Emerging Markets Debt Blended Total Return

Strategy Update by the Loomis Sayles Alpha Strategies Team

PERFORMANCE

AS OF DECEMBER 2024	1M	3M	YTD	1Y	3Y	5Y	7Y	INCEPTION[2]
Composite (gross)	-1.73%	-3.29%	4.08%	4.08%	-1.61%	0.88%	1.71%	1.90%
Composite (net)	-1.79%	-3.45%	3.41%	3.41%	-2.19%	0.34%	1.18%	1.37%
Blended Index[1]	-1.29%	-3.26%	3.87%	3.87%	-0.24%	0.18%	1.42%	2.21%
Excess return (gross)	-0.45%	-0.03%	0.21%	0.21%	-1.36%	0.70%	0.28%	-0.30%
Excess return (net)	-0.50%	-0.19%	-0.46%	-0.46%	-1.95%	0.16%	-0.25%	-0.84%

Data Source: Loomis Sayles, as of 12/31/2024
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

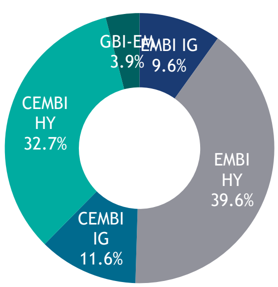
The panel below illustrates the current 'regimes' we are in, either risk-on or risk-off for EM Credit and EM FX, respectively. The regimes strongly influence (but do not mechanistically dictate) top-down asset allocation. Through our research, we have also found that the majority of value-add can typically 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-OFF	-	10/25/24	DETERIORATING	-	11/1/24	DETERIORATING
EM FX	RISK-OFF	-	09/27/24	DETERIORATING	-	10/18/24	DETERIORATING

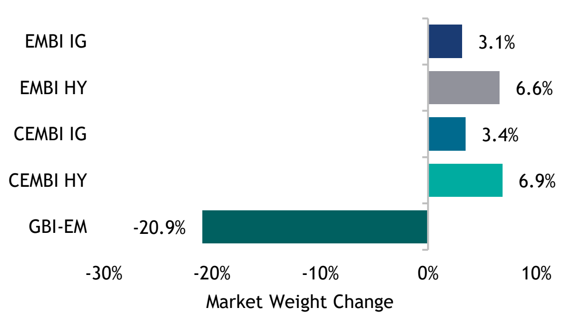
Data Source: Loomis Sayles, as of 12/31/2024
[1] EM Credit (sovereign and corporate) [2] Risk-On = Value OR Momentum (+). Risk-Off = Value AND Momentum (-)
The table presented above is shown for illustrative purposes only. Views and opinions expressed are as of the date indicated and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

ASSET CLASS EXPOSURE

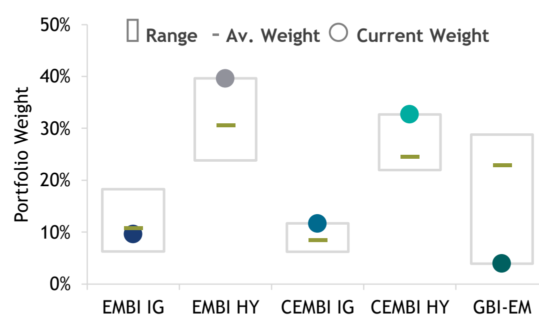
CURRENT WEIGHTS



1-MONTH MARKET WEIGHT CHANGE



12-MONTH PORTFOLIO WEIGHT RANGE



■ Hard Currency Sov. IG (JPM EMBI IG) ■ Hard Currency Sov. HY (JPM EMBI HY) ■ Hard Currency Corp. IG (JPM CEMBI IG) ■ Hard Currency Corp. HY (JPM CEMBI HY) ■ Local Currency Sov. (JPM GBI-EM)

Data Source: Loomis Sayles, as of 12/31/2024. Due to active management, characteristics evolve over time. Due to rounding, totals may not equal 100%. Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index. The charts presented above are shown for illustrative purposes only.
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Please see important disclosure page, an integral part of this presentation, which follows.

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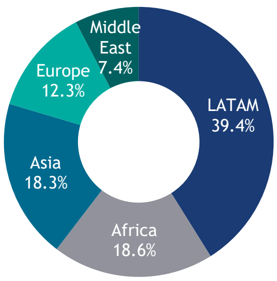
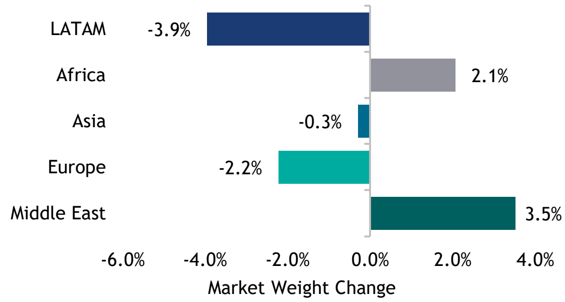
REGIONAL EXPOSURES

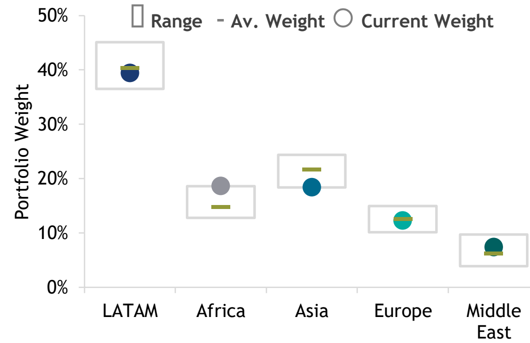
TOP 5 REGION OF RISK (MARKET WEIGHT%)



1-MONTH MARKET WEIGHT CHANGE



12-MONTH PORTFOLIO WEIGHT RANGE



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

Data Source: Loomis Sayles, as of 12/31/2024

Due to active management, characteristics evolve over time. Due to rounding, totals may not equal 100%.

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COMMENTARY

DECEMBER POSITIONING

- Entering December, EM credit and FX were in risk-off territory as trade tensions escalated following the US Presidential elections. Markets began pricing in broad-based tariffs while global currencies weakened.
- Despite heightened tariff risks, cross-asset volatility fell through November from the 94th percentile to the 18th percentile, primarily driven by a collapse in rates and equity volatility.
- Our portfolio beta had increased to approximately 1.3 by mid-November as the Dollar Index (DXY) rally stalled around 107 - 5% stronger on the year.

HOW DID DECEMBER UNFOLD

- CCC-rated securities continued to drive spread compression and performance in emerging market corporates and sovereigns, as idiosyncratic opportunities remained relatively immune to global macro headlines.
- While China's Politburo meeting signaled support for more monetary stimulus and fiscal easing, the pro-growth policy tone did little to stabilize markets during the month. US trade policy shifts began weighing on global GDP expectations, prompting China to ramp up countervailing measures through policy-driven monetary and fiscal stimulus, as well as the reallocation of Chinese production to other emerging market economies.
- By mid-December, much of the downside was priced in ahead of the next anticipated event risk, with regional exchange rates testing crisis levels last observed in 2008 and 2020.
- The Fed's hawkish tone, coupled with projections for fewer rate cuts, increased the likelihood of a "higher for longer" scenario, shifting emerging markets back to a risk-off stance. The yield curve bear steepened to levels not seen in 30 months, prompting us to sell most of our local bond exposure, excluding Egyptian T-bills.
- While the post-December Fed narrative quickly shifted to "higher for longer" rates, the reality was that uncertainty prevailed, as evidenced by the latest round of economic projections. US rates became the dominant risk-off return driver for December as more term premium was priced in to reflect Trump's anticipated inflationary policies. Local bonds were hit hardest due to rising yields and continued US Dollar strength, while investment grade bonds across corporates and sovereigns remained under pressure.
- With the Fed taking a pause heading into Trump's first term, we expect increased volatility surrounding US Dollar strength. Consequently, we reduced portfolio beta to approximately 1.0 heading into year-end.

Source: Loomis, Sayles & Co; Bloomberg

^ 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.

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)

JANUARY POSITIONING

- The approach of Trump's inauguration has sparked strong demand for the US Dollar, driving it to its highest levels in more than two years as investors prepare for an anticipated overhaul of US economic policy.
- Markets remain in risk-off mode, keeping us defensively positioned, as they adjust to an anticipated new normal under incoming President Trump. Significant uncertainty exists about the nature of this regime: Will it maintain higher yields until the economy breaks, or will yields decrease to achieve a soft landing?
- We maintain our overweight position in high yield credit entering the new year, given what we believe offer mid-to-single digit return prospects (around 8-10% yield-to-worst). Local bonds appear somewhat dislocated given their higher beta to US rates and the China cycle in our view. A sharper slowdown in China, despite recent stimulus efforts, reflects the deeper impact of renewed US trade tensions.
- The Chinese yuan renminbi (CNY) exchange rate, anchored by People's Bank of China (PBoC) daily fixings, is testing the upper end of the band, with USD/CNY at 15-year highs (increasing China's trade competitiveness to offset potential tariff impacts). Exchange rate pressure is affecting the entire Asia region, with Europe also experiencing difficulties as EUR/USD breaks multi-year lows on a path to parity (last traded October 2022, the maximum emerging market drawdown).
- We believe the combination of policy uncertainty around the Fed's "higher for longer" stance and escalating geopolitical risk in the Middle East has led to volatility shocks and currency crises across regions. However, we believe emerging market high yield credit remains a bright spot and our core rising overweight exposure. After a prolonged sovereign debt restructuring period of more than two years, 2024 finally saw the completion of several outstanding deals. Despite delays, recovery in bond prices following restructurings has been impressive, with many distressed names up over 50% in 2024 (the best year for emerging market CCC's since the credit repair period of 2009).
- We expect this theme to keep emerging market high yield credit spreads relatively anchored in 2025, maintaining a low-default, positive carry environment with a potential 200-300 basis points yield advantage over developed market fixed-rate bonds.
- We believe some of the key return drivers for the month ahead include US investment grade corporates, US rates volatility, the US Dollar, and long duration TIPS and nominal Treasuries.

Source: Loomis, Sayles & Co; Bloomberg

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EMERGING MARKETS DEBT BLENDED TOTAL RETURN TEAM

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