



JOURNAL ARTICLE

(Systematic) Investing in Emerging Market Debt

March 4, 2020

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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