EMD: Trends, benefits, and opportunities

MetLife Investment Management (MIM) portfolio manager of emerging market debt (EMD), Scott Moses, speaks to *Pensions Age* about the latest trends within EMD and the opportunities these can provide for pension fund investors

Talk me through the macro events of the past year; how they affected investments in EMD, and how Covid-19 impacted emerging market regions and credit investments within them?
Emerging markets (EM) was as impacted, if not more, than many other markets during the pandemic, due to it being a global growth sensitive asset class.

The first reaction to the pandemic was developed market policy makers stepping in to support their economies, provide liquidity and boost asset prices. That support eventually bled into the emerging world as we started to see significant debt forgiveness and aid packages from official creditors and governments, while companies re-established liquidity lines and prices began to recover from pandemic lows.

The flow of capital started in the high-quality space and worked its way down the quality spectrum, boosting high-yield assets in the latter half of 2020.

There has been some big distinctions in how different portions of the EM landscape have performed. We have seen corporates be the better performers with lower default rates, consistent ability to manage balance sheet liquidity, and more stable performance. On the opposite side, we saw significant demands on the sovereign balance sheet, with economies with larger buffers being the best performers.

That trend continues to be the focal point for how people think of allocations in the emerging spaces. They are thinking about what demands are being put on different balance sheets across the globe. For many EM issuers their financing options are constrained by their limited ability to conduct QE and therefore, rely on multiple funding sources for support.

During the pandemic, awareness of the power investors can have in helping tackle climate change, promote changes in corporate governance and even impact social awareness has grown. How has EMD been influenced by this?
Emerging market investors are at the beginning stages of influencing ESG issues but are not as impactful as in other more developed areas just yet. The latest statistic per J.P. Morgan is roughly 17 per cent of issuance year to date has some factor of sustainability link to it in the EM space.

Much more attention is being given at the corporate management level as to what ESG policy looks like on the company side. Therefore, I think this has positive impacts over time as it relates to climate, governance, and social issues.

As a team, we are spending more time on company and even sovereign engagement and I am sure our counterparts are doing the same.

However, we are still at the infancy stage within EM, but investors are coming up the curve very quickly.

European pension schemes are the leaders on the ESG front, with equity capital being the lead driver and fixed income investors coming up to speed quickly. Historically, European investors were driving the ESG conversation and that is no longer the case as it is becoming a global phenomenon. Now it feels like a race within companies and even sovereigns to become smarter on ESG policy and its impact on raising capital in the short to medium term.

In such changing, and challenging, times, how does MIM ensure it finds the best investment opportunities?
We rely heavily on the human capital we have across the globe. It's based on using our people within the different geographies that we invest in and focused on communication among the entire team. This is more important today than it has ever been, as it is harder to get on a flight and go to Latin America or Asia, for example. Therefore, having over 50 analysts, many of those in-market, has been a significant benefit to how we identify ideas.

Are there any regions or areas of opportunity in EMD that your research teams are excited about?
Latin America is a region we have historically spent a lot of time on and continue to focus on because there is so much differentiation within it. There might be just as many risks as opportunities. I think we were ahead of the game in Colombia as far as the deterioration of their balance sheet, which was going to lead to the loss of investment grade ratings; but now, post that downgrade, are there opportunities in that marketplace?

We feel there are also pockets of opportunity in Egypt, Angola, and