

Press Release



Contact: Mike Dunn
+1 212-922-7859
mike.g.dunn@bnymellon.com

Sarah Deutscher
+44 20 7163 2744
sarah.deutscher@bnymellon.com

Emerging Market Debt Has Outperformed Most Asset Classes and Continues to Look Attractive, According to Standish Mellon Asset Management

Asset Class Should Not Be Overlooked by U.S. Institutional Investors

BOSTON, May 5, 2009 – Emerging market debt has outperformed by a wide margin U.S. high-yield bonds, emerging market and U.S. equities, and most other risky asset classes on a one, three, five, and 10-year basis. Yet, as a result of a bias toward investing at home as well as an equity-oriented culture, many institutional investors from the United States still tend to overlook this asset class, said Alexander Kozhemiakin, director of emerging market strategies for Standish Mellon Asset Management Company LLC, the fixed income specialist for BNY Mellon Asset Management.

For example, over the three-year period preceding the end of the first quarter of 2009, emerging market debt denominated in U.S. dollars, as measured by the JPMorgan EMBI Global, returned six percent, while emerging market local currency denominated bonds, represented by the JPMorgan GBI-EM Global Diversified, generated a 16 percent return. During the same period, U.S. high-yield corporate bonds, as measured by the JPMorgan U.S. High Yield Bond Index, lost 14 percent; emerging market equities, as measured by MSCI EM, dropped 28 percent; and the Standard & Poor's 500 representing U.S. equities plunged 38 percent*.

The reasons for the resilience of emerging market debt include improved credit quality of most sovereign issuers, a generally favorable balance between supply and demand for sovereign debt and more rapid growth of emerging market economies compared with the developed world; and these factors are likely to continue supporting the asset class going forward, Kozhemiakin said.

“Over the past decade we have seen tangible macro-economic improvements in many emerging market countries. These improvements are manifesting themselves in lower sovereign debt ratios, higher foreign exchange reserves, and more competent fiscal and monetary policies,” Kozhemiakin said. “It is therefore not surprising that emerging market sovereign bonds and currencies have outperformed emerging market equities, which are also directly exposed to the company risk. In contrast to the well-documented macro-economic improvements, evidence of general progress on company-level issues in the emerging markets, such as adequate and timely disclosures, managerial motivation and investor protection, is far less conclusive. However, all emerging market asset classes are likely to do well once global economic activity starts picking up again.”

According to Kozhemiakin, emerging market debt continues to look attractive and has the potential to produce equity-like returns with less risk. In addition, it is an asset class that is replete with market inefficiencies, thus presenting alpha opportunities to skilled managers. “The importance of emerging market debt in a well-diversified portfolio should not be overlooked,” he stressed. “Beware of the benchmark drift, however, as emerging market debt has become a very heterogeneous asset class. In particular, investors as well as emerging market debt portfolio managers should explicitly identify their

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strategies by separating dollar-denominated debt from debt denominated in local currency, and sovereign bonds from corporate credits.”

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Notes to Editors:

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