



Journal Article

(Systematic) Investing in Emerging Market Debt

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We extend the analysis of systematic investment approaches to emerging market (EM) fixed income. We focus on hard currency bonds issued by emerging sovereign and quasi-sovereign entities. We find that systematic exposures linked to carry, defensive, momentum and valuation themes are well compensated and lowly correlated in EM markets. A transaction-cost and liquidity aware long-only portfolio generates an Information Ratio above 1. We further show that excess of benchmark returns for a broad set of EM managers are (i) largely explained by passive exposures to EM corporate credit excess returns and EM local currency returns, and (ii) have non-trivial macroeconomic exposures (growth, inflation, volatility and liquidity). A systematic approach to EM debt may be a powerful diversifier.

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