

Neuberger Berman Emerging Markets Debt Team

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Market Context

Joe Biden is the presumed President-elect of the United States after most outlets declared he won Pennsylvania and Nevada over the weekend. This put him over the 270 electoral college votes needed. President Trump has lawsuits filed across a number of states to contest the outcome, however, most courts have thrown out these claims thus far. Biden's win did not arrive with the 'Blue Wave' many expected, but rather it is likely that government will split. The Senate is still undecided as there are two Republican seats up for grabs in a run-off election in the state of Georgia. Markets reacted favorably to the election outcome and this uncertainty is largely behind us. We saw spreads tighten by 20bps over the course of the week. We expect to see a fiscal package arrive with the new administration. In addition, a return to more traditional U.S. foreign policy and trade relations should bring stability and some certainty back to investors' outlooks.

In addition, promising news about a vaccine from Pfizer was released on November 9, further boosting market sentiment. This portends well for emerging markets debt and we have already seen EMFX rally on the news. With the release of a vaccine, the specter of lockdowns is diminished going into 2021, and an eventual return to normalcy should also bring a resumption of growth to the markets.

Portfolio Implications

Bottom line, Biden's victory combined with a split congress is a net positive outcome for EM risk in general as Biden's policies are expected to be less confrontational and lead to a less protectionist trade policies than Trump's, while the original agenda and expectations of a Democrat-controlled congress pursuing a large fiscal stimulus to be funded with tax hikes is also unlikely to materialize.

As for COVID, the significant vaccine related progress announced by Pfizer signals the potential beginning of the end of the pandemic, and we believe will allow the market to see through the concerns with the virus resurgence in Europe and the US and the related targeted lockdowns impacting economic recovery.

We thus expect the risk on environment to continue until year end. As such we maintain our overweight bias the high yield segment of hard currency sovereigns and we have increased our exposure to EMFX in our strategies with local exposure.

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