



# Emerging Markets Debt Blended Total Return

## Strategy Update by the Loomis Sayles Alpha Strategies Team

### PERFORMANCE

AS OF JULY 2025	1M	3M	YTD	1Y	3Y	5Y	7Y	INCEPTION <sup>2</sup>
Composite (gross)	0.76%	5.29%	8.21%	9.18%	7.67%	1.68%	3.89%	2.73%
Composite (net)	0.70%	5.12%	7.81%	8.48%	7.00%	1.11%	3.34%	2.18%
Blended Index <sup>1</sup>	0.48%	3.76%	7.79%	9.03%	8.01%	1.77%	2.95%	2.97%
Excess return (gross)	0.28%	1.53%	0.42%	0.15%	-0.34%	-0.08%	0.93%	-0.24%
Excess return (net)	0.23%	1.37%	0.02%	-0.55%	-1.01%	-0.65%	0.38%	-0.78%

Data Source: Loomis Sayles, as of 07/31/2025

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.

<sup>1</sup> 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.

<sup>2</sup> 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.

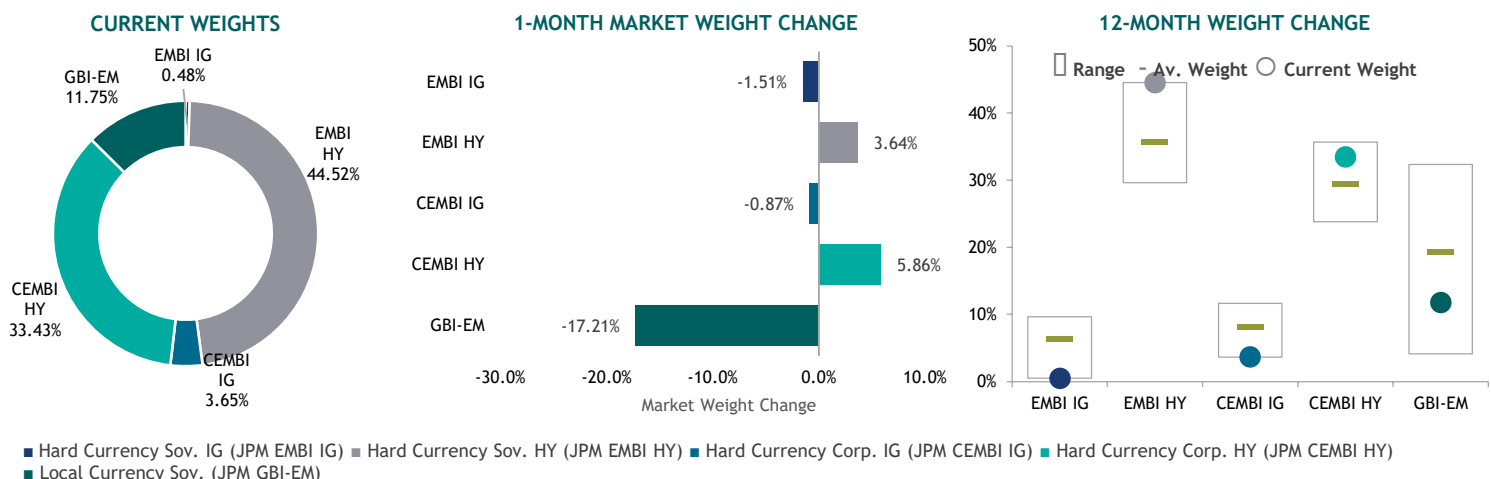
SIGNAL	REGIME <sup>2</sup>	VALUE SIGNAL	SHIFT DATE	TREND	MOMENTUM SIGNAL	SHIFT DATE	TREND
EM CREDIT <sup>1</sup>	RISK-ON	+	06/20/25	IMPROVING	+	05/09/25	IMPROVING
EM FX	RISK-ON	+	07/11/25	DETERIORATING	-	08/01/25	DETERIORATING

Data Source: Loomis Sayles, as of 07/31/2025

<sup>1</sup> EM Credit (sovereign and corporate) <sup>2</sup> 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 07/31/2025. 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.

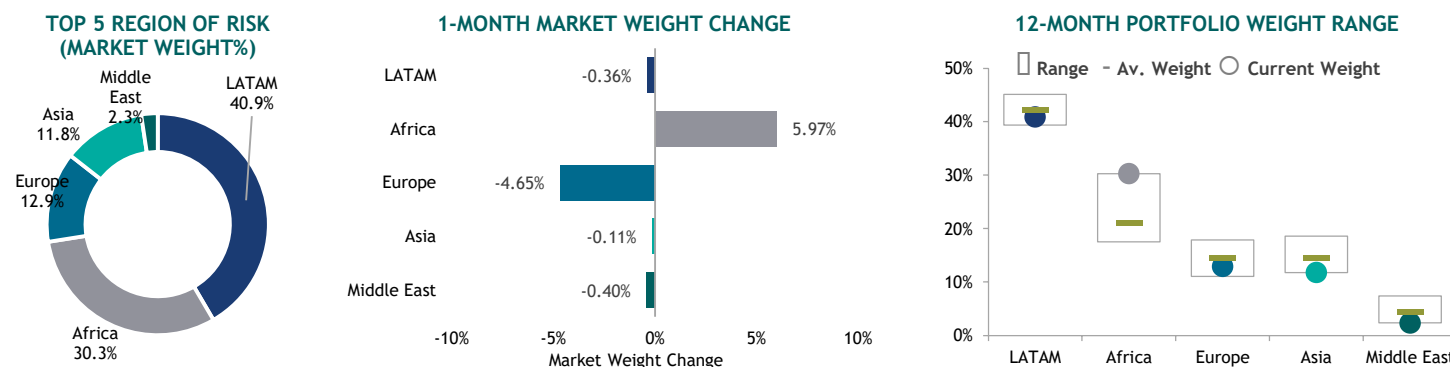
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## REGIONAL EXPOSURES



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

Data Source: Loomis Sayles, as of 07/31/2025

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## COMMENTARY

JULY  
POSITIONING

- Entering July, Emerging Markets (EM) Credit and Foreign Exchange (FX) were firmly in risk-on mode, though investors turned cautious toward the asset class due to ongoing geopolitical tensions, tariffs, and global disruptions. Nevertheless, optimism continued to build that the positive trend in local currency and frontier sovereign debt could be sustained after a record 2020-2022 default cycle.
- The first half of 2025 marked the worst start to a year for the US Dollar since 1973 and one of the best starts for the local sovereign index in history.
- While local currency bonds continued to rally strongly, distressed EM sovereigns were the second-best performing fixed income asset class, both keeping pace with global equities this year as the 10-year US Dollar bull market came to an end.
- We increased beta positioning to approximately 1.1 for lower yields and a weaker US Dollar (we believe we are still in the early stages of de-dollarization).

HOW DID  
JULY  
UNFOLD

- The EM risk-on environment from mid-January through to the present was driven by ongoing US Dollar weakness and broadening investor demand for yield. EM investor appetite followed expectations that central banks will ease as economies weaken in the second half of 2025 due to diminished goods spending.
- The near-term risk outlook now depended on the next few months of US labor market and inflation data, along with how views of the Federal Reserve's (Fed) path shifted in response.
- After such an impressive run, a natural question at the midyear point was whether it can continue? As complacency set in with volatility trending lower, we returned to a point where data mattered more, and where markets were likely more vulnerable to a negative US growth shock.
- The July 9th tariff deadline came and went. President Trump delayed implementation again to August 1st, insisting this would be the final date before full implementation.
- In this EM risk-on regime, with spreads at multi-year tight, much could change to disrupt the existing narrative, particularly if we were to see further escalation of tariffs and/or a reversal of the weak US Dollar trend. That said, we believed the backdrop remained supportive of EM risk-taking. We saw opportunities in local currency and frontier markets but had begun shifting closer to benchmark weights, reducing portfolio volatility from our overweight position since mid-January.

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)****HOW DID  
JULY  
UNFOLD  
(CONT'D)**

- Cross-asset volatility fully reversed the post “Liberation Day” move, and we reduced positions around mid-month to redeploy capital if markets priced in a risk-off outcome.
- With investors clearly worried about the fiscal challenges facing many developed market economies (US, Japan, UK, etc.), flows continued to favor EM as the US Dollar resumed its weakening trend and high carry trades attracted capital.
- While there were plenty of reasons to be cautious with spreads grinding to cycle lows, local and high yield sovereigns continued driving outperformance across EM.
- EM FX momentum began deteriorating mid-July as the EUR/USD broke below 1.16, a level that had largely supported EM carry trades for months. We believe the euro fell due to the 15% tariff “deal” that favored the US over Europe with no exit strategy. While 15% was less than the 30-50% initially proposed, it remained a drag on European Gross Domestic Product (GDP) and demand for EM goods.
- Over the last two weeks of July, we reduced risk further by covering European hard currency sovereigns and hedging local currency exposures. The portfolio was now skewed toward shorter duration high yield credits with positive reform stories (approximately 9% yield-to-worst). Beta was cut to approximately 0.9.
- As EM FX momentum stalled, recent US Dollar strength occurred alongside markets pricing in fewer Fed rate cuts through December. Political pressure aside, this wait-and-see approach added volatility, mostly in Central and Eastern Europe. EM spreads reached multi-year tightness across the board as trade uncertainty declined, longer-term financial conditions eased, and equity valuations continued to improve.

**AUGUST  
POSITIONING**

- Portfolio beta was increased to approximately 1.2 with the removal of currency hedges and duration extension. We reduced risk over the second half of July as FX momentum deteriorated, and the US Dollar strengthened. Implied FX volatility curves sharply inverted into the August 1st tariff deadline, presenting an excellent opportunity to re-engage in non-US Dollar trades.
- Coming out of a two-week-plus period of consolidation, slowing US growth data – most recently via downside misses in non-farm payrolls and Institute for Supply Management (ISM) services employment – has provided a fresh catalyst in this risk-on regime.
- While US exceptionalism is fading relative to EM, labor market data appears to support the idea that the US economy is weakening toward stall speed.
- Against this backdrop, the US Dollar is turning lower alongside Treasury yields now that more aggressive Fed cuts are being priced in. The market is moving from pricing two to three cuts by year-end in anticipation of a more dovish forward path.
- We believe local sovereigns, the top-performing fixed income asset class year-to-date, can continue delivering strong returns given the reduced FX pressure associated with de-dollarization and domestic conditions allowing further rate cuts. The majority of EM central banks are expected to cut rates over the second half of 2025 while real yields remain elevated.
- After July's technical correction, we believe EM currencies should be able to resume appreciation against the US Dollar, and we continue to favor unhedged local bonds along with high yield sovereigns.
- High yield sovereigns represent the largest component of our asset allocation. We believe BB/B-rated reform stories remain the bright spot in EM as commodities – their main export – hold up, and those with strong governance are seeing ratings upgrades.
- Going forward, we believe the scope for Fed easing remains difficult to assess in the context of a potentially stagflationary environment. In any case, our outlook is for lower US yields following the anticipated surge in tariff-linked goods inflation. We are positioned for a stronger EM local and hard currency sovereign response to this Fed easing cycle in the quarter ahead.
- In our view, rising rate volatility would be a trigger for us to take profits on low-quality sovereigns and non-US Dollar exposures as the GBI-EM Index extends its stellar return year into the second half. We believe some of the key return drivers for the month ahead include oil, US Treasury Inflation-Protected Securities (TIPS) 1-10 year, Volatility Index (VIX), the US Dollar, and Euro investment grade credit.

Source: Loomis, Sayles & Co; Bloomberg

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## EMERGING MARKETS DEBT BLENDED TOTAL RETURN TEAM



**Andrea DiCenso**  
Portfolio Manager



**Peter Yanulis**  
Portfolio Manager



**Alex Thompson**  
Investment Director

## DISCLOSURE

***Past performance is no guarantee of future results.***

***There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.***

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

### **Key Risks:**

*Credit Risk, Issuer Risk, Interest Rate Risk, Liquidity Risk, Non-US Securities Risk, Currency Risk, Derivatives Risk, Leverage Risk, Counterparty Risk, Prepayment Risk and Extension Risk.*

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

***Diversification does not ensure a profit or guarantee against a loss.***

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