



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

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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**

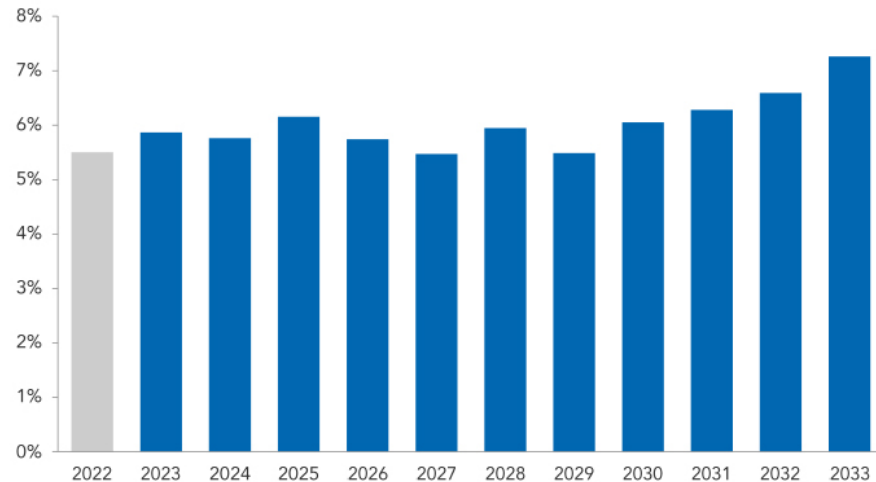
Trump vs Biden, Round 2

- **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)

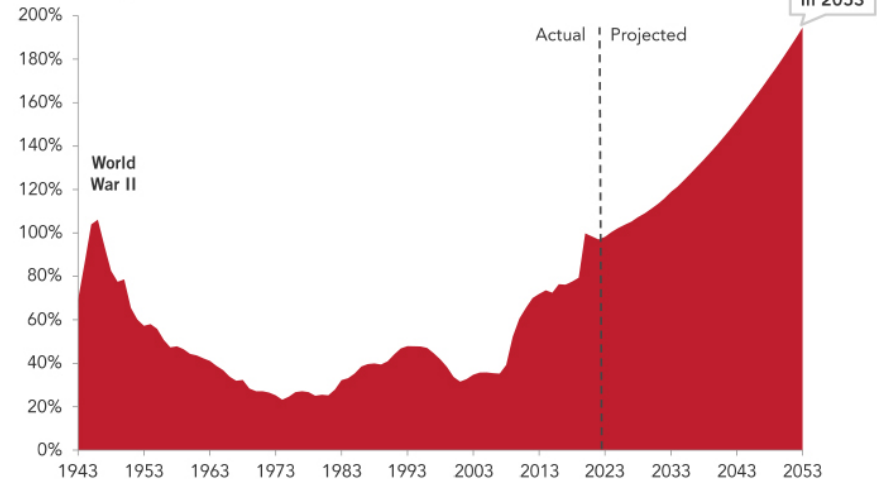


SOURCE: Congressional Budget Office, An Update to the Budget Outlook: 2023 to 2033, May 2023.
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PETER G. PETERSON FOUNDATION The national debt will exceed its historic peak in the upcoming decade

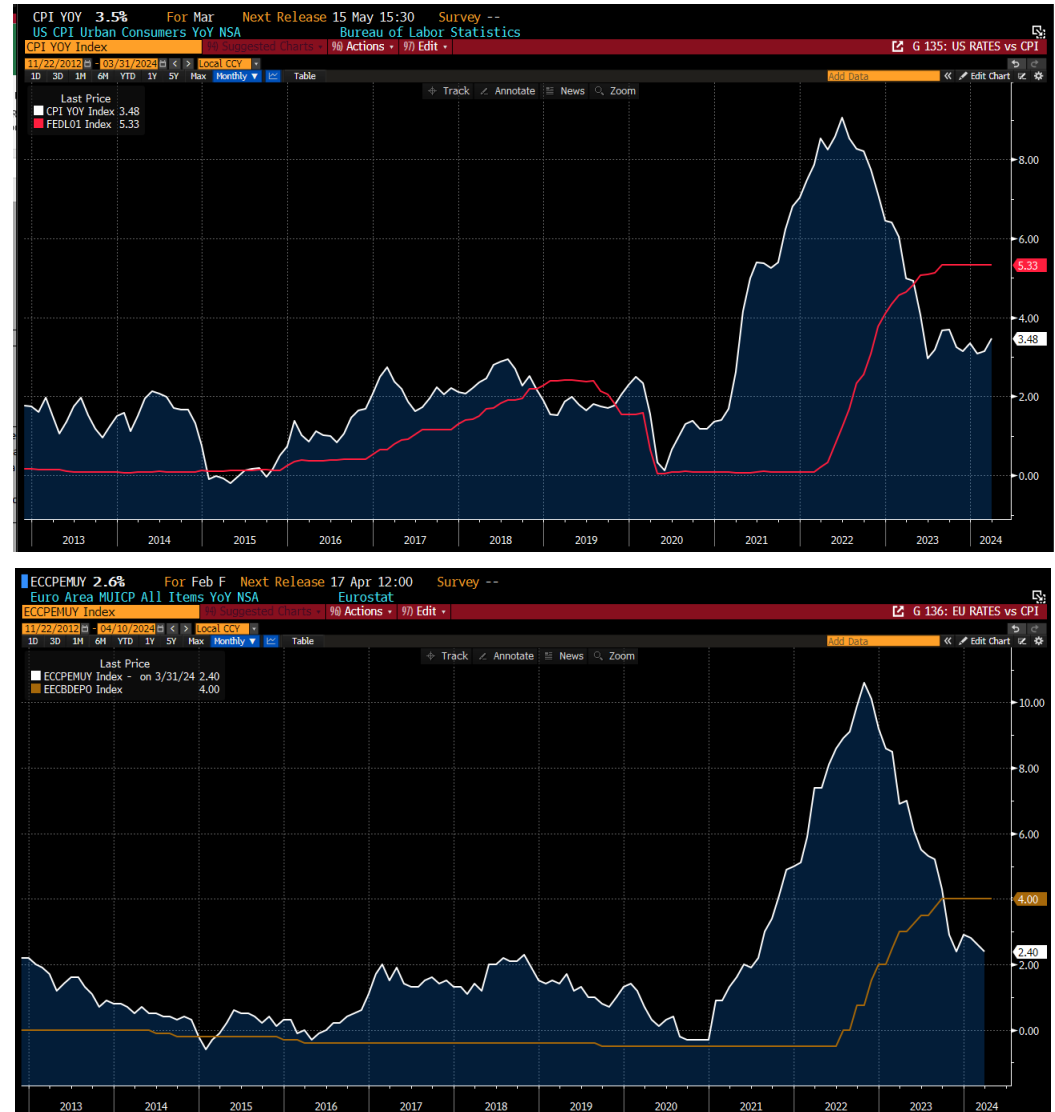
Debt Held by the Public (% of GDP)



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

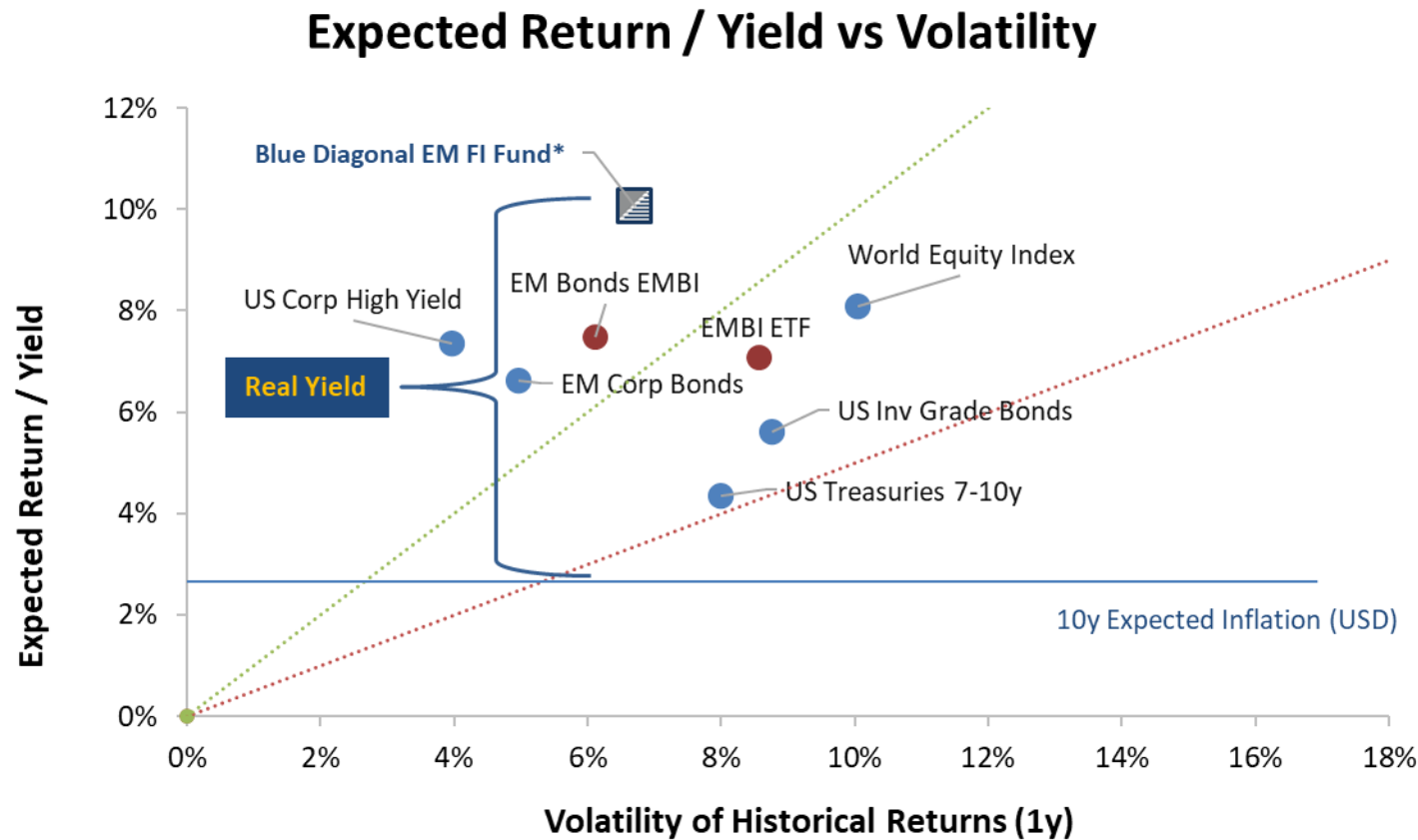
Attractive Returns

Liquidity



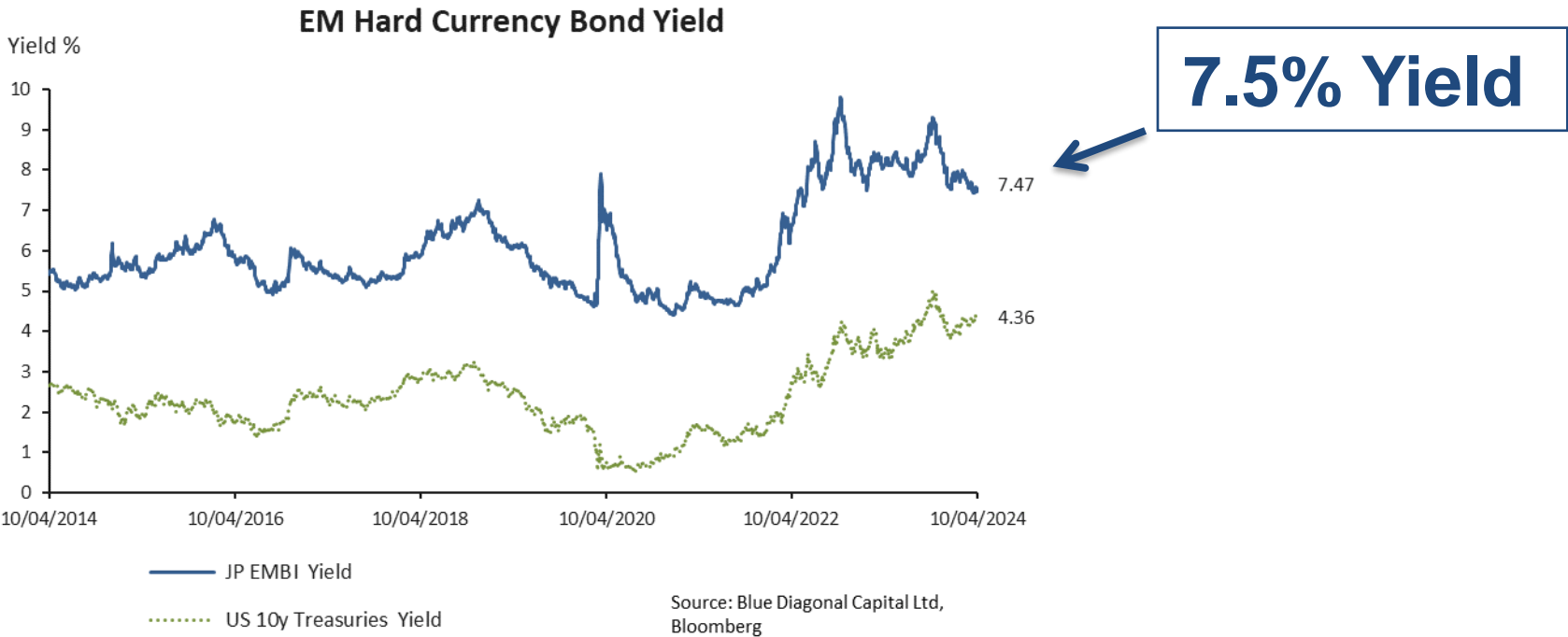
EM Hard Currency Debt – Yield and Value

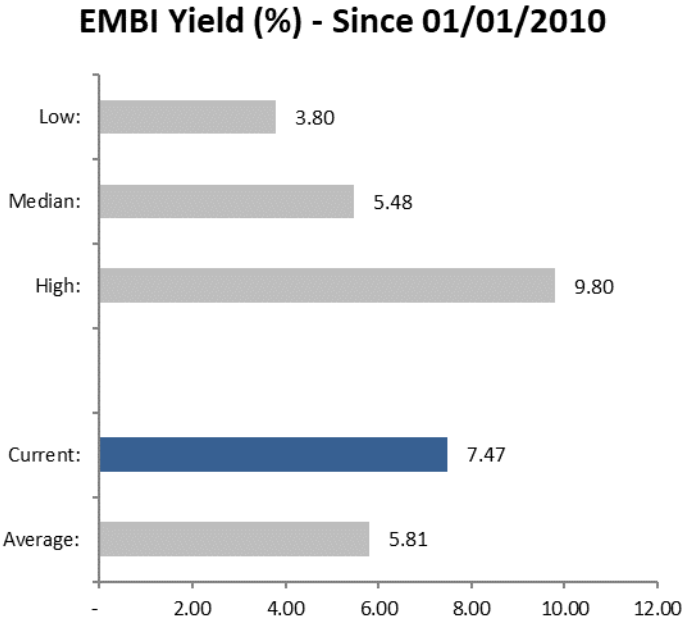




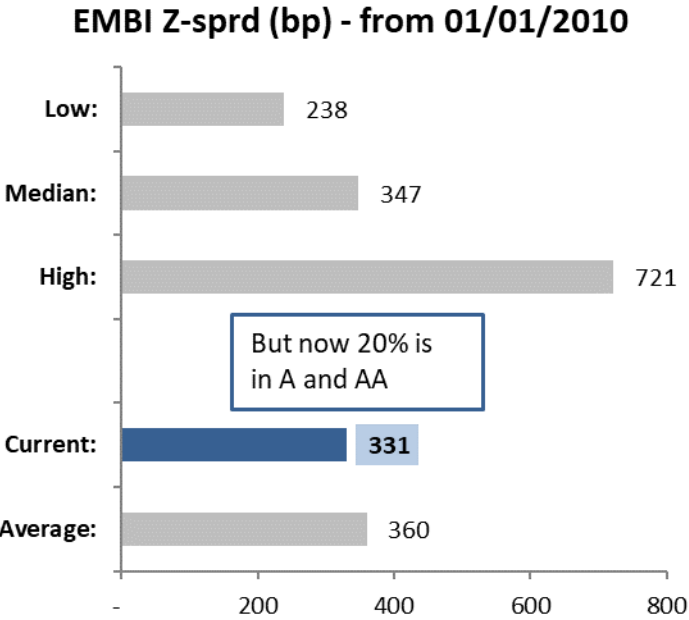
* Assumes stable relative performance (alpha) vs EMBI ETF

Source: Blue Diagonal Capital Ltd, Bloomberg



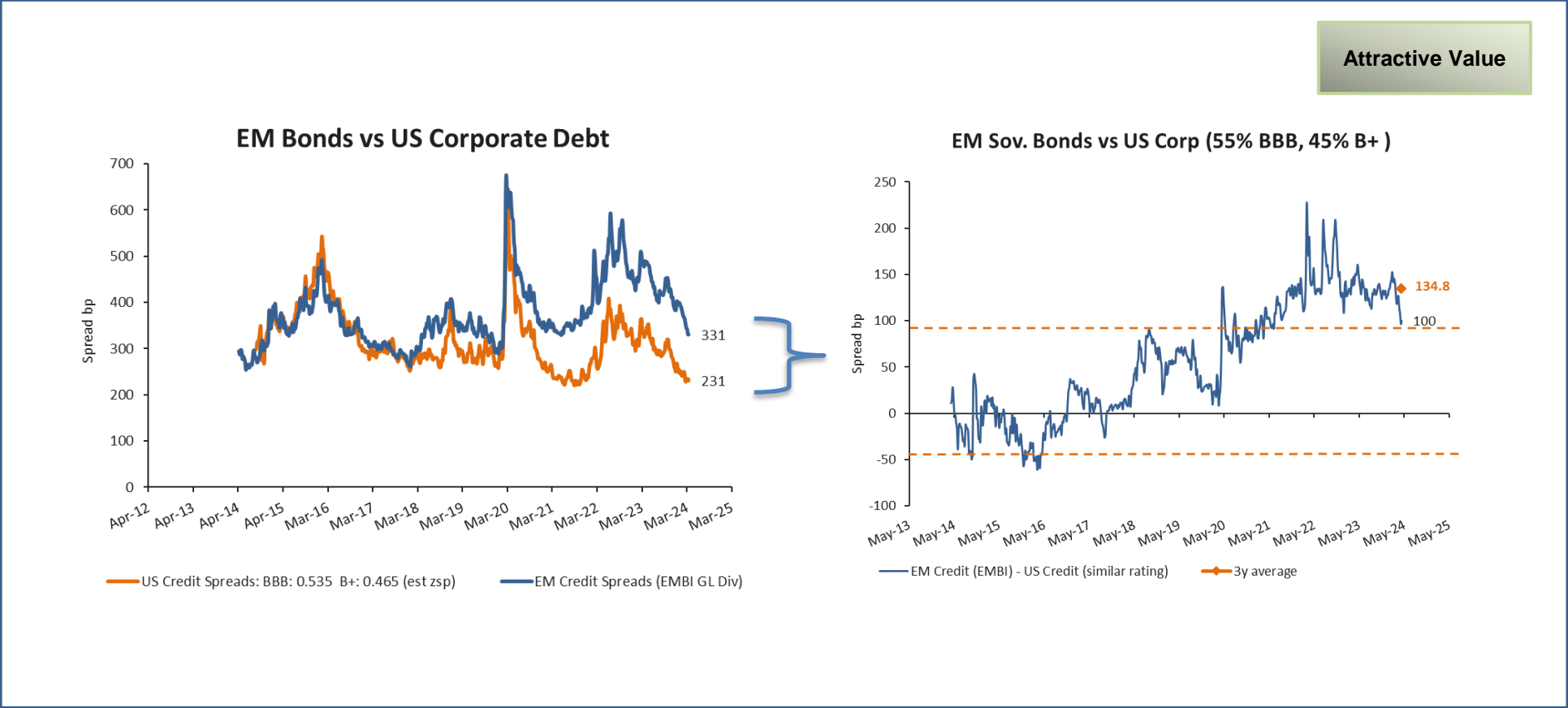


Source: Blue Diagonal Capital Ltd, Bloomberg

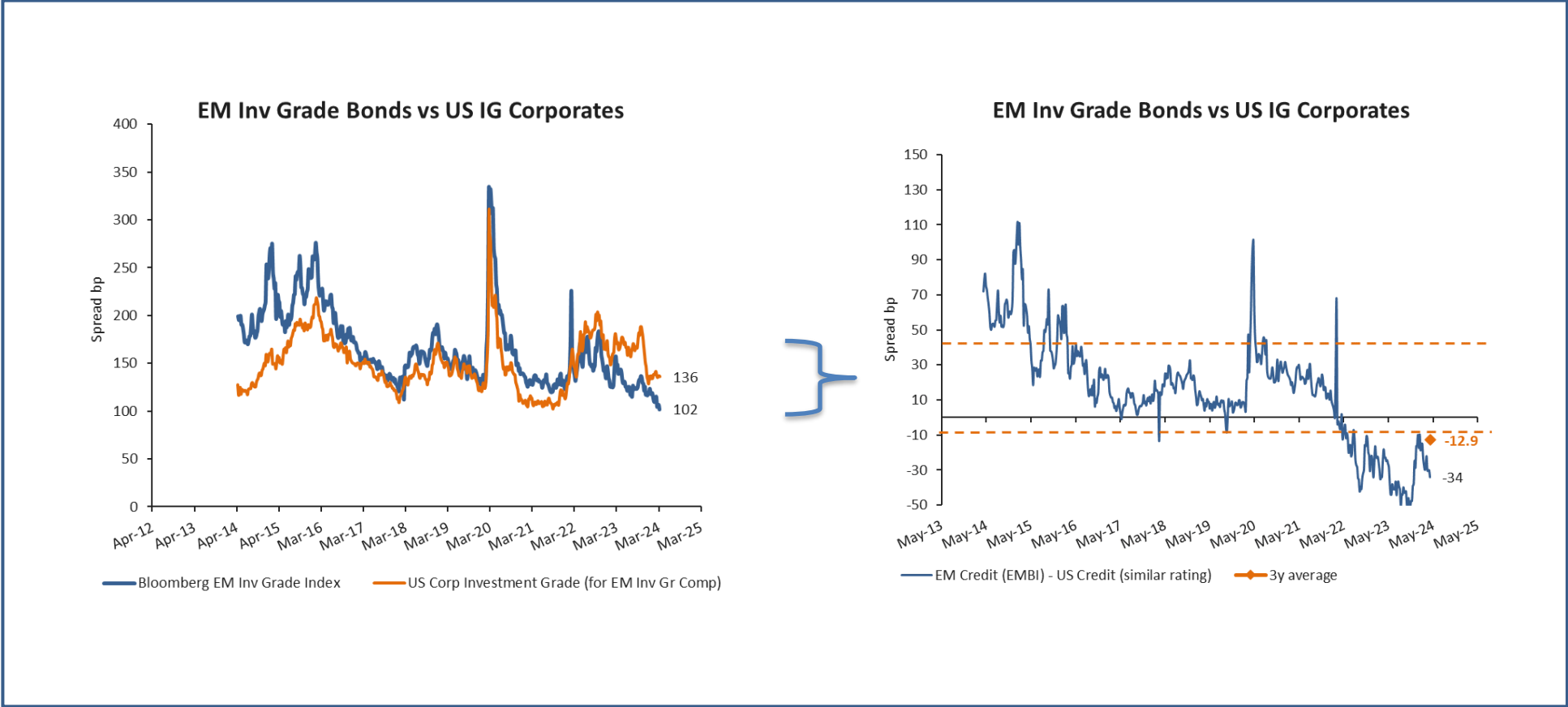


Source: Blue Diagonal Capital Ltd, Bloomberg

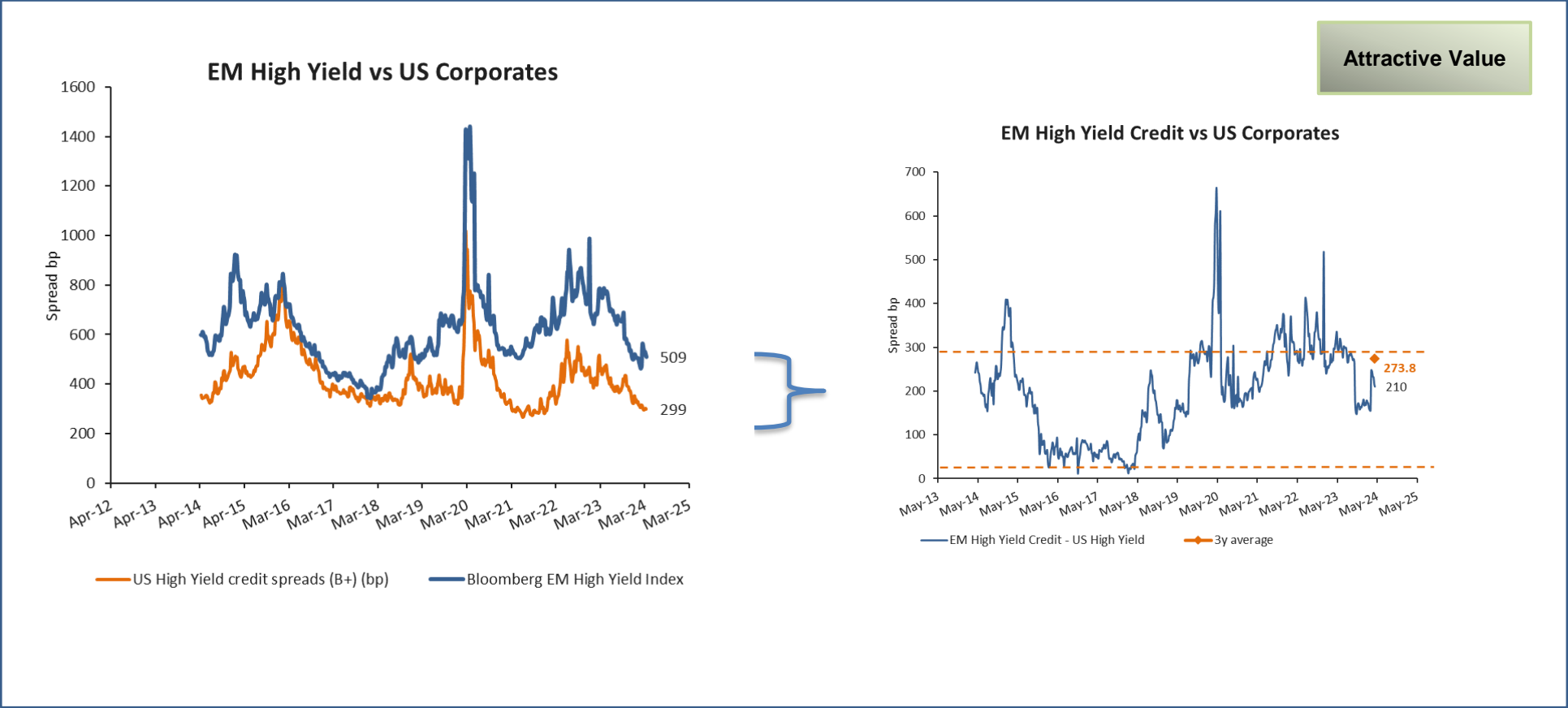
Across all EM, credit spreads look attractive compared to the spreads offered by US Corporates



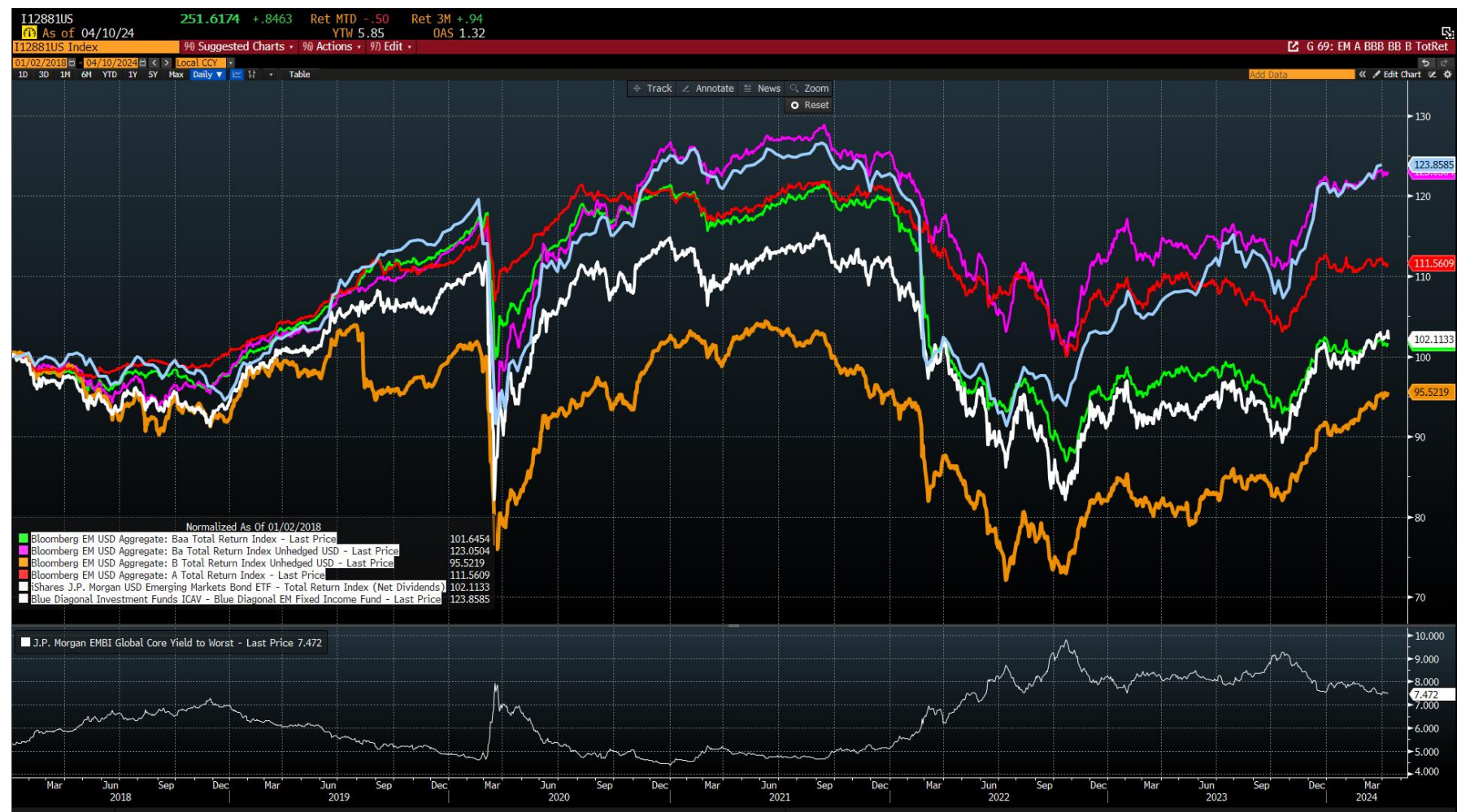
EM Investment Grade credit spreads look full priced / expensive compared to the spreads offered by US IG Corporates



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



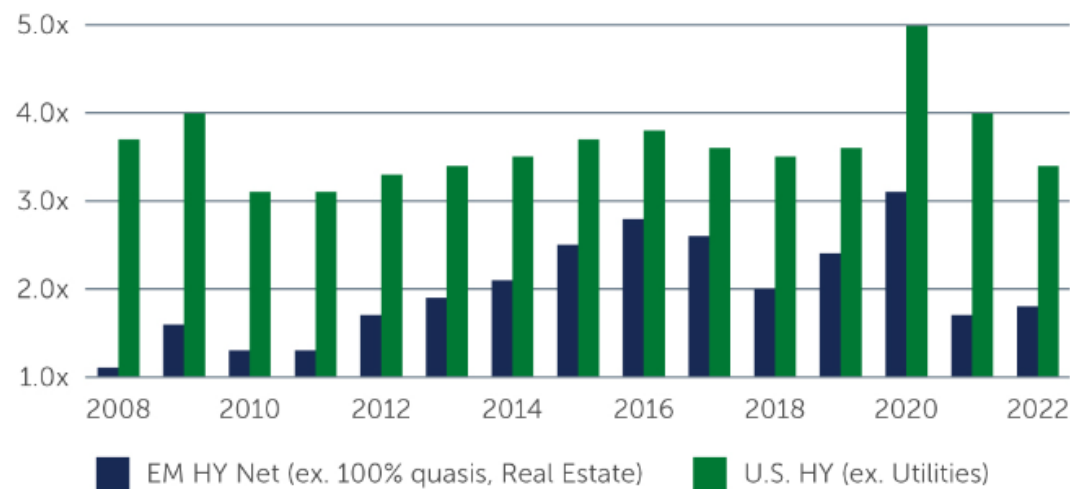
EM Performance by Credit Rating – BB offered the best risk-reward



EM HY Corporates have lower Net Leverage than US HY

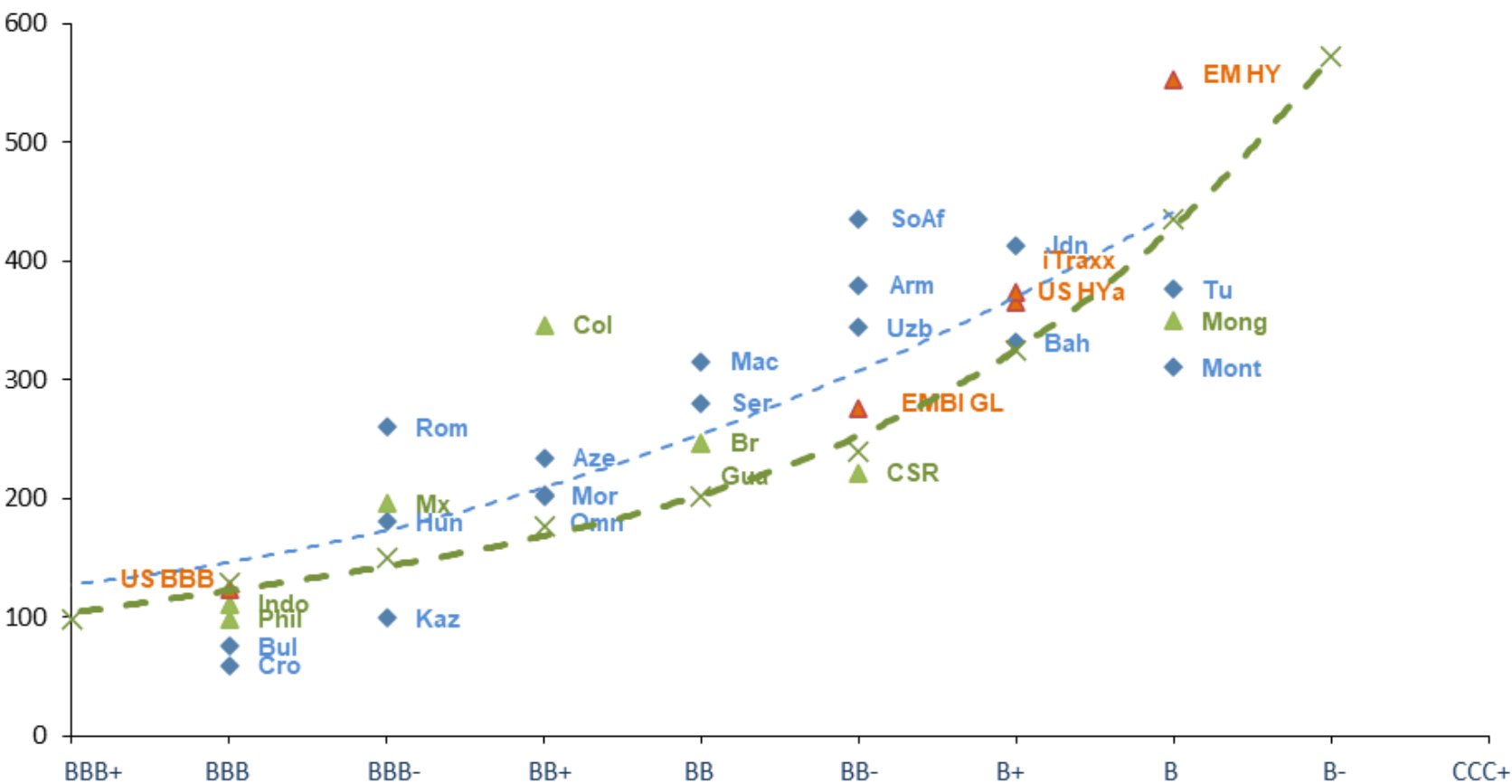
Attractive Value

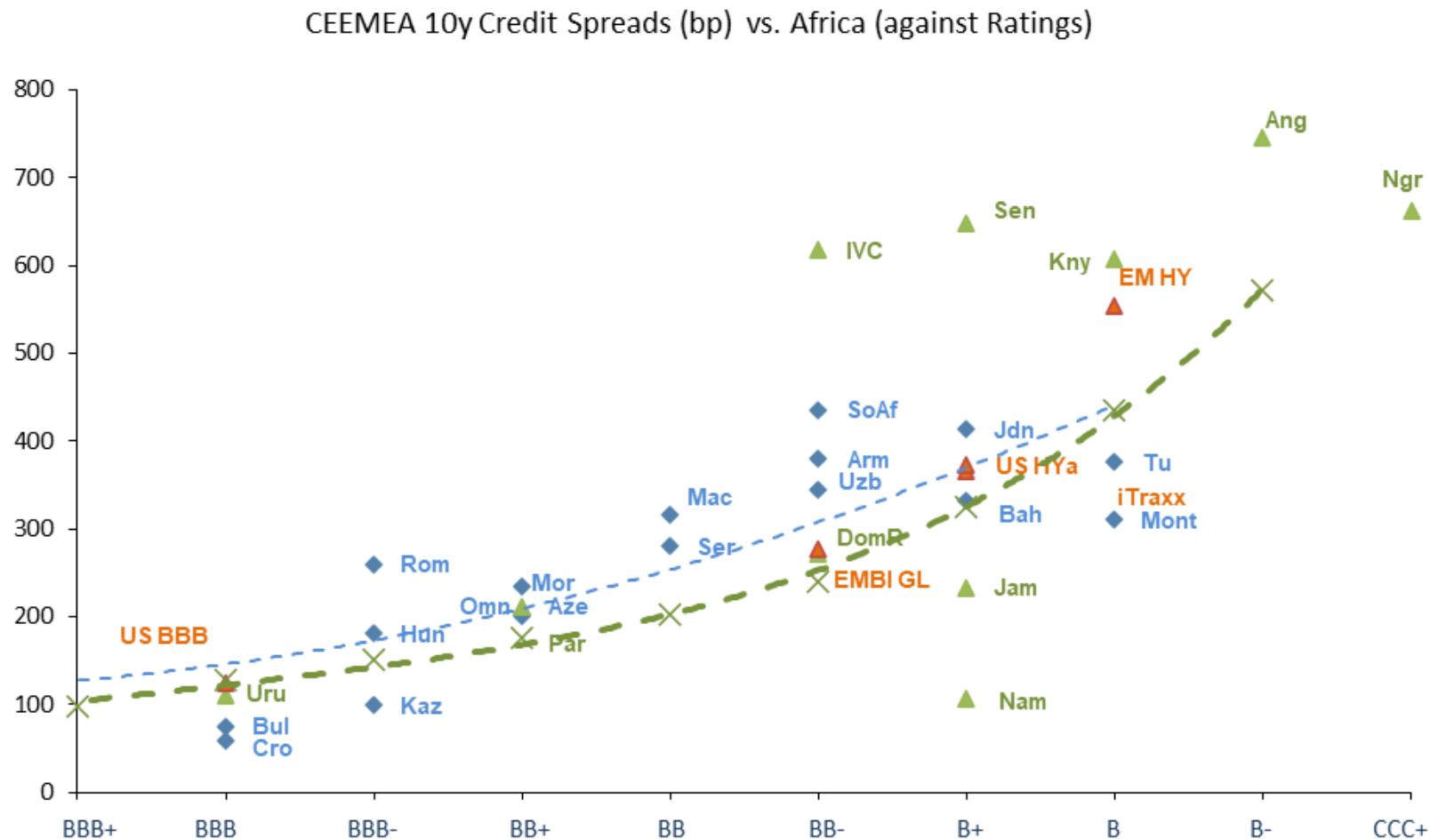
Figure 1: EM vs U.S. High Yield Corporate Net Leverage

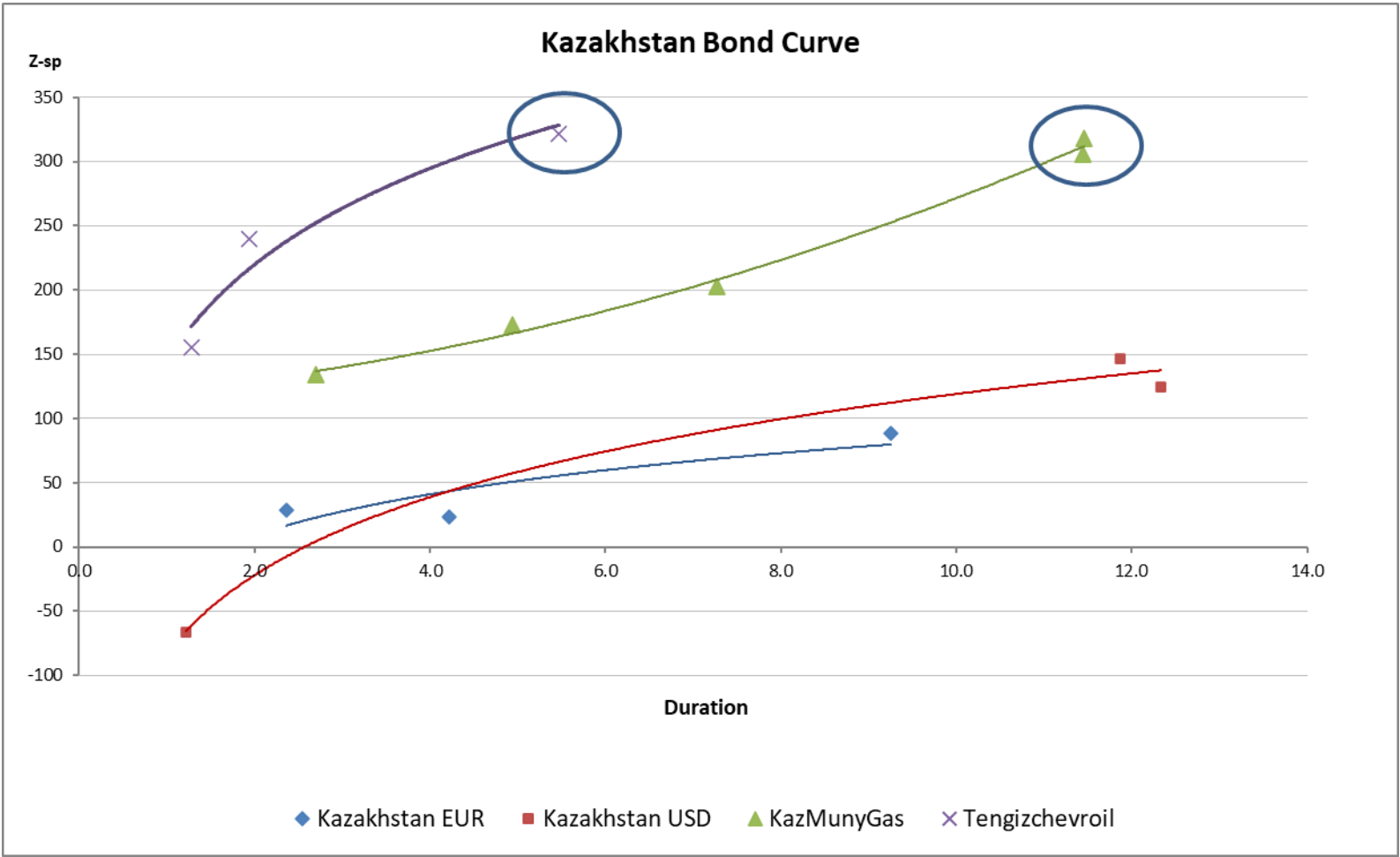


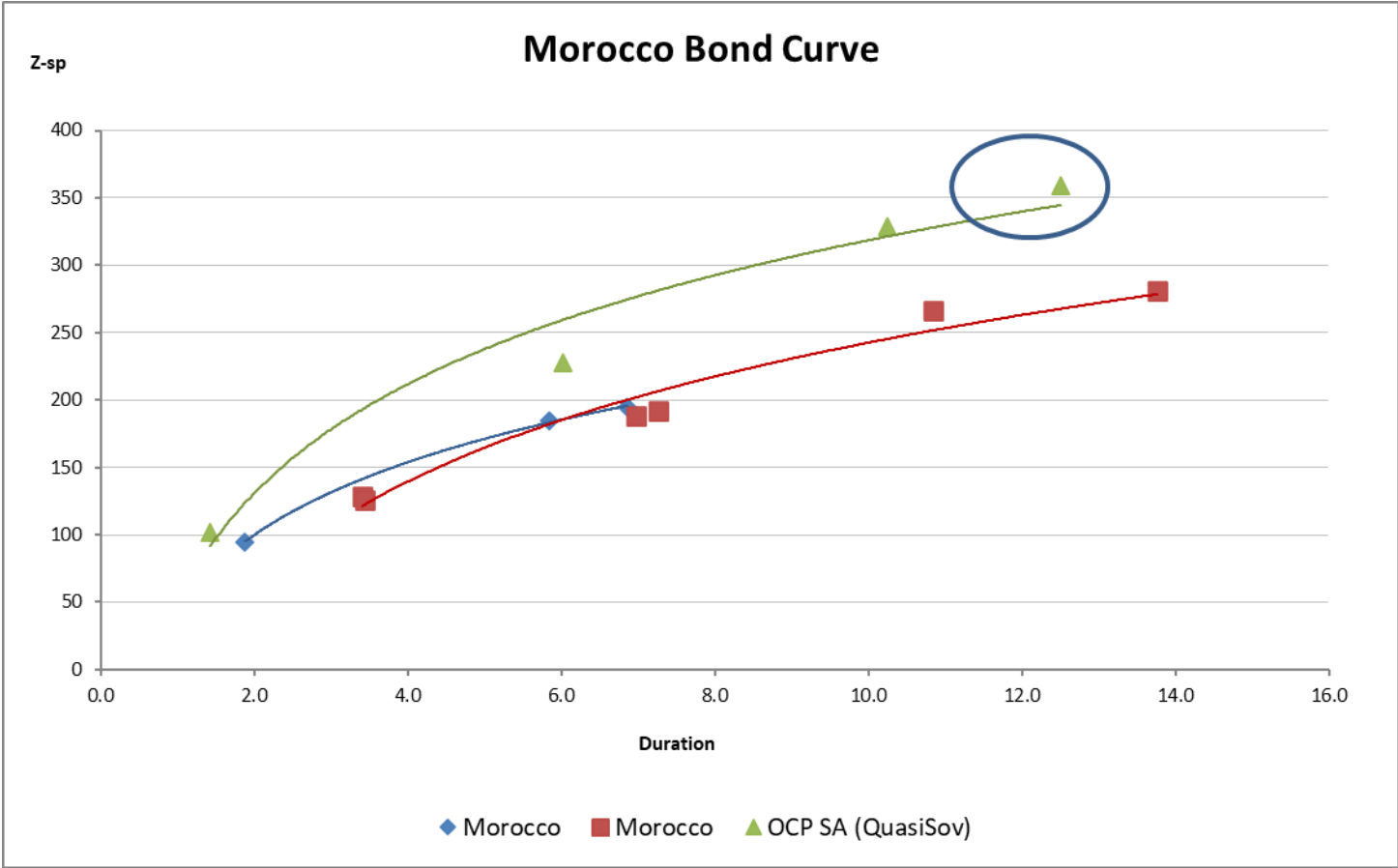
Source: J.P. Morgan. As of December 31, 2022.

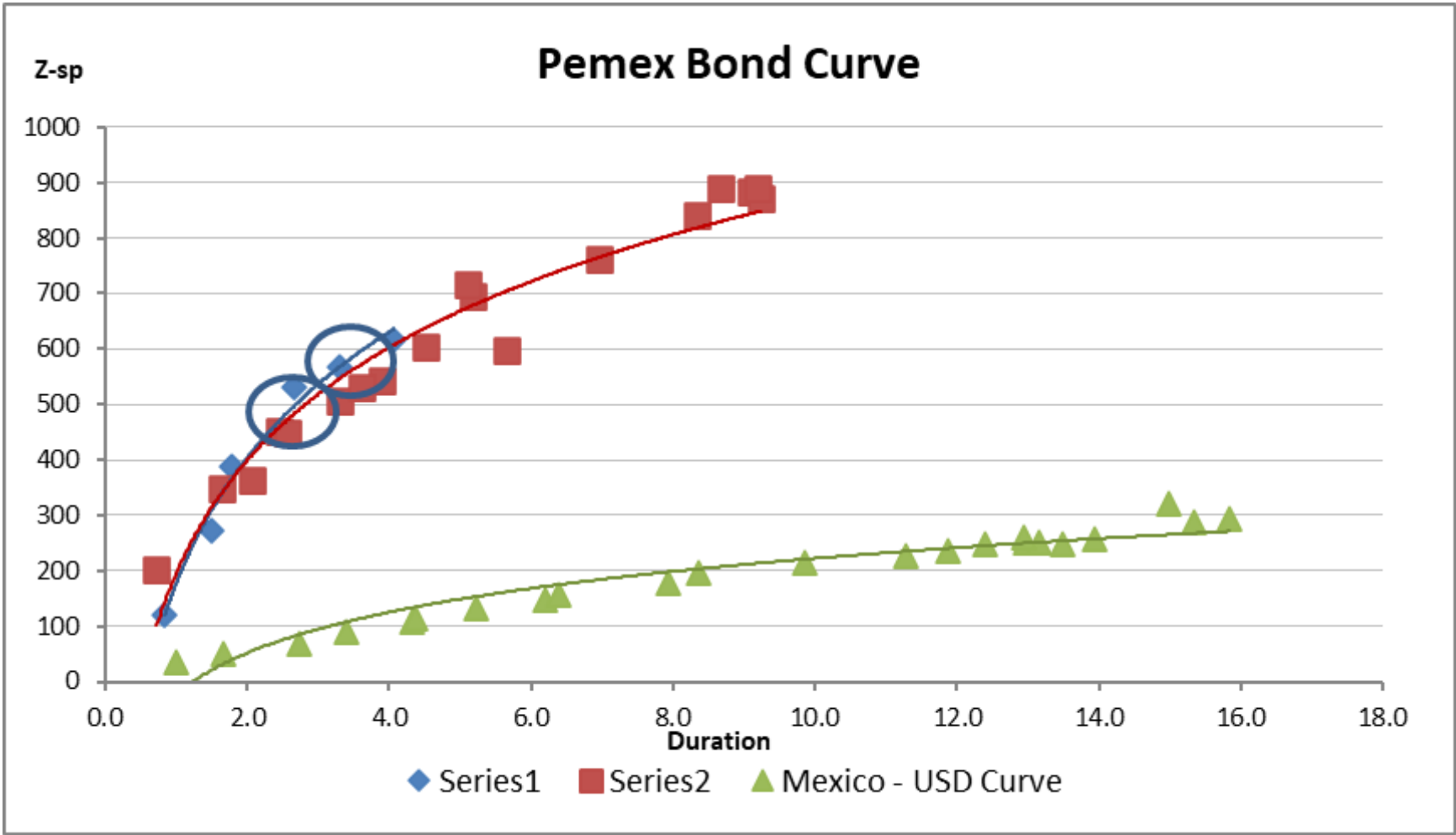
CEEMEA 10y Credit Spreads (bp) vs. Latam and Asia (against Ratings)











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