

Key Economic Figures/Events of the Week

- Emerging markets were under pressure at the beginning of this week amidst global tensions over trade relations and investor fears about possible contagion of turmoils in Turkey and Argentina to other emerging economies. A generally lower risk appetite drove up traditional safe harbours such as gold and US dollar. However, as follows from the July statistics released on Tuesday (04/09), the US trade deficit widened to USD 50.1 bn, reaching a 3-year high. Though it came as no surprise to investors, US dollar still lost some of its prior appreciation.
- As compared to last Friday, the 10-year US Treasury yield grew by 2 bps to 2.88% while Brent crude November futures declined 1.5% to USD 76.50 per barrel.



U.S. and European high-yield bond spreads

- Credit spreads of European high-yield bonds continue to expand amid the unstable political situation in Italy,
 where populist forces are gaining power, as well as the crisis in Turkey. Many European banks actively financed
 Turkish companies. If historically European credit spreads were tighter than the U.S. peers, now they exceed
 them. We practically did not include European bonds in our portfolios, because we considered and continue to
 believe that most of them are traded at too low yields against the background of the ECB's current market
 buyback program.
- Last Friday (31/08), the United States and Canada failed to reach an agreement on the new NAFTA deal. The talks continued into this week with Canada holding its ground. Despite the Congress and major business groups tried to pressure Donald Trump into concessions, the US President threatened to exclude Canada from negotiations and proceed only with Mexico.
- The IMF representatives said that they had made progress in negotiations with the Argentine authorities on restructuring the USD 50 bn credit facility. The IMF insists that these funds should not be used for interventions to prop up the Argentinian peso, thus implying a free exchange rate for the national currency. Investors

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welcomed these headlines and boosted their allocations to the country's Eurobonds. Positive mood also spread to the Turkish bond market, which also showed growth in the second half of the week.

Weekly Investment Insights

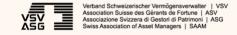
• On Tuesday (04/09), MTN Group (Ba1/BB+), one of the major telecommunication companies in the region headquartered in Johannesburg (SAR), which operates in Africa and Middle East, published a statement on its conflict with the Central Bank of Nigeria (CBN). As a reminder, the CBN ordered MTN Group to refund USD 8.1 bn of dividends which it had allegedly took out of Nigeria between 2007 and 2015. MTN refutes accusations and argues that it acted lawfully. Some of our portfolios have exposure to MTN bonds which we continue to hold. Since this is a long standing dispute with a prior settlement, we believe that the CBN intentionally overstated its claims in an attempt to raise additional funds for the country's budget, so their amount is likely to end up dwindling severalfold. As it stands now, MNT's leverage is 2.5x and its EBITDA is USD 3.75 bn. In our opinion, both sides will come to a mutual agreement with the penalty amount and the terms of its payment likely to be acceptable for MTN.

Strategy

We do not change the current portfolio structure, which should generate a good performance when the markets switch to the risk-on regime. At the same time, we do not see an increase in the risk of defaults on bonds from our portfolio and consider this to be the key reason to keep the portfolio structure unchanged. Nevertheless, the period of increased market volatility may last for some time, which may negatively affect bond prices.

We hope you find this information useful and will be glad to answer your questions

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