covering EM credit, currencies and interest rates for RBS Global Markets, London, was a hedge fund portfolio manager, and headed the Fixed Income CEEMEA proprietary trading desk at Morgan Stanley, London.



## Demetris Efstathiou

Chief Investment Officer  
Blue Diagonal Capital

## Agenda

- Geopolitics
- The US fiscal deficit matters
- Inflation and Real yields
- EM Hard Currency Debt

- **Geopolitical tensions**

- Russian – Ukrainian conflict
- US vs China tensions
- Israel – Hamas crisis

## **A year of elections**

*“An estimated 4 billion people in more than 50 nations — almost half the world’s population — are set to vote in national elections, with the outcomes likely to shape global politics for years or decades to come.”*

**US Elections  
November 2024**

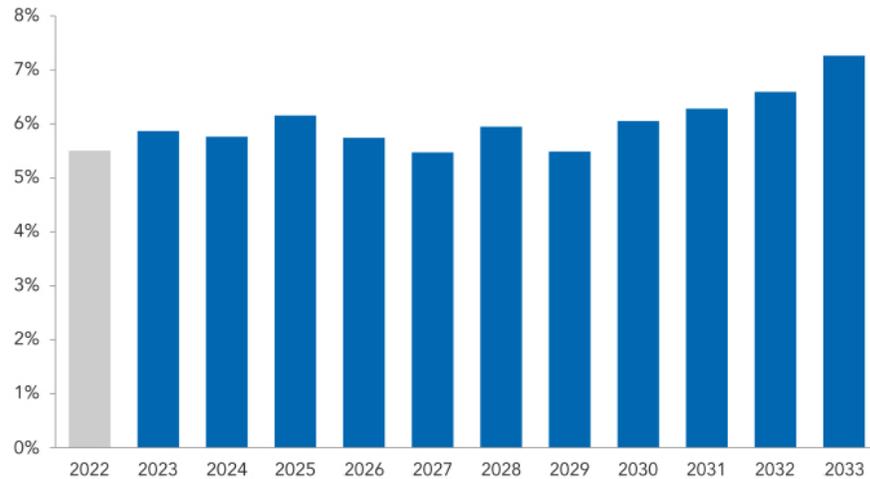
Trump vs Biden, Round 2

- **US fiscal deficit – more than a US problem**

- US fiscal deficit projected to be >6% of GDP from 2023-2033
- \$2 trillion of financing gap + 1 trillion of QT from FED in 2023 & 2024
- \$3 trillion of financing gap > 3% of world GDP
- Absence of foreign buyers for US Treasuries, means that deficit must be funded from the US, crowding out private sector

**PETER G. PETERSON FOUNDATION** Annual federal deficits will remain relatively high over the upcoming decade

Annual Deficits (% of GDP)

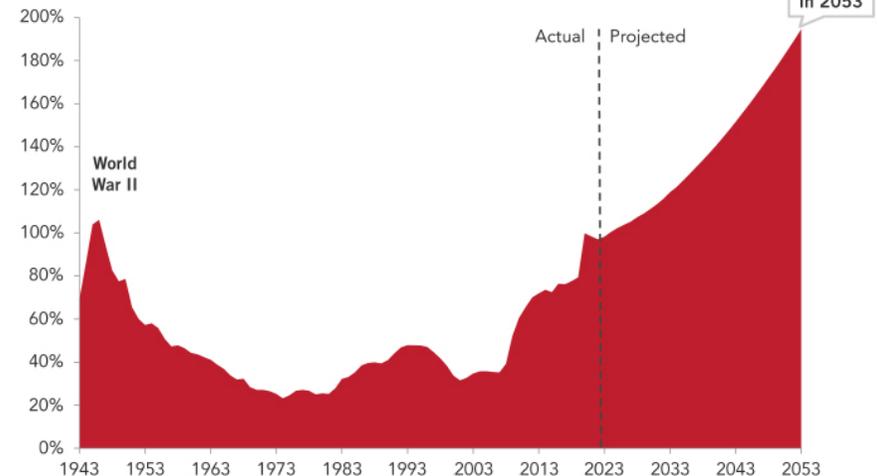


SOURCE: Congressional Budget Office, An Update to the Budget Outlook: 2023 to 2033, May 2023.  
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**PETER G. PETERSON FOUNDATION** The national debt will exceed its historic peak in the upcoming decade

Debt Held by the Public (% of GDP)



SOURCE: Congressional Budget Office, An Update to the Budget Outlook: 2023 to 2033, May 2023.  
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- **Inflation on its way down**

- Will inflation get sticky? or continue its path down to target (2%)
- Is monetary transmission mechanism in the US semi-broken?

- **Have interest rates peaked?**

- Economic data strong in US, in Europe close to 0% growth / recession
- China economy has signs of recovery but with a very problematic real estate sector
- Interest rates most likely have peaked – will come down as inflation eases – EUR goes first



EM Specialists

*Attractive Returns*

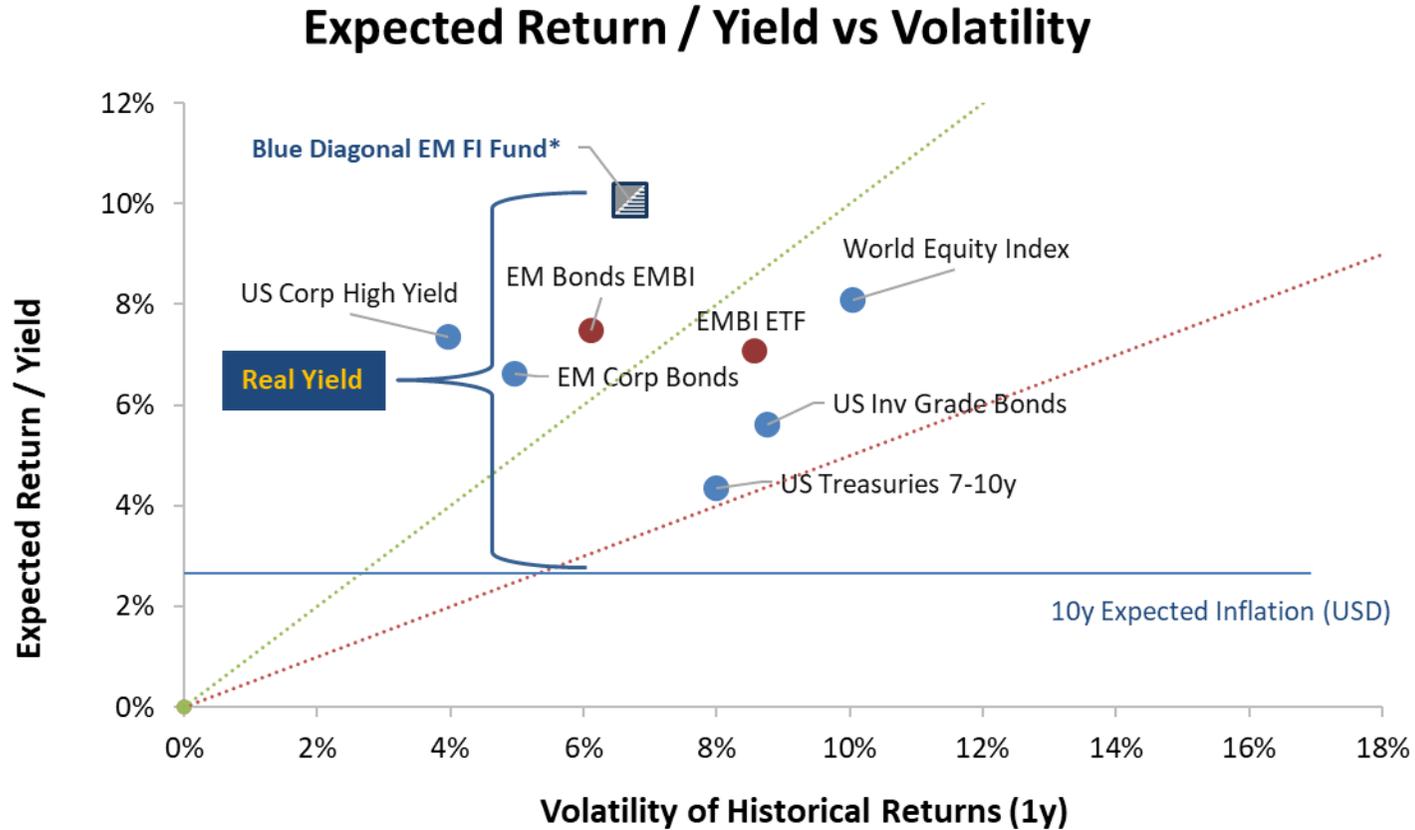
*Liquidity*



## EM Hard Currency Debt – Yield and Value

# Global Macro Environment – Bond Credit Spreads Getting Tight

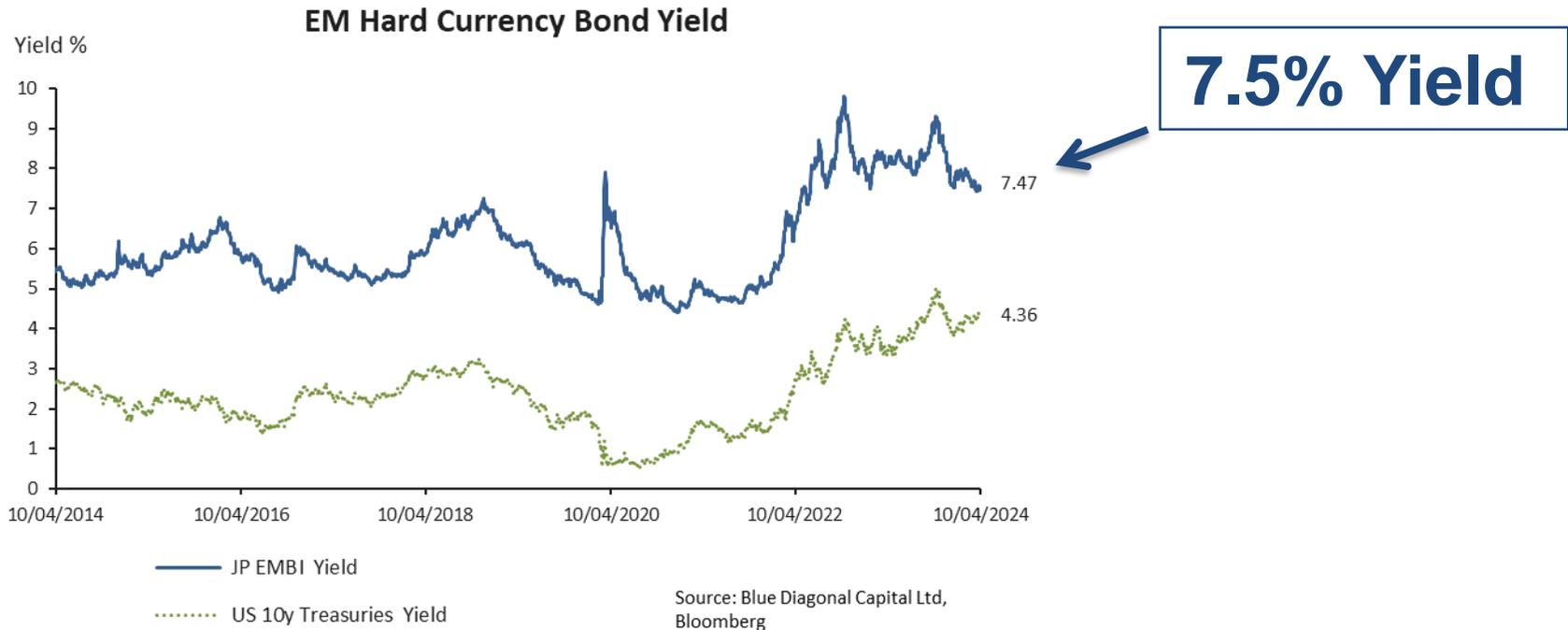




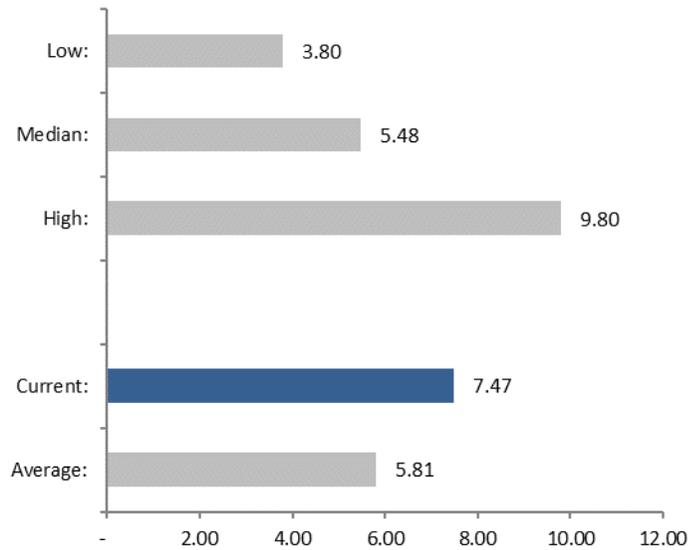
\* Assumes stable relative performance (alpha) vs EMBI ETF

Source: Blue Diagonal Capital Ltd, Bloomberg

# EM HC Bonds Yield vs US Treasuries

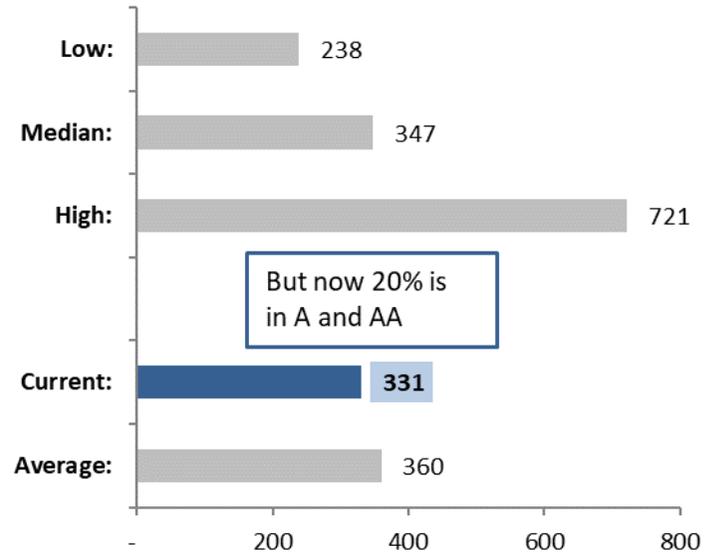


### EMBI Yield (%) - Since 01/01/2010



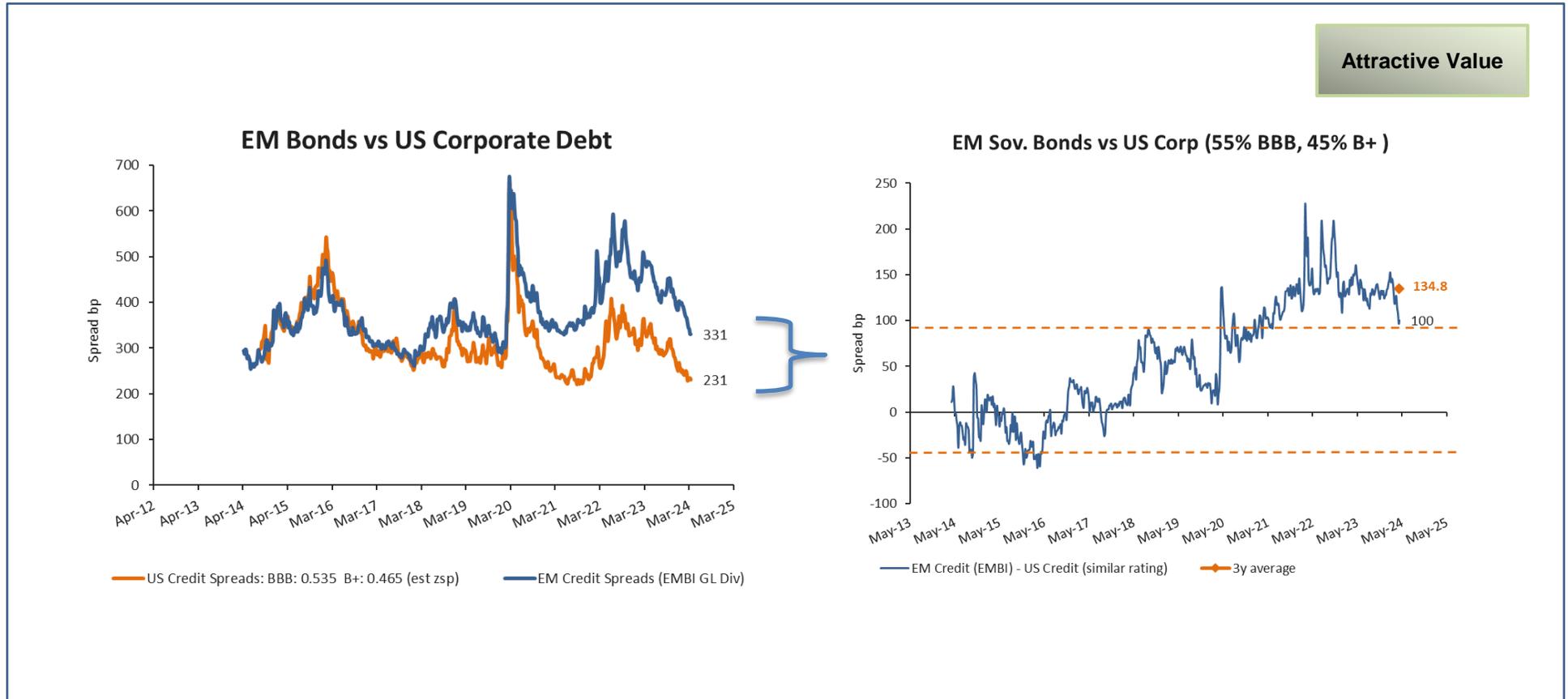
Source: Blue Diagonal Capital Ltd, Bloomberg

### EMBI Z-sprd (bp) - from 01/01/2010

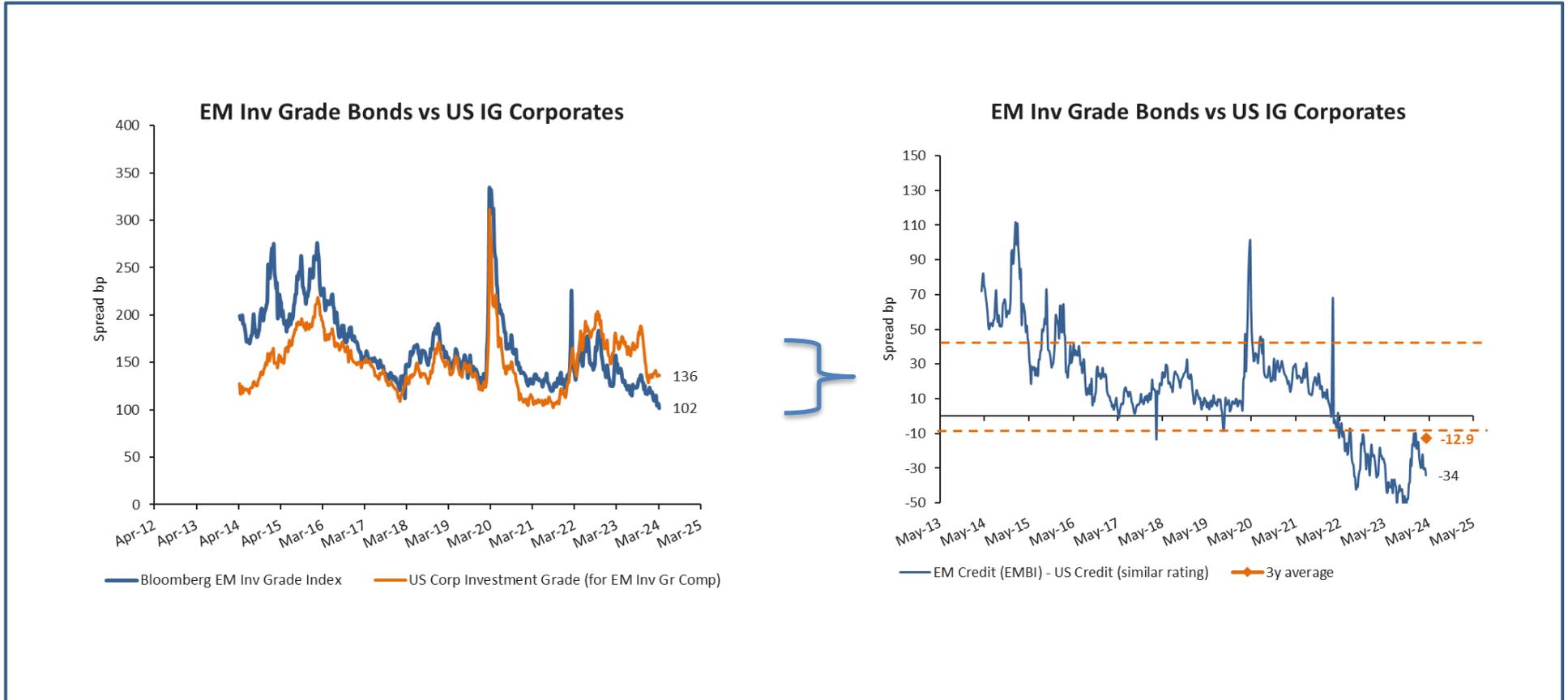


Source: Blue Diagonal Capital Ltd, Bloomberg

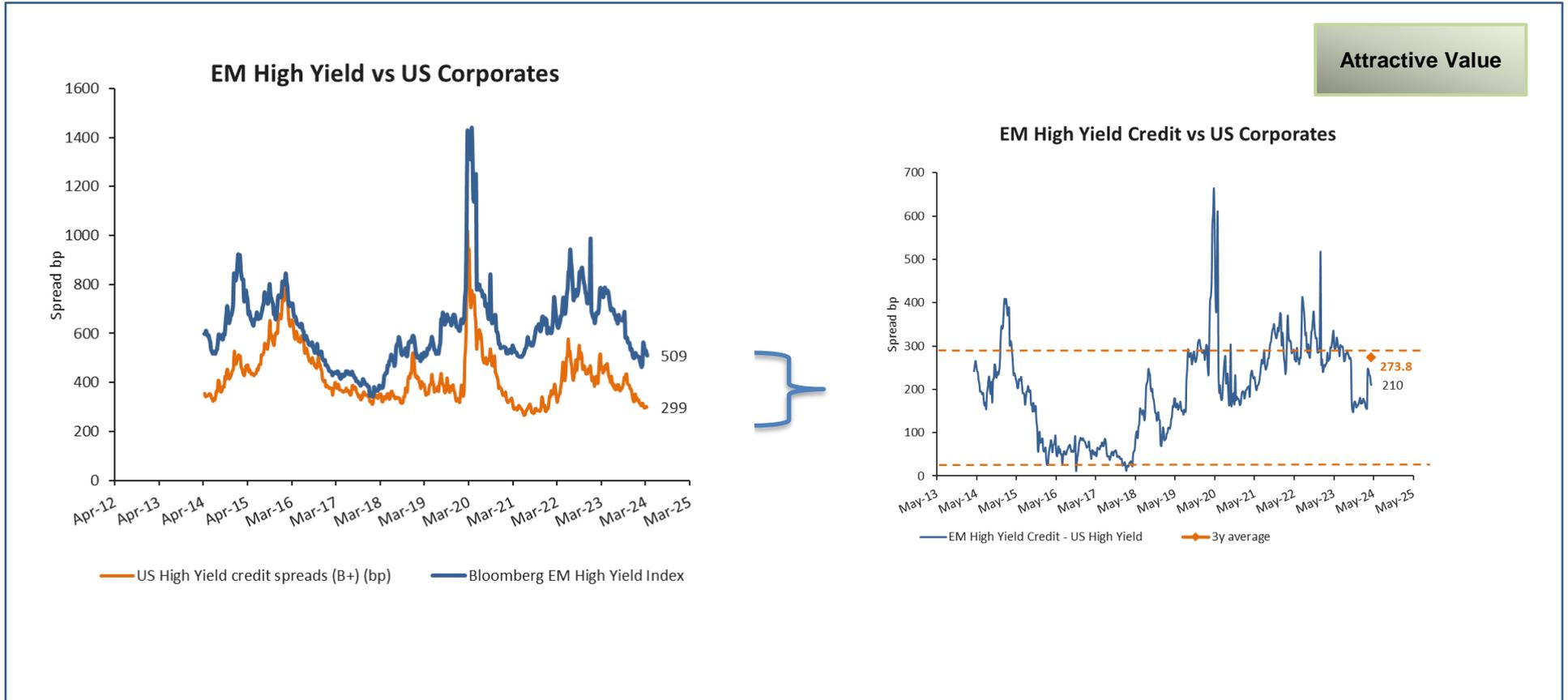
Across all EM, credit spreads look attractive compared to the spreads offered by US Corporates



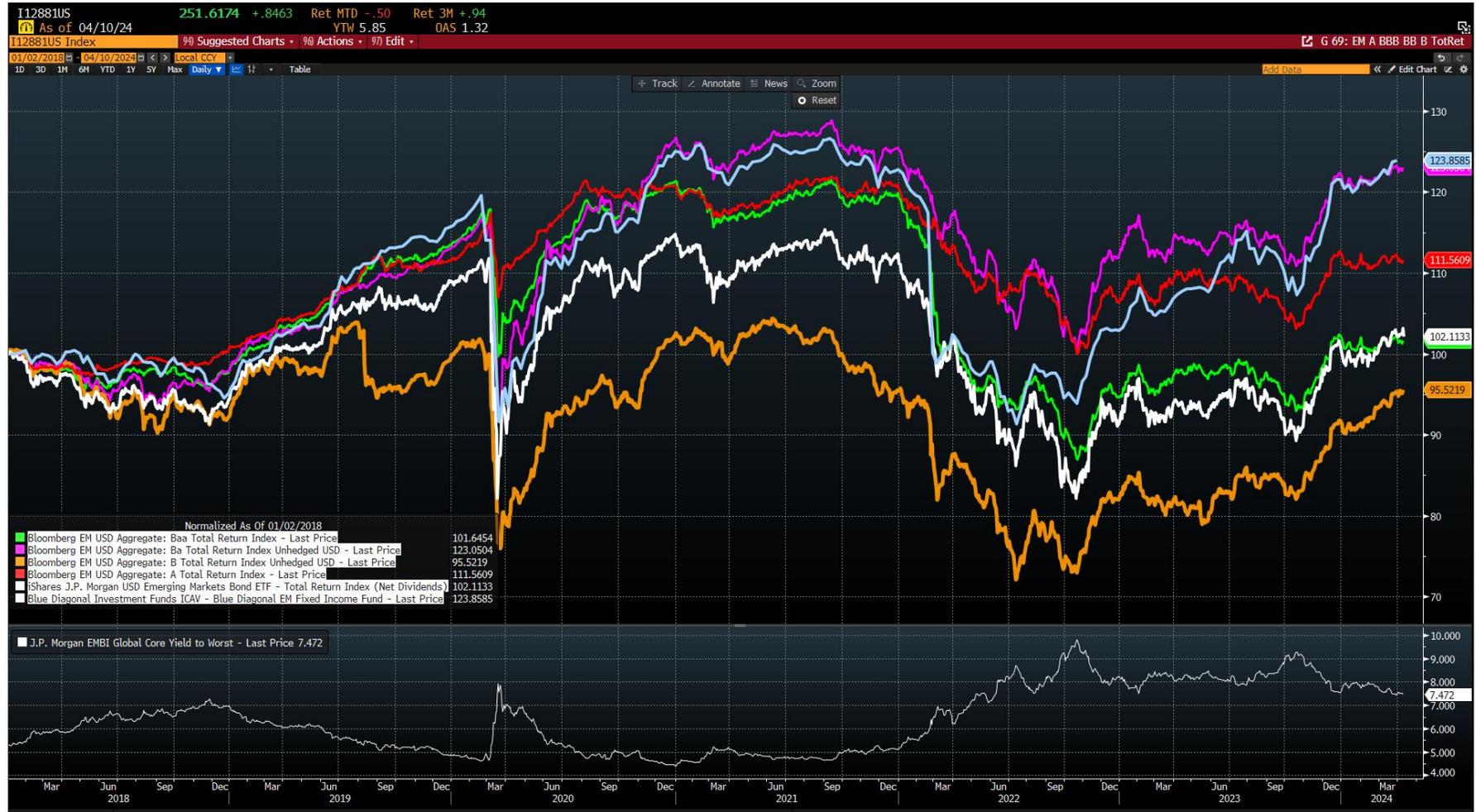
**EM Investment Grade credit spreads look full priced / expensive compared to the spreads offered by US IG Corporates**



Across all EM, EM High Yield still holds all the value compared to the spreads offered by US Corporates



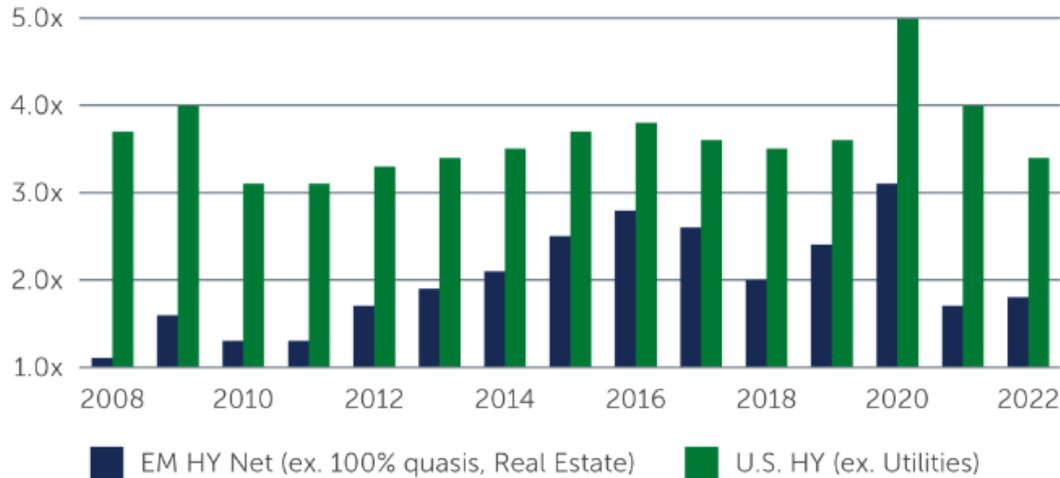
# EM Performance by Credit Rating – BB offered the best risk-reward



## EM HY Corporates have lower Net Leverage than US HY

Attractive Value

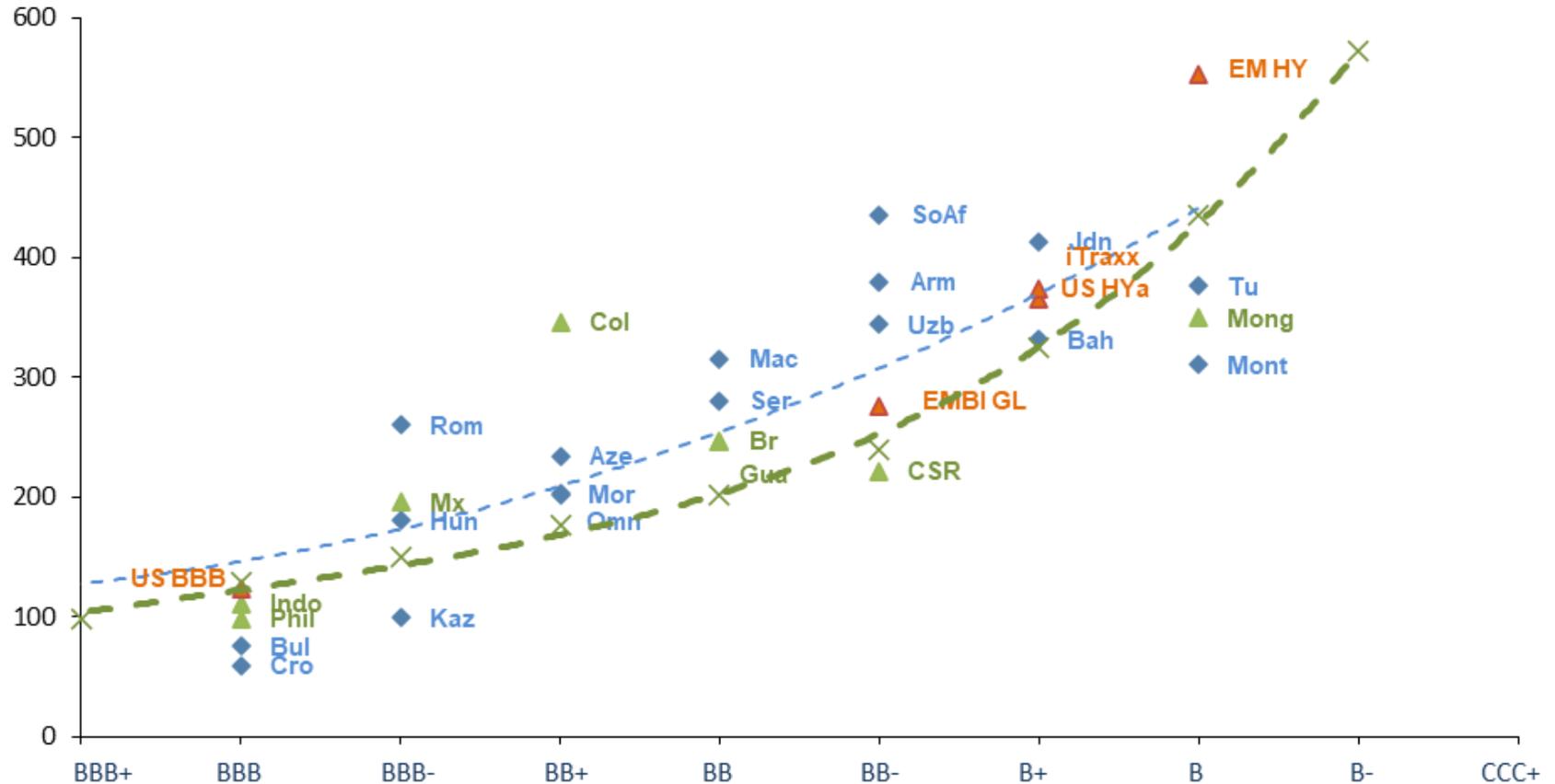
Figure 1: EM vs U.S. High Yield Corporate Net Leverage



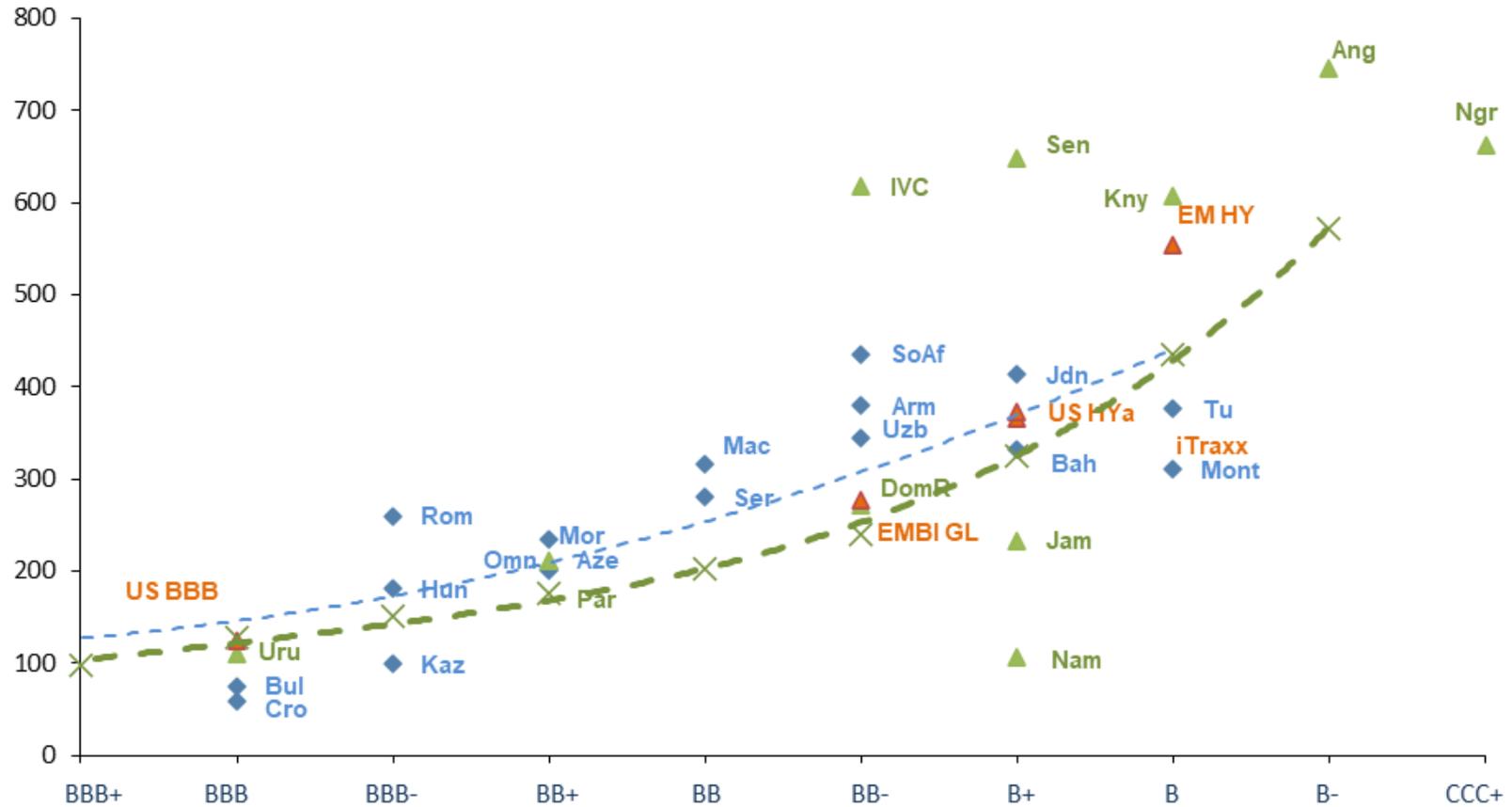
Source: J.P. Morgan. As of December 31, 2022.

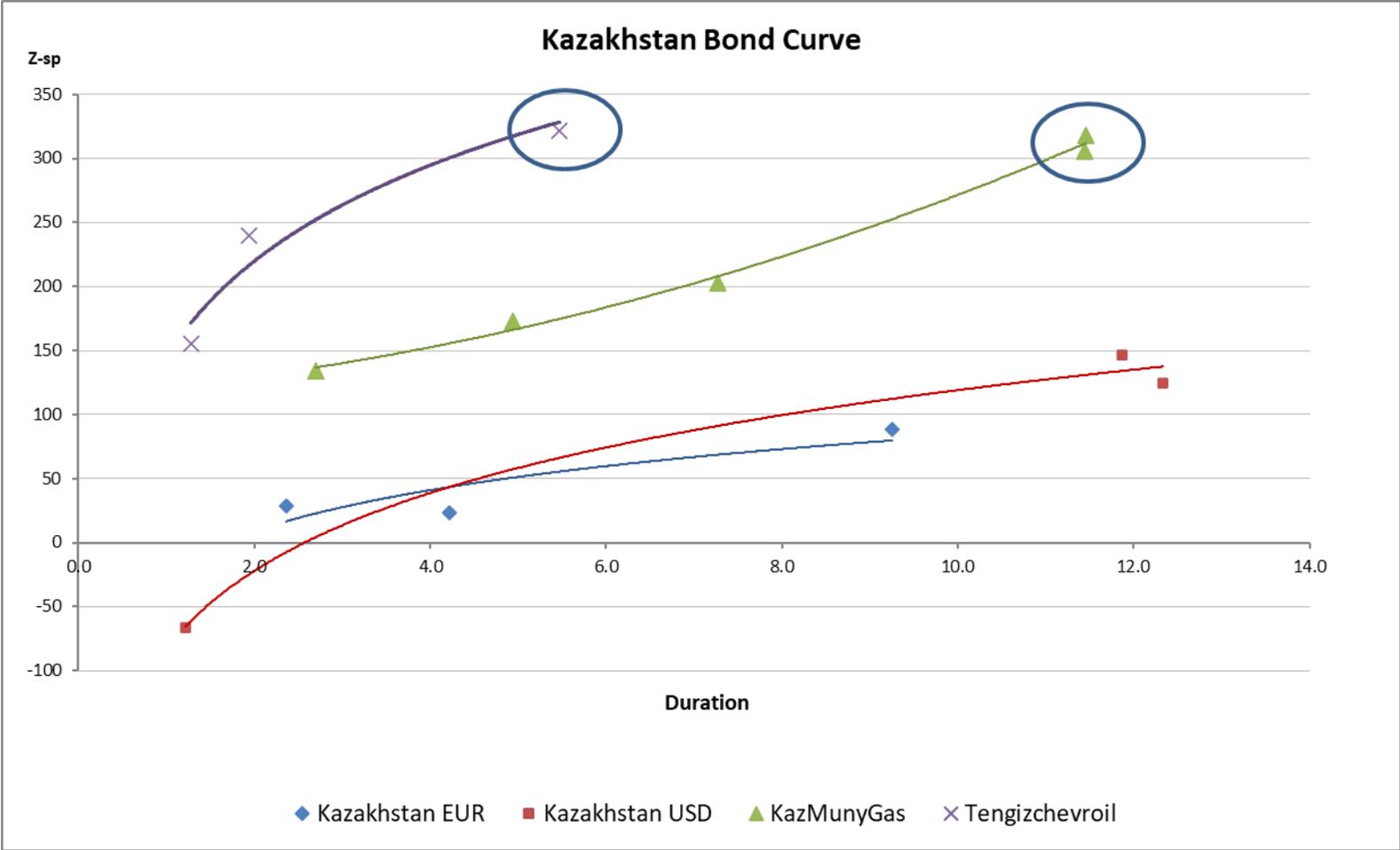
# Investment Approach - Credit Ratings and Credit Spreads

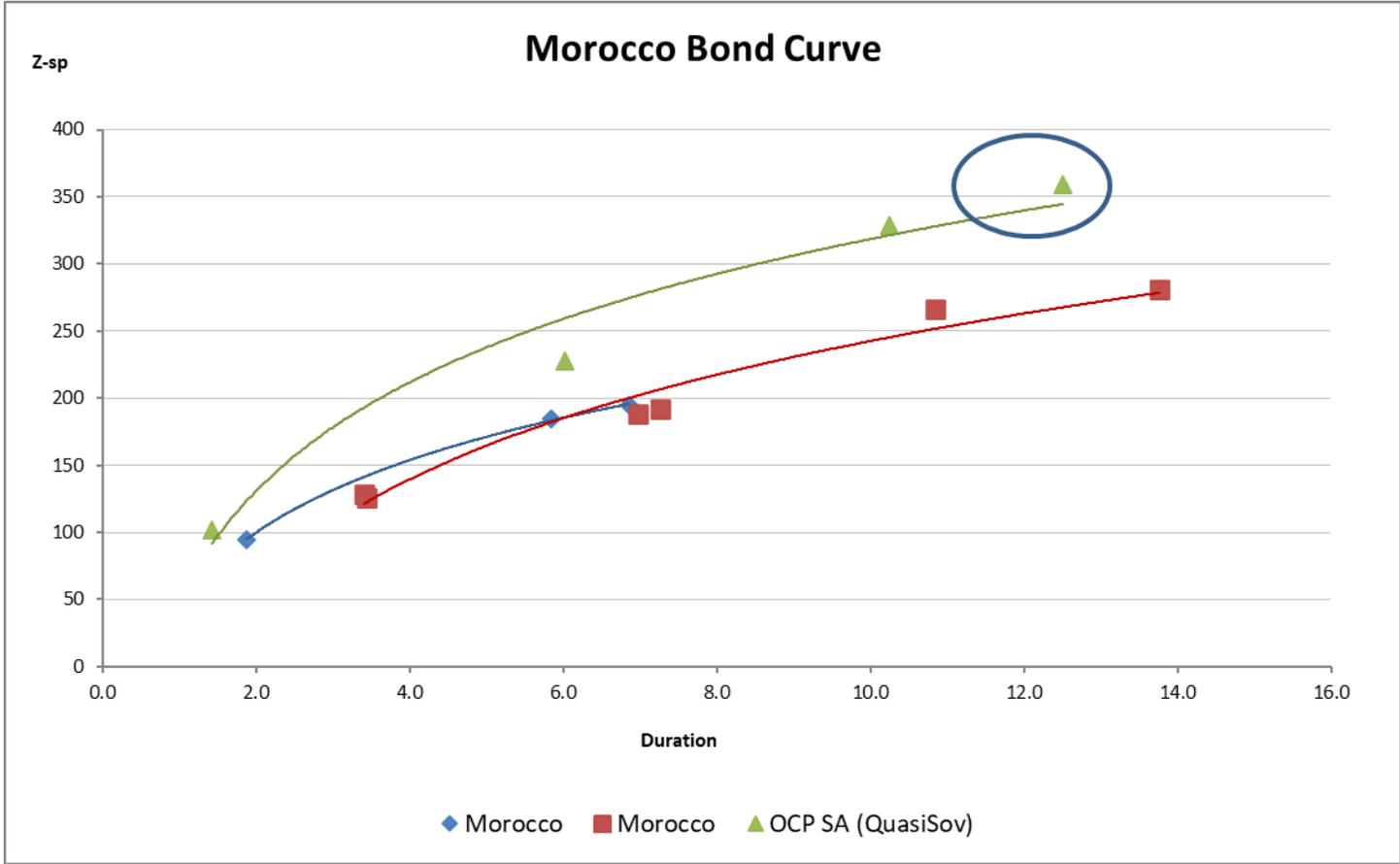
CEEMEA 10y Credit Spreads (bp) vs. Latam and Asia (against Ratings)

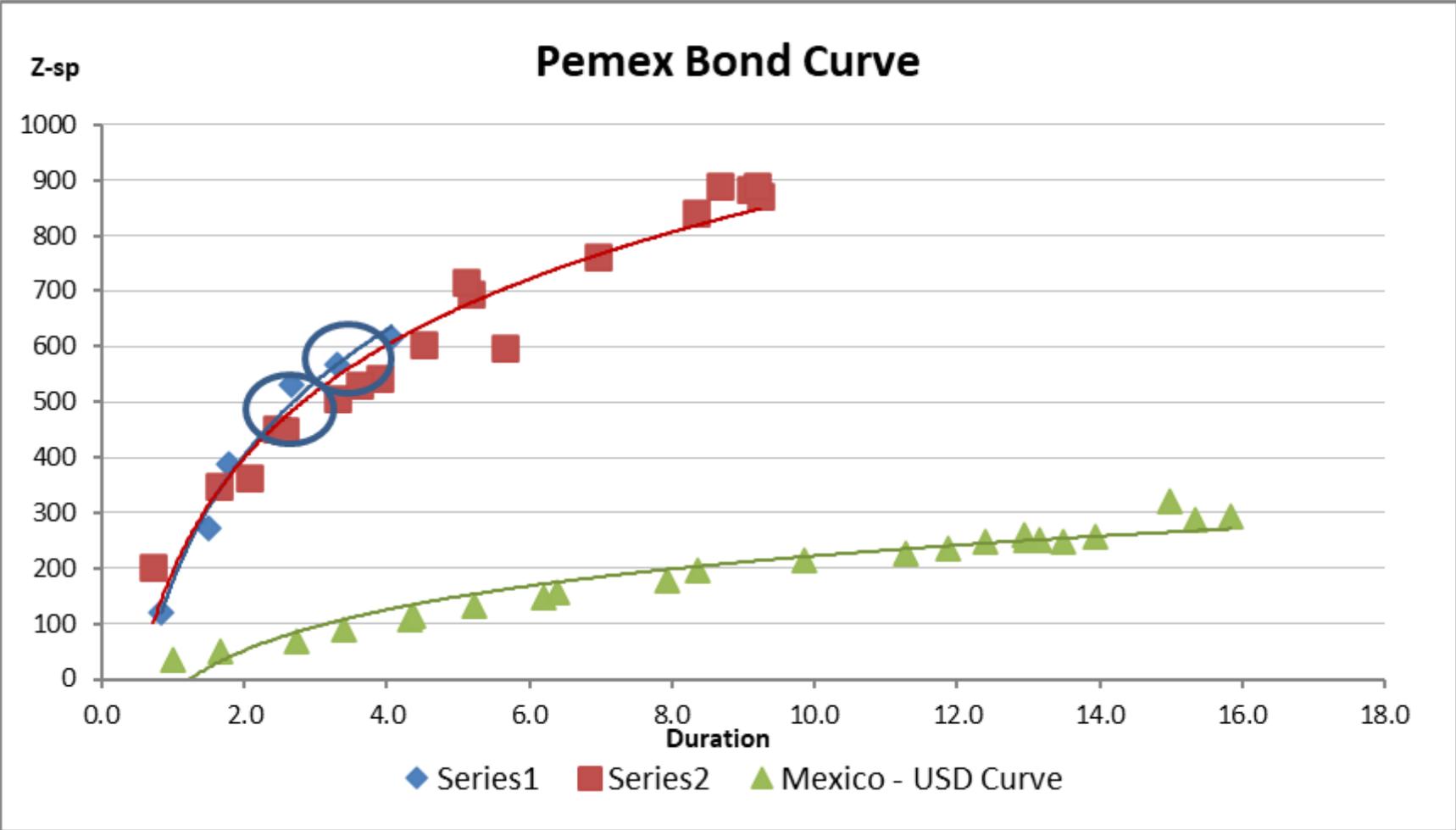


CEEMEA 10y Credit Spreads (bp) vs. Africa (against Ratings)









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