



Emerging Markets Debt Blended Total Return

Strategy Update by the Loomis Sayles Alpha Strategies Team

PERFORMANCE

AS OF AUGUST 2025	1M	3M	YTD	1Y	3Y	5Y	7Y	INCEPTION ²
Composite (gross)	2.14%	6.20%	10.53%	9.53%	9.40%	1.82%	4.69%	2.96%
Composite (net)	2.09%	6.03%	10.06%	8.83%	8.72%	1.25%	4.13%	2.41%
Blended Index ¹	1.69%	4.42%	9.61%	8.32%	8.73%	2.03%	3.65%	3.14%
Excess return (gross)	0.45%	1.78%	0.92%	1.21%	0.67%	-0.21%	1.04%	-0.18%
Excess return (net)	0.40%	1.61%	0.45%	0.51%	-0.01%	-0.78%	0.49%	-0.73%

Data Source: Loomis Sayles, as of 08/31/2025

Returns for multi-year periods are annualized. Gross returns are net of trading costs. Net returns are gross returns less effective management fees. Returns may increase or decrease as a result of currency fluctuations.

¹ The Blended Index is 1/3 JPM EMBI; 1/3 JPM GBI-EM; 1/3 JPM CEMBI. Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

² The Emerging Markets Debt Blended Total Return Composite Inception Date is 03/01/2017.

Past performance is no guarantee of future results

EM CREDIT & FX REGIME IDENTIFICATION

The panel below illustrates the current 'regimes' we are in, either risk-on or risk-off for EM Credit and EM FX, respectively. The regimes strongly influence (but do not mechanistically dictate) top-down asset allocation. Through our research, we have also found that the majority of value-add can typically be captured within the first six months of a signal switching, which is why we include the date at which the respective signal last changed. The additional information relates to what is driving the current regimes (value and momentum signals) and the directional trend.

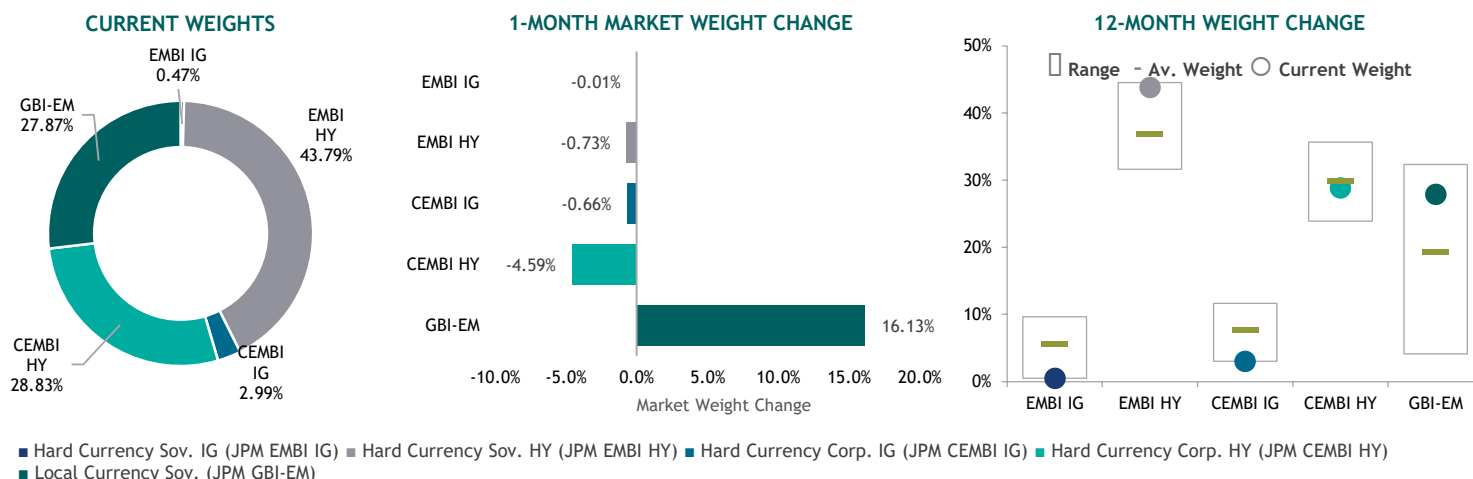
SIGNAL	REGIME ²	VALUE SIGNAL	SHIFT DATE	TREND	MOMENTUM SIGNAL	SHIFT DATE	TREND
EM CREDIT ¹	RISK-ON	+	06/20/25	DETERIORATING	+	05/09/25	DETERIORATING
EM FX	RISK-ON	+	08/29/25	DETERIORATING	-	08/01/25	DETERIORATING

Data Source: Loomis Sayles, as of 08/31/2025

¹ EM Credit (sovereign and corporate) ² Risk-On = Value OR Momentum (+). Risk-Off = Value AND Momentum (-)

The table presented above is shown for illustrative purposes only. Views and opinions expressed are as of the date indicated and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

ASSET CLASS EXPOSURE



Data Source: Loomis Sayles, as of 08/31/2025. Due to active management, characteristics evolve over time. Due to rounding, totals may not equal 100%.

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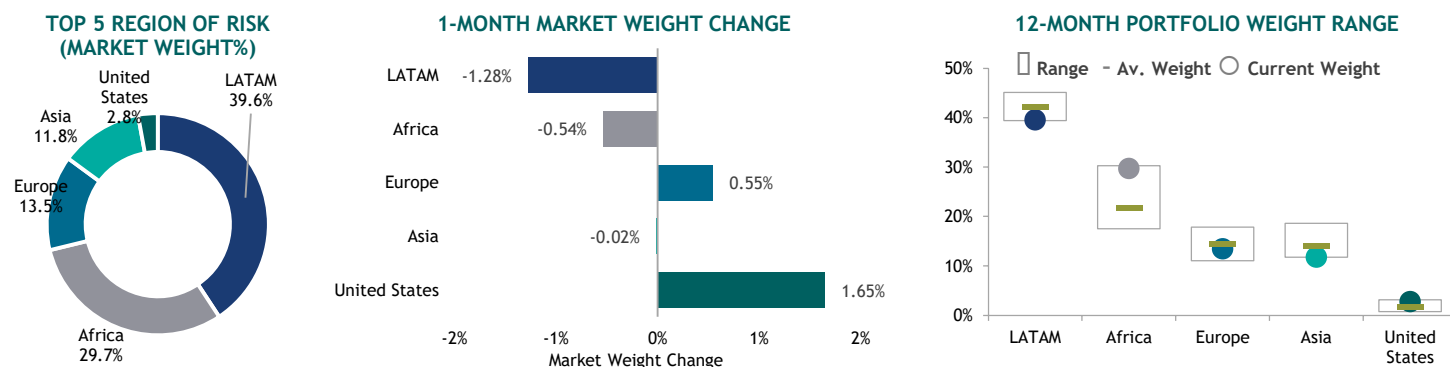
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REGIONAL EXPOSURES



■ Latin America (LATAM) ■ Africa ■ Europe ■ Asia ■ Middle East

Data Source: Loomis Sayles, as of 08/31/2025

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COMMENTARY

AUGUST
POSITIONING

- Entering August, emerging market credit and foreign exchange remained in risk-on mode as the US Dollar weakened alongside US Treasury yields, which priced in more aggressive Federal Reserve easing. The market shifted from pricing two cuts to three cuts by year-end.
- Local sovereigns, the top-performing fixed income asset class year-to-date, continued delivering strong returns given reduced foreign exchange pressure associated with de-dollarization trends. Domestic conditions supported further rate cuts, with the majority of emerging market central banks expected to ease policy over the second half of 2025, while real yields remained elevated.
- BB/B-rated reform stories remained a bright spot in emerging markets as commodities – their main exports – held up well, and countries with strong governance continued receiving ratings upgrades. We increased portfolio beta to approximately 1.2, positioning for lower yields and a weaker US Dollar (still in the early stages of de-dollarization).

HOW DID
AUGUST
UNFOLD

- The month began chaotically when President Trump fired the Bureau of Labor Statistics (BLS) Commissioner after suggesting the employment numbers were "rigged in order to make the Republicans, and me, look bad." The politicization of one of the federal government's most important statistical agencies sent the US Dollar weaker.
- The US Consumer Price Index (CPI) print aligned with expectations, raising market hopes that the Fed could lay groundwork for a possible September cut at Jackson Hole, leading to further spread compression across both emerging market investment grade and high yield credit markets.
- These expectations were amplified by Treasury Secretary Bessent's comments later in the week that "models" suggest a neutral rate would be approximately 150 basis points lower – yet another example of the current administration's interference with Fed independence.
- Between confusion surrounding the efficacy of past and future BLS jobs data, the administration's consistent and unorthodox pressure on Federal Reserve Chairman Jerome Powell to cut rates, and the nomination of dovish-leaning Stephen Miran to fill the temporarily vacant Fed board seat, all signs pointed to a lower forward path for US rates and the US Dollar, in our view. By mid-month, the emerging market rally paused ahead of Jackson Hole as one full cut was priced out to December 2025 (from three cuts to two cuts).
- The reality is we don't know what the final goods price impact will be. Service prices remain subdued, and while the tariff-induced goods price shock is likely temporary, we sought dovish forward guidance from Powell at Jackson Hole. Given the Fed's reluctance to ease policy year-to-date while most other central banks delivered multiple rate cuts, markets appropriately consolidated toward month-end.

Source: Loomis, Sayles & Co; Bloomberg

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Credit Quality reflects the highest credit rating assigned to individual holdings of the Composite among Moody's S&P or Fitch; ratings are subject to change.

Views and opinions expressed reflect the current opinions of the Emerging Markets Debt Blended Total Return Team, and views are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

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**COMMENTARY (CONT'D)****HOW DID
AUGUST
UNFOLD
(CONT'D)**

- Higher volatility frontier markets took a breather, while emerging market corporates – particularly Oil & Gas, Transport, and Utilities sectors – outperformed. High yield sovereigns and local currency bonds still led performance for the month, quarter, and year, while investment grade hard currency corporates have lagged.
- Emerging Market Debt (EMD) regimes remained in risk-on mode with spreads tight versus developed market corporate credit, while offering higher quality-adjusted carry and a strong fundamental backdrop.
- At the Government Bond Index - Emerging Markets (GBI-EM) index level, while real rates converged toward central bank targets and emerging market foreign exchange traded on the richer end of valuations, price action reflected ongoing demand for unhedged local carry trades as US versus rest-of-world interest rate differentials had further room to fall.
- Despite record inflows year-to-date, emerging markets debt was not crowded after a 10-year US Dollar bull market. Investors remain historically underweight; we expect increased global allocations through future Fed meetings.
- Jackson Hole confirmed what many investors anticipated – and what President Trump had been requesting – the commencement of the easing cycle in September.
- At this point, a lower Fed Funds rate became the key focus. The Treasury rally that began post-Jackson Hole provided further tailwinds to emerging market assets and supported the weak US Dollar cycle. Additionally, lower yields kept cross-asset volatility subdued through the summer lull, supporting risk-adjusted returns.
- Overall, EMD led fixed income returns for the year amid demand for yield, improving fundamentals, emerging market-developed market spread convergence with US investment grade credit spreads at multi-decade tight, and supportive central bank policies globally.

**SEPTEMBER
POSITIONING**

- Portfolio beta was held at approximately 1.2, though we reduced high yield exposure (B/CCC-rated sovereigns and corporates) in favor of longer duration investment grade corporates that were impacted by Treasury curve steepening.
- Longer duration emerging market assets, particularly investment grade sovereigns and unhedged local bonds, underperformed through the end of August due to notably higher US Treasury yields. Given rising sensitivity to US real rates and US rates volatility in this risk-on regime – which faced its first major test since 'Liberation Day' – frontier sovereigns also declined despite their lower duration profile, primarily reflecting de-risking ahead of payroll data.
- While rising volatility in oil and base metals pushed emerging market foreign exchange into risk-off mode, the US Dollar failed to break out of its springtime resistance zone, leaving the greenback vulnerable to further downside over the medium term, which we believe remains positive for emerging market assets.
- Very weak payroll data showing just 22,000 net jobs added in August, additional downward revisions, plus unemployment rising to 4.3%, locks in a 25-basis point September cut while pushing the likelihood of an October cut above 50% for the first time. The case for a rate cut is based on the cumulative evolution of balanced risks to employment (higher) and inflation persistence (tilting lower) over multiple months.
- Lower Fed Funds rates are needed for the US Dollar to continue weakening more broadly. Meanwhile, countries like Kenya, Sri Lanka, Panama, and Colombia are turning away from the world's reserve currency toward alternatives such as the Chinese renminbi and Swiss franc to reduce borrowing expenses and diversify geopolitical risks.
- Fiscal challenges remain a key risk (most pronounced in Group of Four (G4) countries recently), and reliance on alternatives to dollar debt introduces exchange rate volatility along with potential long-term stability concerns for emerging market issuers. We will monitor spillover effects from developed market fiscal expansion despite the growing need for expenditure cuts at these elevated debt-to-GDP levels.
- Overall, we are seeing consolidation in currencies and select high yield credits, though flows continue strongly favoring bonds over equities. Dovish forward guidance at the September Federal Open Market Committee (FOMC) meeting will firmly support the case for risk-on positioning across emerging market assets through year-end.
- Some of the key return drivers for the month ahead: Oil, US Treasury Inflation-Protected Securities (TIPS) 1-10 year, Euro Investment Grade Credit, Metals, and US Rates Volatility.

Source: Loomis, Sayles & Co; Bloomberg

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EMERGING MARKETS DEBT BLENDED TOTAL RETURN TEAM



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Past performance is no guarantee of future results.

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Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

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