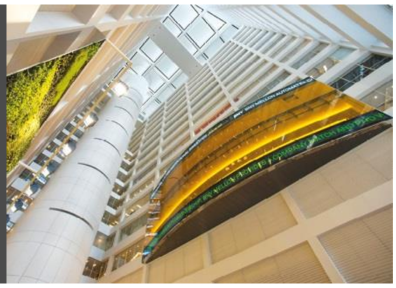
News & Views

August 2016

For Professional Clients and, in Switzerland, Qualified Investors

BNY MELLON



THE SECTOR THAT LOOKS ATTRACTIVE AS GLOBAL BONDS GO NEGATIVE

Insight Investment's Colm McDonagh explains why bonds from countries like Indonesia, Brazil and Peru look good on both fundamental and valuation levels.

McDonagh says that at a macroeconomic level, after a sustained period of market volatility, certain emerging markets' economies are starting to bottom out while growth forecasts and differentials are improving. Meanwhile, some currencies have weakened and interest rates have fallen, all of which he believes should be supportive of EM corporate debt.

Historically, investors have tended to under allocate to emerging market corporate debt due to fears of excessive volatility and potential drawdowns, says McDonagh. However, in the current low yield, low interest rate environment he contends the asset class offers significant potential for returns, especially when compared to debt in more developed markets, particularly the high yield sector. "We would also argue valuations are attractive given a sizeable proportion of global bonds now trade at negative yields."

The EM corporate debt sector has also evolved substantially over time and now constitutes US$ 1.7 trillion sector that is increasingly diversified and offers significant structural opportunities, he notes. "In many cases the credit quality of companies coming to the market is high, with debt levels and default rates often comparatively low compared to similar assets in more developed markets."

McDonagh believes corporates with higher credit ratings should benefit the most in the current environment, given the support from record low US Treasury yields as well as local rates. "In terms of potential downside risk, we don't anticipate any unexpected rise in defaults in the EM corporate debt sector in the months ahead. In fact EM corporates have nowhere near the default profile of the US high yield sector," he says.

Following the Brexit vote, McDonagh expects the global market outlook to remain volatile and hopes no major shocks come from developed markets. While the Insight EM team expects some "ripple" effect in the aftermath of the referendum, from an emerging markets perspective they anticipate this will have most influence in Eastern Europe, where the team has only modest exposure. "In our view the UK exit from the EU is unlikely to have a major influence on EM corporate debt as a whole across other geographies such as Asia and Latin America."

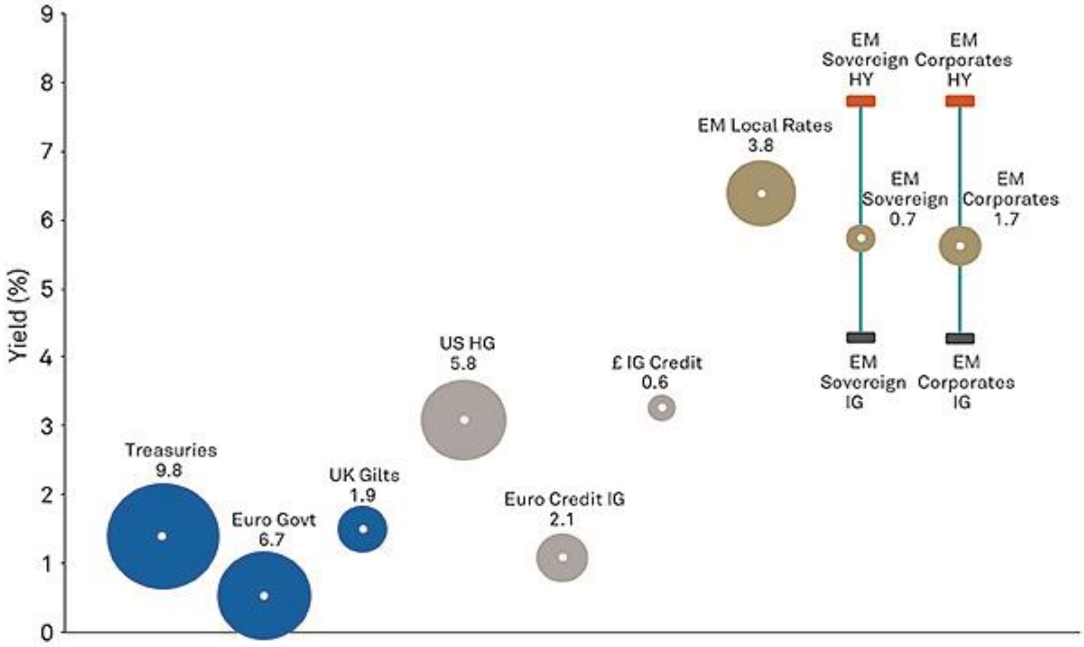
McDonagh's says he became cautious ahead of the EU referendum and increased cash levels in the BNY Mellon Emerging Markets Corporate Debt Fund to 10% as of the end of June, while also decreasing exposure to high yield bonds. As a result, the duration of the Fund was lowered to the index level. At a regional level, he has recently reduced exposure to Central and Eastern Europe.

"We are most positive on the improving fundamentals of Indonesia, Brazil and Peru and are reflecting these views as overweight. Indonesia and Brazil are pushing through important structural reforms, as their external vulnerabilities diminish and the Central Banks are pursuing credible and predictable policies." The portfolio is underweight Asia given McDonagh's view there are less attractive valuations there.

"In terms of positioning, the portfolio remains underweight to investment grade as valuations in the high yield segment are more attractive. As a result the portfolio rating is slightly under the benchmark (BB+ vs BBB). We continue to overweight exposure to Indonesia in Asia; Russia, the Czech Republic, Hungary and Azerbaijan in Europe; and Mexico, Brazil, Peru and Paraguay in Latin America. In terms of sectors, we favour overweight exposure to oil and gas and consumer sectors, while being underweight exposure to financials, diversified and real estate," he concludes.

THE QUEST FOR YIELD

40% of all government bonds in the world trade at zero or negative yields



Source: BAML and JP Morgan as at 31 May 2016.
Area of bubble = size of market, e.g. size of EM Corporates market = $1.4 trillion

Important Information

Past performance is not a guide to future performance.

The value of investments can fall. Investors may not get back the amount invested.

For Professional Clients and, in Switzerland, for Qualified Investors only. This is a financial promotion and is not investment advice.

For a full list of risks applicable to this fund, please refer to the Prospectus or other offering documents. Before subscribing, investors should read the most recent Prospectus, financial reports and KIID for each fund in which they want to invest. Go to www.bnymellonim.co.uk.

Any views and opinions are those of the investment manager, unless otherwise noted. Portfolio holdings are subject to change, for information only and are not investment recommendations.

The Fund is a sub-fund BNY Mellon Global Funds, plc, an open-ended investment company with variable capital (ICVC), with segregated liability between sub-funds. Incorporated with limited liability under the laws of Ireland and authorised by the Central Bank of Ireland as a UCITS Fund. The Management Company is BNY Mellon Global Management Limited (BNY MGM), approved and regulated by the Central Bank of Ireland. Registered address: 33 Sir John Rogerson's Quay, Dublin 2, Ireland.

In **Austria**, the current Prospectus and the Key Investor Information Document are available free of charge from Raiffeisen Zentralbank Österreich Aktiengesellschaft, Am Stadtpark 9, A-1030 Vienna.

In **Germany**, this is for marketing purposes only. In Germany, the prospectus is available from BNY Mellon Investment Management EMEA Limited, German branch, MesseTurm Friedrich-Ebert-Anlage 49, 60308 Frankfurt am Main, Germany.

In **France**, the KIID, Prospectus, articles and latest annual report are freely available upon request to the centralising agent: BNP Paribas Securities Services, 3 rue d'Antin, 75002 Paris, tél: 00 33 1 42 98 10 00.

In **Spain**, BNY Mellon Global Funds is registered with the CNMV, Registration No. 267.

In **Switzerland**, the Company is established as an open-ended umbrella type investment company under Irish law and the Sub-funds are authorised by FINMA for distribution to non-qualified investors in or from Switzerland. The Swiss representative is Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva. The Swiss paying agent is Banque Cantonale de Genève, 17, quai de l'Ile, 1204 Geneva. Investors in Switzerland can obtain the documents of the Company, such as the Prospectus, the KIIDs, the Memorandum and Articles of Association, the semi-annual and annual reports, each in their latest version as approved by FINMA, in German, and further information free of charge from the Swiss representative.

Issued in Austria, France, Germany Italy, Spain Europe by BNY Mellon Investment Management EMEA Limited, BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No. 1118580. Authorised and regulated by the Financial Conduct Authority.

Issued in Switzerland by BNY Mellon Investments Switzerland GmbH, Talacker 29, CH-8001 Zürich, Switzerland. Authorised and regulated by the FINMA. INV00368 Exp 30/11/2016