

## A Volatile First Year for Global Emerging Markets Local Currency Bonds

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**Rexiter's Global Emerging Markets Local Currency Bond Strategy has its first anniversary.**

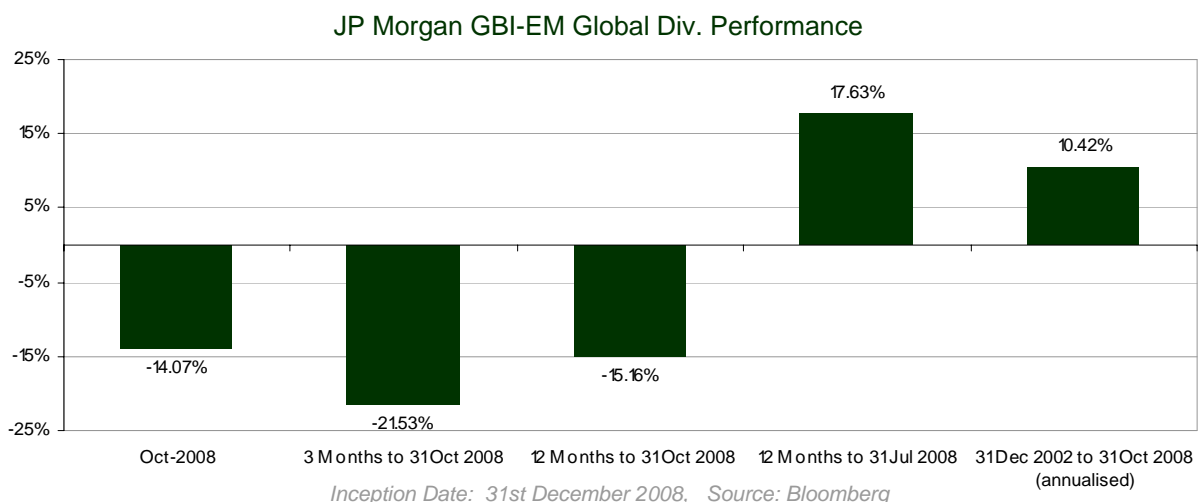
It has been a volatile year for investor returns. The credit crunch, crunched demand, crunched commodity prices and, generally speaking, crunched wealth.

Had Rexiter's one year anniversary of the Global Emerging Markets Local Currency Bond strategy been in any month prior to September of this year, there would have been every reason to celebrate. Unfortunately however, the past 3 months was a difficult period for the asset class. Coinciding with this anniversary, the end of October brought the first ever 12 month rolling period of negative return in the benchmark's history. We show in this paper that there are still reasons to cheer:

- 👑 Emerging markets have outperformed many of the developed market asset classes over the last 5 years.
- 👑 History has taught us that, for this asset class, a period of negative returns rarely lasts for long and that the payback period is usually relatively short.
- 👑 Over the year, our strategy outperformed most of our peers, while keeping the portfolio well within our predefined risk budget, in a remarkably volatile year.

### Performance of Local Currency Emerging Market Government Bonds

As explained above, the performance of the asset class in the 12 months to the end of October 2008 was the only 12 month period where the JPM Government Bond Index - Emerging Market (GBI-EM) Global Diversified - was negative since its inception. The poor performance started in September when investor risk aversion took hold and capital flowed back to safety into the US dollar – ironically, the place where problems first began. The effect of the exceptionally poor past 3 months of returns (which can be seen in the graph below) dragged down the 12 month performance to the end of October to -15.16%, whereas the 12 month return to the end of July was +17.63%. Until November 2008, the index had never posted a negative return on a rolling 12 month basis. Looking on the positive side however, the average rolling 12 month return since inception is still +14.85%.



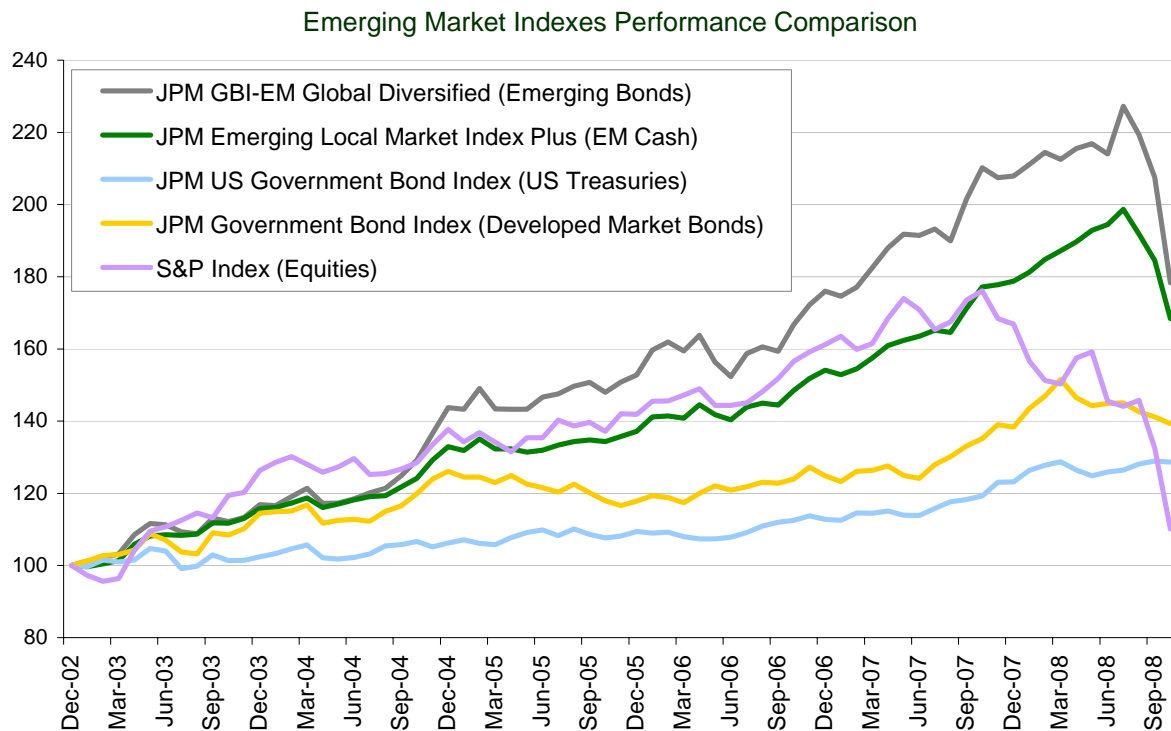
## Performance of Local Currency Emerging Market Bonds and Cash

The relative better performance of local currency denominated *emerging market* bonds and cash can clearly be seen in the below chart against a comparable local currency denominated *developed* markets bond index. The return of the S&P500 index has also been added and JPM US Treasuries index for comparative purposes.

This outstanding performance is primarily due to the two main strengths of the asset classes:

1. the asset class by its nature is well diversified across many countries
2. investors are compensated with attractive yields relative to developed markets

*(please also refer to "Returns worth celebrating, as emerging markets cash strategy turns one" and "Emerging Markets Cash - What happens when the dollar turns?", which can be found at [www.rexiter.com](http://www.rexiter.com)).*



*Unhedged in USD*

*All index performance based to 100 at the inception of the JPM GBI-EM Global Div Index inception (31/12/2002)*

*Sources: JP Morgan, Bloomberg*

## Conclusion

As with the other asset classes we manage, due to the intricate and different economic and political structures within emerging markets, we strongly believe that emerging market bonds should be actively managed. We look forward to the challenges of our second year managing our Global Emerging Markets Local Currency Bond Strategy.