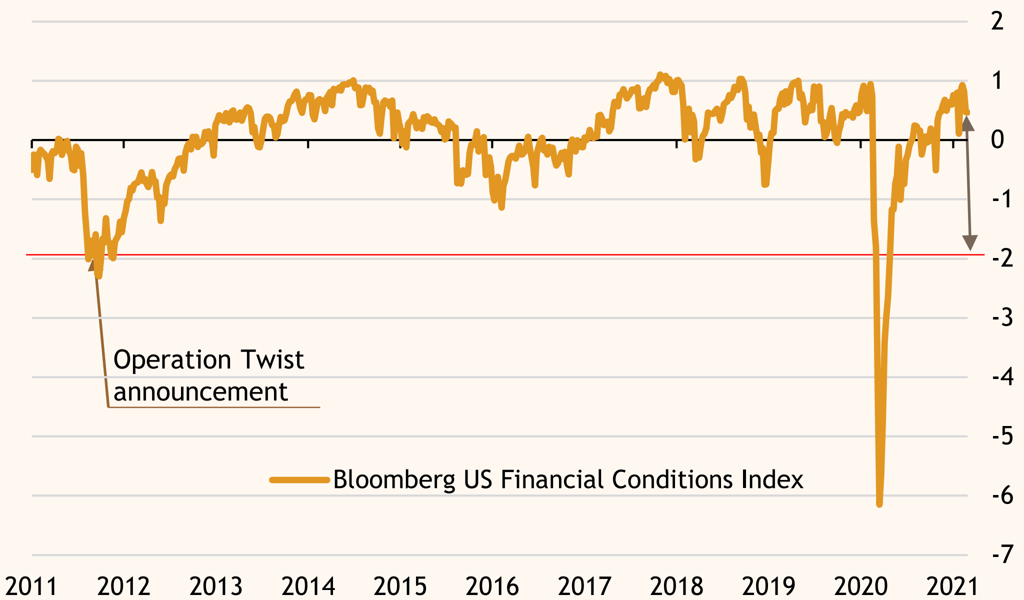
Key Economic Figures/Events of the Week

- After a tumultuous last week, when the US government bond yields rose aggressively, at the start of this week bond markets have calmed down, with 10-year US government bond yield retreating to 1.4%. This has not lasted long though, as Wednesday has seen another jump in yields which caused nervousness, with markets held prisoners to fears of rising borrowing costs. The end of the week has set new records for yields (10 year 1.56% and 30 year 2.33%, as of closing Thursday, 04/03) after Chairman Powell disappointed the markets.
- Fed's reassurance last Wednesday (23/02) of its dovish stance has not succeeded in calming down the markets. This has led to a rise in questions over the ambiguity of the US regulator's rhetoric and the demand for a clearer definition of the 'substantial progress'. That is why, this week's public appearance of Fed's Chairman has been eagerly awaited. Powell has expressed optimism about job market but reassured that no rate hikes are foreseeable as any inflation spike will not be long-lived. However, Fed's chair speech has not lived up to markets' expectations, as he has not mentioned any ceiling on the treasury yields or the renewal of Operation Twist, when Fed bought longer-dated Treasuries to curb further yields growth.

Financial conditions are much better now than when 2011 Twist was announced



Source: Bloomberg

- OPEC+ meeting has surprised markets with its decision to refrain from the output increase which has led to a further rally in oil prices. Brent price passed $68 per barrel and is ready to attack the $70 threshold. It is positive for all oil-related bonds which total to about 20%-25% of our portfolios and it is good in general for oil-exporting countries, such as Russia, Mexico and the Middle Eastern states.

Weekly Investment Insights

- Pemex has terminated its contract with the credit rating agency Fitch, citing cost-saving measures. Ratings of the three major credit rating agencies differ substantially, as S&P has Pemex at BBB, Moody at Ba2 and Fitch, at BB- , the lowest of all three. The reason is that S&P has a significant weight assigned to government support in

- its valuation models. Recently, Mexican government has announced it will pay some of the debt owned by Pemex. However, pricing in too much government support is too high a risk which we are not eager to take at current price levels.
- South Africa (BB-/Ba2/BB-) presented its 2021 Budget at the end of February and we consider it neutral. It expects GDP growth of 3.3% this year with further slow down in 2022 and 2023, 2.2% and 1.6% respectively. Country's budget deficit has been revised to lower levels on the back of better revenue collection and savings in the wage bill. However, such pledges are usually difficult to implement and market participants have met the budget with some skepticism which is also shared by rating agencies. Bonds have not reacted a lot and we continue to hold our modest 3% in South Africa.

Strategy

Last Friday we have acquired secondary market bonds issued by electricity companies Cfelec (BBB) from Mexico, maturing in 2051, and Persusahan Listrik Negara (BBB) from Indonesia, maturing in 2050, as well as long-dated oil producer ARAMCO (A) and international internet assets holding Prosus (BBB-) for the Fund. If rates edge higher again, we will consider adding some high-quality long-dated names. However, for the time being, we do not intend to raise the duration in our portfolios by more than one year from the current level of 4.5yr. We have also acquired 5-year bond of the American financial services company Citadel (BBB-) placed at 3.478% yield-to-maturity.

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

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