



July 2022

## EMsights Capital Group

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## Current Macro Environment

- Uncertainty reigns
- Inflation versus recession
  - Perhaps both?
- Ukraine/Russia war continues
- Fed tightening: early days but impacting markets
  - Crypto Winter
  - Mortgage Rates—up 96% YoY
  - Risk selloff—Equity, HY, IG, EMD selloff
  - US Treasury moves
- Europe's pending implosion
- Question: What does the next decade look like?

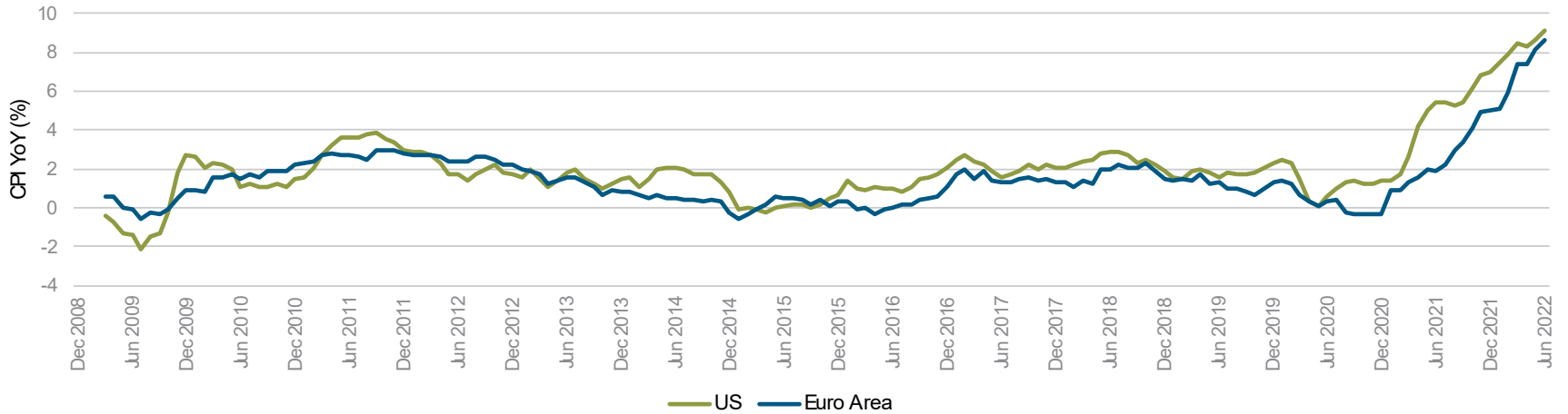
With more rate hikes ahead, should we expect heightened volatility?



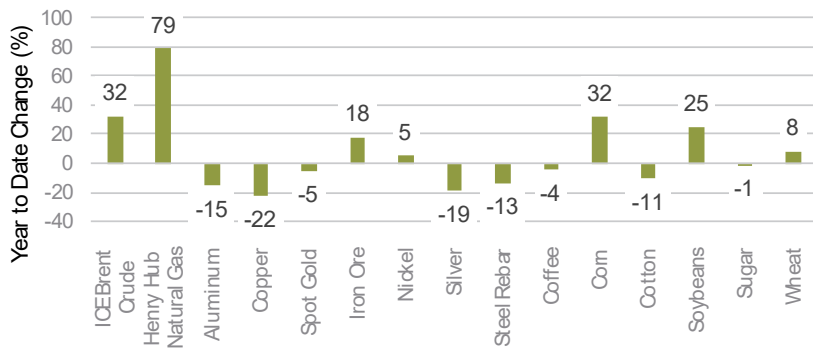
Source: Bloomberg as of 17 Jul 2022.

# Inflation accelerating, commodities peaking?

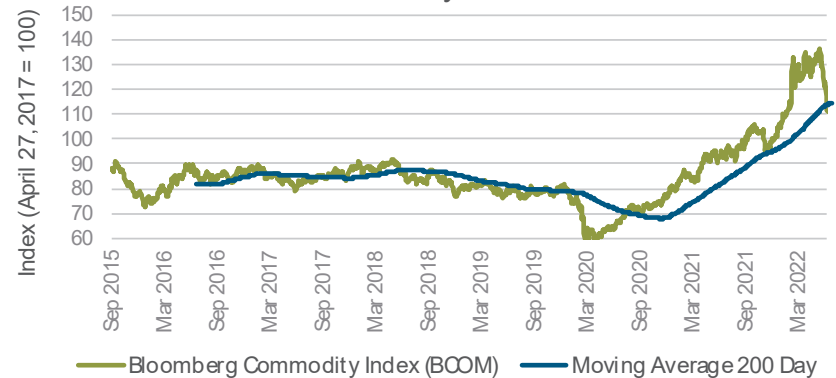
US and Euro Area CPI



Commodity Price Changes 2022



Commodity Prices



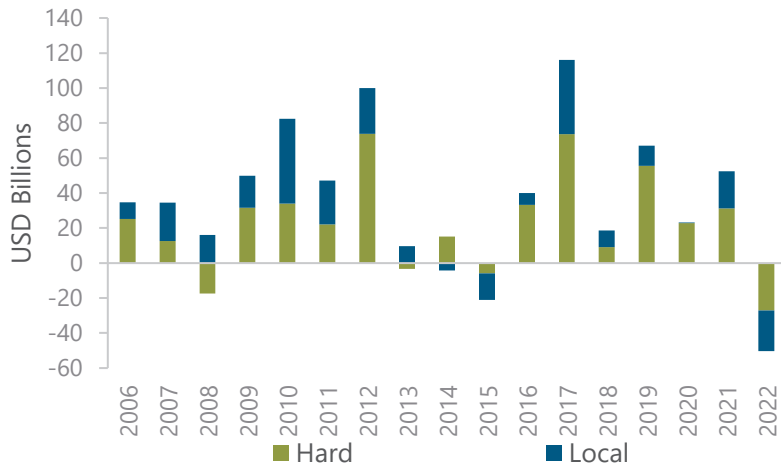
Source: Bloomberg. As of 12 Jul 2022.

## Stress on multiple fronts

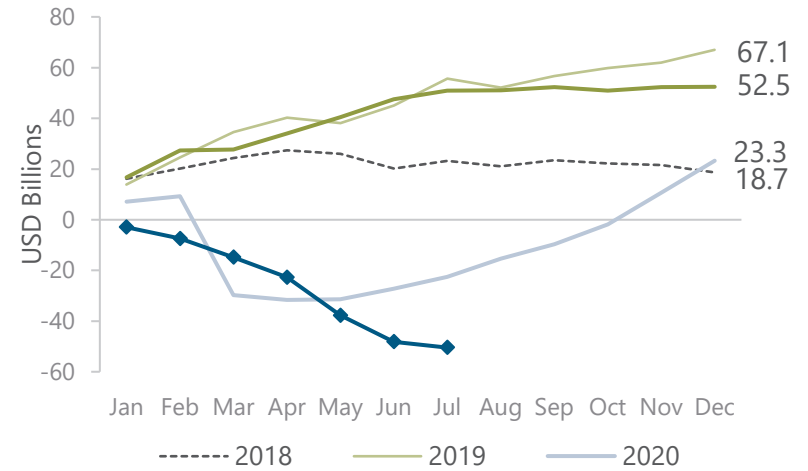
- Outflows in the asset class
- Adjustment to world with higher base rates going poorly
- Stressed and distressed lineup is growing

## Emerging Markets Debt is experiencing outflows, first net outflows since 2015

Emerging Markets Debt  
Bond Flows By Currency Exposure<sup>1</sup>

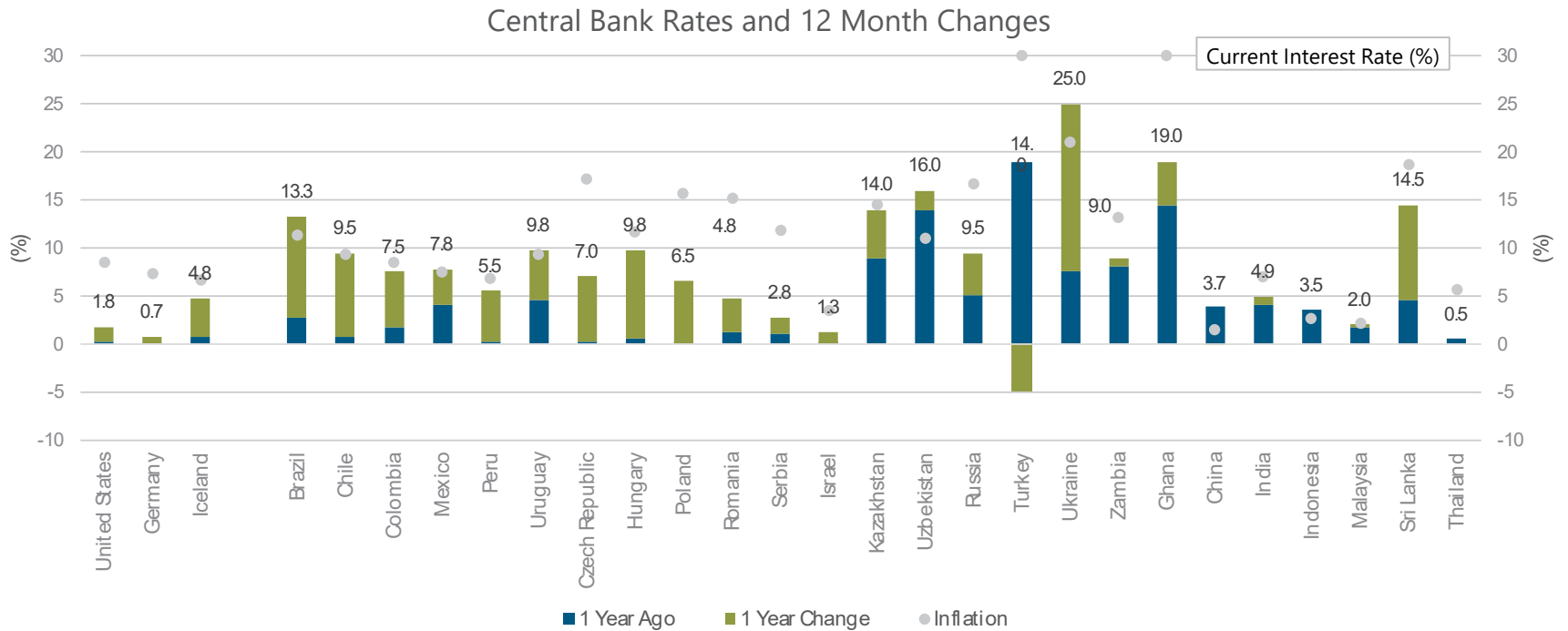


Emerging Markets Debt  
Cumulative Bond Flows



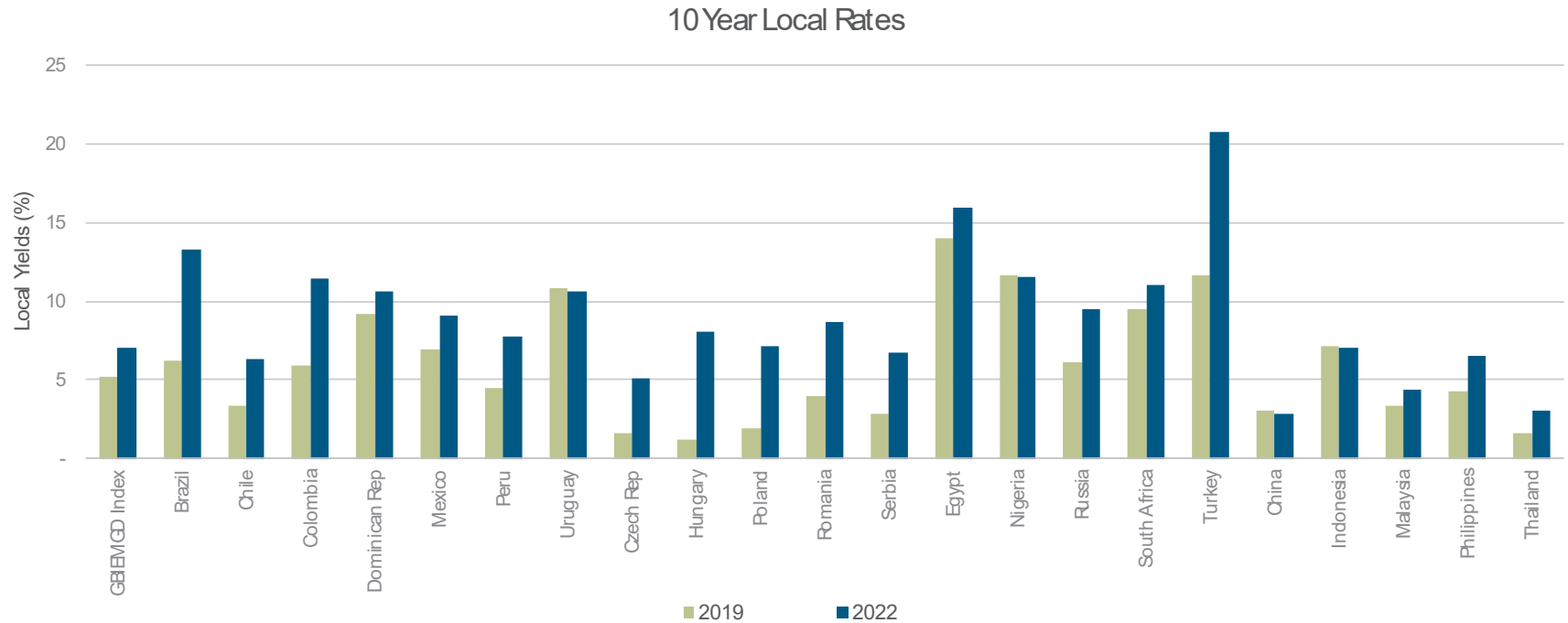
Source: J.P. Morgan as of 30 Jun 2022. <sup>1</sup>Hard currency is benchmarked against the U.S. dollar or the euro. Hard currency also typically refers to money that is issued by a nation that is seen as politically and economically stable. Hard currencies include the U.S. dollar, the euro, the Japanese yen, and the British pound. Local currency is non-U.S. dollar or euro. Local currency refers to a domestic currency that is most commonly used within a country. <sup>2</sup>Emerging market bond funds flow data, including inflows and outflows, refers to EM hard currency bond outflows and EM local currency bond outflows.

## EM central banks are responding, some more than others



Source: Bloomberg/Trading Economics. As of 20 Jul 2022. Past performance does not guarantee and is not a reliable indicator of future results.

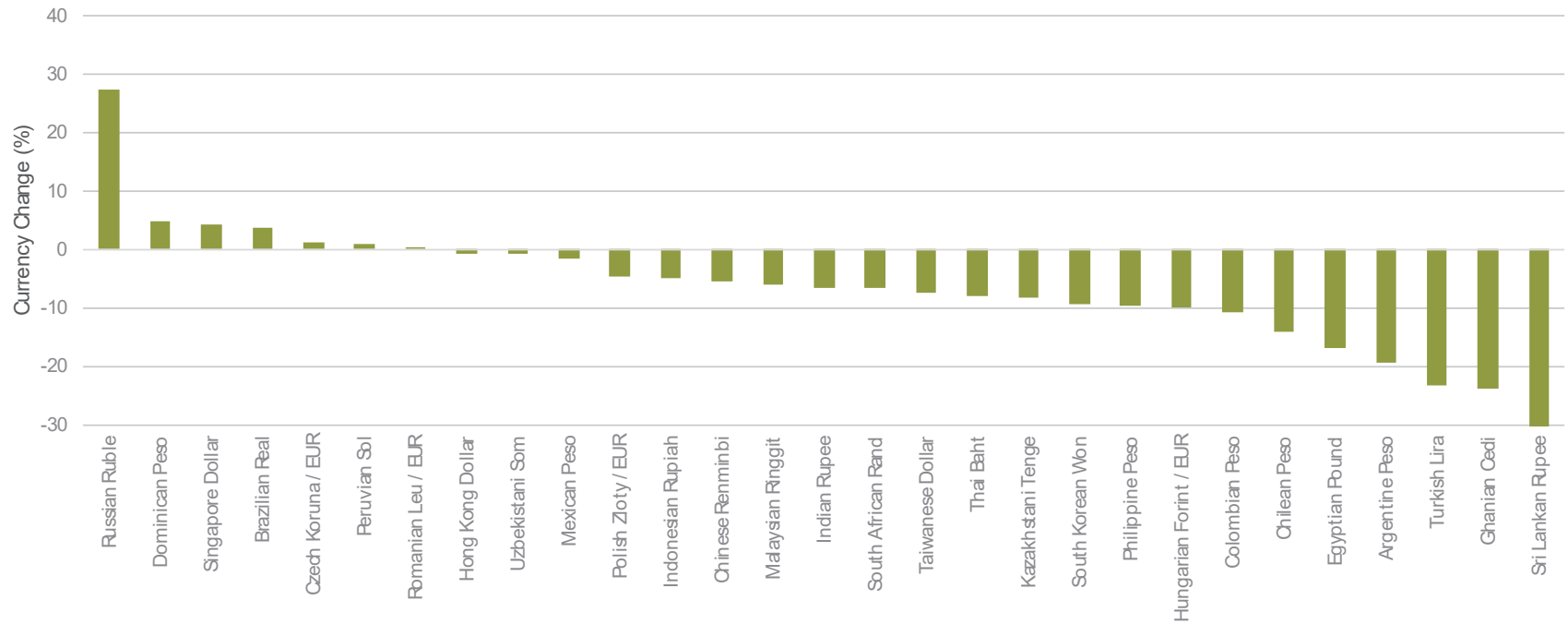
## Local rates, in most countries, have reacted to inflation



Source: J.P. Morgan as of 30 Jun 2022. Past performance does not guarantee and is not a reliable indicator of future results. Includes current and prior countries within the GBIEMGD Index as reported by J.P. Morgan.



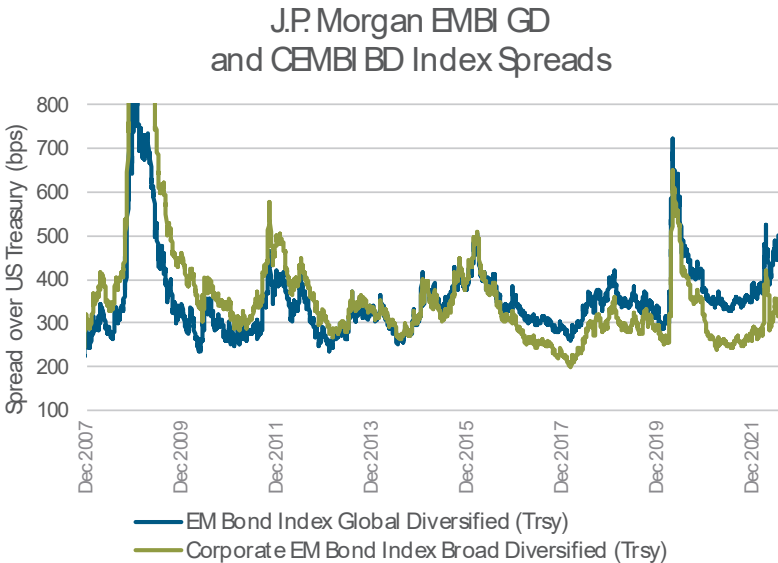
## Foreign exchange performance - flight to the U.S. Dollar



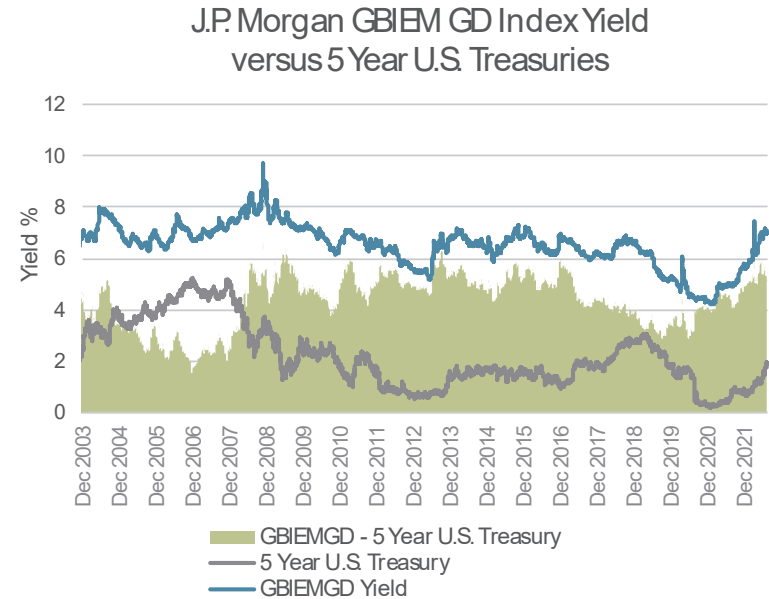
Source: Bloomberg. As of 7 Jul 2022. Illustrates each currency's relative exchange rate change to USD and EUR. Past performance does not guarantee and is not a reliable indicator of future results.

## Local and hard currency yield and spread levels

EM hard currency spreads have widened since early 2021

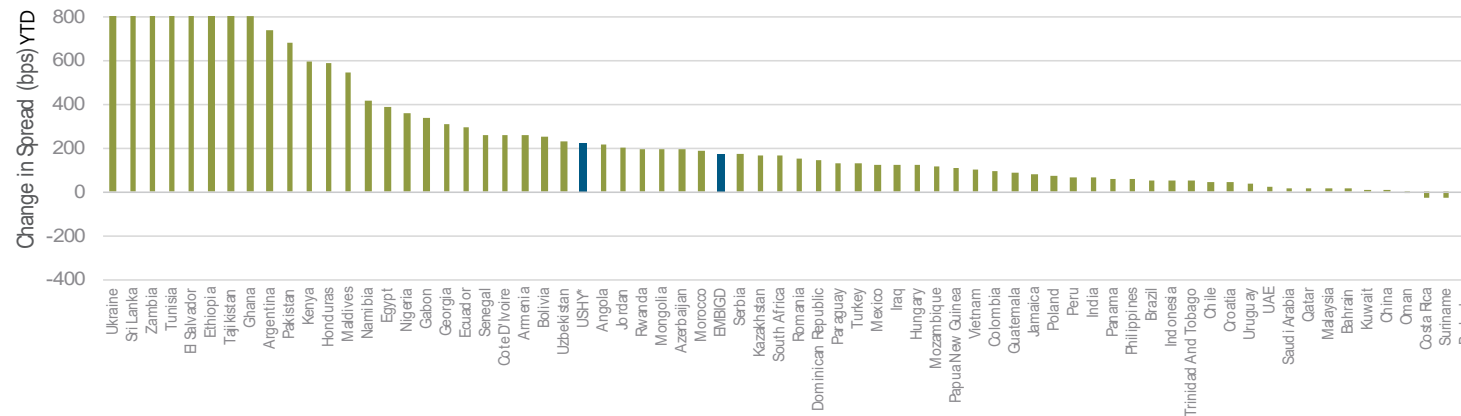
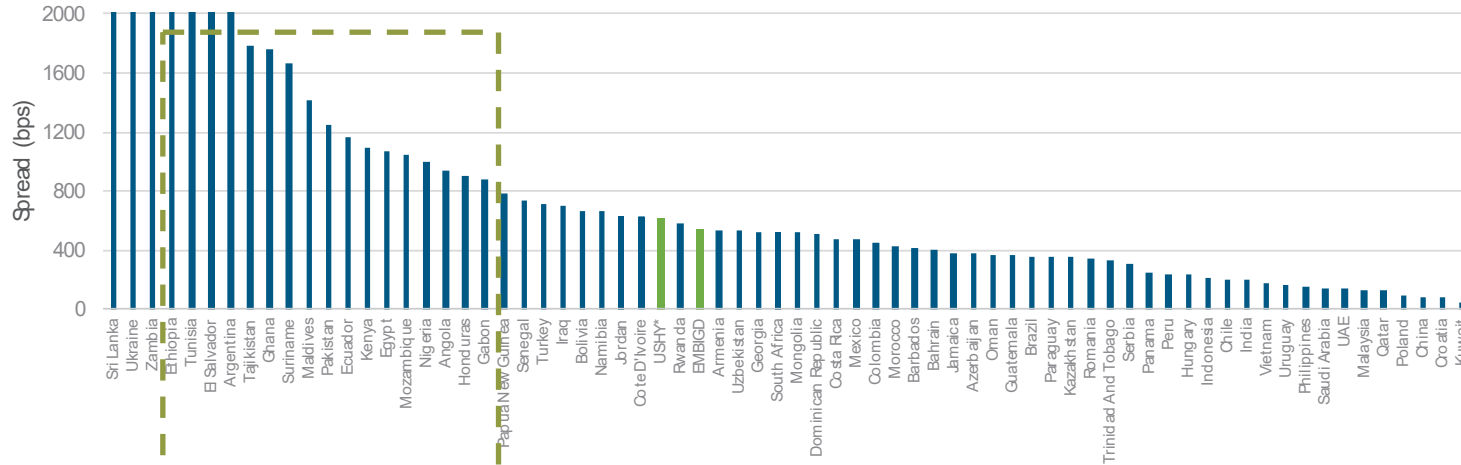


EM local yields have sold off significantly since their lows of December 2020



Source: J.P. Morgan as of 30 Jun 2022.

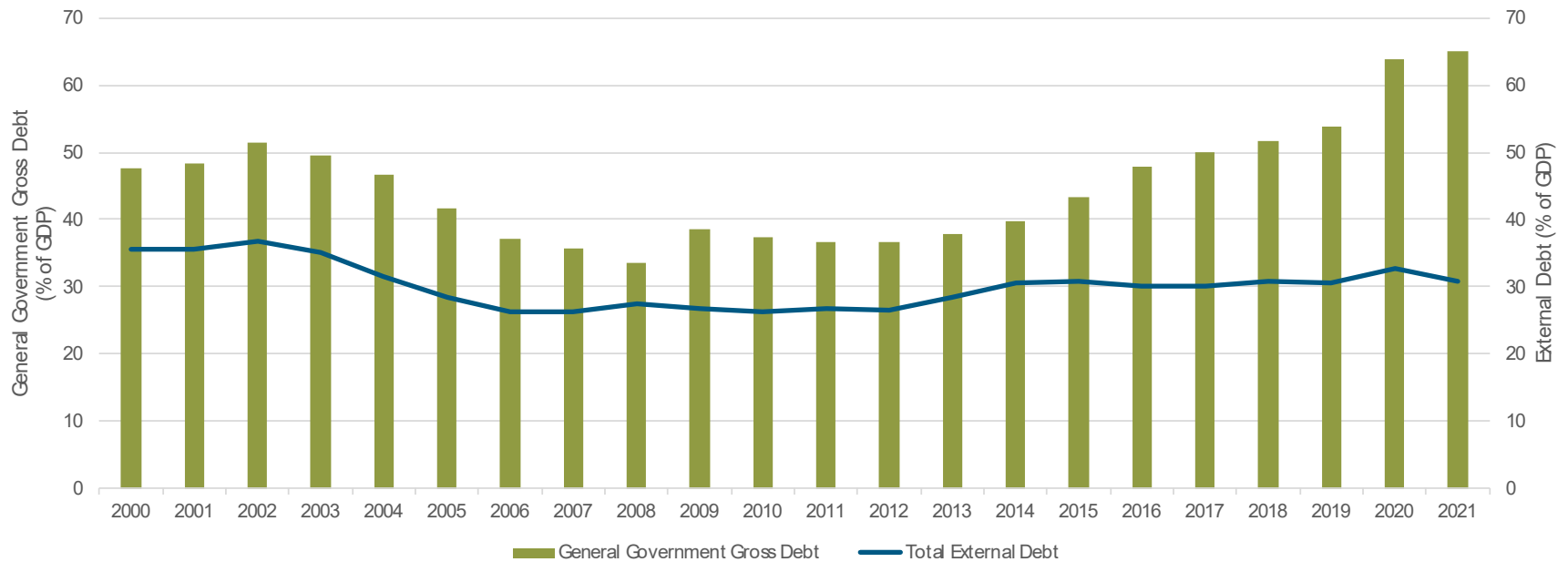
# Number of distressed countries is growing



Source: J.P. Morgan as of 30 Jun 2022. J.P. Morgan US High Yield Index.

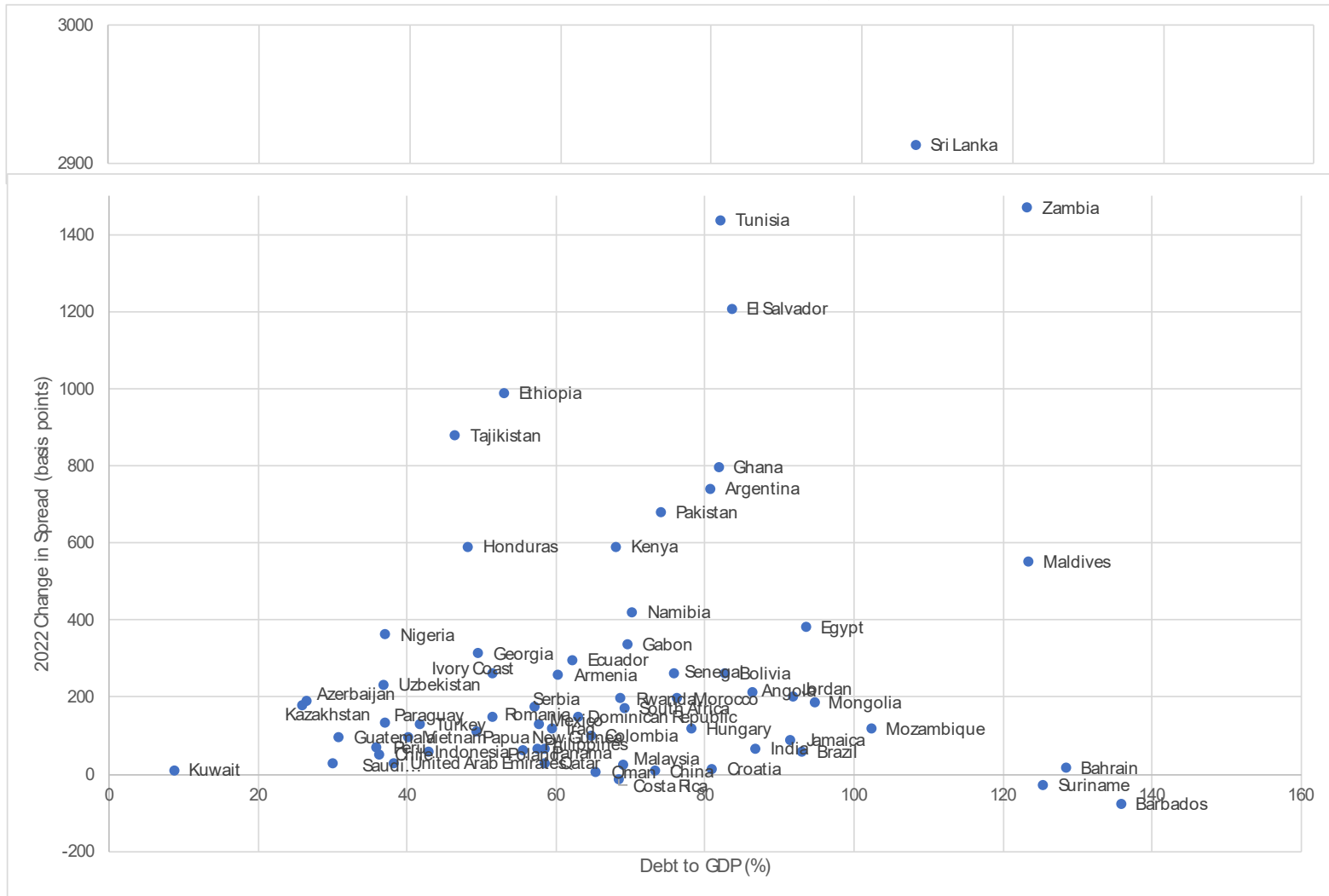
## Rising debt levels, a cause for concern?

Emerging and Developing Markets Government Gross Debt to GDP



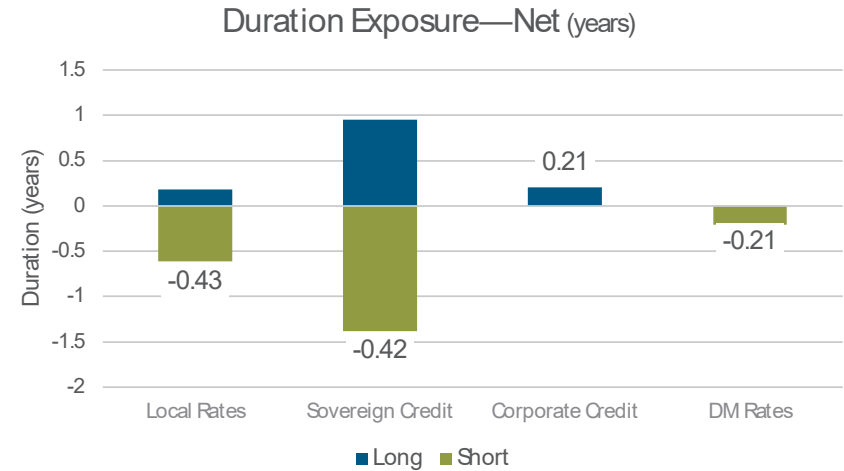
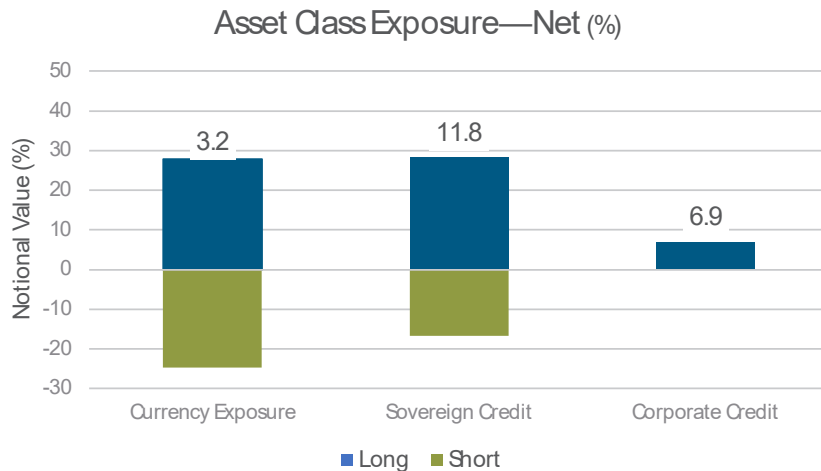
Source: General Government Debt to GDP source is IMF WEO 2022 is a forecast and J.P. Morgan EMBIGD is J.P. Morgan as of 11 Jul 2022.

## With higher base rates, fundamentals are reasserting themselves



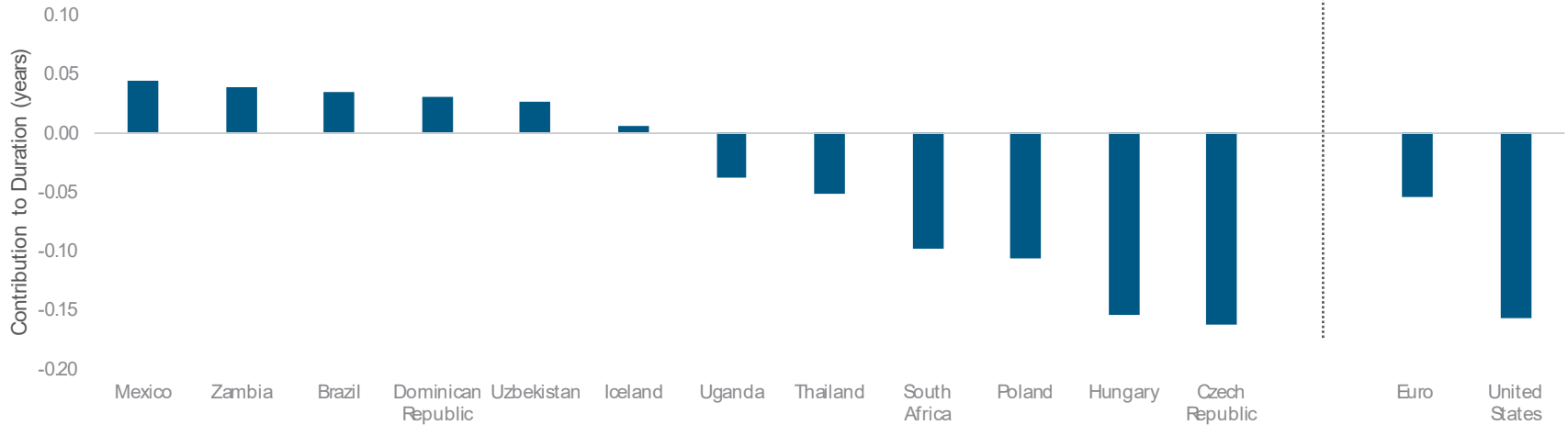
Source: General Government Debt to GDP source is IMF WEO 2022 is a forecast and J.P. Morgan EMBIGD is J.P. Morgan as of 30 Jun 2022.

- Selective positioning in long credits and Eastern European currencies
- There were opportunities to short rates and credit
- We remain conservative, but EM credit is getting more attractive by the day

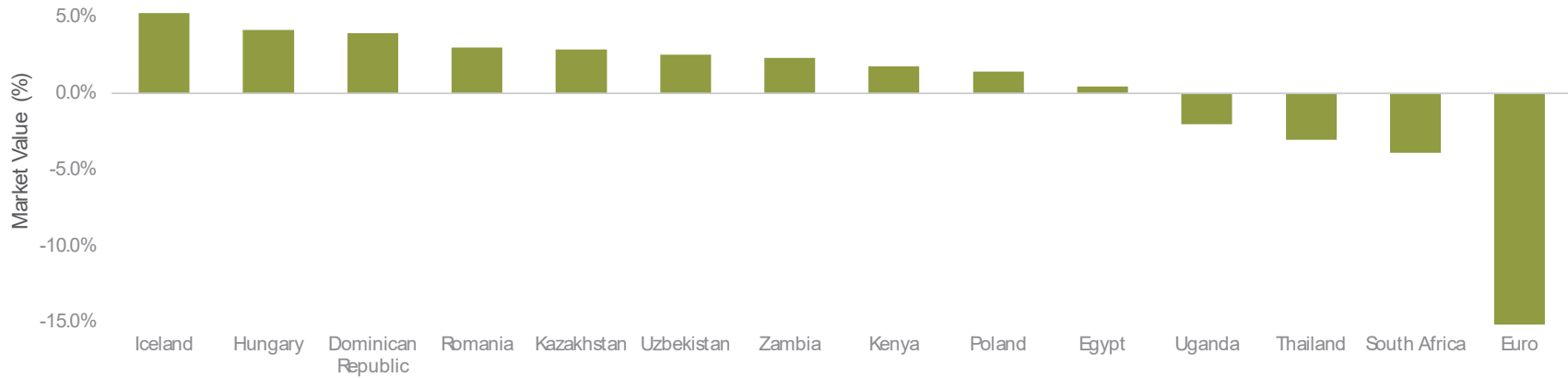


Source: Blackrock Aladdin/Artisan Partners. As of 30 Jun 2022. Notional Value represents the portfolio's exposures based on the economic value of investments by adjusting for derivatives exposure to the market value of the contract's underlying security. Currency Exposure excludes USD-denominated debt instruments, cash and cash equivalents. Sovereign and corporate credit are the sums of the notional exposure; notional bonds and derivatives (CDS). Currency Exposure is expressed in Market Value.

### Rates Exposure

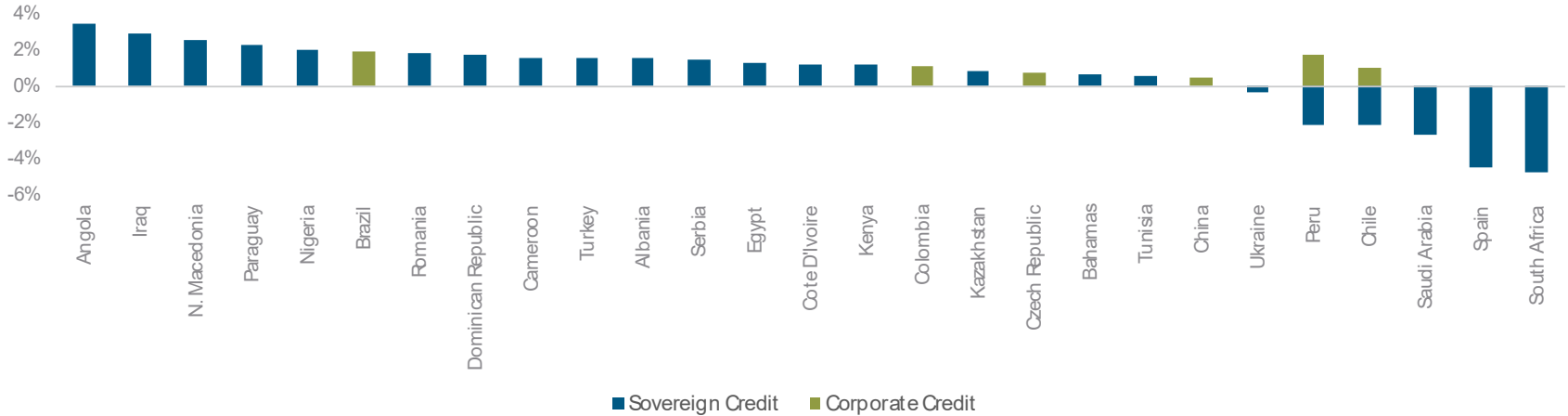


### Currency Positioning

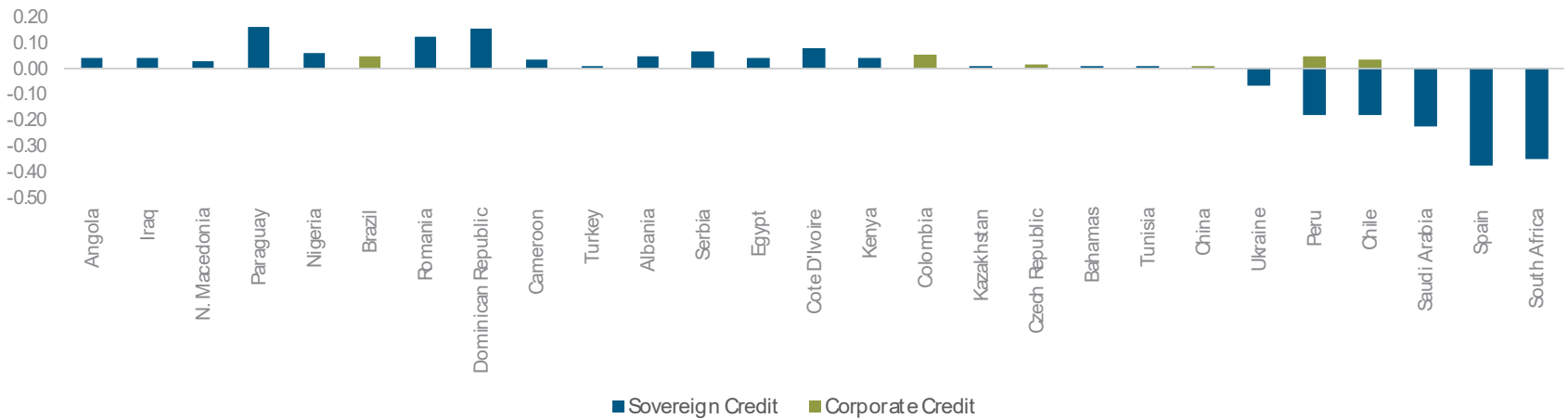


Source: Blackrock Aladdin/Artisan Partners. As of 30 Jun 2022. Currency Positioning excludes USD-denominated debt instruments, cash and cash equivalents.

### Sovereign and Corporate Credit Positioning



### Sovereign and Corporate Credit Spread Contribution to Duration

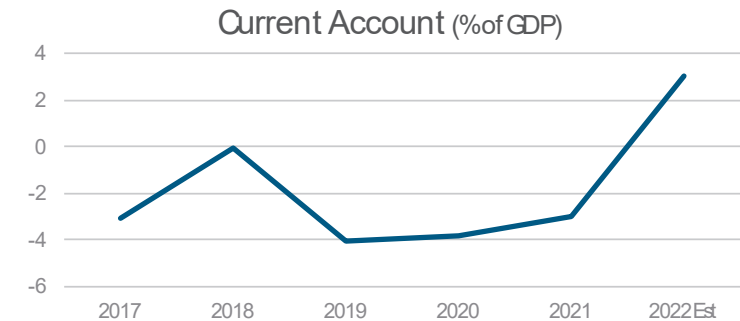
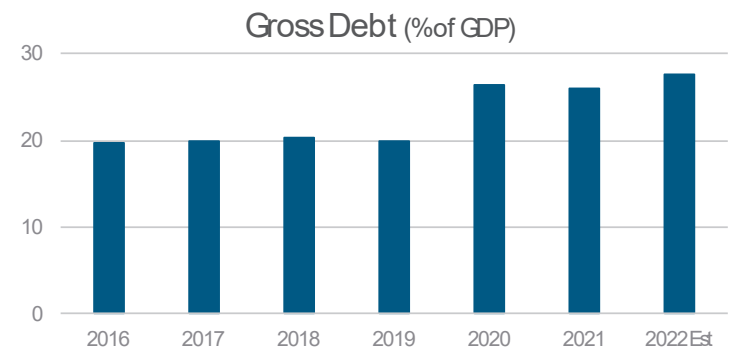
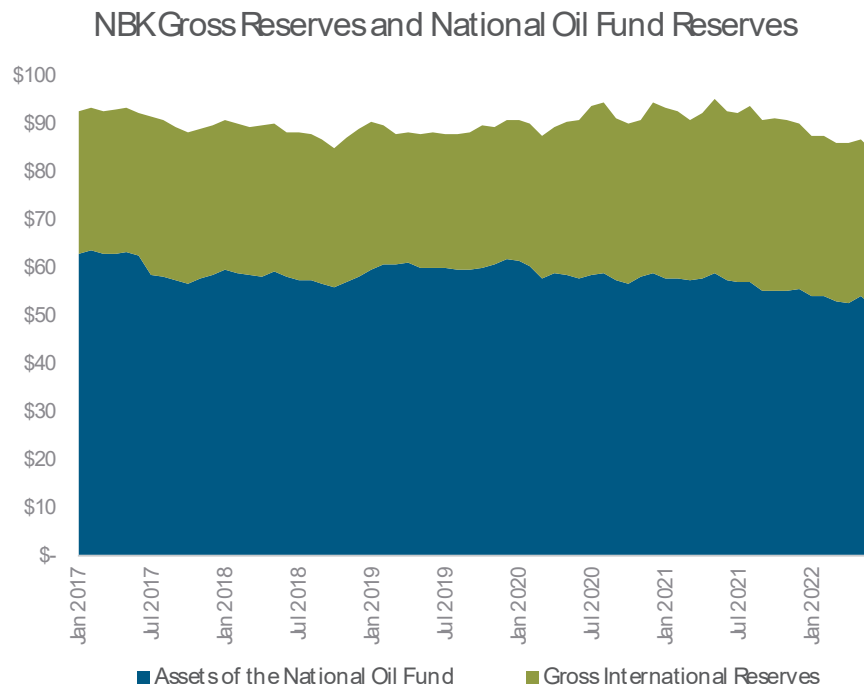


Source: Blackrock Aladdin/Artisan Partners. As of 30 Jun 2022. Sovereign and Corporate Credit positions represent USD- and EUR-denominated debt instruments and derivatives (CDS).



- Kazakhstan
- Angola
- Dominican Republic

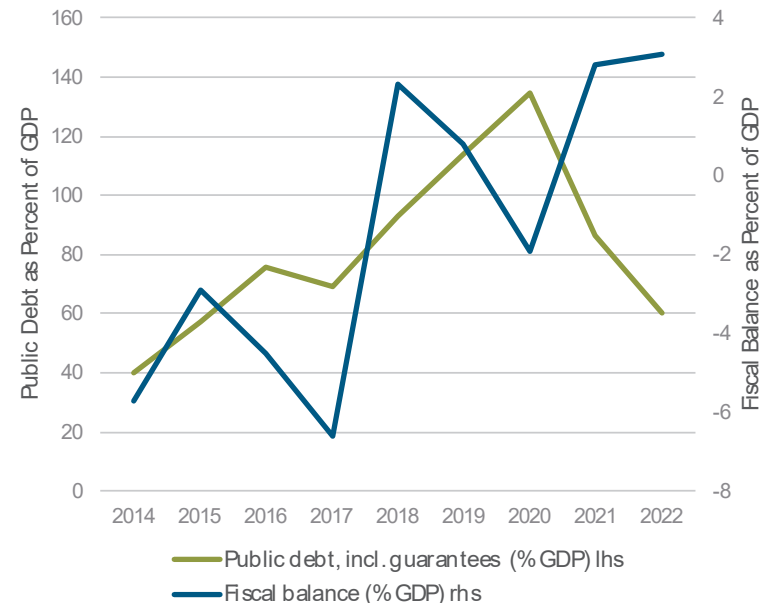
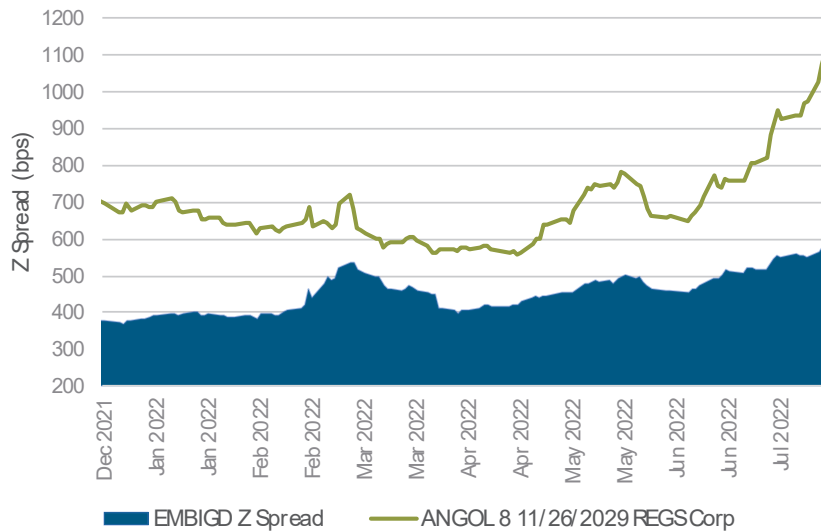
- High oil prices providing support to both the budget and external accounts
- Central Bank is implementing a new inflation targeting regime
- Strengthening ties with the US



Source: National Bank of Kazakhstan/IMF WEO Database, as of 30 Jun 2022.

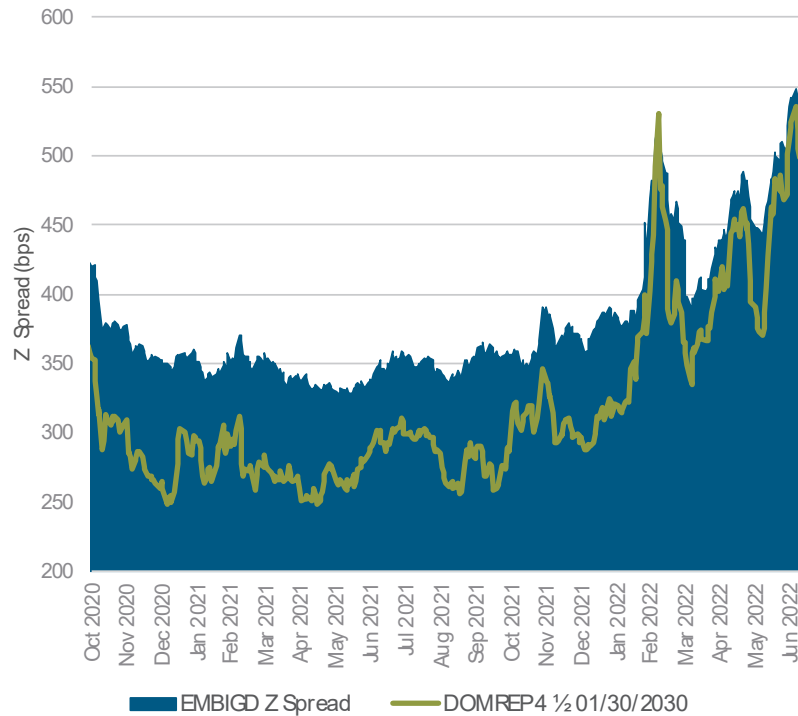
- 2017 election brought about a positive inflection point for governance and policy-making in Angola
- Ushered in a strong package of reforms on the fiscal, monetary, anti-corruption and doing business front
- Debt sustainability challenges being addressed with debt to GDP falling to below 70%
- Partnership with IMF and IFIs remains strong—graduated from IMF program in Dec 2021

Spread of Angola and J.P. Morgan EMBI GD Index

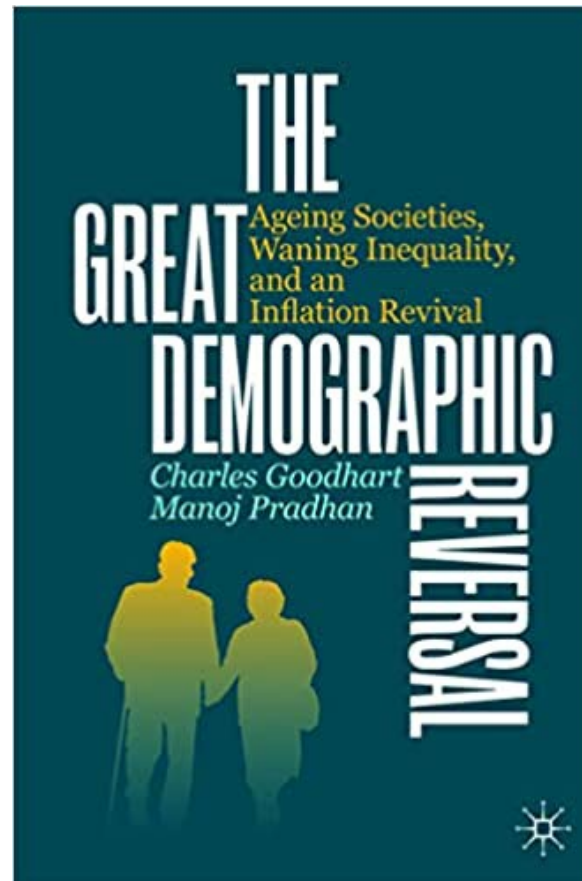


Source: Bloomberg, J.P. Morgan and Haver Analytics. As of 7 Jul 2022.

- Consistent growth
- Strong remittances
  - 40% above those in 2019
- Tourism arrivals are close to pre-pandemic levels
- International Reserves at record highs

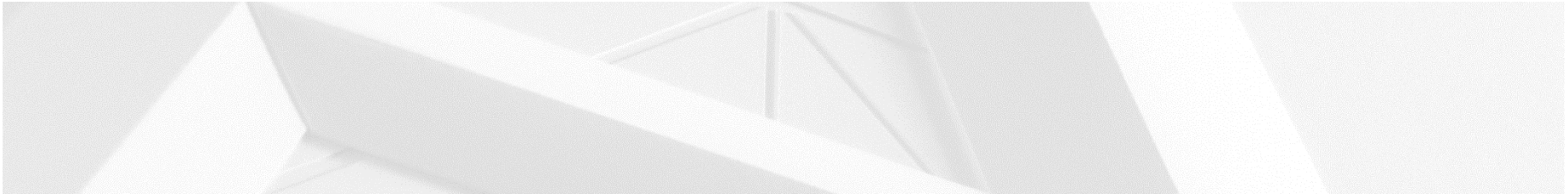


Source: Bloomberg, J.P. Morgan. As of 7 Jul 2022.



Authors: Goodhart, Charles and Pradhan, Manoj. *The Great Demographic Reversal: Ageing Societies, Waning Inequality, and an Inflation Revival*. Cham: Springer Nature Switzerland AG, 2020.

Q&A



## Notes and Disclosures

This section of this presentation contains information important to a complete understanding of the material presented. Please review it carefully.

**Carefully consider the Fund's investment objective, risks and charges and expenses. This and other important information is contained in the Fund's prospectus and summary prospectus, which can be obtained by visiting [www.artisanpartners.com/prospectus](http://www.artisanpartners.com/prospectus). Read carefully before investing.**

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Totals may not sum due to rounding. All data shown is in USD unless otherwise indicated.

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## Notes and Disclosures

**The Cboe Volatility Index (VIX)** is a real-time index that represents the market's expectations for the relative strength of near-term price changes of the S&P 500 Index (SPX). **Bloomberg Commodity Index (BCOM)** is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. **JPM Emerging Markets Bond Index-Global Diversified (EMBIGD)** is an index of USD-denominated bonds with maturities of more than one year issued by EM governments. **JPM Corporate Emerging Market Bond Index-Diversified (CEMBID)** is an index of USD-denominated EM corporate bonds. **The J.P. Morgan U.S. High Yield Index** is designed to mirror the investable universe of the U.S. dollar-denominated, high yield corporate debt market, including U.S. and international borrowers. **The Consumer Price Index (CPI)** measures the monthly change in prices paid by U.S. consumers. **Spreads** refers to the difference between two prices, rates, or yields. **The Zero-volatility spread (Z-spread)** is the constant spread that makes the price of a security equal to the present value of its cash flows when added to the yield at each point on the spot rate Treasury curve where cash flow is received. **Notional Market Value** represents the portfolio's exposures based on the economic value of investments by adjusting for derivatives exposure to the market value of the contract's underlying security and accounts for the sensitivity to changes in price of the underlying security. In comparison, measuring the exposure of a derivative contract at market value or notional value can understate or overstate, respectively, the economic exposure and risk. This estimate of portfolio exposure is only an approximation of the portfolio at a point in time. **Duration** estimates the sensitivity of underlying fixed income securities to changes in interest rates—the longer the duration, the greater the sensitivity to changes in interest rates.

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