# Emerging Markets Debt Blended Total Return

## Strategy Update by the Loomis Sayles Alpha Strategies Team

## PERFORMANCE

| AS OF JANUARY 2025 | 1M | 3M | YTD | 1Y | 3Y | 5Y | 7Y | INCEPTION[2] |
|---|---|---|---|---|---|---|---|---|
| Composite (gross) | 1.21% | -0.37% | 1.21% | 5.58% | -0.78% | 0.94% | 1.80% | 2.04% |
| Composite (net) | 1.16% | -0.53% | 1.16% | 4.90% | -1.38% | 0.40% | 1.27% | 1.50% |
| Blended Index[1] | 1.43% | 0.53% | 1.43% | 6.05% | 0.74% | 0.35% | 1.41% | 2.37% |
| Excess return (gross) | -0.21% | -0.90% | -0.21% | -0.47% | -1.52% | 0.59% | 0.39% | -0.33% |
| Excess return (net) | -0.27% | -1.06% | -0.27% | -1.15% | -2.12% | 0.05% | -0.14% | -0.86% |

*Data Source: Loomis Sayles, as of 01/31/2025*
*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

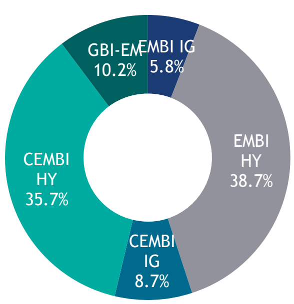
The panel below illustrates the current 'regimes' we are in, either risk-on or risk-off for EM Credit and EM FX, respectively. The regimes strongly influence (but do not mechanistically dictate) top-down asset allocation. Through our research, we have also found that the majority of value-add can typically 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 | + | 01/31/25 | IMPROVING | + | 01/31/25 | IMPROVING |
| EM FX | RISK-ON | - | 09/27/24 | IMPROVING | + | 01/31/25 | IMPROVING |

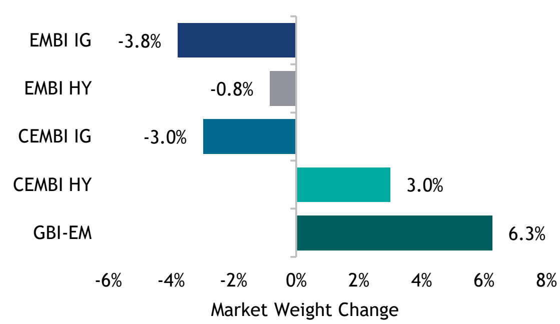
*Data Source: Loomis Sayles, as of 01/31/2025*
*[1] EM Credit (sovereign and corporate) [2] Risk-On = Value OR Momentum (+). Risk-Off = Value AND Momentum (-)*
*The table presented above is shown for illustrative purposes only. Views and opinions expressed are as of the date indicated and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.*

## ASSET CLASS EXPOSURE

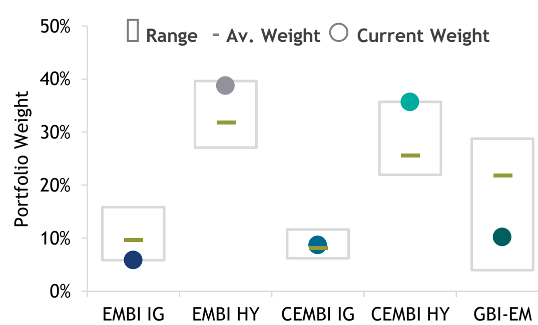
### CURRENT WEIGHTS




### 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 01/31/2025. 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.*
***Past performance is no guarantee of future results.***
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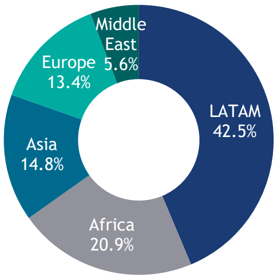
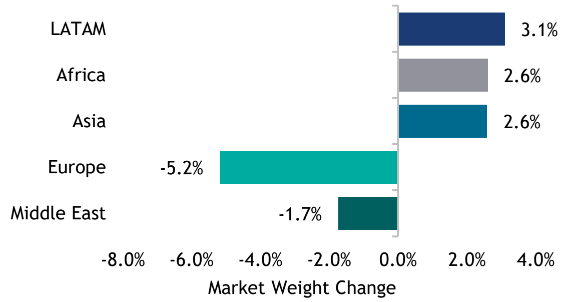
## REGIONAL EXPOSURES

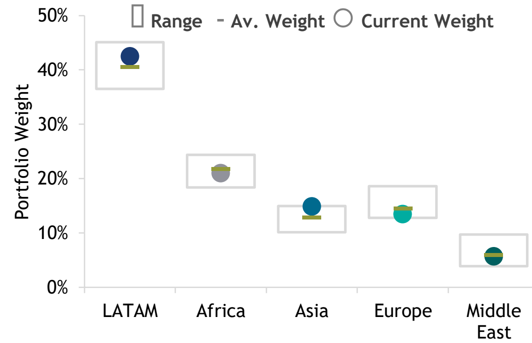
**TOP 5 REGION OF RISK (MARKET WEIGHT%)**




**1-MONTH MARKET WEIGHT CHANGE**




**12-MONTH PORTFOLIO WEIGHT RANGE**




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

*Data Source: Loomis Sayles, as of 01/31/2025*
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## COMMENTARY

### JANUARY POSITIONING

- Entering January, Emerging Market Credit and FX were in risk-off mode as the US Dollar strengthened into Trump’s first term.
- Credit spreads remained at tight levels, offering little cushion against potential adverse outcomes from several risk factors, including tariff uncertainty and questions about the efficacy of China's policy easing. Meanwhile, high yield recovery values continued to climb, extending the momentum from 2024.
- Portfolio beta was reduced to approximately 0.8 by closing local ex-Frontier exposure, with the portfolio tilting toward a further overweight in high yield credit.

### HOW DID JANUARY UNFOLD

- The month began with a focus on new issues across sovereigns and corporates, with every region seeing 2-3x oversubscribed books.
- Net US Dollar long positioning reached its highest level to begin a new year since January 2019. The run-up to Trump's inauguration prompted strong US Dollar demand as investors prepared for potential US economic policy overhauls.
- Frontier high yield credits remained a bright spot in global fixed income. Restructurings, multilateral support, and low default prospects lifted CCC-rated bonds, with Ecuadorian bonds exiting distressed territory for the first time in over two years.
- Market consensus was firmly in the "higher for longer" camp, with nearly all rate cuts priced out through to the end of 2025. Concentrated bear steepener positions pressured investment-grade credit and local bonds until the January US inflation data emerged.
- Incrementally dovish inflation prints forced a re-evaluation of the US exceptionalism narrative and prompted potential risk additions in emerging market debt. Global yield curves subsequently bull flattened.
- The absence of Day 1 Trump tariffs provided some relief across emerging markets, particularly local bonds. Initial indications of a more targeted approach helped contain left-tail risk concerns, and with US Dollar positioning at extremes, market mean reversion seemed warranted.
- From January 13th, the US Dollar experienced its largest weekly decline since November 2023. Downside momentum propelled emerging market local bonds to become a top-performing fixed income asset class year-to-date, second only to emerging market CCC-rated sovereign bonds.

*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.*
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## COMMENTARY (CONT'D)

### HOW DID JANUARY UNFOLD (CONT'D)

- Local returns initially emerged from high-beta currencies (Colombian peso, Brazilian real, Turkish lira, Mexican peso, South African rand) before broadening to include low-beta currencies in Central Eastern Europe (Hungarian forint, Polish złoty, Czech koruna).
- Regional dislocations prompted investor debate about whether to chase or fade the bearish US Dollar breakout while awaiting details of the new US administration's tariff plans. 25% tariffs were scheduled for Mexico and Canada on February 1st.
- Lower Treasury yields supported emerging market performance. The Federal Reserve was expected to remain broadly accommodative despite holding rates at the January FOMC meeting, and a dovish cut from the European Central Bank added momentum to G-10 easing trades.
- Portfolio beta increased to approximately 1.0 as market regimes improved from extreme risk aversion levels toward month-end.

### FEBRUARY POSITIONING

- The market has returned to risk-on mode. Emerging market CCC-rated sovereigns have led the cross-asset leadership board with a 7% year-to-date return, outperforming most equity markets and only lagging gold. Leading performing local markets (including rates carry, duration, and FX in US Dollar terms) include Brazil (+10%), Colombia (+9%), Turkey (+5%), and Mexico (+4%).
- We believe four key lessons emerged from the first few weeks of Trump's second administration. Firstly, policy initiatives showed greater ambition compared to the first term. Secondly, there appears to be more confrontational foreign policy stances, including with traditional allies (e.g., Gaza strip). Thirdly, Chinese authorities appear more willing to negotiate, with US Dollar/Chinese Yuan fixing reaching its lowest level since the election, suggesting a desire to avoid a currency war. Lastly, we believe tariff implementation seems less targeted, with recent Mexico and Canada announcements leading to one-month negotiation delays.
- Beyond tariffs and emerging market impacts, February features multiple global developments. The Bank of England's 25 basis point cut, with two dissents for larger reductions, contributed to G-10 rates trending lower. The Eurozone's easing bias maintains the risk-on sentiment.
- US Treasury Secretary Bessent's comments have garnered significant attention but have not yet fully reflected a path to lower US yields. While comfortably off the January 14th yield highs, Trump's unpredictability remains a potential wild card, in our view.
- We believe the US administration appears uncomfortable with 10-year Treasury yields exceeding 5%, a factor expected to support emerging market outperformance as momentum builds.
- We believe some of the key return drivers for the month ahead include: long duration US Treasuries, 1-10 year US TIPS, gold, Euro investment grade credit, and the US Dollar.

*Source: Loomis, Sayles & Co; Bloomberg*

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## EMERGING MARKETS DEBT BLENDED TOTAL RETURN TEAM

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