

Neuberger Berman Emerging Market Debt Team

PORTFOLIO MANAGERS: Rob Drijkoningen, Gorky Urquieta

Market Context

Update regarding the shutdown of financial markets in the Philippines:

- Domestic equity, currency and bond markets were halted in The Philippines starting today (March 17th).
- The target is to reopen exchanges later this week, though exact timing remains uncertain.

Investment Implications

- The trading in local bonds and spot FX is halted for now. The near-term impact of this should be fairly small for the EMD strategies. Our Emerging Market Debt (EMD) strategies, as well as the primary benchmark (JPM GBI-EM GD), have no exposure to the onshore peso bonds and only a marginal exposure to the global peso notes. However, the lack of NDF fixings can be a slight concern for our small NDF positions if the market shutdown continues for a much longer period. As per the regulations, in case of an unscheduled FX market holiday, the fixes get pushed back to the next business day. This mechanism works when the onshore market is closed for a max of 14 days, after which an alternative fixing mechanism would be used. Such an uncertainty can cause some dislocations in the NDF market. Given that we expect the markets to resume trading this week, our base case is that this should be resolved fairly soon.
- Hard currency (HC) bonds are still tradable, with lower volumes though as local ownership in Philippine HC markets is relatively high.
- Exposure to the Philippines in our global EMD strategies is small.
- Overall, we expect the impact of the temporary shutdown on our EMD portfolios to be very limited.

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