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Yield opportunities in Latin America

Emerging market bonds

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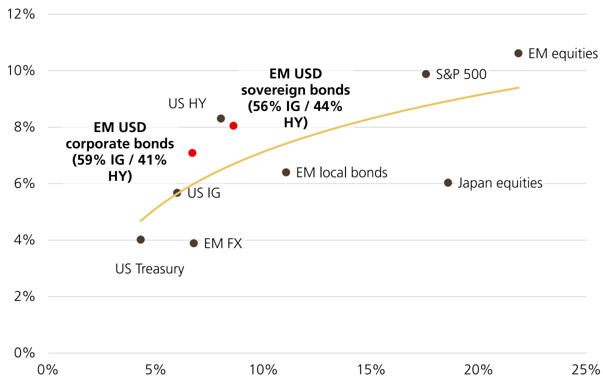
- US investors are finding it increasingly difficult to achieve decent yields to help them reach their financial goals. In this context, they should contemplate investing in fixed income segments they had not considered before, among them emerging market sovereign and corporate bonds.
- To help investors navigate the space, we have recently launched our weekly "Emerging Markets Bond List for US investors." This report features valuation and fundamental CIO views for over 400 sovereign and corporate emerging market bonds from almost 30 countries.
- A long list of issuers and bonds can be overwhelming. For that reason, in this report we present some of our highest-conviction investment ideas in Latin America, a region offering relatively plentiful yield opportunities. We think investors can collect attractive interest rates in a carefully crafted list of names, which in our view exhibit very low probabilities of default.
- We introduce a theme constructed around a basket of Latin American bonds that have the potential to outperform the ICE BofA Corporate IG index on a six- to 12-month horizon.

Fig. 1: EM credit offers attractive risk-adjusted returns

Annualized return (vertical axis) and annualized volatility (horizontal axis), 2003–20



Source: Bloomberg, UBS, as of July 2020

A version of this report is available with specific security recommendations for the US onshore investors. For a copy, please consult your UBS Financial Advisor.

A 30-year bull market in global fixed income, coupled with vastly expanded quantitative easing programs around the world most recently, have all made it increasingly difficult for US investors to find decent yields that can help them achieve their financial goals.

In this context, many investors are contemplating investing in fixed income segments they had not considered before, among them emerging market sovereign and corporate bonds. Interestingly, US dollar-denominated emerging market bonds have been one of the best-performing fixed income asset classes globally over the last 15 years (Fig. 1). CIO has for years featured the asset class as an integral part of strategic asset allocations.

To help investors navigate the space, we recently launched our weekly "Emerging Markets Bond List for US investors." This report features valuation and fundamental CIO views for over 400 sovereign and corporate emerging market bonds, from almost 30 countries from Latin America, Eastern Europe, the Middle East, Africa, and Asia Pacific. All of the bonds on this list are available for purchase by US-domiciled investors.

Such a long list of issuers and bonds can be overwhelming. For that reason, in this report we present some of our highest-conviction investment ideas in Latin America, a region that offers relatively plentiful yield opportunities. We think investors can collect attractive interest rates in a carefully crafted list of names, which in our view exhibit very low probabilities of default.

Basket of Latin American bonds

We take the opportunity to offer a basket of Latin American corporate and sovereign bonds whose valuations we find either attractive or fair; that we consider suitable for a hold-to-maturity investment strategy; and believe have the potential to outperform the benchmark ICE BofA Corporate IG index over the next six to 12 months. The issuers in our basket have credit ratings that range between mid-single-A and low double-B, and low to very low default risk, in our view.

Investors are free to pick from our suggested basket at will, considering some bonds have higher minimum trading denominations than others. Furthermore, investors are more than welcome to browse through our "Emerging Markets Bond List for US investors" in the event they are looking for different maturities that better fit their particular needs.

Latin American bonds accessible to US investors

Emerging market corporate bond offerings generally target non-US-domiciled investors and US-domiciled qualified institutional investors (QIBs), leaving a vast base of US-domiciled individuals outside of the equation. However, the universe of Latin American credits under CIO coverage includes 12 issuers that register some, if not most, of their outstanding USD-denominated bonds with the US SEC, which makes them compliant with "Blue Sky" laws in many, if not most, states, and therefore available for US-domiciled investors that reside in those particular states. SEC-registered bonds generally enjoy a larger investor base than non-registered securities. We note that SEC-registered, investment grade (IG) LatAm corporate bonds are usually eligible for major global IG index tracked by most relevant institutional investors.

US SEC registration

SEC registration under the Securities Act of 1933 aims to require that investors receive financial and other significant information concerning the securities offered for public sale, and prohibit deceit, misrepresentations, and other fraud in the sale of these securities. The SEC accomplishes these goals primarily by requiring that companies disclose their financial information through the registration of securities. The information enables investors, not the government, to make informed judgments about whether to purchase or not a company's securities.

Blue Sky laws

A Blue Sky law is a state law in the US that regulates the offering and sale of securities ostensibly to protect the public from fraud. Though the specific provisions of Blue Sky laws vary among states, they all require SEC registration of all securities offerings and sales in a particular state, unless a specific state exemption is available.

Appendix

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Generic investment research – Risk information:
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