Eaton Vance Management

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Emerging Markets Debt

Finding value in EM corporate debt: The sector's "final frontier"

Emerging Markets Debt Team
Eaton Vance Management

Boston - The Eaton Vance emerging markets debt team has long sought to generate alpha by going beyond the benchmarks to focus on the widest possible universe of countries, uncovering value that the herd overlooks. In recent years, we have developed an important new dimension to this approach: going beyond countries by capitalizing on opportunities in EM corporate debt.

EM corporate debt is primarily composed of "hard-currency" issues — i.e., those that are U.S. dollar- or euro-denominated. A dataset tracked by JPMorgan includes about $2.2 trillion in face value of debt issued by EM corporates. This includes about 1,400 issuers in 77 countries, and the debt of China, Hong Kong, Singapore and South Korea is responsible for about half of the face value and issuer totals. One of the most common benchmarks in the sector, the JP Morgan Corporate Emerging Markets Bond Index (CEMBI), is a subset of the broader JPMorgan dataset.

There are relatively few funds dedicated to EM corporate debt, with assets totaling about $130 billion. Most EM corporate issues are purchased as a source of incremental yield for many credit strategies such as EM sovereign, global high yield and high-grade crossover. Local investors are also large investors, both in the form of banks as well as private wealth accounts. In a sense, EM corporate debt represents the "final frontier" for seeking yield in the broader fixed-income asset class.

The global debt market offers a number of advantages for EM companies. For example, it provides access to long-term debt financing in size that is rarely available from domestic sources — typically issues greater than $500 million. EM exporters can borrow in the same currency as the revenues generated by their sales and given most bonds have bullet maturities, this financing channel comes with limited principal repayment burdens. Borrowing in the global debt market also raises the profile of the companies in the international capital marketplace and often represents the first touchpoint of the management team with international investors.

For investors, EM corporate debt may offer a range of opportunities with the potential for higher returns than the rest of the sector, in part because of the premium corporate issuers typically pay over sovereign yields. Because of the diversity of buyers, it is also more inefficient than the rest of the EM sector, meaning that price movements, up or down, are likely to be greater in response to country or corporate news and events.

EM bonds are aggregates of risk factors — interest rates, currency, and sovereign and corporate credit spread (over its respective sovereign spread). Thus, we believe a successful opportunistic EM corporate debt strategy needs the kind of

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Bottom line: The Eaton Vance EM debt team comprises more than 40 investment professionals in Boston, London, Singapore and Washington, D.C., and covers a universe of more than 125 countries with investable markets. In subsequent blogs we will outline how our EM corporate debt capabilities leverage this expertise to pursue alpha in the "final frontier" of the sector.