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Michael is a portfolio specialist in the fixed income division. He is a member of the global fixed income team, focusing on the firm's emerging markets local currency debt strategy and supporting the firm's emerging markets debt strategies in Europe, the Middle East, and Africa. He is a vice president of T. Rowe Price Group, Inc., and T. Rowe Price International Ltd.

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Paul is co-head of global fixed income manager research at Aon, based in the UK where he is responsible for providing advice on the full spectrum of fixed income asset classes to investors globally. Paul joined Aon Hewitt in November 2012 after more than 10 years in asset management where he managed long-only and absolute return mandates.

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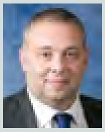
Chris has been an investment analyst in Hiscox Group's investment team since 2019, after graduating in 2017 and having previously worked in financial consulting and equity fund management. In his day-to-day role, Bray focuses on quantitative analytics relating to the group's investments, including risk modelling, performance analysis, and strategic asset allocation.



KEITH GOODBY

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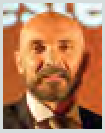
Keith is head of shareholder investments at Aviva responsible for investment strategy, manager oversight and portfolio management oversight with a focus on the matching adjustment. Previous roles include head of the insurance investment solutions group at Willis Towers Watson and portfolio director for the with profits fund at L&G.



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Corrado has 25 years' experience in investment banking and asset management. He is CIO at Foresters Friendly Society. Previously, he was head of insurance LDI at Aviva Investors, responsible for £10bn of insurance funds and £30bn of derivatives. Corrado has a degree in Physics from Turin University and a Master in Finance from London Business School.

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GANSKE: It's difficult to find value in fixed income markets and to generate income nowadays because yields are negative in many cases, and risk premia are artificially low. This is primarily a consequence of easy monetary policy and quantitative easing by central banks in the last 18 months, due to COVID.

Looking at the opportunity set, particularly at fixed income credit, how would you assess the credit market? Does it offer value in your opinion? How do you manage your credit exposure and run your strategy?

GOODBY: You're right it's difficult, everything is tightly priced. We've recovered from pre-COVID levels and in some cases, spreads are even tighter. It means we must be highly selective in the names we invest in, to ensure we're getting the right risk-return ratio on those names. For me, the opportunities are running out slowly. There's still some risk premia in emerging market debt (EMD) but it's slowly getting taken away as well, making it difficult.

I think there are three additional challenges right now. Firstly Omicron or other variants; inflation, which I'm sure we'll spend a lot of time on today; and the other is climate, which is certainly a bigger focus for us in our investment decisions.

PISTARINO: A typical credit portfolio has seen a migration towards weaker credit ratings. A significant amount of bonds that used to be A or higher have migrated towards the BBB cohort, reflecting degradation in credit quality – that's a negative.

The positive is that central banks, for variety of reasons will be very cautious to hike rates aggressively. One of those reasons is the amount of leverage in the economy – so, all considered, I believe there is still value in the asset class.

I think there is marginally more value in the high yield market for the same reason. With rates increasing at moderate pace and a reflating economy, I can still see a pick-up compared to investment grade. It is also a much smaller market, and not particularly appealing in terms of solvency. On balance though, we believe that an allocation to the asset class is warranted. Because of its additional complexity, the allocation is under constant monitoring and review.

GANSKE: Developed market central banks seem to be more relaxed about the pick-up in inflation than emerging markets central banks. Many also already started a hiking cycle a while ago. The question is, what will be the impact on credit markets when developed markets central banks start tightening monetary policies?

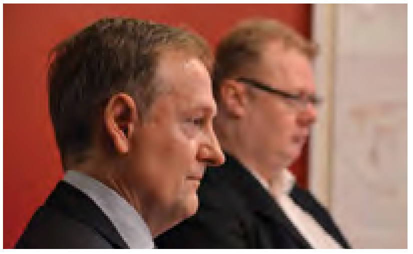
In my opinion, the first step is to taper off quantitative easing. We are seeing this already and this has an impact on the supply and demand dynamics in fixed income markets. The next step is to start hiking policy rates which increases the risk-free reference rate. This is changing the relative value metric between risk free rates and credit risk premia in fixed income markets. I think emerging markets hard currency debt offers better value than other credit markets, but spreads are relatively tight and this aspect is very important. Where do you see value in credit?

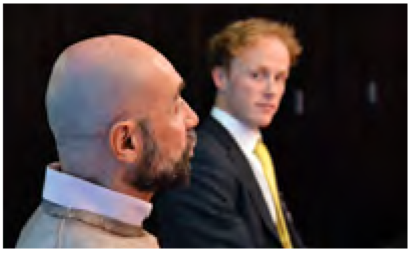
WHELAN: Opportunities in private credit are still there. There are some areas of that market that are getting stretched, especially where there's a lot of dry powder by fund managers left to deploy, and as a result obligors can get away with tighter yields.

There's still some reasonable carry in the more liquid market space, in particular there are opportunities within the securitised market, where in many sectors spreads appear attractive versus similarly rated corporate bonds. I recognise for Insurers the solvency charges on holding securitised assets can be quite penal however. But increasingly, we're moving from a period where defaults especially in investment credit have been very low and markets supported by huge liquidity provisions from central banks, to a scenario where there are more idiosyncratic risks and opportunities, such as the global supply chain issues and expectations of quantitative tightening and tighter monetary policy against a backdrop of the highest realised inflation for a generation.

There are still enough corporates out there who can pass that pricing pressure onto customers, who can raise their margins accordingly. But I think there are many issuers in that BBB area which are losing their support from the wider credit markets.

Within emerging markets, I think your assessment is fair, Michael. The biggest challenges within emerging market debt are that some investors are not aware of the dynamics and transformations happening in emerging markets and there are still negative connotations associated with the term 'emerging markets' similar to how there was with the use of 'junk bonds' to describe high yield debt thirty years ago. As ESG considerations and in particular combatting climate change





becomes increasingly to the forefront of investors' minds, there is also a challenge for some emerging market nations as to the role they have to play in portfolios aligned to climate objectives.

GANSKE: There are many question marks. How do you think about risks and what do you see as the biggest risk in the next six months?

BRAY: We're a little bit concerned about some kind of taper tantrum – because the Federal Reserve does have to hike rates a bit more than expected to calm down inflation. But at least EMD has a slightly better risk-reward balance, and that's why we're a bit more comfortable.

There are some issues with the climate aspect, as mentioned, and from what we've looked at I think we must be more realistic and pragmatic in that space. If energy prices keep going up then it could impact some of these more fragile economies, such as Turkey. Emerging market central banks hiking rates was mentioned earlier, and Brazil is an example there.

There's a lot of very different things to think about in EMD, which is useful in one sense because it is diversifying risk, but that's also why we prefer hard currency, as we don't have to try and discuss Brazilian central banking policy with our manager, which would be quite difficult.

In terms of other risk, we are also a little worried about Chinese real estate, as it's something we've recently invested in and have a bit of exposure to.

GANSKE: This climate argument has come up several times. Many emerging markets are commodity based, and their macroeconomic structure is such that sectors that put a high burden on the environment are outsized. Furthermore, as many are poorer transformation economies, energy efficiency is poor as well. As a result, net zero as a target can be difficult to achieve.

In more advanced economies, such as Germany for example where there is a strong focus on the environment, the marginal benefit of investing into greener technologies is low. On the other hand, the impact of these investments in emerging markets, such as changing the way they can utilise energy and are running the economy, is much higher.

The climate problem has been generated by richer countries over many decades. In India and China there was not so much pollution in the past but it's there now. This creates challenges for investors who are concerned about the carbon footprint of their portfolio, and these challenges are more pronounced in emerging markets. Looking to the second biggest economy in the world, what is your outlook for China ?

PISTARINO: My outlook on China is positive. They are in a long process of rebalancing an economy driven by manufacturing exports, and heavy over-investment in areas like construction. With the emergence of a wider middle class, there is a natural shift towards higher levels of internal consumption and further expansion in services.

Hopefully, the present predicament could just be a momentary bump in a long process of rebalancing. There is no doubt that China is rapidly evolving into a fully developed economy: the debate is only whether it will become the leading economy in GDP terms over the next decade or not. And – similarly to other major economies – China is actively engaged in reducing their levels of pollution and shifting towards a greener economy.

It is worth noting there is a cultural element that informs their actions. China has a unique capacity in planning ahead. Part of this plan is to create a more sustainable path to economic growth by reducing inequalities in the name of a "harmonious society".

GOODBY: I think you're absolutely right there. The five-year plan has two fundamental themes. Common prosperity, which is sharing the wealth equally, and regulatory rectification. I think they're giving clear messages that certain activities such as the property bubble, and the lack of debt discipline, are not aligned with those fundamental principles anymore.

We're going to see a marked change in the way they grow and regulate the Chinese economy, so we might see that the pace of growth will slow and it will be more about the quality of the growth rather than the quantity. Rather than infrastructure, green infrastructure for example.

I think this means we can expect slower Chinese growth going forwards, which will have a knock-on impact on other emerging markets – particularly the commodity driven markets that are supplying to China. China is following the same path taken by Japan and South Korea – a move to a middle-class income, consumer and tech driven society.

WHELAN: I wonder if there are parallels that can be drawn to the situation in the UAE and Dubai, particularly around a decade ago, where an economy was built up around one natural resource, had witnessed a huge real estate boom and subsequent bust but more recently has been booming again. In China there's potentially more concern over it moving to a more equal footing economy, away from central banks and towards more private capital markets and more global capital. That could lead to such an enormous supply of corporate debt issuance into the market that, if anything, could take a long time to digest as I don't think there is a natural buyer of it, certainly not in the Dollar or harder currencies, as Chris said.

Again, there's a lack of knowledge and understanding of the marketplace and arguably many misplaced preconceptions, and that fear brings about a complexity premia into the market. That said I don't think this knocks them off their five-year plan.

BRAY: I agree and I think something more worrying in the short-term is Taiwan and the geopolitical aspect there. Does that occur at the same time as Russia trying to invade Ukraine, or Iran and Israel – all of these are to some degree emerging market issues and they are a lot more worrying than a few property developers. This China and Taiwan situation and whether it would mean NATO has to get involved, it could potentially be hot and therefore far harder to resolve.

PISTARINO: Geopolitical risks are very relevant because of their close interaction with fundamental economic forces. The key consideration here is that China is the second biggest economy in the world. While there is still a long journey ahead in terms of GDP per capita, I'm not sure the "emerging markets" label is still appropriate. We cannot compare China with Taiwan, or Vietnam, or South Korea, precisely because of its size and its relevance on the world stage. We are increasingly moving to a level of awareness whereby China will be looked at separately from a host of other developing countries.

GOODBY: I was going to throw a question back to you, Michael, on what your investors think. Are investors aware of the wide range of credit quality in the region? In the Middle East, these are AA sovereigns and the discussion is on oil dependency and how well they're diversified from it. If you look in other places there's AA names, such as Taiwan, South Korea, Hong Kong. Do investors appreciate the diversity of quality within EMD? And that there's this level of quality to be had investing selectively? You've got Singapore as well at AAA.

> “Asia, and China in particular, have dominated issuance in the corporate space

GANSKE: It's a very interesting question and I think that has changed fundamentally. When I started over 20 years ago as a portfolio manager, emerging markets was a concentrated highly correlated asset class, very similar in credit quality for a portfolio of 18 countries. But now we are investing in over 60 countries.

Countries in the Middle East, for example, are strong in terms of credit quality and credit metric. At the same time, you have countries like Brazil where economic volatility and an ineffective political system translates into high asset price volatility. In the extreme cases, in Venezuela for example, you have a broken political regime that led to a collapse in the economy. I believe it could make sense for investors to have a more focused approach to the asset class and investors with a lower risk tolerance can build an emerging markets fixed income strategy with a lower risk profile.

When you think about the global emerging markets universe, Asia on average is much more stable, has higher per capita income, higher growth rates, and better credit quality. So, I would say it's the more stable region of emerging market debt.

You have the riskier markets in Latin America, but then this is still perceived as a convergence region. There is Central Europe which benefits from the EU accession process and has the next countries coming through. Then there are the CIS countries further east, many of them commodity-based economies, autocratic and of mixed credit quality. The biggest of them is Russia, which is pricing a geopolitical risk premium due to the standoff with NATO that is playing out in Ukraine.

Over the last couple of years, when we speak to clients about emerging markets, Asian credit has become much more interesting for them. Asia, and China in particular, have dominated issuance in the corporate space, which is why the property sector will now make more headline news. Would you change your view based on what's going on in China?

GOODBY: I think I'd see it as a long-term positive that they're going to put their shop in order. So short-term yes, there may be some volatility. But in the longer-term we should see better, more transparent well managed credit markets across China.

WHELAN: I appreciate this is a credit roundtable, but do you see different attitudes from investors if you're talking about emerging market equity versus emerging market debt? Is there a more strategic allocation on the equity side where it would be more opportunistic on the private and public credit side?

GANSKE: I think for a lot of investors, yes. These faster growing transformation economies offer attractive business opportunities for many companies and a natural cost advantage in the global economy. From an evaluation perspective, emerging market equities are historically cheap at the same point in time when developed markets equities are expensive, so from an asset allocation perspective we like them.

GOODBY: If you're an equity investor you should be investing for the long-term. There's a long-term theme to support an allocation and that's the transfer of wealth from the west to emerging markets which seems unstoppable. Emerging markets are likely to be the dominant markets at some point in the future.

There's another long-term theme for China around demographics. They have a big problem because of the one child policy, an ageing population and a big shortage of workers coming up in the near term. That for me is a bigger threat for China.

GANSKE: I agree, although I would also say it is a threat for the global economy. China has been the extended workbench of the global economy for decades with abundant human capital fuelling Chinese economic growth and being a disinflationary global force. This is changing with the change in demographics and economic model of the country. The authorities are trying to avert the demographic trend with a two-child policy, but we will have to see how effective this approach will be.

BRAY: From what I've read people in China are also not taking it up. The interesting thing is that the decline in working population has ultimately given them a bit more bargaining power. One counterargument to this could be Japan, but that happened at a time when China was pushing hundreds of millions of workers into the world, so I don't necessarily think this makes a good counterargument.

I disagree with some of the discussion here, in saying that China is going to overtake the US and become highly developed. Maybe because of demographics and the fact that productivity is stagnating a bit, they could be near the end of the road. While their productivity growth might be like the US, there isn't the same demographic push. Do these keep converging? I'm not convinced and maybe the US will still stay as the number one economy.

GOODBY: I don't know whether China will overtake the US, but the shift of wealth isn't just going to China. For example, India has a highly trained workforce that speaks English and is on much lower wages, so there are still plenty more areas where the wealth could transfer to.

> “Asia as a whole is clearly growing and many Asian countries offer attractive opportunities

We are overpaid in the Western world relative to emerging market wages, and there is someone in emerging markets who could do our job equally well in the future. For the younger generations that don't have years of experience to fall back on, in a global market they'll be competing with someone from an emerging country who is cheaper than them. And now that we can do most things virtually, geography isn't so much of a barrier.

PISTARINO: I broadly agree with you, although I don't foresee a net transfer of wealth between economies; rather, a process of wealth creation, which will reduce difference between developed markets and emerging markets.

GANSKE: We've talked a lot about China, so how about India, because the demographics are better there. How do we see India as an investment theme?

BRAY: I've recently been reading about the heavy concentration at the top of the Indian economy, where some of the largest companies are run by huge billionaires. I think the long-term story is more positive, but it's maybe counterbalanced by corruption being a little worse, and less effective policy. I think there is a bit of tradeoff there.

GANSKE: You're right. I think India has a general problem of bureaucratic inefficiency. Just looking at the numbers, India's population growth is higher than China's. It's a big and fast growing economy and should offer more investment opportunities going forward. When I started as an emerging markets investor, it was almost impossible to buy fixed income instruments in India, but now that is changing. It's becoming another major economic power, but in Asia there are many economies.

Vietnam is highly effective at integrating the economy into the global supply chain. Philippines is strong in IT outsourcing, and Indonesia is also a big economy with high growth rates and transformation potential. The Chinese share of the market is of course very high, but Asia as a whole is clearly growing and many Asian countries offer attractive opportunities. If you look at corporate market growth rates and issuance size, Asia really is growing quite dramatically compared to other regions.

PISTARINO: You mentioned big investment opportunities in Asia, led by China. What about other geographies? When it comes to Latin America, developing Europe, the Middle East or South Africa, where do you see value at current prices?

GANSKE: Looking across the global credit spectrum, emerging markets are relatively attractive, Asia in particular.

That said, investors should keep in mind that they are buying into an asset class that is facing challenges such as stubborn inflation, the ongoing COVID pandemic, and global interest rate normalisation. We think we can manage the risk, and our investors think about finding risk premia that is fairly priced. I believe the payoff in emerging markets is much better than European or US credit, especially when we consider that the risk factors we are mentioning have a global fallout. Omicron and other variants, as well as the geopolitical landscape in places like Taiwan or Russia and Ukraine, are not just impacting emerging markets. What's your view?

GOODBY: Another concern I would flag is the balance sheets at central banks are growing. That's true of most countries globally, but to some extent the US has a license to grow its balance sheets to whatever it wants whereas emerging markets don't have that license, so there must be some concern on the growth of the balance sheets there.

When you put that together you've got risk from future COVID variants; possible slowdown in China, in turn slowing down the commodity-based countries and those in the production supply chain such as Malaysia and the Philippines. You've also got rates already rising in some emerging markets. These are all factors for slower growth.

GANSKE: True. Think about what has happened with COVID and how policy makers reacted to the pandemic. The reaction function of developed market central banks was massive. When you look at the balance sheets at the European Central Bank, or the Federal Reserve for example, we can see the effects of quantitative easing, a massive expansion. Emerging markets central banks reacted in a much more moderate way.

On the fiscal side, the long-term fallout from COVID is a sharp increase in public debt in many countries because of the fiscal stimulus that has been implemented to minimise the economic fallout of the pandemic and the lockdown measures. This step-up in indebtedness is much less severe in emerging markets countries as they have been broadly much less anti-cyclical in their policy approach. After we move past COVID, the credit quality looks relatively better in many emerging markets than in the developed world.

WHELAN: One thing we haven't discussed is corporate credit within Asia. What do you think from a banking perspective? Because some of these issues happening, in terms of inflation, rising rates, and steeper curves, it's relatively beneficial for senior debt holders in financial markets whilst being painful for many corporates.

Do you think there's a potential opportunity in financial services sectors rather than industrial and physical consumer goods sectors? When you talked about there being a more positive credit aspect is that across the board in those countries, or is it sector-specific?

GANSKE: That's a good point. When you look at the composition of the emerging market corporate credit market, it's very much skewed towards financials. In general, we have a structural underweight to financials because we want to strip out the intermediary and prefer to underwrite debt directly by investing in corporate bonds. But you are right, you see more value for banks in a more normal interest rate environment.

I'm not too concerned about most of the Asian corporates because they have much more solid balance sheets and business models. Admittedly, there are defaults, but looking across the global credit spectrum, default rates look much better than for example in US high yield.

BRAY: I read an interesting piece recently which said that around 50 years ago or so, the Deutsche Mark was the anti-fragile asset, because it would always fight inflation and rates. But that isn't true anymore, and equally you can't ignore that isn't true with US Dollars because they're keeping rates artificially low and letting inflation erode debts.

The only place where people might take a conventional view of rates and policy could be in China. Maybe they're the anti-fragile bond market now and pursuing a stronger currency policy as well. It could be the market for a more unconstrained investor, and as I've said we generally look at hard currency. If you had a choice you would probably buy Chinese bonds in Renminbi and prefer them to the Euro longer-term, as they're a bit more realistic in setting interest rates. I think there's good reason to think what was the Deutsche Mark is now the Renminbi.

GANSKE: This is a very good point. Would you consider investing in Renminbi from a portfolio perspective?

PISTARINO: Possibly. However, going

back to a point made earlier, you could also see it as a weakness that emerging markets – not China, but smaller economies – were not able to expand their balance sheet to an extent comparable to what developed economies have done. That includes both fiscal and monetary policy, which represent portions of the same balance sheet at a consolidated level.

Because of the ability of the US, and Europe, to bring about a significant fiscal expansion to reflate – and inflate – their economies out of COVID, I remain quite positive on credit spreads.

GANSKE: I agree. Emerging markets have less flexibility, but when you expand the balance sheet you're borrowing against the future, and at some stage you will have to pay it back. Quantitative easing is an elegant way to do it, it's basically the financing of the state by the central banks. It is not writing debt off, but logging it away in the balance sheet of the central bank. It's still there, but no market supply.

I have seen many credit events which were triggered by debt becoming out of control. With the history of emerging markets, central banks have to remain credible. This credibility thinking was the main reason why emerging markets central banks started hiking early and I see this as strength. Plus, they seem to have had the right call with inflation now a more persistent problem and not transitory.

If you remember the Eurozone debt crisis, it started in Greece, but then investors started looking at Spain, Italy and Portugal. All of a sudden, their debt profile didn't appear sustainable anymore and the market started to price a higher risk premium which made debt sustainability even more questionable and created almost a self-fulfilling prophecy. Indebtedness can be perceived as sustainable for a prolonged period, but there is risk in having too much debt. Therefore, I see the less aggressive fiscal expansion in emerging markets as a positive.

PISTARINO: The European crisis had similarities to the Asian crisis, in the sense that countries in the Eurozone, and particularly members of the monetary union perceived as weaker, borrow against a hard currency, on which they only have partial control. After the debt crisis, we have seen the ECB increasingly acting as a lender of last resort, like a textbook central bank. The US have been in a special position for decades, with the US dollar acting as the global reserve currency. But you also mentioned Japan, and Japan is the basket case, albeit a peculiar one, for understanding the impact of government debt on the economy.

> I see the less aggressive fiscal expansion in emerging markets as a positive

GANSKE: This is similar to China, where debt is also high, and a lot of it is domestic. And we should not forget that the country is a net creditor to the world.

GOODBY: Everybody around this table has said that it's inevitable rates are going to rise, and I believe that myself. I think the discussion is more by how much. In the US, Jerome Powell has said inflation is not transitory, but are the drivers there to justify raising rates by more than just a small amount?

If you think about what's driving inflation there's the supply chain disruption, and raising rates is not going to fix that. There's been the commodities boom, which may be now softening potentially with China slowing. Then there's pent-up demand from people not doing anything during COVID. It's unclear whether that's going to unwind or if we're going to have a period of sustained demand. If it flows through to wage inflation then we may see greater pressure on rates.

BRAY: That has started to happen a little bit.

GOODBY: It's happening in pockets, in sectors such as transportation, but that's not enough for it to be widespread yet. The other point I'd make is that my personal view is central banks are more scared of recessions and the damage they can cause than inflation, so they will always err on the side of caution when managing inflation.

WHELAN: The fact it's more of a global issue is lessening the central bank credibility argument. In the past there's been inflation episodes in countries where investors have questioned credibility in the central bank. Here, if it's more systemic, is that credibility argument less so? I can see Keith's point about things becoming more political and if anything, they end up underdelivering on the rate increases.

BRAY: It's a very fair point and it is a good example here. What the Bank of England was signalling it was going to do, it then didn't, and now the Pound has lost around 5%. It feels a bit crazy that this is the situation we are in, and that no one feels like raising rates even very slightly, especially in the Eurozone.

We run stress tests about different scenarios happening and we have an inflation shock one. We'd still expect Canada, the UK and the US to raise rates but in the Eurozone we don't, ever. Maybe it's one of those 'through the looking glass' moments' and I suppose this is the same as what I said about buying Chinese bonds. Perhaps it's a bit crazy but less crazy than buying some other options.

GANSKE: You're right. There seems to me a reluctance of the Federal Reserve and the European Central Bank in particular to end their accommodative policy stance. Easy money lowered the cost of debt burden and when they start raising rates they probably need to be more aggressive in their hiking cycle. That's a problem because it's more expensive for a leveraged economy and it's not very credible.

In emerging markets, central banks have less credibility and therefore less flexibility, so they have to raise rates early as they can't afford to be perceived being behind the curve. In general, for emerging markets, the best way to manage the economy is to be more proactive. A good example here is the way China is approaching the property sector. Trying to tackle asset price inflation and leverage when it is not too late and the adjustment costs are manageable.

WHELAN: Coming back to that debt restructuring point, what credence would you give to the willingness to pay versus ability to pay argument?. In certain countries, should investors focus more on investing in local currency versus the Dollar debt from a political or willingness to pay aspect?

GANSKE: There is a big difference in market structure between these two asset classes. Local currency debt is held in big parts by local institutional investors, insurance companies and pension schemes. There is a very high hurdle politically to default on that debt. You can, for example Russia in 1998, but also you can always print money and deflate the real value of debt by creating inflation. There's a difference when you have hard currency debt compared to local currency debt which you can control through financial repression.

WHELAN: You'd always expect more liquidity in a local market, wouldn't you?

GANSKE: Yes, there is much better liquidity. Local currency debt typically has the highest liquidity in emerging markets. Hard currency sovereign debt is less liquid because governments are increasingly financing themselves in their own currency, and hard currency corporate debt, although a growing asset class, is less liquid as many institutional investors have more of a buy and hold approach here. In general, since the global financial crisis the sell side has much less leeway to warehouse risk through tighter regulation which diminished their role as liquidity provider for risky assets such as emerging markets fixed income.

PISTARINO: Does it then make more sense to invest in local currencies rather than hard currencies?

GANSKE: That's how I feel. From an asset allocation perspective, local currency markets have more compelling yields and offer a degree of inflation protection, as emerging markets central banks have hiked policy rates already in many cases and local market yield curves already reflect the change in inflationary environment and monetary policy outlook. Looking at real yields, they are very attractive compared to what is offered in developed markets.

The problem is that there is a strong negative correlation between the Dollar and emerging markets currencies. This year's currency depreciation in emerging markets has not necessarily been driven by weakness of these economies, but more by the strength of the Dollar. That relation creates much more volatility from a hard currency-based investor perspective and makes risk-return patterns difficult to assess.

The spread of emerging markets hard currency debt is fair and currently offers better credit risk compensation than developed markets credits, but the underlying treasury curve will likely cause capital losses in an interest rate normalisation environment, where the federal reserve is hiking rates. Consequently, emerging markets corporate debt is, with its shorter duration compared to sovereign debt, the more attractive segment.

GOODBY: If you want to think about local currency EMD investment when setting investment strategy, you don't want to think of it as a fixed income replacement for liability matching, rather an alternative risk asset or equity replacement given the higher volatility.

You need to be prepared to ride out the short-term volatility in the currency movements. In the long run, if we believe there's a transfer of wealth to emerging markets then their currencies should strengthen and the currency exposure will be a benefit.

PISTARINO: Absolutely.

GANSKE: I think we probably agree that investors are facing many challenges with the global economy still suffering from supply chain disruptions, higher and more persistent inflation than anticipated, and a COVID pandemic that is dragging on and continues to create challenges for many countries. That said, for fixed income investors who want to get exposure to credit risk, Asian credit offers opportunities. This is despite China going through structural adjustments, with the deflation of the property sector the most prominent one.

For you as insurance investors, in what is a very challenging time, I hope that after this discussion you can see a few more opportunities in emerging markets fixed income, and that it's an asset class that can generate attractive risk adjusted returns.