

Vontobel

Five reasons to invest now in emerging markets fixed income

4
**Five reasons to invest now
in emerging market fixed income**

9
**Investors' main concerns
and why they are manageable**

13
**Time to stop waiting
on the sidelines?**



—
Sergey Goncharov
Portfolio Manager



—
Carlos de Sousa
Emerging Markets Strategist,
Portfolio Manager



—
Adrian Bender
Client Portfolio Manager

Summary

Now that the US Federal Reserve's hikes are well underway, disinflation has already begun, and the market is pricing in a 5% Fed funds rate in a matter of months, investors are wondering whether the time has come to reduce cash balances and increase their allocation to emerging markets.

Our survey of over 300 global institutional investors found that two thirds are likely to increase their exposure to emerging markets bonds in the next two years.

Looking beyond the sell-off in emerging markets, we find strong supporting arguments for the asset class. Yields are looking now decidedly attractive. The International Monetary Fund has better growth expectations for emerging markets compared to developed markets. High levels of diversification can significantly reduce specific risks.

Common arguments made against investing in emerging markets fixed income include: a strong US dollar amid aggressive Fed hikes, the risk of global recession, and higher default risk in emerging markets. We reveal why we think that these are manageable risks.

Watching from the sidelines may not be the best investment strategy in 2023.

Five reasons to invest now in emerging markets fixed income

Financial markets have had one of the worst years in several decades in 2022 across all asset classes. Risk assets—including emerging markets investments—have suffered particularly. As a result, emerging markets are perceived as high risk and are therefore underrepresented in investors' portfolios.

We commissioned a survey of more than 300 institutional investors in Europe, the Americas, and Asia-Pacific, which we published in May this year. We found that two thirds were likely to increase their exposure to emerging markets bonds in the next two years for the following reasons:

- 64% of respondents embrace fixed income assets in emerging markets for diversification, ESG performance, and yield.
- More than three in four investors endorse active strategies for emerging markets fixed income as they see opportunities for alpha in mispriced and inefficient emerging markets.
- Diversification, income, and ESG alignment lead investors toward emerging markets corporate bonds.

Unsurprisingly, participants of the survey also expressed concerns against investing in emerging markets fixed income.

We reveal in this article the five reasons that we believe put this asset class in favor over others, and why we think that current investor concerns are manageable risks.



1. A lengthy and severe sell-off has created opportunities for long-term investors

Losses in 2022 have been mainly driven by a sudden adjustment from over a decade of very low inflation to an uncertain period of high global inflation. Emerging markets assets have been among the worst-affected this year. The repricing of interest rates has been incredibly negative for risk assets generally and it is no surprise that the sentiment towards emerging markets has turned extremely negative.

The protracted 14-month sell-off has been wearisome for investors. The JP Morgan Corporate Emerging Markets Bond Index (CEMBI), the reference index for emerging markets corporates, delivered only three modest positive months of return between September 2021, when the sell-off began, and October 2022.

This compares to a two-month sell-off in 2020 at the outbreak of the Covid pandemic and a five-month sell-off in 2018 at the start of US President Donald Trump’s anti-trade rhetoric. That was the longest since the Great Financial Crisis sell-off, which lasted for just two months.

Rates, spreads and equities have all suffered with the Ukraine war worsening the global inflation problem, sapping optimism. However, the sentiment towards emerging markets seems to have significantly improved since November 10, when the US released lower-than-expected inflation figures.

It is usually not a good idea to read too much into a single data point, but this one confirmed that disinflation is indeed taking place with headline annual inflation declining for the fourth consecutive month. This also confirmed the view that the Fed is approaching the end of its hiking cycle, and thus it is likely to slow the pace of hikes and pause in the first quarter or second quarter of 2023.

Given the challenging backdrop, investors have voted with their feet. They have redeemed substantial amounts of emerging markets fixed income assets since the start of the year—estimated at over USD 80 billion according to EPFR data as of mid-November—and appear to be maintaining high cash levels that they should be looking to invest once stability returns.

This, combined with very low levels of primary issuance through 2022, should provide positive technicals in 2023. There has been a small pickup in emerging markets issuance in the fourth quarter of 2022, suggesting a more balanced view of market participants.

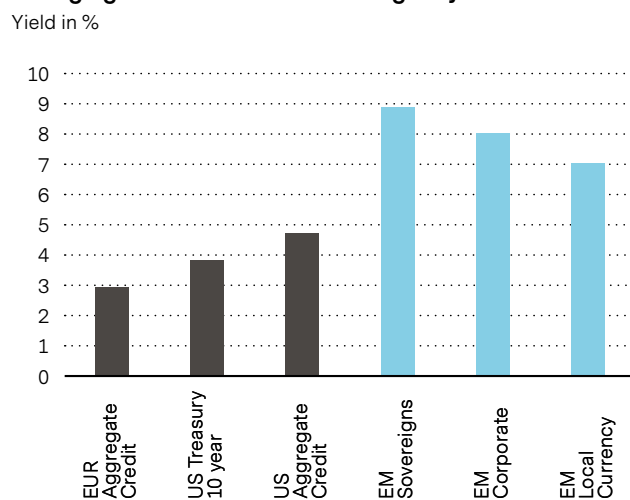
This primary activity has included a few issues where the premium spread offered above the existing issuer curve has been substantial. Primary markets are another fertile playground for active asset managers, which tend to pay new issue premiums and enhance the liquidity of the markets and portfolios.

2. Emerging markets fixed income offers higher yields and lower duration than developed markets

Volatile markets create opportunities. Given the rise in rates, widening of spreads and overall higher yields, the former consensus that equities (mainly US equities) are the growth asset class of choice has been severely challenged. In other words, “TINA”—there is no alternative (to equities)—is no more. Fixed income, which emerging markets are a growing and increasingly popular part, is a viable investment destination once more. Some investors might ask: why bother with emerging markets with US corporate yields above 5.5%?

Emerging markets fixed income segments provide a significantly higher yield than their developed market counterparts, not to mention that 5.5% is still far below inflation. For example, emerging markets corporate and local-currency bonds have a yield of around 8% and 7% respectively, while emerging markets hard-currency sovereign debt offers a yield of almost 9%. By comparison, the yield for 5- and 10-year US treasuries is less than 4%, and less than 2% for German bunds.

Emerging markets bonds deliver higher yields

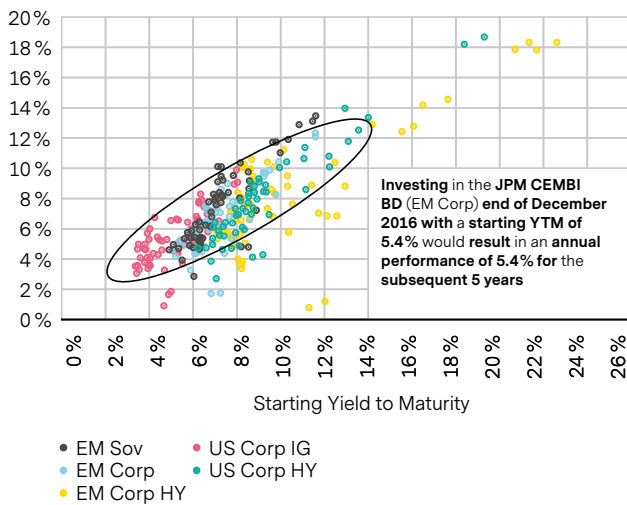


Past Performance is not a guide to current or future performance.
Source: Bloomberg, Vontobel Asset Management, as of 21.11.2022

Historically a higher starting yield has led to higher annualized return than the reference index over five years.

In emerging markets sovereigns, total returns are highly correlated to initial yield

Annualized Total Return (over 5 Year Time Horizon)



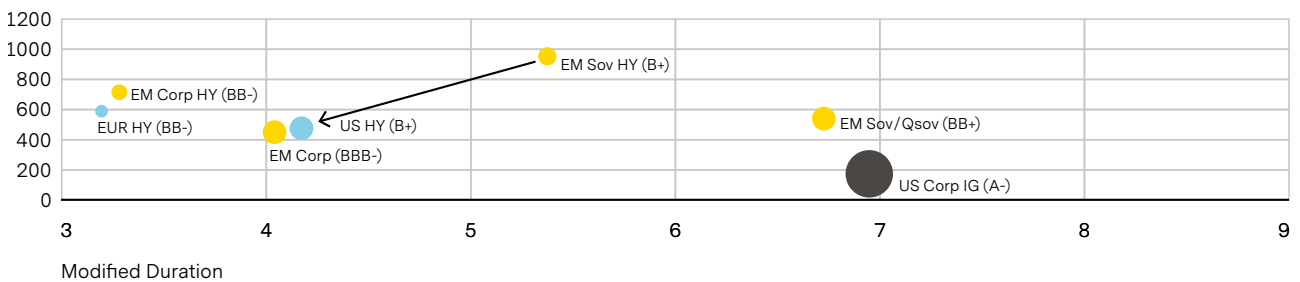
Note: each dot represents an annual, rolling, 5-year annual return versus the original, starting yield (to maturity) of the index. Moreover, EM Sov stands for JPM EMBI GD, EM Corp for JPM CEMBI BD, EM Corp HY stands for the HY sub-index of the JPM CEMBI BD, US Corp IG stands for ICE BofA US Corporate Index and US HY stands for the ICE BofA US High Yield Index.
 Source: Vontobel Asset Management, Bloomberg, from 31.12.2001 to 31.12.2021

Emerging markets high yield spreads also have a more favorable outlook compared to developed markets high yield spreads. The chart below compares spread and duration, and at a glance shows that emerging markets (green) offer higher spreads than developed markets high yield (pink) or corporates (blue). Comparing market segments shows that emerging markets corporate high yields have better ratings and less duration risk, but still show a spread pick up compared to US high yields. Emerging markets sovereign high yields have the same rating, slightly higher duration but nearly 100% spread pick up.

That's why emerging markets corporate fixed income could be an alternative for investors seeking higher spreads and yields as well as lower duration amid recession fears and rate hikes in developed markets. Meanwhile, with disinflation already ongoing in the US and in a few emerging markets, emerging markets hard-currency sovereigns with higher duration and much higher spreads may be the ideal sub-asset class for investors who are more optimistic about duration.

Higher spreads and lower duration than US high yields with a better rating

Spread (in bps)



Source: ICE BofA Merrill Lynch US Corporate Index, ICE BofA Merrill Lynch Euro Corporate Index, J.P. Morgan CEMBI Broad Diversified, J.P. Morgan EMBI Global Diversified, ICE BofA Merrill Lynch US High Yield Index, ICE BofA Merrill Lynch Euro High Yield Index, as of 31.10.2022, Bloomberg. Average index ratings indicated within the brackets. Bubble size represents market value in USD bn

3. The IMF has better growth expectations for emerging markets than developed markets

The IMF downgraded its global GDP growth expectations in October and highlighted the increased probability of a global recession. However, the downgrade was much more severe for Europe and the US than for emerging markets.

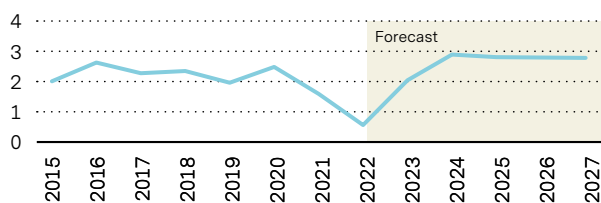
This means that after the somewhat exceptional period of the pandemic rebound, when developed markets were growing almost as fast as emerging markets, GDP growth differentials appear likely to return to normal, with emerging markets resuming their previous growth pace.

And this is despite the much slower growth forecast in China going forward: the easing of zero-Covid curbs is expected to be gradual and fiscal stimulus to remain modest, with clear upside if this changes.

GDP growth is not a significant variable in the determination of relative emerging markets spreads. It is indeed useful as a signal for emerging markets equities, but not for emerging markets fixed income spreads. In short, fast growth can sometimes be unsustainable, while slow growth can sometimes be the consequence of austerity measures that restore debt sustainability.

However, like the US dollar strength negatively affecting sentiment, faster GDP growth in emerging markets compared to developed markets usually leads to improved investor sentiment (the famous “cash chases growth” principle).

Growth differential between EM-DM is expected to increase, driving renewed interest in the market



Past Performance is not a guide to current or future performance.
 Source: IMF WEO. Forecast are opinion; not guaranteed; and actual outcomes may differ materially. EM: emerging markets, DM: developed markets, as of 31.08.2022

4. Default rates remain low and balance sheets stable

On average, emerging markets corporates have healthier balance sheets than their equivalents in developed markets. This explains why they have a better average rating (despite the sovereign cap, meaning that in several countries, corporates are rated lower than the sovereign despite robust fundamentals) and have had a low long-term average default rate of just 3.7%.

However, this year has been different. The real estate crisis in China and Russian sanctions following the invasion of Ukraine, which pushed Russian corporates to default, have pushed the default rate in emerging markets corporate high yields to 11.3% during the first ten months of the year. The default rate is expected to remain at similar levels through 2023—or decline to 7.3% if Russia, which is now out of the index, is excluded (source: JP Morgan).

Excluding China’s property sector and Russia/Ukraine corporates, the emerging markets high yield corporate default rate stands at just 1% in 2022, so emerging markets corporate default rates are far from alarming and in fact, some defaults can even present attractive opportunities for active investors.

Moreover, while the default rate is likely to remain high in the China property sector, bond prices fully reflect this expectation. The average price of Chinese high yield real estate bonds in the CEMBI broad index stood at 28.5 cents on the dollar at the time of writing, which strongly limits the potential downside for investors going forward.

Sovereigns have also seen defaults recently, which created sensational headlines and the lazy perception that emerging markets are “emergency” markets. Whereas the facts show the opposite:

1. If we exclude Russia and Ukraine, the market cap of defaults is very modest;
2. When an emerging country defaults, there is next to no contagion effect on its neighbors. Investors have grown a lot more sophisticated over the years and can now differentiate between “basket cases” and “normal stories” ever since the Covid wave of defaults.



5. Emerging markets fixed income is well diversified

Diversification is often underestimated. Indeed, there have been some concentrated blow ups in emerging markets corporates, such as Russia and Ukraine, China high yield and Mexican non-bank financials. But outside these pockets, default rates appear to be under control given the distinctive reasons for each of these setbacks.

Investors seem to underappreciate the low degree of contagion these markets demonstrate.

Turkish macro woes have not affected neighbors much, the Chinese Covid wave is painful for global macro, but not for a given sector in country A or B. This brings us back to the all-important argument of diversification within emerging markets.

“Investors seem to underappreciate the low degree of contagion these markets demonstrate.”

With more than 80 countries classified as emerging markets, an investor can obtain much greater diversification than investing in some developed markets regions, where single events affect a much larger share of the investable universe.

Investors' main concerns and why they are manageable

The sentiment towards emerging markets assets has been particularly bleak as the Fed has hiked faster than other developed central banks resulting in a rapidly appreciating US dollar.

Moreover, the looming end of an era of plentiful global liquidity has raised fears of multiple defaults in frontier markets that issued eurobonds for the first time during the last decade and now find themselves without market access.

Some of the prevalent arguments made against investing in emerging markets fixed income include:

1. A strong US dollar amid aggressive Fed hikes
2. The risk of a global recession
3. Higher default risk in emerging markets

Let's assess them.

1. The US dollar has strengthened far more against other developed market currencies than emerging market currencies.

The US dollar has strengthened 16.67% against major developed markets currencies year-to-date in the first ten months of the year, as per the DXY index. Usually, one would expect emerging markets currencies to fare worse during Fed hiking cycles – as it was the case during 2018, for example.

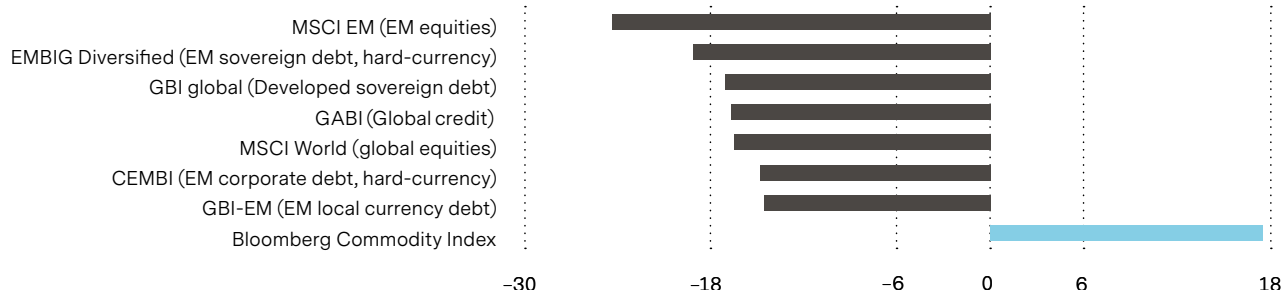
However, the pure forex return of the JP Morgan Government Bond Index-Emerging Markets stood at -10.87% year to date in the same period. In other words, several emerging markets currencies are faring much better than non-dollar developed markets currencies. In fact, the Brazilian real, the Mexican peso, and the Peruvian sol are all up against the dollar year to date.

Emerging markets currencies tend to weaken when carry is eroded by Fed hikes. Yet, emerging markets carry has not been eroded this year, it has in fact been rebuilt despite Fed hikes and is now the highest since mid-2017.

This is because emerging market central banks, particularly those in Latin America, started hiking rates much earlier than the Fed and have been much more aggressive at doing so—a third of the 15 largest countries in the GBI-EM index now have double-digit central bank policy rates. For more details on this see our previous article [here](#).

Emerging markets local-currency bonds have fared much better than hard-currency despite the strengthening dollar. Both emerging market corporate and emerging market local have fared better than developed market sovereign debt due to their lower duration.

Emerging market local-currency bonds have fared much better than hard-currency despite the strengthening dollar



Source: Bloomberg and Vontobel AM, YTD returns as of November 23, 2022

A strong dollar makes emerging markets external debt burdens heavier. But these aren't usual times.

The logic of a strong dollar making emerging markets' external debt burdens less sustainable goes like this: if you borrow in a foreign currency and your own currency depreciates, then your liabilities have increased when measured in your local currency. Your income remains the same as it is mostly earned in domestic currency via taxes.

That may apply in usual times, but these aren't usual times. First, most emerging markets borrow in a mix of local and foreign currency. If domestic debt entails half of the country's public debt, then the dollar strength effect is already reduced by half.

“... many emerging markets have seen revenues increase at a faster pace than GDP through 2022, with several countries experiencing higher revenues as a share of GDP compared to pre-Covid times.”

Debt composition is very heterogenous, going from countries that typically mostly borrow in foreign currency due to chronic high inflation—such as Argentina—to countries like Brazil, where 97% of the public debt is in local currency and should thus be almost unaffected by a strong dollar from a debt sustainability perspective.

Second, emerging markets are also experiencing high global inflation. If a country had 10% inflation this year, its nominal GDP will also be 10% higher even without growth, which would more than compensate for the equivalent dollar strength.

Also, many emerging markets have highly regressive taxation systems, particularly developing countries, where VAT and import duties are more important than income taxes.

In a context of high inflation, revenues collected from VAT and duties increase immediately, while income taxes lag. Thus, many emerging markets have seen revenues increase at a faster pace than GDP through 2022, with several countries experiencing higher revenues as a share of GDP compared to pre-Covid times.



2. High yield spreads usually widen sharply during recessions. Isn't that a reason to avoid emerging markets amid the ongoing global slowdown?

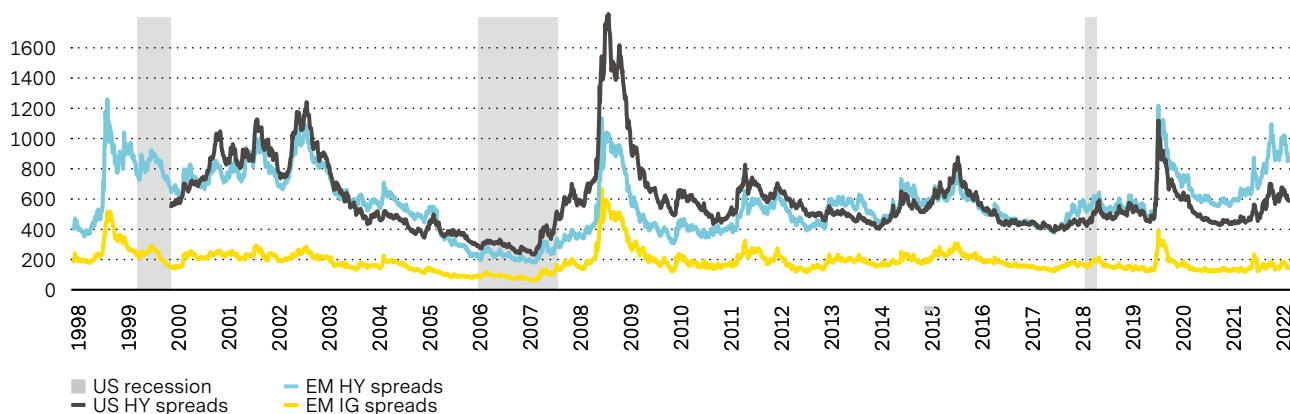
In principle, yes. But emerging markets high yield spreads were recently trading at around 1,000 basis points, close to the level seen in December 2008, when the GFC was already in full swing and higher than during the 2001 US recession. Spreads tightened in November (below 900 bps) as US inflation data confirmed that disinflation is already happening, yet this is still a very high level as activity data suggests that the economy remains resilient, and recession is not yet imminent.

Moreover, we have previously argued that the upcoming recession is unlikely to be as bad as the GFC. In contrast, US high yield spreads are not looking particularly wide compared to their history, the absolute level of yields is high simply because US treasuries have gone up a lot.

Emerging markets high yield hard-currency sovereign spreads are now close to the levels seen during the GFC and higher than during the 2001 recession, while US high yield spreads are not far from their historical average.

“Selected countries can stay out of the markets for a while without necessitating a debt restructuring, creating opportunities for investors.”

Emerging markets high yield hard-currency sovereign spreads vs US high yield spreads



US HY spreads: series from J.P. Morgan Global Aggregate US HY credit spread. EM HY and IG spreads: series from J.P. Morgan EMBIG diversified sub-indices.
 US recession: Macrobond series based on NBER business cycle dating.
 Source: Bloomberg, Macrobond, Vontobel AM. Data as of 23.11.2022

3. But if high yield spreads stay this high, wouldn't that lead to a wave of emerging markets defaults?

One could argue that high yield spreads in emerging markets are this high precisely because default risk is high. Or, conversely, that with such high spreads there are even countries with sustainable debt burdens that may not have market access.

During the October IMF meetings in Washington, DC, several investors expressed concern that if the current state of affairs remained unchanged for long, then a wave of emerging markets defaults would become inevitable.

Indeed, if spreads remained as elevated as they were in October forever, then even countries with solid fundamentals would eventually get in trouble. Yet, it seems unlikely that by the end of 2024 global inflation will still be running close to 10% and the Fed Funds rate will still be at, say, 5%. The US inflation print in October – the fourth month of declining headline inflation—confirms that the current state of affairs is unlikely to become permanent.

Several analysts have jumped to the conclusion that if a country does not have market access now, it must run out of liquidity soon and will be forced to restructure its debts. However, that seemingly logical conclusion assumes that developing countries must constantly roll over their debt maturities like developed countries.

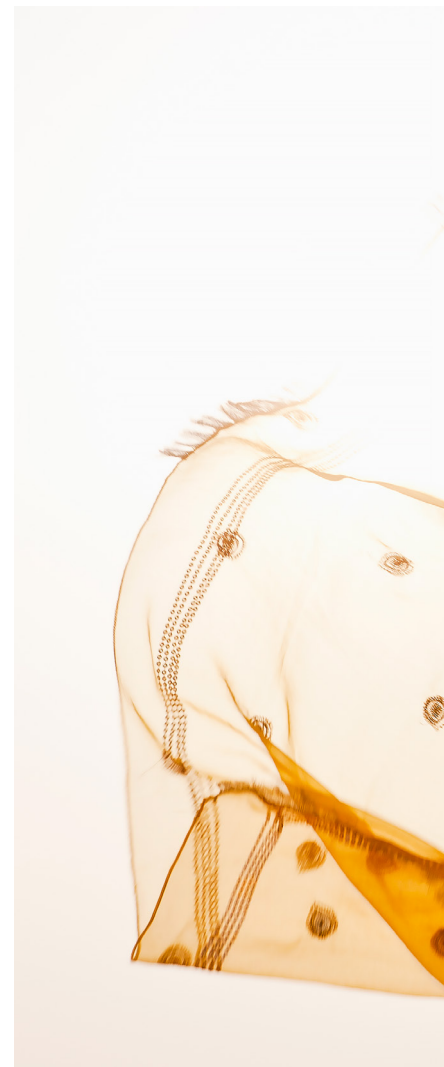
But this is not the case for most developing countries, which typically issue eurobonds (i.e. external debt) in a rather opportunistic and infrequent fashion. In fact, most African eurobond issuers do not have significant debt maturities until 2024 or 2025. So they can afford to stay out of global capital markets until global financial conditions improve.

Moreover, sovereigns tend to have several lenders of last resort which they can rely on when market access is lost. The IMF, together with other multilateral institutions like the World Bank and regional development banks, act as lenders of last resort. Additionally, several nations enjoy the favors of bilateral partners that can also act as fallback lenders. Egypt, for example, enjoys the support of petrodollar-rich Gulf countries.

There are some rotten apples and we're likely to see more defaults in terms of the number of countries restructuring debt in the next two years, but with bond prices of distressed countries trading at or below 40 cents on the dollar compared to the average recovery value in emerging markets restructurings of 52-53 cents on the dollar, restructurings seem to be already priced in.

In short, the current global macroeconomic environment is very challenging, and indeed we're likely to see a few more sovereign debt restructurings over the next two or three years because not all countries have solid fundamentals.

Yet, the existence of several lenders of last resort and the fact that most developing countries are infrequent issuers of eurobonds, implies that selected countries can stay out of the markets for a while without necessitating a debt restructuring, creating opportunities for investors.



Time to stop waiting on the sidelines?

Overall, our survey of over 300 global institutional investors, which we published in May 2022, found that two thirds are likely to increase their exposure to emerging markets bonds in the next two years.

The global macroeconomic environment remains very challenging, but the bulk of the sell-off in fixed income markets appears to be behind us. Although the Fed is not done hiking yet, hawkish surprises are much less likely going forward as there are already signs of disinflation and the market is no longer expecting a Fed pivot. Markets have already priced in the Fed's well-telegraphed intention to keep rates elevated until inflation comes down closer to target.

Predicting the exact moment when inflation declines more meaningfully, the Fed stops hiking, the dollar deflates, and the sentiment turns outright positive towards risk assets is nearly impossible. Yet it is reasonable to expect that these things will occur at some point

in 2023. When they do, light positioning on the asset class, coupled with attractive valuations, superior forecasted growth and very low issuance from emerging markets debtors, imply that emerging markets bonds may perform well.

One thing of note is that local currency is demonstrating a lot better performance compared to hard currency. Fundamental reasons for that have been covered above (more agile rate policy, improving growth differential, current accounts also improved). Interestingly, this is not matched with asset allocation trends. As 2023 approaches, we do see a solid niche for the emerging markets local currency bonds as a further diversification segment within emerging markets.

Waiting on the sidelines may have been the smartest thing to do through 2022, but may not be the optimal decision for much longer.



14 Five reasons to invest now in emerging markets fixed income
For institutional investors only / not for public viewing or distribution

Legal information

This marketing document was produced by one or more companies of the Vontobel Group (collectively "Vontobel") for institutional clients for distribution in AT, CH, DE, LI, LU, ES, FI, FR, GB, IT, NL, NO, SE, AU, HK (professional investors), SG (Professional Investors only), US (institutional investors), CA (institutional investors), and for US Offshore and certain LatAm countries (subject to restrictions).

This document has been prepared and approved by a company of the Vontobel Group ("Vontobel") for informational purposes only. Information herein does not constitute investment advice, a recommendation or an offer or solicitation to purchase or sell any securities to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. No representation is given that the securities, products, or services discussed herein are suitable for any particular investor. The opinions expressed are as of October 2022 and are subject to change without notice. Any reliance upon information in this material is at the sole discretion of the reader.

Some of the information provided may contain projections or other forward-looking statements regarding future events or future financial performance of countries, markets and/or investments. These statements are only opinion and actual events or results may differ materially. The reader must make their own assessment of the relevance, accuracy and adequacy of such information and make such independent investigations as they consider necessary or appropriate for the purpose of such an assessment. All information contained in this document are based on the best information available at the date indicated in the document. Although we believe that the information provided is based on reliable sources, we cannot assume responsibility for the quality, correctness, timeliness or completeness of the information contained herein including that which has been obtained from or is based upon trade and statistical services or other third-party sources.

Any investments discussed are for illustrative purposes only and there is no assurance that the adviser will make any investments with the same or similar characteristics as any investments presented. The investments are presented for discussion purposes only and are not a reliable indicator of the performance or investment profile of any composite or client account. Further, the reader should not assume that any investments identified were or will be profitable or that any investment recommendations or that investment decisions we make in the future will be profitable.

This document is not the result of a financial analysis and therefore the "Directives on the Independence of Financial Research" of the Swiss Bankers Association are not applicable. Vontobel and/or its boards of directors, executive management and employees may have or have had interests or positions in, or traded or acted as market maker in relevant securities. Furthermore, such entities or persons may have executed transactions for clients in these instruments or may provide or have provided corporate finance or other services to relevant companies.

Environmental, social and governance ("ESG") investing and criteria employed may be subjective in nature. The considerations assessed as part of ESG processes may vary across types of investments and issuers and not every factor may be identified or considered for all investments. Information used to evaluate ESG components may vary across providers and issuers as ESG is not a uniformly defined characteristic. ESG investing may forego market opportunities available to strategies which do not utilize such criteria. There is no guarantee the criteria and techniques employed will be successful. Unless otherwise stated in Fund documentation or included within the Fund's investment objective, information herein does not imply that the Fund has an ESG-aligned investment objective, but rather describes how ESG criteria and factors are considered as part of the overall investment process.

Although Vontobel believes that the information provided in this document is based on reliable sources, it cannot assume responsibility for the quality, correctness, timeliness or completeness of the information contained in this document. Except as permitted under applicable copyright laws, none of this information may be reproduced, adapted, uploaded to a third party, linked to, framed, performed in public, distributed or transmitted in any form by any process without the specific written consent of Vontobel. To the maximum extent permitted by law, Vontobel will not be liable in any way for any loss or damage suffered by you through use or access to this information, or Vontobel's failure to provide this information. Our liability for negligence, breach of contract or contravention of any law as a result of our failure to provide this information or any part of it, or for any problems with this information, which cannot be lawfully excluded, is limited, at our option and to the maximum extent permitted by law, to resupplying this information or any part of it to you, or to paying for the resupply of this information or any part of it to you. Neither this document nor any copy of it may be distributed in any jurisdiction where its distribution may be restricted by law. Persons who receive this document should make themselves aware of and adhere to any such restrictions.

Past performance is not a reliable indicator of current or future results. Neither asset allocation nor diversification assure a profit or protect against loss in declining markets. Indices are unmanaged; no fees or expenses are reflected; and one cannot invest directly in an index.

In the United Kingdom: Vontobel Asset Management SA, London Branch, has its registered office at Third Floor, 22 Sackville Street, London W1S 3DN. Vontobel Asset Management SA, London Branch, is authorized by the Commission de Surveillance du Secteur Financier (CSSF) and is subject to limited regulation by the Financial Conduct Authority (FCA). Details on the extent of FCA regulation can be obtained upon request at Vontobel Asset Management SA, London Branch.

In Germany: Vontobel Asset Management SA, Munich Branch, has its registered office at Leopoldstrasse 8-10, 80802 Munich, is authorized by the Commission de Surveillance du Secteur Financier (CSSF) and is subject to limited regulation by the German Federal Financial Supervisory Authority (BaFin). Details on the extent of regulation can be obtained upon request at Vontobel Asset Management SA, Munich Branch.

In Italy: Vontobel Asset Management SA, Milan Branch, has its registered office Piazza degli Affari 3, I-20123 Milan, Italy (telephone: 026 367 344). Vontobel Asset Management SA, Milan Branch, is authorized by the Commission de Surveillance du Secteur Financier (CSSF) and is subject to limited regulation by the Italian National Bank and the CONSOB. Details on the extent of regulation by the Italian National Bank and the CONSOB can be obtained upon request at Vontobel Asset Management SA, Milan Branch.

In the United States: Vontobel Asset Management, Inc. is registered with the U.S. Securities and Exchange Commission as an investment adviser under the Investment Advisers Act of 1940, as amended, in the USA. Registration as an Investment Advisor with the U.S. Securities and Exchange Commission does not imply a certain level of skill or expertise. Advisory services for strategy discussed herein are offered through a Participating Affiliate structure between Vontobel Asset Management, Inc., Vontobel Asset Management AG, and Vontobel Asset Management Asia Pacific Ltd. Where applicable, certain investment staff may be deemed as Associated Persons and therefore subject to SEC requirements as part of the Participating Affiliate structure.

In Canada: Vontobel operates in connection with our investment and business activity pursuant to the following: Vontobel Asset Management Inc. relies on the International Adviser Exemption in the provinces of Alberta, British Columbia, Saskatchewan, Ontario and Quebec and the Investment Fund Manager Exemption in Ontario and Quebec. Vontobel Asset Management AG relies on the Investment Fund Manager Exemption in the provinces of Ontario and Quebec.

Additional notice for US Offshore and LatAm: This marketing document was produced by Vontobel solely for institutional/professional investors and approved for use in certain jurisdictions only. Vontobel offers a variety of products and services intended solely for qualified investors from certain countries or regions. Your country of legal residence will determine the products or services that are available to you. Information herein should not be considered a solicitation or offering for the sale of any investment product or service to any person in any jurisdiction where such solicitation or offer would be unlawful or prohibited.

For use with financial advisors / investment professionals, institutional investors and approved for use in certain jurisdictions only. Vontobel offers a variety of products and services intended solely for qualified investors from certain countries or regions. Your country of legal residence will determine the products or services that are available to you. Information herein should not be considered a solicitation or offering for the sale of any investment product or service to any person in any jurisdiction where such solicitation or offer would be unlawful or prohibited. Furthermore, this information is not intended for use in any jurisdiction which would subject Vontobel to any registration, licensing or other authorization requirement within such jurisdiction or country. It is the responsibility of the recipient to inform themselves and observe applicable regulations and restrictions for their respective jurisdiction(s). Information herein is not intended for retail investors and/or distribution to the general public in any jurisdiction.

Vontobel reserves the right to make changes and corrections to the information provided herein at any time, without notice. Any unauthorized disclosure, use or dissemination, either whole or partial, of this document is prohibited and this document is not to be reproduced, copied, made available to others.

Bank Vontobel AG
Gotthardstrasse 43
8022 Zurich
vontobel.com