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Argentine Bond Bull Kassin Says Debt No Longer 'Worth Risk'

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By Camila Fontana and Andrea Jaramillo

Feb. 26 (Bloomberg) -- Raphael Kassin, the former Credit Suisse AG and ABN Amro Asset Management fund manager who has been bullish on Argentine bonds since 2004, says the debt is no longer "worth the risk."

Kassin's shunning the securities because of President Cristina Fernandez de Kirchner's growing unpopularity and the country's struggles in restructuring \$20 billion of defaulted debt investors held out of a 2005 settlement. The \$50 million emerging-market bond fund Kassin started last month for Geneva-based money manager Reyl & Cie. has no Argentine bonds, he said.

Fernandez "is so unpopular that she could lose her post," Kassin, 44, said in a telephone interview yesterday from Zurich. "I prefer to not take that risk. The restructuring may happen, but it became more complicated."

Argentine bonds, the biggest gainers in Latin America in 2009, became expensive during the months between Kassin's June departure from Credit Suisse and his start at Reyl, he said.

The nation's dollar debt lost 10.2 percent this year, more than bonds sold by all other 38 developing nations in JPMorgan's EMBI Global Index, on concern the swap plan is stalling. That's a reversal of the 5.9 percent return the bonds posted in December, which capped a record 133 percent annual rally as Fernandez's announcement of the restructuring plan spurred speculation the government will regain access to international credit markets for the first time since its 2001 default.

Sagging Confidence

Argentines' confidence in the government fell 6 percent in February from January and 13.8 percent from February 2009, according to a survey that Poliarquia Consultores conducted for Torcuato Di Tella University. The poll, taken from Feb. 2 to Feb. 9 of 1,200 people, has a margin of error of 2.9 percentage points.

Argentina's average dollar bond yield has surged 58 basis points, or 0.58 percentage point, this month to 12.11 percent, according to JPMorgan. That return is sufficient compensation for the risk, said Roberto Sanchez-Dahl at Federated Investment Management Co.

“A position in Argentina is justified,” said Sanchez- Dahl, who helps manage \$700 million of emerging-market debt, including Argentine bonds, for Federated in Pittsburgh. “There are few places in the EMBI that offer yield. It’s in the interest both of the government and the opposition to reach an agreement with the holdouts.”

Economy Minister Amado Boudou said in a Feb. 18 press conference in Buenos Aires that the government was moving forward with the debt restructuring.

Boom, Bust

In Kassin’s last full year as a manager at ABN Amro in 2006, he recorded a 26 percent return for his Emerging Markets Bond Fund, according to data compiled by Bloomberg. His ABN Amro funds posted the fourth-best performance among 158 emerging- market bond funds monitored by Bloomberg from 2002 to 2006.

Kassin, who said he first became an Argentine bull in 2004, had 31 percent of his fund’s money invested in Argentina when he left ABN Amro in March 2007, according to data compiled by Emerging Portfolio in Cambridge, Massachusetts. That’s more than 10 times the 2.9 percent weighting the country’s debt had in JPMorgan’s benchmark EMBI+ index at the time.

Kassin’s winning streak ended in 2008, when his Credit Suisse fund sank 45 percent amid the global financial crisis, according to Bloomberg data. Emerging-market dollar debt overall fell 9.7 percent in the year, according to the EMBI+ index.

‘Wonderful’ Venezuela Yields

While Kassin has soured on Argentine bonds, he remains bullish on Venezuela, whose debt he also loaded up on while at ABN Amro. Kassin said his Reyl fund is only invested in Venezuelan and Ukrainian bonds. He held 25 percent of his funds in Venezuelan notes while at ABN Amro in March 2007, according to Emerging Portfolio.

Venezuelan President Hugo Chavez’s currency devaluation last month may bolster the bonds because it will shore up the country’s budget deficit, according to Kassin. The yield on Venezuela’s benchmark dollar bonds due in 2027 has declined 26 basis points this year to 12.97 percent. That yield remains almost double the 6.64 percent average yield on emerging-market dollar debt, according to JPMorgan.

“The yield on Venezuelan bonds is wonderful,” Kassin said.

--With assistance from Eliana Raszewski in Buenos Aires. Editors: Lester Pimentel, David Papadopoulos