William Blair | Blog

REPRINTED FROM INVESTING INSIGHTS AT WILLIAM BLAIR

4 Reasons to Consider Emerging Markets Debt Now

November 14, 2023

Over the past few years, emerging markets debt has underperformed as interest rates have increased to fight inflation. Marcelo Assalin, CFA, partner and head of our emerging markets debt team, explains why it's an interesting moment to consider this asset class.

Watch the video or read the transcript below.

1. **The End of Central Bank Tightening Could Generate Demand for Emerging Markets Debt**

With the current global disinflationary trend, we believe that central banks are either at the end, or close to the end, of the global monetary tightening cycle. This could, in turn, generate stronger demand for fixed income.

We believe that this will result in stronger inflows into emerging markets over the next few months.

2. **Declining Rates Could Drive Growth in Emerging Markets**

Emerging markets growth has surprised, and it does look quite resilient. But more importantly, inflation in emerging market countries has decelerated more rapidly and significantly than it has in developed economies.

This should allow central banks within the emerging markets world to start reducing the level of interest rates, which should translate into additional support for economic growth in these countries.

3. **High Yields Could Lead to Strong Returns**

Emerging markets debt high-yield credit spreads have been attractively valued against high-yield spreads in other asset classes, such as U.S. credit or European credit.

That, in turn, translates into higher-yield levels for emerging markets debt. And we know that over the long term, higher yields tend to lead to stronger returns because of the higher carry.

4. **Alpha Generation Opportunities Abound**

Emerging markets debt is a very diversified asset class, which provides ample scope for fundamental differentiation. We see value in different regions and countries and how to position and take advantage of these differences.

Yield levels are very high, credit spreads are very wide, and we see value within the higher-yielding frontier markets debt space, where we believe investors are mispricing the risk premium. Investors are overestimating default rates and underestimating recovery events.

With our strong, bottom-up focus, we are well-suited for uncovering value for our clients in the emerging markets debt space.

Marcelo Assalin, CFA, partner, is the head of William Blair's emerging markets debt (EMD) team, on which he also serves as a portfolio manager.

Want more insights on the economy and investment landscape? Subscribe to our blog.

Disclosure:

This content is for informational and educational purposes only and not intended as investment advice or a recommendation to buy or sell any security. Investment advice and recommendations can be provided only after careful consideration of an investor's objectives, guidelines, and restrictions.

Information and opinions expressed are those of the authors and may not reflect the opinions of other investment teams within William Blair Investment Management, LLC, or affiliates. Factual information has been taken from sources we believe to be reliable, but its accuracy, completeness or interpretation cannot be guaranteed. Information is current as of the date appearing in this material only and subject to change without notice. Statements concerning financial market trends are based on current market conditions, which will fluctuate. This material may include estimates, outlooks, projections, and other forward-looking statements. Due to a variety of factors, actual events may differ significantly from those presented.

Investing involves risks, including the possible loss of principal. Equity securities may decline in value due to both real and perceived general market, economic, and industry conditions. The securities of smaller companies may be more volatile and less liquid than securities of larger companies. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks. These risks may be enhanced in emerging markets. Different investment styles may shift in and out of favor depending on market conditions. Individual securities may not perform as expected or a strategy used by the Adviser may fail to produce its intended result.

Investing in the bond market is subject to certain risks including market, interest rate, issuer, credit, and inflation risk. Rising interest rates generally cause bond prices to fall. High-yield, lower-rated, securities involve greater risk than higher-rated securities. Sovereign debt securities are subject to the risk that an entity may delay or refuse to pay interest or principal on its sovereign debt because of cash flow problems, insufficient foreign reserves, or political or other considerations. Derivatives may involve certain risks such as counterparty, liquidity, interest rate, market, credit, management, and the risk that a position could not be closed when most advantageous. Currency transactions are affected by fluctuations in exchange rates; currency exchange rates may fluctuate significantly over short periods of time. Diversification does not ensure against loss.

There can be no assurance that investment objectives will be met. Any investment or strategy mentioned herein may not be appropriate for every investor. References to specific companies are for illustrative purposes only and should not be construed as investment advice or a recommendation to buy or sell any security. Past performance is not indicative of future returns.

Copyright © 2020 William Blair & Company, L.L.C. "William Blair" is a registered trademark of William Blair & Company, L.L.C. No part of this material may be reproduced in any form, or referred to in any other publication, without express written consent.