

# Quasar EM Hard Currency HY Bond Fund

Monthly Manager Commentaries – May 2021



Dear Investors and Interested Parties,

Last month, the overall performance of financial markets was quite contrary to what the saying “Sell in May and go away” would suggest. We saw strong commodity prices overall, including Brent Oil, which closed the month firmer at \$69.32/barrel. Despite some uncertainty in the market regarding whether current inflation is transitory and how would the Federal Reserve respond to it, the 10-year US Treasury yields fell 3bps and ended May at 1.59%. Positive economic data worldwide and the reopening of the developed economies were supportive for asset prices across the board, and Equities, Emerging Market (EM) debt and, US High Yield (HY) debt ended the month in the black. In line with this positive environment, the fund returned **+0.76%**.

After an April without major changes in the portfolio, there were significant changes to country exposures in May, mostly result of cash deployment. The main changes were as follows:

- ❖ **China:** Increased the fund’s exposure to 30.2% from 28.8%;
- ❖ **Brazil:** Increased the fund’s exposure to 19.6% from 16.0%;
- ❖ **Colombia:** Decreased the fund’s exposure to 4.8% from 5.2%;
- ❖ **Jamaica:** Opened a new position of 1.5%;
- ❖ **India:** Increased the fund’s exposure to 1.4% from 0.9%;
- ❖ **Ghana:** Increased the fund’s exposure to 1.3% from 0.8%;
- ❖ **Turkey:** Opened a new position of 0.9%.

The main allocation change was in Brazil, where we increased the fund’s position by +3.6%. Despite the increase, the fund recently had over 20% of its portfolio allocated in Brazil, and we remain out of most of the names that we sold in the beginning of the year. We maintain a cautious stance and are monitoring closely the socioeconomic environment in the country. The situation improved considerably since last month, and the number of people who received at least the first vaccine dose jumped to 45 million from 30 million at the end of April, and the vaccination program keeps accelerating, which means that Brazilians get increasingly more vaccine shots every day. There are few lockdown measures in place, and the economic activity is picking up. Sentiment is positive, and the Central Bank’s “Focus” market survey indicates a 2021 GDP growth of 3.94% vs 3.14% 4 weeks ago. There are even banks estimating it to be within the 5.0-5.5% range. Our concerns are the possibility of a third wave in the very near term and next year’s presidential elections, but the economic activity pick up in the second half of 2021 together with the increasingly rapid vaccination program should support asset prices throughout this year.

Elsewhere, we opened a new infrastructure position in Turkey, a new healthcare position in Central America (which albeit classified as Jamaica, operates in the whole region) and increased the exposure to commodities in India and Ghana.

The fund currently has **BB-** rating, a yield to worst of **7.39%** and a duration of **2.92** years, up from 2.76 years in April but down from 3.84 years as of December 31st, 2020.

According to the EPFR, Hard Currency EM Funds reached inflows of \$3.48bn in May and inflows \$11.36 bn year to date.

Kind regards,

Quasar International