

Emerging Markets- Fixed Income Perspective

Presented by

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**LIGHTHOUSE
CANTON**



2023
ASIAN PRIVATE BANKER
13th AWARDS FOR DISTINCTION

BEST INDEPENDENT
WEALTH MANAGER
ASIA PACIFIC

2022
ASIAN PRIVATE BANKER
AWARDS FOR DISTINCTION

BEST INDEPENDENT WEALTH MANAGER
ASIA PACIFIC

2021
ASIAN PRIVATE BANKER
AWARDS FOR DISTINCTION

BEST INDEPENDENT WEALTH MANAGER
WEALTH PLANNING SERVICES

2021
ASIAN PRIVATE BANKER
AWARDS FOR DISTINCTION

BEST INDEPENDENT WEALTH MANAGER
INVESTMENT ADVISORY

2023
ASIAN PRIVATE BANKER
13th AWARDS FOR DISTINCTION

HIGHLY COMMENDED
INDEPENDENT WEALTH MANAGER
INDIA



GLOBAL
**Private
Banking**
INNOVATION
AWARDS **2022**

OUTSTANDING
DIGITAL TRANSFORMATION IN
COVID 19 BY A FAMILY OFFICE

BEST FAMILY OFFICE –
MIDDLE EAST

BEST FAMILY OFFICE –
UNITED ARAB EMIRATES

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Market Overview

1



Type of Issuer	Hard Currency Issuances (%)	Local Currency Issuances (%)	Total Issuances (%)
Sovereign	60-70%	30-40%	50-60%
Corporate	70-80%	20-30%	40-50%

The EM bond market has grown rapidly in recent decades.

As of 2023, the market is estimated to be worth over **\$30 trillion**, with sovereign bonds accounting for most of this figure (~65%).

Investors are attracted by the higher returns typically offered by EM bonds, especially in a low-interest-rate environment in developed markets.

What should
investors look for ?

2

Interest Rates and Global Liquidity

When interest rates are low in the U.S. or Europe, investors search for higher yields in emerging markets. Conversely, rising rates in developed economies (such as the Federal Reserve's tightening cycle) can lead to capital outflows from EM markets, as investors seek safer and higher yielding assets in developed markets.

Trump's policies historically have favored tax cuts, deregulation, and pro-business measures. These policies could stimulate domestic U.S. economic growth, potentially leading to higher interest rates from the Federal Reserve.

Trump's fiscal policies, particularly tax cuts or new spending initiatives, could lead to larger budget deficits and a rise in U.S. government debt. It could also tighten global liquidity as the U.S. borrows more, thus crowding out EM issuers who also rely on global capital markets. A more constrained global liquidity environment might reduce investor appetite for riskier assets like EM bonds.



Geopolitics

1

Political stability results in reduced spreads (South Korea and India) while instability leads to spreads widening (Middle East and Eastern Europe)

2

Trump could exacerbate tensions with countries like Iran or Russia, which could in turn lead to regional instability

3

The US under Trump may stop supporting Ukraine and hence may put neighbouring countries like Poland and even Romania at risk (spread widening).

Commodity Prices & Economic Cycles

Many emerging market economies are heavily dependent on commodity exports, such as oil, metals, and agricultural products. As global demand for these commodities rises or falls, the creditworthiness of countries and companies in EMs is directly impacted.

Trump's "America First" stance may lead to a continuation or escalation of trade protectionism, particularly with China, Mexico, and other trading partners thereby impacting spreads.

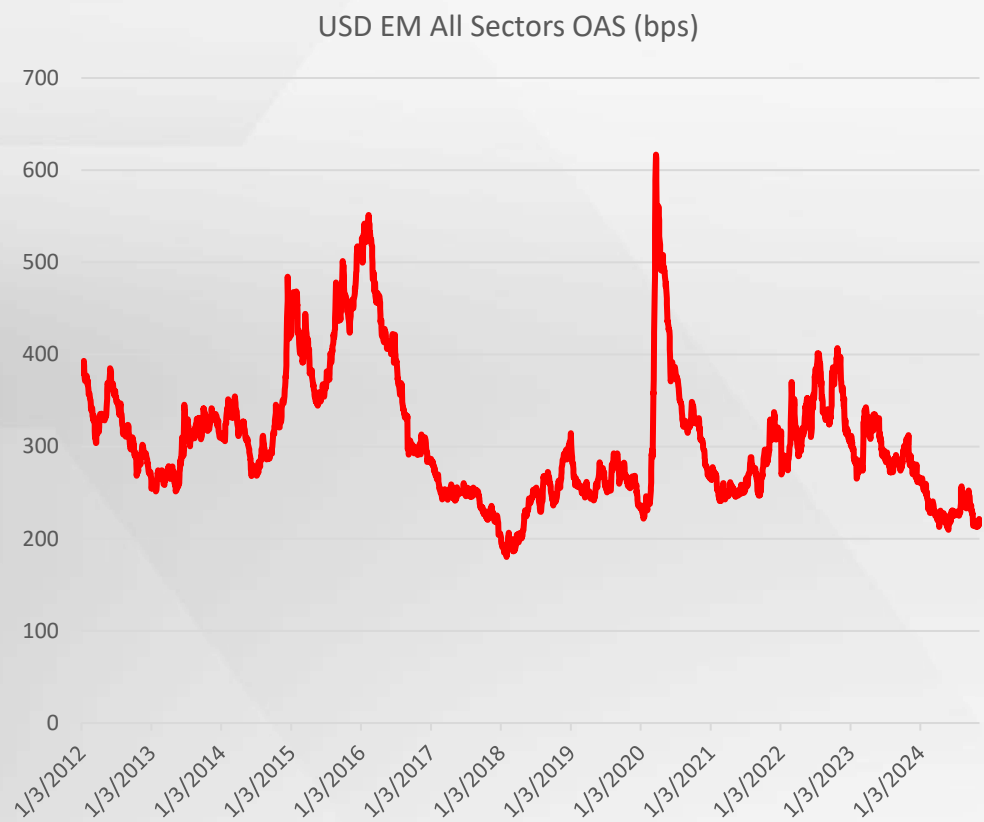
Trump's trade policies, especially the decoupling of the U.S. from China, may accelerate the shift of global supply chains out of China to other emerging markets, such as India, Vietnam, and Mexico. This could be a positive development for those countries, potentially boosting their creditworthiness and making their sovereign and corporate bonds more attractive. These shifts could help to offset some of the challenges posed by global trade tensions.



Exchange Rates and Currency Risks

- Currency volatility is a significant consideration for investors in EM bonds, particularly those denominated in local currencies. While local currency bonds can offer higher returns, they expose investors to exchange rate risk, as depreciation can erode returns. The performance of EM currencies is influenced by a range of factors, including interest rate differentials, inflation rates, and trade balances.
- A robust U.S. economy could also strengthen the U.S. dollar. For emerging market countries with significant foreign debt denominated in dollars, this would raise the cost of servicing that debt. Countries with high external debt levels, such as Argentina, and South Africa, could face increased financial stress.
- Many emerging markets, particularly in Latin America, rely on remittances from citizens living in the U.S. The reduction of immigration could limit remittance flows to countries like Mexico, Guatemala, and El Salvador, which could, in turn, reduce domestic consumer spending and tax revenues. This could lead to an increase in sovereign credit risk, which could negatively affect the bond markets in these countries

Valuations



Source: Lighthouse Canton, Nov 2024

- Spreads in Emerging Market bonds (USD) near all-time lows making case for further compression a low probability event.
- Investors should carefully evaluate the previously mentioned factors before investing.

Case Studies

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Macroeconomic Indicators - Mexico

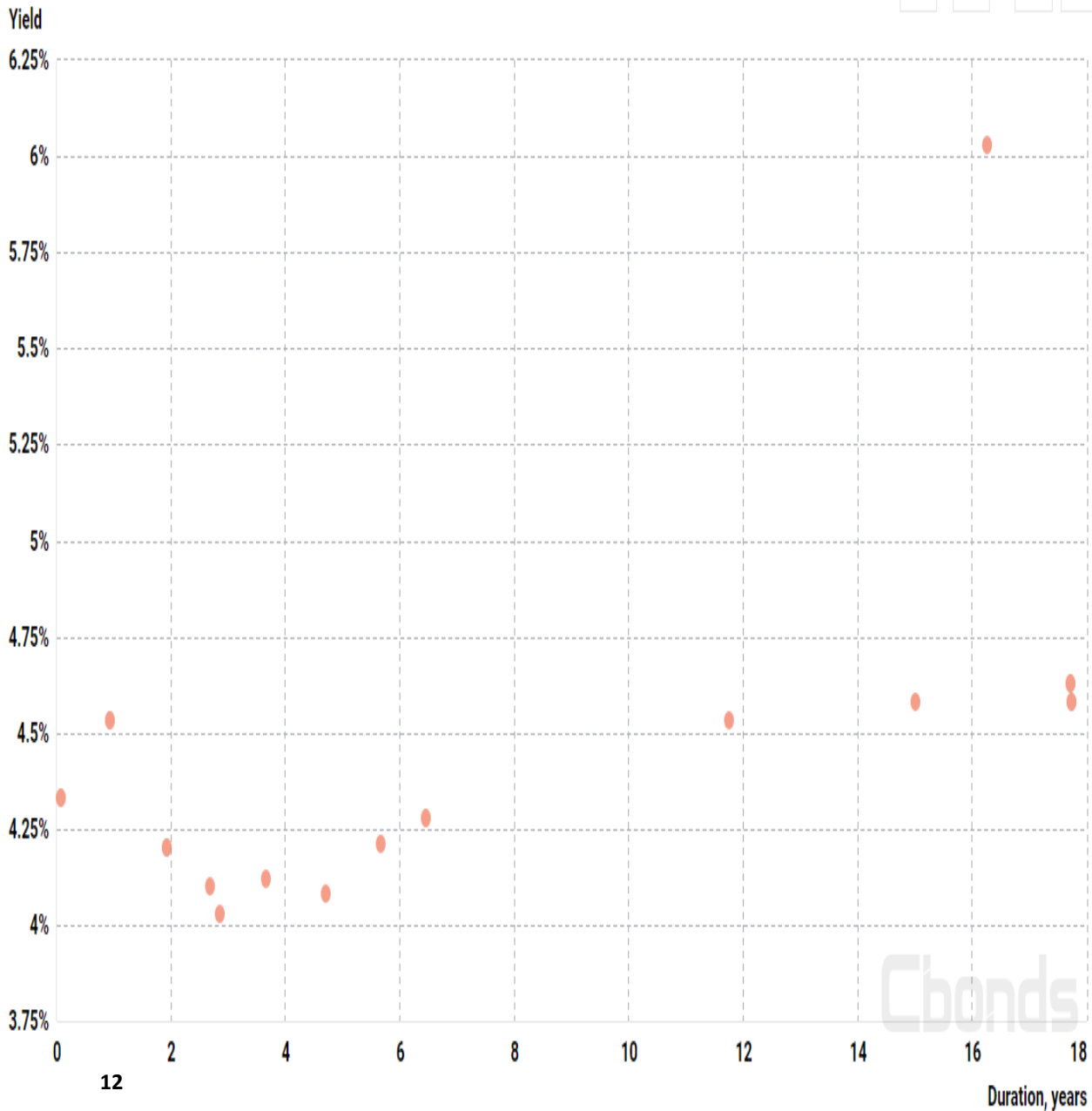
↓ CDS 5Y Mexico 116.9900 bps 06/11/2024	↑ IPC Mexico 51,650.32 06/11/2024	↓ Mexico 10Y YTM 10.390 % 06/11/2024
↓ Mexico Benchmark Rate 10.50 % 27/09/2024	↓ Mexico Current Account to GDP -1.5 percent of GDP 31/12/2023	↑ Mexico GDP 1,788.89 USD Billion 31/12/2023
↓ Mexico GDP Annual Growth Rate 1.5 % 30/09/2024	↑ Mexico GDP per capita 10,326.95 USD 31/12/2023	↓ Mexico Government Budget Balance to GDP -5.0 percent of GDP 31/12/2023
↑ Mexico Government Debt to GDP 49.7 percent of GDP 31/12/2024	↓ Mexico Industrial Production -0.9 % 31/08/2024	↑ Mexico Inflation Rate 4.8 % 31/10/2024
↑ Mexico Manufacturing PMI 48.4 Points 31/10/2024	↑ Mexico Population 128.46 Million 31/12/2023	↑ Mexico Producer Prices Change 5.5 % 30/09/2024
↓ Mexico Retail Sales YoY -0.8 % 31/08/2024	↓ Mexico Total External Debt 590,701.5 USD Million 30/06/2024	↓ Mexico Unemployment rate 2.9 % 30/09/2024
↑ USD/MXN (FX) 20.09820 06/11/2024		

Mexico

- Reliance on US economy (~60% of total trade) and hence high beta. Trumponomics.
- Pemex remains a contingent liability. Total debt of PEMEX is almost 8% of GDP.
- Possibility of widening fiscal deficit if partial bail-out of PEMEX is undertaken

Source: Cbonds

China, USD



China

- Elevated Systemic risk arising from property, banking or LGFV
- Very low liquidity in Chinese sovereign USD bonds thereby impeding the attractiveness.

Source: Cbonds

Macroeconomic Indicators - Saudi Arabia

↑ CDS 5Y Saudi Arabia 63.8100 bps 06/11/2024	↓ Saudi Arabia Current Account to GDP 5.9 percent of GDP 31/12/2023	↓ Saudi Arabia GDP 1,067.58 USD Billion 31/12/2023
↑ Saudi Arabia GDP Annual Growth Rate 2.8 % 30/09/2024	↓ Saudi Arabia GDP per capita 21,006.2 USD 31/12/2023	↓ Saudi Arabia Government Budget Balance to GDP -2.0 percent of GDP 31/12/2023
↓ Saudi Arabia Government Debt to GDP 30.0 percent of GDP 31/12/2021	↑ Saudi Arabia Industrial Production 1.0 % 31/08/2024	↑ Saudi Arabia Inflation Rate 1.7 % 30/09/2024
↑ Saudi Arabia Non-Oil Private Sector PMI 56.8 Points 30/09/2024	↑ Saudi Arabia Population 32.18 Million 31/12/2022	↓ Saudi Arabia Repo Rate 5.50 % 18/09/2024
↓ Saudi Arabia Unemployment rate 3.3 % 30/06/2024	↓ Saudi Arabia Wholesale Prices Change 3.1 % 30/09/2024	↑ TASI 12,093.35 06/11/2024
↓ USD/SAR (FX) 3.75030 06/11/2024		

KSA

- International reserves are very high and that offers a safeguard against external shocks.
- Growth prospects have improved, and the risk of major fiscal slippage is contained.

Source: Cbonds

About Us

4

About Lighthouse Canton

Integrated Wealth & Asset Management

Creating value through
Innovative investment solutions

\$3.7bn+ USD

COUNTING OUR SCALE

Assets under Management and Advisory (AUM)
across Singapore, Dubai, India offices, as of June
2024,
showcasing our dynamic expansion.

160+

ENTERPRISING & THRIVING PROFESSIONALS

160+ professionals with top-tier
experience and a proven track record,
dedicated to excellence.

Lighthouse Canton Pte Ltd is a holder of Capital Markets Services (CMS) license issued by the Monetary Authority of Singapore, Lighthouse Canton Capital (DIFC) Pte Ltd is the holder of Category 3C license issued by Dubai Financial Services Authority (DFSA) and LC Capital India Pte Ltd is registered with Association of Mutual Funds in India.

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Our Locations



DUBAI

Our Dubai office serves Middle East and Africa wealth management clients.



INDIA

Offices in 5 major cities serve our Indian wealth and asset management clients.



SINGAPORE

Our Headquarters serves regional clients and provides holistic Wealth & Asset management solutions.

**LIGHTHOUSE
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Our Journey



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