Article
Emerging Markets Debt

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Meet the Team
In conversation with Abhishek Kumar

Abhishek Kumar joined State Street Global Advisors in 2010 and is the sector lead for emerging market debt within the fixed income indexing team. From his home in London, he has been managing and overseeing our $24 billion of EMD assets across both hard currency and local currency EM portfolios while also working to develop new strategies and solutions for investors in EM debt.

Q. From a practical perspective, how have you and the team found the experience of managing portfolios from home during the COVID-19 period?

It's certainly been different! We have been working 100% from home since mid-March. As portfolio managers cover countries around the globe, working from home has sometimes proved a blessing in disguise, given the differing market opening and closing times. Should PMs and traders need an early start (and we are talking about 5:00am starts!), it's a lot easier to do without a long morning commute. All PMs and traders have hardware setups that are at least equivalent to the office setup. In my own case, I have a better setup than I had in work.

Q. And what about team communications?

There are regular interactions between PMs and Traders through internal chat rooms. PMs and Traders are well used to tracking over 100 broker chat rooms already, so we only have an additional chat to monitor.

State Street had already been advanced in using technology for WFH, with tools for remote working in place well before I started in the firm almost 10 years ago. We have instant chat and voice calls via Jabber and video conferencing via Webex — these have helped make working from home very effective.

Q. Do you think COVID-19 is likely to have a long-standing impact on EM Debt prospects?

While there hasn't been a material change in the relative outlook for EM versus DM debt because of the pandemic, prospects are not universally positive. EM Asia and EM Europe contained the outbreak well, but some countries in Latin America are easing lockdowns even as infection rates are still rising.

EM rates should benefit from EM central bank rate cuts and quantitative easing. Currency is also important in EM investing and EM FX became more undervalued during this crisis — in the past, this has signaled an attractive entry point to local currency EMD. However, EM FX will likely be range-bound and dependent on global risk sentiment as it swings from negative to positive — a reversal that sees another leg down cannot be entirely ruled out.

In the hard currency EMD part of the market, some countries face significant challenges as a pandemic, weak currencies and high debt levels in a foreign currency is not an ideal combination. Some borrowers with weak balance sheets do not have the ability to spend their way to recovery and debt restructuring may be necessary, leading to a capital loss for investors.

But, overall, the relative attractiveness of EM over DM remains, as does the benefit from diversification of risk.

Q. How did the portfolios fare through COVID-related volatility as liquidity dried up and spreads widened?

EM Local bond markets remained resilient during the crisis and liquidity reduced only marginally. The trading costs too were reasonable, if slightly more volatile when compared to index prices, which took a while to adjust to the extreme market volatility. As we are in a position to trade all emerging currencies for our funds, we had tight control on costs. For example, outflows from our European-listed EM local currency ETFs exceeded $1.3 billion in 2020, but the average trading cost of approx. 11 bps is a very satisfying result for our funds in these exceptional circumstances and market conditions.

EM Hard currency markets, on the other hand, struggled in March. However, after the Fed announced its bond buyback programme, buyers returned in search of higher yields.

Throughout this crisis though, we were able to service any client redemptions as our portfolios are regularly reviewed to ensure that the funds maintained a good liquidity profile.

Q. When office life returns to 'normal' are there any lessons from this extended WFH period that you'd like to build on?

COVID-19 has definitely changed the way of working. Technology has leapfrogged, companies have implemented changes in such a short period of time that may have taken a few years under 'normal' conditions; mindsets have adapted rapidly to adjust to remote working. Given the range of markets that we track, from east to west, the WFH capability has been a real benefit. Many of these changes may remain even when there's a widespread return to office working.

Our index-tracking through this period has been very strong and serves to highlight our team's triumph over considerable odds. I'll certainly be happy to see my colleagues in person when we get to that point, but the "new normal" has actually worked out quite well.

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- Start with rigour
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world. Helping millions of people secure their financial futures. This takes each of our employees in 27 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's third-largest asset manager with US $2.69 trillion* under our care.

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