

Quasar Emerging Markets Bond Fund

Monthly Manager Commentaries – March 2022



Dear Investors and Interested Parties,

The new interest rate tightening cycle has finally started when the Federal Reserve rose the target range for the federal funds rate by 25 basis points at its meeting on March 15th to 0.25%-0.50% and stated that “indicators of economic activity and employment have continued to strengthen”. Some were doubting the Fed’s willingness to raise rates due to the economic impact of the ongoing war in Ukraine, but the fact is that the vote was almost unanimous, and the only dissenting vote favored a hike of 50bp. The other theme of the month was the commodity rally: supply constraints and sanctions resulting from the war pushed the Brent 18% higher to \$107.91 at the end of the month, after almost reaching \$140 on March 7th. Agricultural commodities such as wheat and corn also reached new highs, all of which push inflation higher.

Unsurprisingly, the US 10-year treasury yields rose by 52bps and closed March at 2.34%. These yields reflect more inflation and higher short-term rates and are not a result of a risk-on environment as in fact, the market’s appetite for risk hasn’t improved. The S&P closed the month at break-even, but credit remained in red territory: US High Yield (HY) fell by over 3.0% and Emerging Market (EM) HY ended the month down over 5.0%. Despite the challenging backdrop, the fund ended the month slightly down at -1.55%.

Overall, the main rebalancing changes were as follows:

- ❖ **Mexico:** increased the fund’s exposure to 12.1% from 11.6%;
- ❖ **Colombia:** increased the fund’s exposure to 9.3% from 7.9%;
- ❖ **China:** reduced the fund’s exposure to 3.0% from 6.8%;
- ❖ **Nigeria:** increased the fund’s exposure to 4.1% from 3.0%;
- ❖ **Ghana:** increased the fund’s exposure to 2.1% from 1.4%;
- ❖ **El Salvador:** closed out a position of 0.5%;
- ❖ **Guatemala:** closed out a position of 0.3%.

Despite the already low average price of our position in Chinese property bonds, it once again contributed negatively to the fund’s returns. Sales remain weak, policy easing remains slow, and we are not confident that there will be any meaningful easing in the short-term. In addition, credit rating agencies are withdrawing their ratings for some companies due to insufficient information and several companies are having problems with their auditors or even delaying their results, which could lead to share trading halts or even de-listing. Therefore, we decided to reduce our exposure by more than half to a mere 3.0% as the current broad market sell-off triggered by higher rates and the war has created opportunities elsewhere.

We want to remind investors again that we were not caught at the start of the conflict in the Russia-Ukraine complex of securities and continue to remain completely out of the Russia-Ukraine region but invested in other EM countries that suffered with the sell-off, particularly in sectors that would be resilient to a prolonged conflict such as Oil & Gas and Financials. In Latam, we continued to add to the Colombian energy sector and added a telecommunications company in Mexico to the portfolio. In Africa, we added an energy company in Ghana and a bank in Nigeria.

The fund currently has a yield to worst of 10.1%, a duration of 3.1 years and a rating of BB-.

According to the EPFR, Hard Currency EM Funds reached outflows of \$4.01bn in March and \$9.54bn year to date.

Kind Regards,

Quasar International