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Former CDO experts eye emerging markets

[Walden Siew](#) and [John Parry](#) – Analysis NEW YORK Mon Apr 5, 2010 1:41pm EDT

(Reuters) - Throngs of U.S. credit experts displaced in the credit crisis have shifted their sights to emerging markets in South America and Asia, anticipating a corporate bond boom there will replace jobs lost in the securitization business.

Investors' realization that sliced and diced piles of debt with lofty-sounding acronyms such as CDOs could be treacherous was one catalyst for the global financial meltdown. As faith in that part of the bond market evaporated many experts who built, analyzed and sold such securities saw their jobs vanish.

More so than any other bond market sector, securitization desks were decimated in the market meltdown and ensuing wave of Wall Street layoffs, headhunters say. "Back-to-basics" credit analysis is now particularly in demand, while Wall Street recruiters say many structured finance and securitization experts are still out in the cold. Such distressed debt funds may need only a handful of credit experts, not the cohorts of staff who wove mortgage-backed securities into collateralized debt obligations at the height of the structured products boom before the crisis.

Yet there are signs that some of the alchemists who helped create these now infamous securities backed by pools of bonds and loans are reinventing themselves in more traditional roles in one of the fastest growing areas in 2010: emerging markets. Some big buy-side institutions also have been selectively hiring some former securitization experts.

Mark Kiesel, who heads global credit research for Pacific Investment Management Co (PIMCO), the world's largest bond fund manager, says the global financial crisis has accelerated the growth of emerging markets and global credit analysis teams. Kiesel has expanded his global team to 32 credit analysts from 18 five years ago. He sees parallels between the United States in the 1950s, as the country emerged from World War II, and emerging market nations such as China and India today, which will have huge infrastructure and financing needs that will stoke emerging credit markets, he said.

Experience in securitization is a key skill for analysts PIMCO has been hiring in emerging markets, where issuance will grow due to an increasing need to fund infrastructure projects. Since the financial crisis, CDO issuance has dwindled, while emerging market debt sales have accelerated. Kiesel expects corporate bond issuance to pick up in the so-called BRIC nations, in Mexico, and in Asia in general. Emerging markets now make up more than 10 percent of some of Kiesel's portfolios, versus low single digits a few years ago, he said, noting good investing opportunities in some companies such as Gazprom, Petrobras and Electrobras. Pimco hired Brigitte Posch, head of Latin America securitization and trading at Deutsche Bank in New York, in August 2008 to help Kiesel's team with fundamental credit analysis.

"Over time you'll need more people in emerging markets and more people evaluating the local opportunities in those countries including China, Brazil and India," Kiesel said. "These are growing countries that are increasing their influence in the markets. They will have a lot more companies coming to market, and you're going to need people to do the bottom-up credit work for those countries."

That type of fundamental analysis was sorely lacking for complex Collateralized Debt Obligations and other mortgage-backed securities, the implosion of which helped trigger the 2007-2009 financial crisis. A political and regulatory backlash against excessive risk-taking has deterred many financial institutions from plunging back wholesale into the business of highly leveraged and complex securities. Some of the people who engineered such debt instruments are looking farther afield for work.

"A lot of these people have not and will not (get jobs) because they were just excess fat," said Gustavo Dolfino, senior managing director at New York search consultancy Accretive Solutions. "Many are trying to reinvent themselves," shifting to government bond desks instead, "or are moving to Asia to find a new life," he said. (Editing by [James Dalgleish](#))