Emerging Markets Debt Blended Total Return

Strategy Update by the Loomis Sayles Alpha Strategies Team

PERFORMANCE

AS OF OCTOBER 2024	1M	3M	YTD	1Y	3Y	5Y	7Y	INCEPTION[2]
Composite (gross)	-1.76%	2.50%	5.73%	17.69%	-1.46%	1.49%	1.89%	2.16%
Composite (net)	-1.81%	2.34%	5.17%	16.94%	-2.04%	0.95%	1.37%	1.62%
Blended Index[1]	-2.40%	2.06%	4.80%	13.92%	-0.15%	0.70%	1.79%	2.37%
Excess return (gross)	0.64%	0.44%	0.93%	3.77%	-1.31%	0.78%	0.10%	-0.22%
Excess return (net)	0.59%	0.28%	0.37%	3.02%	-1.89%	0.25%	-0.42%	-0.75%

Data Source: Loomis Sayles, as of 10/31/2024
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

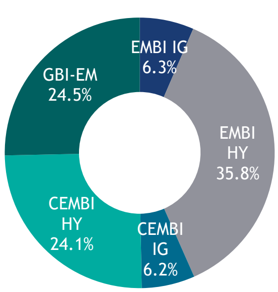
The panel below illustrates the current 'regimes' we are in, either risk-on or risk-off for EM Credit and EM FX, respectively. The regimes strongly influence (but do not mechanistically dictate) top-down asset allocation. Through our research, we have also found that the majority of value-add can typically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

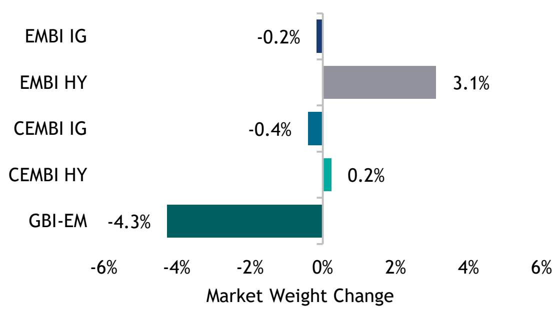
Data Source: Loomis Sayles, as of 10/31/2024
[1] EM Credit (sovereign and corporate) [2] Risk-On = Value OR Momentum (+). Risk-Off = Value AND Momentum (-)
The table presented above is shown for illustrative purposes only. Views and opinions expressed are as of the date indicated and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

ASSET CLASS EXPOSURE

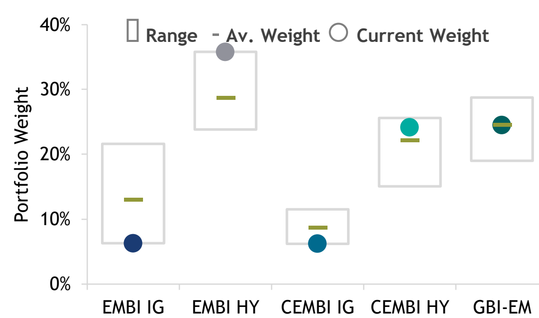
CURRENT WEIGHTS



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 10/31/2024. 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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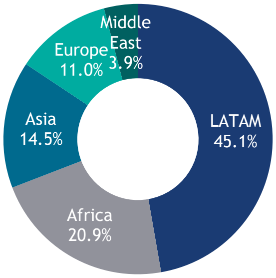
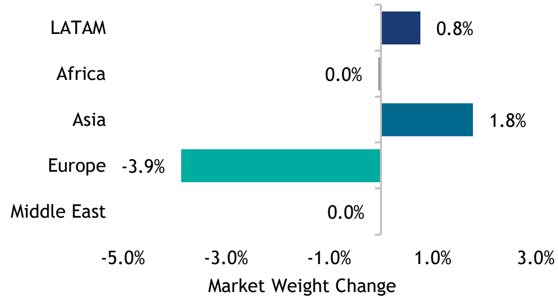
REGIONAL EXPOSURES

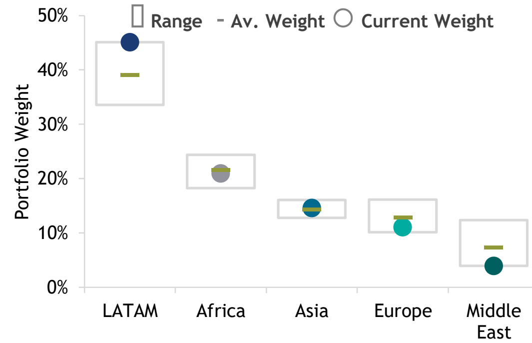
TOP 5 REGION OF RISK (MARKET WEIGHT%)



1-MONTH MARKET WEIGHT CHANGE



12-MONTH PORTFOLIO WEIGHT RANGE



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

Data Source: Loomis Sayles, as of 10/31/2024

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

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COMMENTARY

OCTOBER POSITIONING

- Entering October, EM Credit and FX remained in risk-on territory. All emerging market asset classes were trending positively since mid-August.
- With the US election one month out, EM FX volatility started to spike beyond the election date as hedging activity picked up dramatically.
- Portfolio beta was held at approximately 1.3 versus the blended benchmark in a continuation of the position initiated in mid-August.

HOW DID OCTOBER UNFOLD

- We started October with less exuberance around China's stimulus efforts and fear building around Israel's retaliatory strike on Iran.
- The risk that Israel would target Iran's export facilities was met with a surge in oil prices and a sharp move higher in the US Dollar, pressuring emerging market currencies.
- This shift prompted us to hedge out most of our local FX exposure, reducing beta to 1.0 from 1.3 previously.
- When China's Ministry of Finance neglected to announced new fiscal stimulus measures, the market quickly shifted its immediate focus to the US election the potential victory for Donald Trump, including a potential Congressional Republican sweep.
- As a result, EM FX was the release valve across markets with USD/MXN re-testing 20, USD/JPY 150 and the US Dollar Index (DXY) 104 – essentially reversing year-to-date moves ahead of the election. Despite volatility climbing across the FX complex, there was limited spillover to credit markets.
- Lower quality bonds (specifically, CCC's within the JP Morgan EMBI and JP Morgan CEMBI universes) continued to perform well given the favorable yield differential; however, up in quality investment grade was hit hard throughout the month as rates rose to price additional fiscal term premium in most scenarios.
- The Trump trade drove Treasury yields and the US Dollar higher through month-end. Despite the race remaining far too close to call, we anticipated more market turbulence until uncontested results were in.
- The tariff outlook was rather different under each candidate. We expected the initial reaction under a Trump victory to be negative for emerging markets and Treasuries given their duration sensitivity to rising term premium (higher for longer inflationary cycle on 10% across the board tariffs).
- That said, if Kamala Harris was victorious, we expected a sharp unwind of US Dollar longs and material flows back into local emerging markets.
- Regardless of the outcome, cross-asset volatility was staged for a decline once the results were in, allowing investors to position for year-end – a seasonally bullish period for emerging markets.

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)

NOVEMBER POSITIONING

- Starting the month of November, our beta remained at approximately 1.0 as Donald Trump and Kamala Harris were locked in a dead heat according to polling data into the US elections, driving up cross-asset volatility globally.
- As we had expected, once the election was determined, we saw a sharp decline in volatility from the extremes (96th percentile). While a Trump victory was well priced into markets, the red sweep outcome was not fully anticipated to start November.
- The potential red sweep lifted the US Dollar Index (DXY) north of 105, more than 5% higher than where we ended the third quarter.
- Excessive US Dollar strength over the past month, and the collapse in volatility, created a potential window to un-hedge local sovereign exposures as election event risk was now behind us.
- With risk premium elevated and macro volatility on a declining path, like what we experienced through the COVID pandemic, we used the election driven sell-off to increase beta back towards 1.4.
- While the election outcome amplifies US expectionalism, until we have details and timelines surrounding President Trump's tariff announcements, we could see a wide range of potential outcomes.
- If the prospective administration focuses on tariffs early, include brings forward fiscal support to have an impact in 2025, then the impact on a stronger US Dollar will be larger and earlier, in our view.
- However, various less conventional policy options involving the Fed, taxation of capital inflows or direct markets intervention have the potential to create a weaker US Dollar, in our opinion, which is over 10% rich in inflation-adjusted terms.
- Close attention will be paid to the incoming administration's policy landscape regarding the time horizon to hold the local sovereign exposures unhedged. We believe this is where the most value currently lies in emerging markets, and unlike 2016, tariffs were largely priced in advance.
- Outside of EM FX, we continued to see steady support for lower quality, higher yielding EM credit across corporates and sovereigns. Frontier markets continue to be the strong performers in risk-on and risk-off periods.
- We believe some of the key return drivers for the month ahead include industrial metals, the US Dollar, US long duration TIPS, US investment grade Corporates and EM FX Volatility.

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EMERGING MARKETS DEBT BLENDED TOTAL RETURN TEAM

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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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