Emerging Markets Debt Blended Total Return

Strategy Update by the Loomis Sayles Alpha Strategies Team

PERFORMANCE

AS OF NOVEMBER 2024	1M	3M	YTD	1Y	3Y	5Y	7Y	INCEPTION[2]
Composite (gross)	0.17%	0.84%	5.92%	11.04%	-0.71%	1.55%	1.85%	2.16%
Composite (net)	0.12%	0.68%	5.29%	10.33%	-1.29%	1.01%	1.33%	1.62%
Blended Index[1]	0.41%	0.11%	5.23%	9.09%	0.56%	0.91%	1.76%	2.40%
Excess return (gross)	-0.23%	0.73%	0.69%	1.96%	-1.27%	0.64%	0.09%	-0.25%
Excess return (net)	-0.29%	0.57%	0.07%	1.24%	-1.85%	0.09%	-0.43%	-0.78%

Data Source: Loomis Sayles, as of 11/30/2024
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

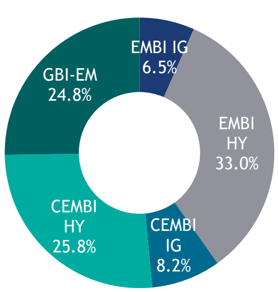
The panel below illustrates the current 'regimes' we are in, either risk-on or risk-off for EM Credit and EM FX, respectively. The regimes strongly influence (but do not mechanistically dictate) top-down asset allocation. Through our research, we have also found that the majority of value-add can typically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

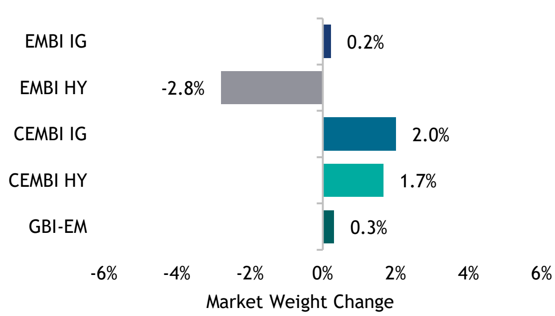
Data Source: Loomis Sayles, as of 11/30/2024
[1] EM Credit (sovereign and corporate) [2] Risk-On = Value OR Momentum (+). Risk-Off = Value AND Momentum (-)
The table presented above is shown for illustrative purposes only. Views and opinions expressed are as of the date indicated and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

ASSET CLASS EXPOSURE

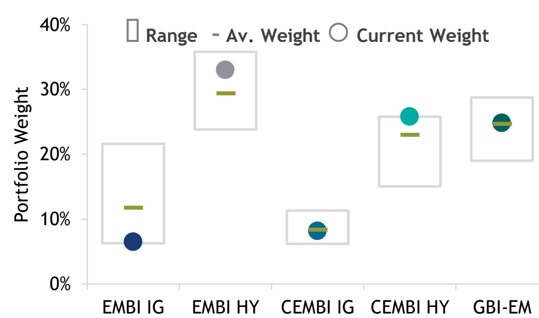
CURRENT WEIGHTS



1-MONTH MARKET WEIGHT CHANGE



12-MONTH PORTFOLIO WEIGHT RANGE



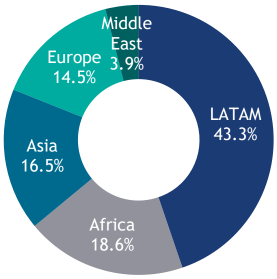
■ Hard Currency Sov. IG (JPM EMBI IG) ■ Hard Currency Sov. HY (JPM EMBI HY) ■ Hard Currency Corp. IG (JPM CEMBI IG) ■ Hard Currency Corp. HY (JPM CEMBI HY) ■ Local Currency Sov. (JPM GBI-EM)

Data Source: Loomis Sayles, as of 11/30/2024. 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.
Past performance is no guarantee of future results.
Please see important disclosure page, an integral part of this presentation, which follows.

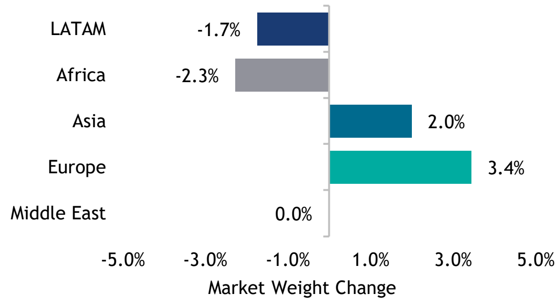
SAIFpgyq2bht

REGIONAL EXPOSURES

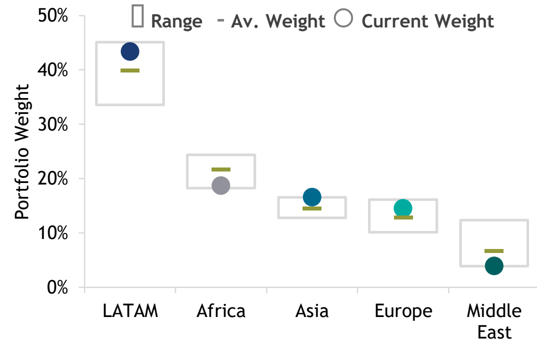
TOP 5 REGION OF RISK (MARKET WEIGHT%)



1-MONTH MARKET WEIGHT CHANGE



12-MONTH PORTFOLIO WEIGHT RANGE



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

Data Source: Loomis Sayles, as of 11/30/2024
Due to active management, characteristics evolve over time. Due to rounding, totals may not equal 100%.
The charts presented above are shown for illustrative purposes only.
Past performance is no guarantee of future results.

COMMENTARY

NOVEMBER POSITIONING

- As November began, Emerging Markets (EM) Credit was in risk-on mode, while EM Foreign Exchange (FX) shifted to risk-off as the market started pricing in a potential Donald Trump victory in the US Presidential elections and the potential for a Republican sweep.
- With the election only days away, cross-asset volatility was running high (94th percentile), and EM FX markets served as the main release valve, weakening to reflect a potential Trump victory.
- Portfolio beta was reduced to approximately 1.0 in early October, with local FX hedged into the volatility spike.

HOW DID NOVEMBER UNFOLD

- Volatility rose across asset classes at the start of the month as polls began to indicate a potential Republican sweep. Leading into election day, EM Credit flipped to risk-off, joining EM FX, as US rates continued to break higher. After a 50-basis point move, the 10-year traded from 4.25% to 4.50% in short order.
- On the morning of November 6th, a Trump victory with a likely Republican sweep led us referencing the 2016-2017 playbook. The key difference was that tariffs were largely priced in ahead of Trump's second term.
- Cross-asset volatility began showing signs of exhaustion, dropping back towards the 50th percentile, and our EM value signals started improving at the wides in spreads (highs in yields).
- Despite the US Dollar surging 5% into the election, as Trump's cabinet picks were announced, the US Dollar strengthened further, with hawkish China appointments raising tariff risks.
- By mid-month, we covered hedges held through the risk-off month of October, expecting more accommodative financial conditions and increased China stimulus by year-end. Portfolio beta was raised back to approximately 1.3.
- While local markets remained under pressure from tariff headlines, there was limited spillover to credit markets as spreads continued to grind tighter, led by high-yield.
- US Dollar strength stalled around 107 on the Dollar Index (DXY), representing year-to-date highs, as Trump's tariff announcements presented a wide range of potential outcomes in terms of timing and size.
- By month-end, the external backdrop for Emerging Markets shifted from a soft landing with non-recessionary Federal Reserve cuts to one focused on tariff risks, higher US rates, and a strong US Dollar.
- These Trump-driven developments had already weighed on Emerging Markets assets, setting the stage for a short-covering rally, with uncertainty at extremes, while future tax and trade policies, geopolitical tensions, and corporate earnings triggered risk-averse behavior.

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.
Past performance is no guarantee of future results.
Please see important disclosure page, an integral part of this presentation, which follows.

SAIFpgyq2bht

COMMENTARY (CONT'D)

HOW DID NOVEMBER UNFOLD (CONT'D)

- Emerging Markets local sovereign bonds, which took among the largest hit before the elections, began outperforming, keeping pace with CCC-rated sovereigns that remained the top performer in global fixed income (+6% in November; +47% year-to-date, led by Argentina).
- Emerging Markets yields increased to 10-12%, and Central Banks resumed rate cuts and foreign exchange intervention beyond the October sell-off (for example, in China, Mexico, South Africa, Indonesia, and South Korea).
- We believe the rest of the world will likely face a more challenging path to achieving growth goals and avoiding political conflict in the New Year. However, pricing remains crucial, especially in this asset class. It is important to recall that Emerging Markets assets performed strongly through much of 2017, the first year of Trump's initial administration. This was partly because tariffs against China were not implemented until the year after, but also because between Trump's election in November 2016 and his inauguration in January 2017, many Emerging Markets assets (the Mexican Peso, for example) had already priced in a high premium for trade concerns.

DECEMBER POSITIONING

- Seasonally, the US Dollar tends to drop in December – a month historically marked by risk-on sentiment and US Dollar selling. With Trump coming into power, we believe the path lower has become less certain.
- Currency volatility had soared before and immediately following the election and we believe a significant amount of US optimism is now priced into markets, while crucial details about the actual implementation of tariffs and fiscal spending plans remain to be seen in 2025.
- For now, we were positioned for a pullback in US Dollar strength as volatility continues dropping from post-election extremes. We believe the risk-reward for Emerging Markets FX is similar to September 2008 and March 2020 (multi-sigma events followed by outsized relative and risk-adjusted returns).
- With Emerging Markets corporate bonds trading around historical tights, we believe current spreads are not reflecting an adequate risk premium for this phase of the economic cycle, though spreads can remain tight based on fundamentals and technical factors.
- We continue to favor lower-quality sovereign credits with improving domestic stories in the single-B and CCC rating spaces, including Argentina, Egypt, and Ecuador.
- For Emerging Markets sovereign spreads to tighten further, we would need CCC-rated bonds to continue outperforming due to low default prospects, and US recession risks to remain a distant concern.
- We believe market sentiment may keep US Dollar-denominated spread products tight for a while, despite global fallout headlines about a Trump second-term presidency, as Emerging Markets fundamentals are strong enough to absorb further short-term volatility.
- Treasury bonds have been rallying post-election as the Federal Reserve remains committed to a lower neutral policy rate, and Emerging Markets are now positioned to outperform.
- All attention is on China, where the exchange rate is being managed to stabilize at its weakest and most stressed point in over a decade. With monetary easing fully underway (Chinese Yuan rates have decreased by 50-75 basis points year-to-date), their economic conference is being pulled forward as investors await news on further stimulus.
- After several rounds of Emerging Markets risk-off periods ahead of the New Year, lower Treasury yields and China stimulus are welcome developments, in our opinion.
- Some of the key return drivers for the month ahead likely include: Industrial metals, the US Dollar, US Long Duration Treasury Inflation-Protected Securities (TIPS), US investment grade corporates, and EM FX volatility.

Source: Loomis, Sayles & Co; Bloomberg

Past performance is no guarantee of future results.

Please see important disclosure page, an integral part of this presentation, which follows.

SAIFpgyq2bht

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.

Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

Commodity, interest and derivative trading involves substantial risk of loss.
This is not an offer of, or a solicitation of an offer for, any investment strategy or product.
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.

Charts and tables are created by Loomis Sayles for illustrative purposes only. Our analysis is based on data obtained from outside sources and we believe that it is correct. However, Loomis Sayles cannot guarantee accuracy of third-party data.

This marketing communication is provided for informational purposes only and should not be construed as investment advice. Any opinions or forecasts contained herein, reflect the subjective judgments and assumptions of the authors only, and do not necessarily reflect the views of Loomis, Sayles & Company, L.P. Investment recommendations may be inconsistent with these opinions. Investment decisions should consider the individual circumstances of the particular investor. There is no assurance that developments will transpire as forecasted and actual results will be different. Information, including that obtained from outside sources, is believed to be correct, but Loomis cannot guarantee its accuracy. This information is subject to change at any time without notice.

For additional information about Loomis Sayles strategies, please visit www.loomissayles.com

SAIFpgyq2bht