Emerging Markets – Still Attractive in Today’s Environment?

Texas Association of Public Employee Retirement Systems Annual Conference

Bradford W. Godfrey, CFA, Institutional Portfolio Manager

April 4, 2016

Emerging Markets Debt

It used to be easy...

10-Year U.S. Treasury Note Yield (%)

Sovereign EMD Spreads (bps)

1990 1995 2000

EMBI EMBI+ EMBIG

January '91 July '95 July '99

Emerging Markets Debt

...but now it is more challenging

What Now?

Ignore the benchmarks
- None blend across assets
- Limited universe
- Non-EM risk embedded
- Uninteresting assets included
- Motives of index providers

Focus on the risk factors – not instruments
- Currency
- Local Interest Rates
- Sovereign Credit Spreads
- Corporate Credit Spreads

For Institutional Investors Only
Eaton Vance

Emerging Markets Debt - Currencies

Emerging markets currencies have declined in real effective terms since 2013; now at 2008 levels.

Emerging Markets Debt – Interest Rates

Emerging markets real yields remain elevated relative to developed markets.


For Institutional Investors Only
Eaton Vance
Emerging Markets Debt – Sovereign Credit Spreads

Emerging markets sovereign credits spreads have widened to early 2000’s levels.


Emerging Markets Debt – Corporate Credit Spreads

Emerging markets corporate credit spreads over the sovereign have remained tight.

Example – Serbia Local Markets

- Comprehensive fiscal & structural reform program should reduce government size and improve business environment

- Improved economic governance creates space for central back to lower high real rates

- Strategic location fosters good relations with EU, China, Russia, UAE

- Narrowed political spectrum has allowed improved relationship with neighbors, including Kosovo & Albania