FLASH NOTE

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3 Reasons why to invest in Emerging Market Debt

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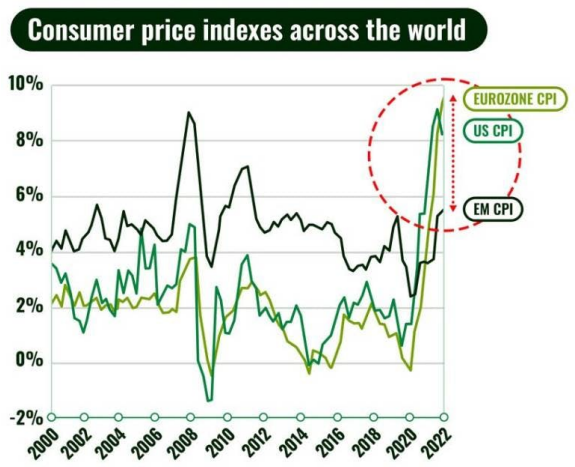
Good inflation management

Attractive environment for bond investors

Opportunities in EM exist

A better inflation environment than in developed countries, an historically attractive fixed income environment with very high yields in some areas are all factors that justify an interest in emerging debt markets. This creates opportunities that require selectivity and extreme agility in order to be seized. Not to mention that this asset class also represents an interesting source of diversification for a portfolio.

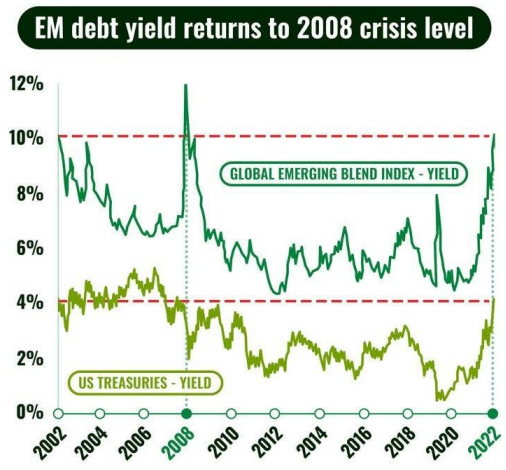
1. A good inflation management



Compared to the situation in developed countries, inflation in emerging markets (EM) has been relatively better behaved. Most emerging market central banks are probably more accustomed to dealing with price spikes than the European Central Bank or the U.S. Federal Reserve has been for several years.

As a result, **emerging countries will be the first to halt their rate hikes and begin a cycle of monetary easing** (Brazil, Czech Republic, Poland, Chile).

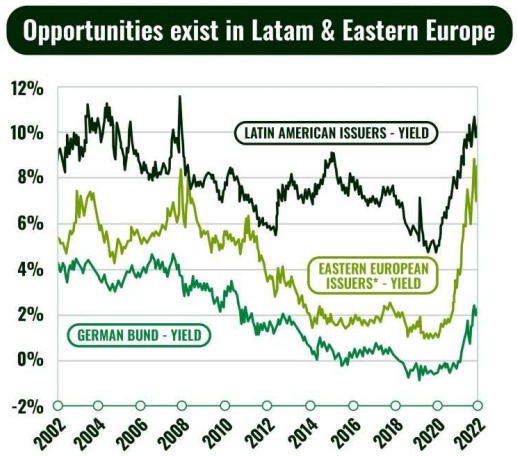
2. An historically attractive environment



Despite improving economic fundamentals, the average emerging market yields are now close to the 10% levels, **something we have not seen since the 2008 financial crisis.**

Bond markets had their worst year since the crash of 1929, driven by persistently high inflation, accelerated monetary policy tightening by central banks and the conflict between Russia and Ukraine.

3. Opportunities for global investors



*Average yield of Czech Republic, Poland and Hungary Bonds

The manufacturing countries of Eastern Europe and Latin America should benefit from the phenomenon of "nearshoring", i.e. the repatriation of an activity to a country close to its consumer markets.

Signs of economic slowdown in the United States should weigh on the dollar, which in turn will help support the currencies of the EMs against the greenback.

Sources: Carmignac, Credit Suisse, Bloomberg, 14/11/2022

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