

Dear Clients and Partners,

Below is our investment update for July 2022. All previous updates can be accessed via [symbioticsgroup.com/monthly-update](https://symbioticsgroup.com/monthly-update).

**Our monthly update:** Inflation, fossil fuel prices and global turmoil continue to dominate the headlines. Emerging markets debt (represented by the JPMorgan EMBI Diversified index) continued its slide and was down -18% at the end of June, its worst performance in decades. Investors are put off by the market volatility, resulting in net outflows of more than USD 50 billion in emerging markets debt since January<sup>1</sup>.

Despite the challenging context, our portfolios have shown resilience, and all show positive performance year-to-date. Thanks to the focus of our investees on the real economy, growth and demand in our sector remain robust.

- **Macroeconomic update:** Inflation and interest rates continue their upward trend across the globe. The US Federal Reserve increased its key rate by 75bp in June to reach 1.5-1.75%, and further increases are expected. The US dollar appreciated against most currencies and achieved parity with the euro for the first time since 2002. Combined with the hike in energy and food prices these trends triggered political and economic unrest in several emerging countries, including Ecuador and Sri Lanka. In the latter country, weeks of protest triggered by shortages of fuel, food and medicine caused the downfall of its president, who fled the country in July.
- **Quarterly market update:**
  - In **Asia**, portfolio at risk levels increased, notably due to the political and economic situation in Myanmar and Sri Lanka. Several institutions in South Asia raised large amounts of equity to maintain solvency levels.  
This, however, put pressure on return on equity and diluted shareholdings in some cases. Pakistan secured a fresh credit from the International Monetary Fund to deal with the increased costs of food and energy imports, alleviating solvability concerns.
  - In **Europe, Central Asia & Middle East** all markets showed robust profitability in recent months, despite rising inflation. Funding costs remain stable. So far, we have not seen a deterioration in portfolio at risk (PAR) levels due to the Russia-Ukraine war and energy price increases, and we do not expect significant PAR movements in the second half of 2022.
  - In **Latin America**, the profitability of our target investees in South America remains low, in particular in Ecuador and Chile. In Central America, the trend was more positive, both in terms of profitability and portfolio quality. PAR remains higher in South America due to a higher number of restructured loans in Paraguay, Bolivia and Ecuador, following these countries' measures to support end borrowers. Moratorium programs have ended in all countries.
  - In **Sub-Saharan Africa**, profitability levels remained stable, supported by portfolio growth and improving PAR trends. Despite low moratorium levels, PAR fell below 5% in the first quarter of 2022, the lowest level in two years. We are closely monitoring currency risk in

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<sup>1</sup> [Investors pull \\$50bn from emerging market bond funds in 2022 | Financial Times \(ft.com\)](https://www.ft.com/content/2022-07-22/investors-pull-50bn-from-emerging-market-bond-funds)

countries such as Ghana, Kenya, Malawi, Tanzania and Zambia, which are vulnerable to the spike in commodity prices, inflation and currency depreciation.

- **Currencies and interest rates:** Rate hikes continue across emerging markets. Colombia for example increased its interest rate by 150bp to 7.5%, the largest hike since 1999. These moves were not able to stem inflation, which surged in countries such as Bangladesh (7.42%), Guatemala (5.3%) and Kenya (7.9%). Inflation was rampant in Sri Lanka (55% year-on-year) and Turkey (78%). Due to the appreciation of the RUB, Russia was able to further relax capital controls.
- **Demand:** Symbiotics disbursed USD 108 million to 30 institutions in June 2022, amounting to USD 429 million year-to-date. The strongest origination for the month came from Latin America (37% of all loans), Asia (30%), and Europe, Central Asia & Middle East (27%).

Should you have any questions, please contact your relationship manager.

Sincerely,  
Symbiotics Asset Management