



LOOMIS | SAYLES

The *Evolution* of Frontier Emerging Markets Debt

We are experiencing the best Frontier EM bond return cycle since the Global Financial Crisis.

The Blended EMD Total Return Portfolio Management Team

September 2025



During 2025 we have seen a rotation of institutional capital from US to global assets, and within fixed income, EM debt has been a *top beneficiary*.

This paper charts the evolution of the frontier EMD opportunity set and highlights why investors may want to consider active allocations to EMD, inclusive of frontier markets, in the post 2022 restructuring cycle.

Characteristics

Frontier emerging market debt (EMD) is a subset of the sovereign EMD universe, inclusive of hard and local currency debt. Frontier markets are typically smaller and oftentimes have higher idiosyncratic, or country-specific, risks. These characteristics can contribute to return patterns that are less correlated to the overall market.

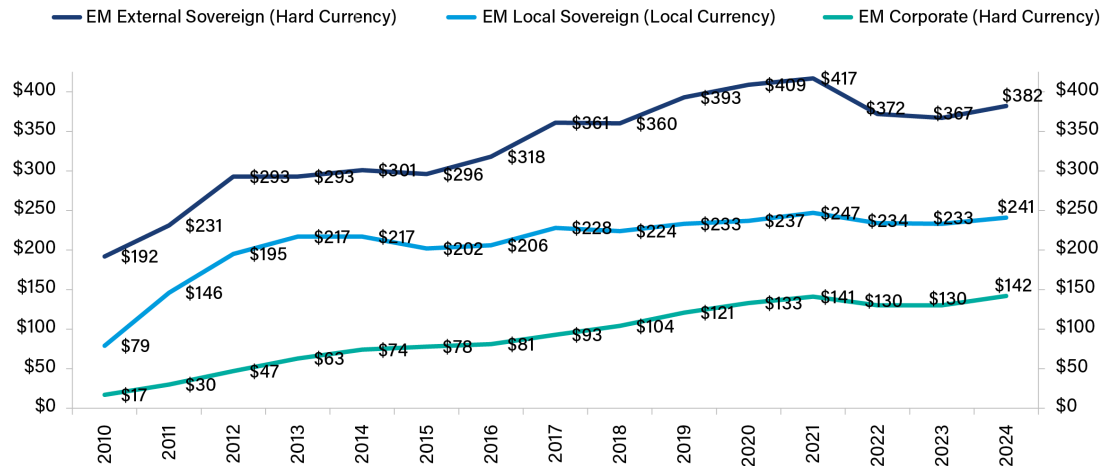
Benchmark

The most widely used index for hard currency sovereign EMD is the J.P. Morgan Emerging Market Bond Index Global Diversified (EMBI-GD), whereas the J.P. Morgan Next Generation Market Index (NEXGEM) typically defines the frontier universe. Contrary to the industry norm for public debt market indices, frontier markets have dual index inclusion: part of the NEXGEM and the EMBI-GD, drawing sponsorship from both EMBI-GD benchmarked investors as well as frontier markets focused investment strategies.

In addition to the hard currency sovereign index, the other indices of note within the emerging market debt universe are the local currency sovereign emerging market index (GBI-EM) and the hard currency corporate emerging market index (CEMBI). There are frontier components in each index; however, EMBI-GD is the largest, most liquid, by benchmarked assets under management.

BENCHMARKED AUM TO JPM EM INDICES (\$B)

This chart illustrates the growth of the three main emerging market debt indices over the last 15 years.



Source: J.P. Morgan, Bloomberg as of 31 December 2024.

The chart presented above is shown for illustrative purposes only. Some or all of the information shown may be dated, and, therefore, should not be the basis to purchase or sell any securities. The information is not intended to represent any actual portfolio managed by Loomis Sayles.

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

Growth of dedicated assets under management, along with an associated improvement in liquidity has been met with more NEXGEM country inclusions as bond issuance follows demand.

INDEX WEIGHTS

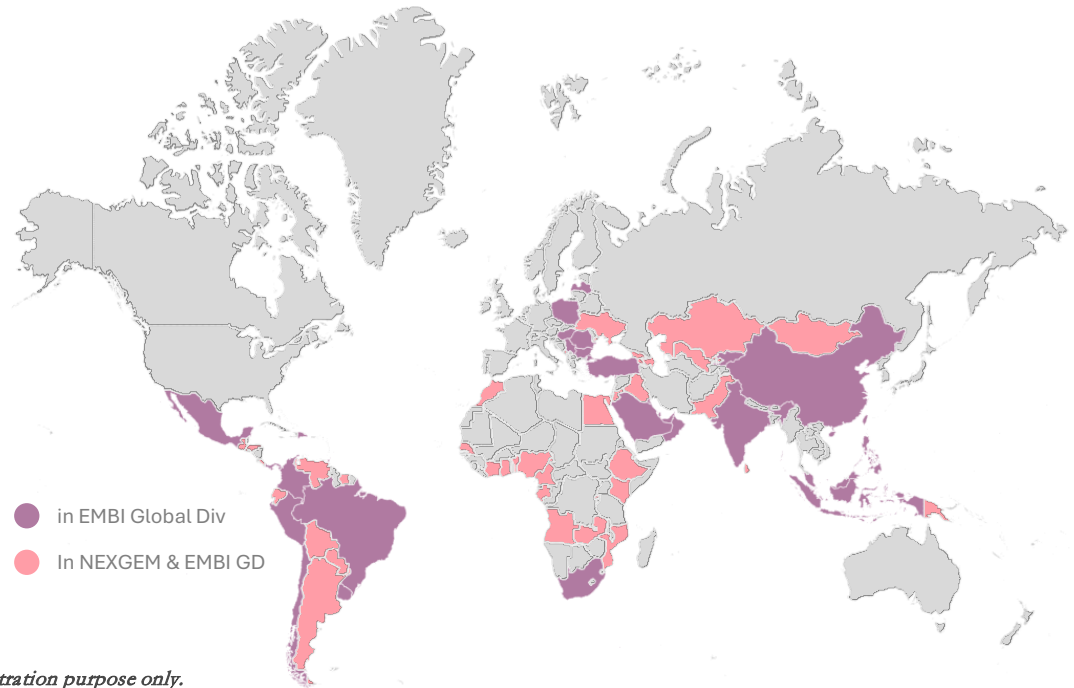
This chart illustrates country percentage weights in the NEXGEM index as of 28 February 2025. The index provider, J.P. Morgan, is considering removing a weight limit later this year. Should this happen, additional countries, shown at the top, will be added. Of note, Argentina will represent a sizeable 7% of the index.

Country	28-Feb-25 NEXGEM wgt	30-Sep-25 NEXGEM wgt	Change (bps)
Argentina (+)	-	6.74	674
Egypt (+)	-	6.16	616
Kazakhstan (+)	-	4.12	412
Morocco (+)	-	3.76	376
Ukraine (+)	-	3.70	370
Ecuador (+)	-	3.15	315
Venezuela (+)	-	1.83	183
Lebanon (+)	-	1.10	110
Benin (+)	-	0.78	78
Montenegro (+)	-	0.53	53
Maldives	0.34	0.27	-7
Cameroon	0.43	0.35	-8
Papua New Guinea	0.42	0.34	-8
Rwanda	0.39	0.32	-8
Tajikistan	0.41	0.33	-8
Suriname	0.54	0.44	-11
Mozambique	0.62	0.50	-12
Namibia	0.61	0.49	-12
Ethiopia	0.70	0.56	-14
Georgia	0.75	0.61	-15
Iraq	0.81	0.66	-16
Armenia	0.89	0.72	-17
Gabon	0.93	0.75	-18
Bolivia	0.97	0.78	-19
Mongolia	1.23	0.99	-24
Honduras	1.57	1.27	-30
Zambia	1.70	1.37	-33
Senegal	2.04	1.65	-40
Barbados (-)	0.43	-	-43
Azerbaijan	3.11	2.51	-60
Cote D'Ivoire	3.65	2.94	-71
Jamaica	4.01	3.24	-78
Uzbekistan	4.06	3.27	-79
Paraguay	4.86	3.92	-94
Pakistan	4.88	3.94	-94
Jordan	4.90	3.95	-95
Ghana	4.99	4.02	-97
El Salvador	5.00	4.04	-97
Kenya	5.05	4.08	-98
Sri Lanka	6.22	4.34	-188
Guatemala	6.92	5.03	-189
Angola	6.79	4.78	-202
Costa Rica (-)	6.34	-	-634
Nigeria	13.42	5.71	-771

Source: J.P. Morgan data as of 28 February 2025.

The chart presented above is shown for illustrative purposes only.

This map shows all the countries that are part of the J.P. Morgan EMBI Global Diversified Index in purple and pink. Of these countries, those in pink are also part of the NEXGEM frontier index. It is clear that the EMBI Global Diversified Index contains many frontier names.



Source: J.P. Morgan, as of August 2025.

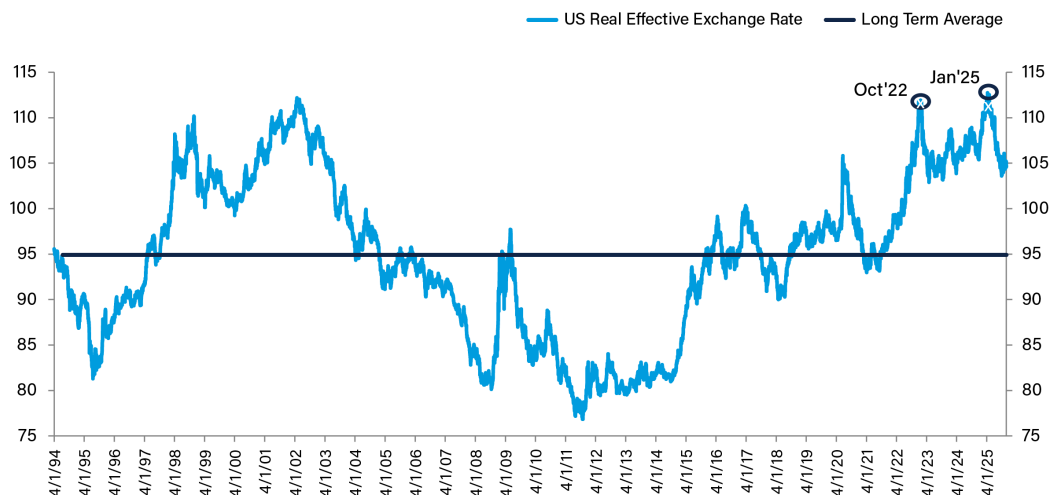
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Demand drivers

We believe that EM debt, in particular debt of frontier markets, is well positioned for further gains. With global investment grade credit spreads at multi-decade tights and possible Federal Reserve (Fed) interest rate cuts on the horizon, the growing need for diversification into higher yielding fixed-rate assets we believe has the potential to increase demand in these markets. Moreover, the gradual weakening of US leveraged credit quality should bolster EM in the long run, as foreign investors shift away from USD and turn to more liquid substitutes for private credit, in our view.

US REAL EFFECTIVE EXCHANGE RATE

The US Dollar remains overvalued relative to its long-term average, suggesting to us that the USD may have further downside.



Source: Loomis Sayles, J.P. Morgan & Bloomberg data as of 29 August 2025.

The real effective exchange rate (REER) compares the value of the US Dollar to a weighted average of several other currencies. The weights reflect the importance of each partner in US trade, after accounting for price level (inflation) differences. It shows how competitive US goods and services are internationally; a rising REER means US exports become relatively more expensive and imports cheaper, reducing US competitiveness.

The chart presented above is shown for illustrative purposes only.

US dollar's influence

A weak USD can benefit frontier bonds through lower sovereign debt service costs, and capital inflows. Many frontier countries issue bonds denominated in USD, the world's reserve currency. When the USD weakens, it is less expensive for frontier governments to pay interest and principal on their USD-denominated debt, which has the potential to reduce default risks and increase attractiveness of these bonds. Moreover, when the USD falls, US assets become less appealing to global investors, who then look for better returns in foreign markets—including frontier bonds. These bonds often offer higher yields compared to many developed market alternatives, making them more attractive when the USD is weak. Based on historical data, USD cycles last an average of six-to-nine years, and we are coming out of a 10-year USD bull market, making this an interesting time to revisit the asset class as a source of fixed income alpha, in our view.

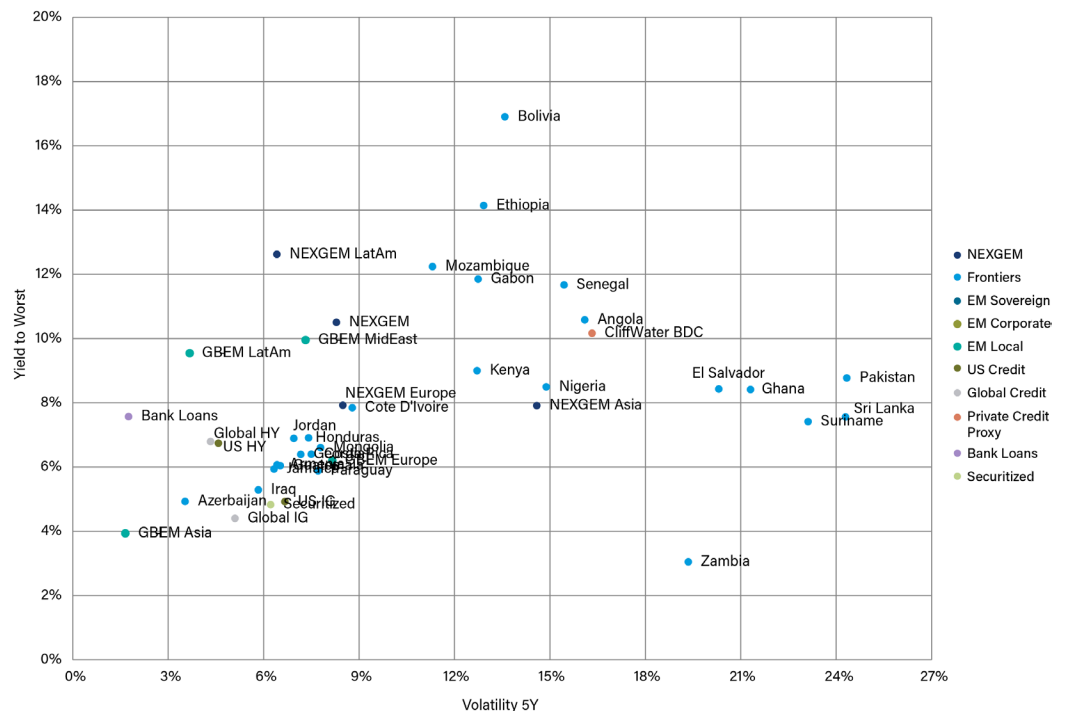
Three Key Reasons to Consider an Allocation to Frontier EM Bonds

1 | Higher Yields and Attractive Risk-Adjusted Returns

Frontier EM bonds typically offer significantly higher yields relative to their risk profile and duration compared to DM credit, including private credit.

YIELD VS. VOLATILITY

This chart shows current yields relative to 5-year volatility. It identifies frontier EM bonds individually in grey and within sub-indices of the J.P. Morgan NEXGEM index (shown in light blue).



Source: J.P. Morgan, Bloomberg as of 29 August 2025.

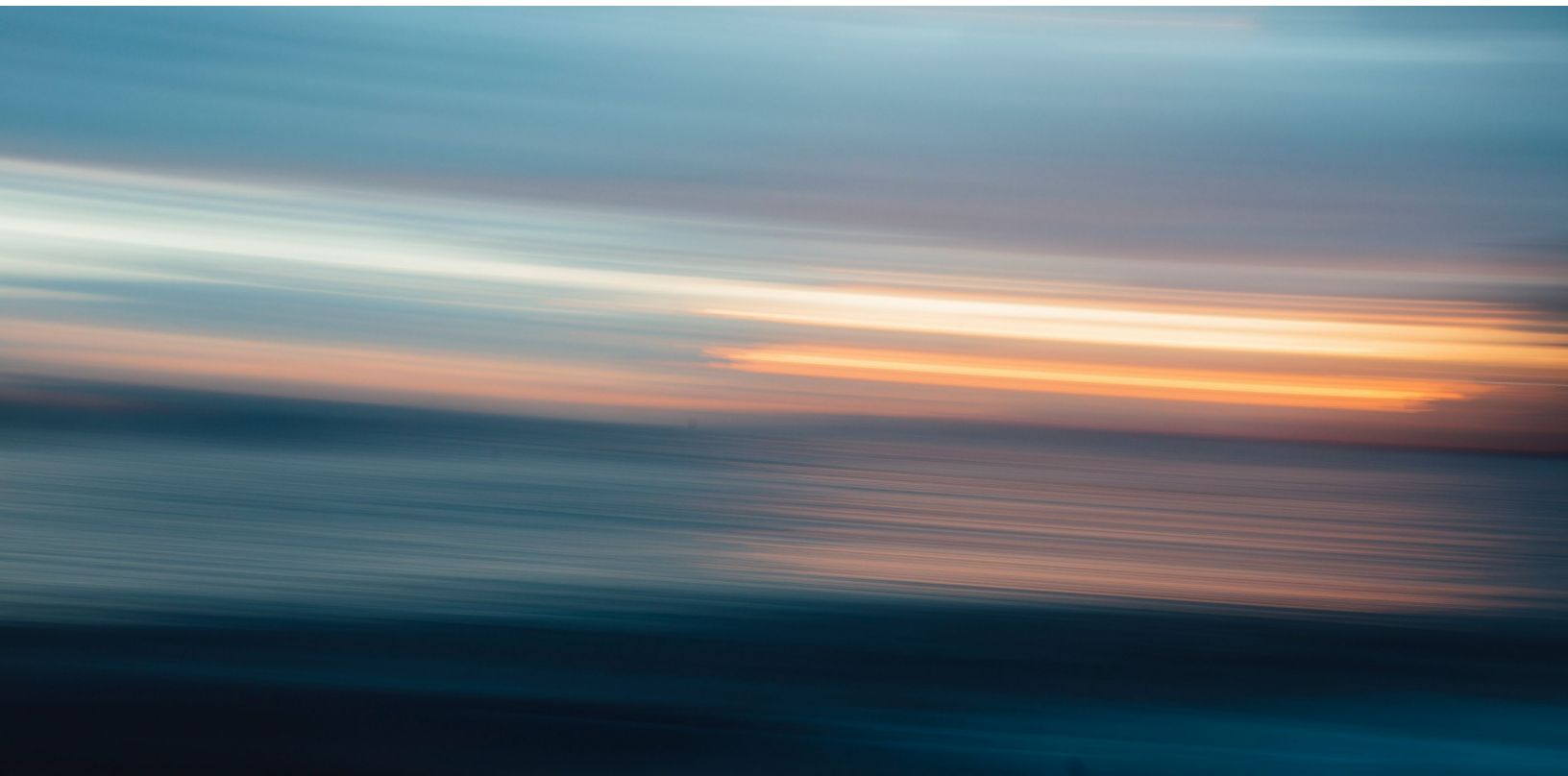
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The 2022 cycle and beneficial outcomes

High yields are compensation for taking on additional risks in the post-2022 restructuring regime; as a result, frontier bonds have outperformed both EM and DM credit over the past three and five years ending 29 August 2025.

For background context, the 2022 cycle was triggered by pandemic-related shocks and the fallout from the war in Ukraine, which pushed many EM countries into debt distress or default. Over 100 countries were considered "critically indebted" in 2022, with frontier economies dependent on tourism and energy imports especially vulnerable. Several EM sovereigns, including Suriname, Zambia, Ghana, and Sri Lanka, underwent significant restructurings between 2022 and 2024. Innovative instruments, such as state-contingent debt (SCDIs) and macro-linked bonds, were increasingly used. These tied repayments to variables, such as commodity revenues or GDP growth, helping align incentives and speed up negotiations.

Recovery rates for investors were generally higher than initially expected, with some deals (e.g., Suriname) even offering full recovery on claims. The Common Framework for Debt Treatments, involving both traditional and new creditors (China and India), became more effective, accelerating agreement timelines and reducing uncertainty. The Global Sovereign Debt Roundtable (GSDR), launched by the IMF, World Bank and G20, helped resolve technical disagreements and improved coordination among creditors. The IMF also reformed its debt policies to further streamline and clarify restructuring processes, with a new handbook and updated frameworks for low-income countries.

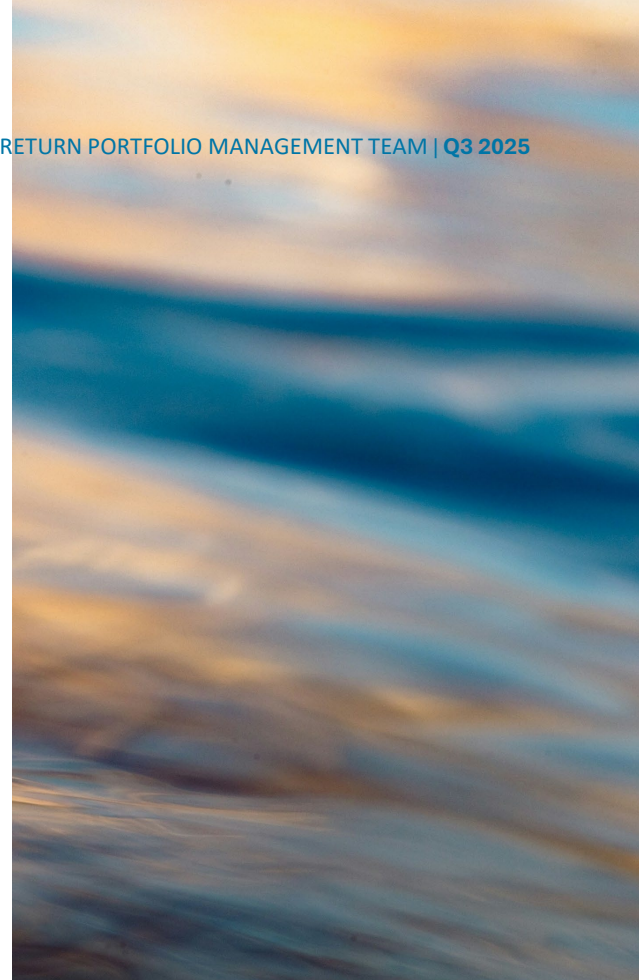


Turning point

The 2022 cycle marked a turning point for EM debt, with successful restructurings restoring market access for several countries and improving investor sentiment. This contributed to relative outperformance.

Historical risk/ reward profiles for a selection of different assets classes, both public and private, shown below. Developed markets are shown on the left and emerging markets on the right. This analysis represents index returns over the last 3 and 5 years. As can be seen, the absolute returns for the NEXGEM frontier Index compare favorably to many of the other asset classes.

While the volatility profile of frontier has historically been relatively high, it is our contention that on a forward-looking basis we would expect the volatility profile to be lower given the improvements in frontier country fundamentals, as we view them.



3-Year Index Characteristics: 31/08/2022 – 29/08/2025								
Index	US HY Corporates	Morningstar LSTA US Leveraged Loan TR USD	JPM US CLOIE	Cliffwater Direct Lending Index	EM Corporate Index	EM Sovereign Index	NEXGEM Frontier Index	EM CCC Sovereigns
Ann. Return	9.32%	8.87%	8.10%	3.14%	7.94%	9.23%	15.31%	36.13%
Ann. Volatility	5.70%	2.78%	1.95%	2.63%	5.74%	8.62%	10.75%	20.44%
Return / Volatility	1.63	3.20	4.15	1.19	1.38	1.07	1.42	1.77
Max Drawdown	-3.97%	-2.28%	-1.57%	0.00%	-5.80%	-6.36%	-8.06%	-13.58%

5-Year Index Returns: 31/08/2020 - 29/08/2025								
Index	US HY Corporates	Morningstar LSTA US Leveraged Loan TR USD	JPM US CLOIE	Cliffwater Direct Lending Index	EM Corporate Index	EM Sovereign Index	NEXGEM Frontier Index	EM CCC Sovereigns
Ann. Return	5.16%	7.01%	5.49%	6.33%	2.82%	1.53%	4.65%	12.29%
Ann. Volatility	6.99%	3.21%	2.18%	3.90%	5.86%	9.19%	11.63%	21.26%
Return / Volatility	0.74	2.19	2.52	1.62	0.48	0.17	0.40	0.58
Max Drawdown	-14.74%	-4.90%	-3.08%	0.00%	-18.98%	-25.85%	-30.88%	-43.77%

Source: J.P. Morgan, Bloomberg, as of 29 August 2025

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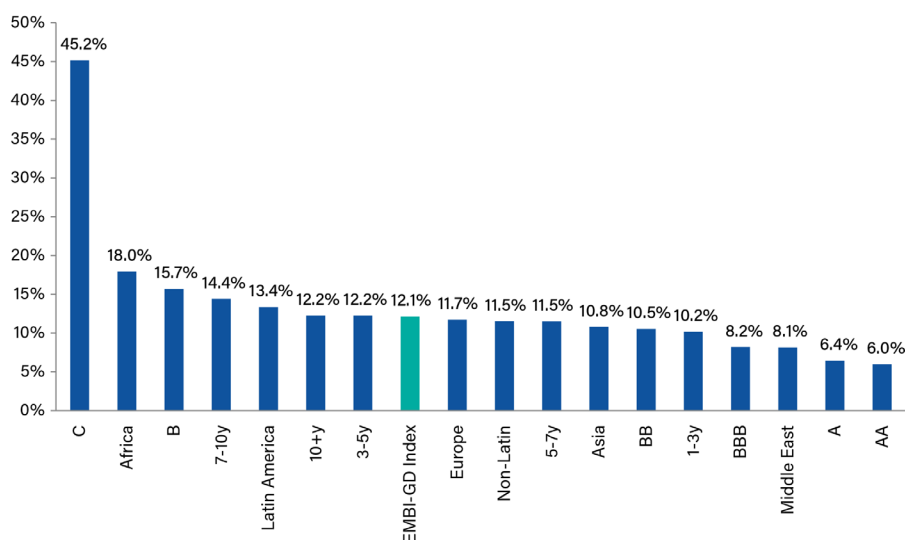
NEXGEM represents the J.P. Morgan Frontier EM bond index (inception: 31 December 2001). The NEXGEM index is a single-B average rating subset of the flagship J.P. Morgan Emerging Markets Bond Index (EMBI) series, with member countries maintaining inclusion in both the EMBI and the NEXGEM indices. Most importantly for investors, market infrastructure and liquidity are on an improving trajectory: from December 2015 to December 2024, the EM external sovereign market cap doubled to \$1.4 trillion (now in line with US High Yield market cap). The largest EM fixed income benchmark by dedicated assets under management is the EMBI Global Diversified. This index, includes approximately 70 countries of which roughly 40 are frontier (NEXGEM countries, \$325 billion market cap).¹

Increased foreign investor participation has helped the balance of payments for these smaller, natural resource rich countries. Portfolio inflows help finance domestic production, with frontier countries now growing at 3% to 4% on average vs 1% to 2% average growth in developed economies.² The weak US dollar helps given that the majority of traded goods settle in USD, making frontier commodity exports more competitive as China remains the world's largest trading partner (notwithstanding this year's tariff escalation).

From the October 2022 USD cycle high, securities rated CCC & B among EM frontier sovereigns have led the global fixed income complex higher. This performance is in stark contrast to prior rate hiking cycles, largely attributed to the EM frontier sovereign transition from downturn to credit repair.

EMBI-GD ANNUALIZED RETURNS: 31/10/22 - 29/08/25

J.P. Morgan EMBI-GD index returns, split by sectors, quality profiles and tenors



Source: J.P. Morgan as of 29 August 2025.

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¹ Source: J.P. Morgan Next Generation Market Index (NEXGEM). *Best of Both Worlds: Select EMBI Opportunities in a Frontier Markets Index*, data as of 14 March 2025.

² Source: IMF, *World Economic Update*, July 2025.

2 | Diversification Benefits

Frontier bonds have lower correlation with US Treasuries and other global asset classes, providing strong diversification benefits to a fixed income portfolio. Frontier bonds often have lower duration, and have shown surprisingly low volatility at the portfolio level due to low correlation among issuers. Their returns are often driven by idiosyncratic, country-specific factors, which can help reduce overall portfolio volatility, especially during periods of global financial stress.

These asset classes include frontier (NEXGEM), EMD more broadly (EMBI, CEMBI and GBI-EM) developed markets (US and global HY, bank loans, securitized), private markets (proxied via the Cliffwater BDC index) and US Treasuries. The matrix results are expressed as a heat map, whereby the more ‘green’ the number, the stronger the positive correlation between the two indices in question. For example, US HY has a high (0.7) correlation with Bank Loans whereas NEXGEM has a lower (0.5) correlation with Bank Loans.

CAPITAL MARKET CORRELATIONS

	NEXGEM	NEXGEM Africa	NEXGEM Asia	NEXGEM Europe	NEXGEM LatAm	NEXGEM MidEast	EMBI GD	EMBI IG	EMBI HY	CEMBI BD	CEMBI IG	CEMBI HY
NEXGEM	1.0	0.8	0.6	0.6	0.7	0.6	0.8	0.7	0.9	0.7	0.6	0.7
NEXGEM Africa	0.8	1.0	0.4	0.4	0.4	0.5	0.7	0.6	0.7	0.6	0.4	0.5
NEXGEM Asia	0.6	0.4	1.0	0.3	0.3	0.2	0.4	0.4	0.5	0.4	0.3	0.4
NEXGEM Europe	0.6	0.4	0.3	1.0	0.3	0.3	0.5	0.5	0.5	0.5	0.4	0.5
NEXGEM LatAm	0.7	0.4	0.3	0.3	1.0	0.3	0.6	0.5	0.6	0.5	0.4	0.5
NEXGEM MidEast	0.6	0.5	0.2	0.3	0.3	1.0	0.5	0.4	0.5	0.4	0.3	0.4
EMBI GD	0.8	0.7	0.4	0.5	0.6	0.5	1.0	0.9	1.0	0.8	0.7	0.7
EMBI IG	0.7	0.6	0.4	0.5	0.5	0.4	0.9	1.0	0.8	0.8	0.8	0.6
EMBI HY	0.9	0.7	0.5	0.5	0.6	0.5	1.0	0.8	1.0	0.7	0.6	0.7
CEMBI BD	0.7	0.6	0.4	0.5	0.5	0.4	0.8	0.8	0.7	1.0	0.9	0.9
CEMBI IG	0.6	0.4	0.3	0.4	0.4	0.3	0.7	0.8	0.6	0.9	1.0	0.7
CEMBI HY	0.7	0.5	0.4	0.5	0.5	0.4	0.7	0.6	0.7	0.9	0.7	1.0
GBI-EM GD	0.5	0.4	0.3	0.4	0.4	0.3	0.7	0.7	0.7	0.6	0.5	0.5
US IG	0.2	0.2	0.1	0.2	0.2	0.1	0.4	0.5	0.2	0.5	0.6	0.2
US HY	0.6	0.5	0.3	0.4	0.5	0.4	0.7	0.6	0.7	0.6	0.5	0.6
Global IG	0.3	0.2	0.2	0.2	0.2	0.1	0.4	0.5	0.3	0.5	0.6	0.3
Global HY	0.7	0.6	0.4	0.5	0.5	0.4	0.8	0.7	0.8	0.7	0.6	0.8
Bank Loans	0.5	0.4	0.3	0.4	0.4	0.3	0.5	0.4	0.5	0.5	0.4	0.6
Securitized	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.4	0.2	0.4	0.5	0.1
CliffWater BDC	0.3	0.2	0.1	0.1	0.2	0.2	0.4	0.3	0.4	0.2	0.1	0.3
US Treasury	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	0.1	0.3	(0.0)	0.2	0.4	(0.0)

	GBI-EM GD	US IG	US HY	Global IG	Global HY	Bank Loans	Securitized	CliffWater BDC	US Treasury
NEXGEM	0.5	0.2	0.6	0.3	0.7	0.5	0.1	0.3	(0.0)
NEXGEM Africa	0.4	0.2	0.5	0.2	0.6	0.4	0.1	0.2	(0.0)
NEXGEM Asia	0.3	0.1	0.3	0.2	0.4	0.3	0.1	0.1	(0.0)
NEXGEM Europe	0.4	0.2	0.4	0.2	0.5	0.4	0.1	0.1	(0.0)
NEXGEM LatAm	0.4	0.2	0.5	0.2	0.5	0.4	0.1	0.2	(0.0)
NEXGEM MidEast	0.3	0.1	0.4	0.1	0.4	0.3	0.1	0.2	(0.1)
EMBI GD	0.7	0.4	0.7	0.4	0.8	0.5	0.3	0.4	0.1
EMBI IG	0.7	0.5	0.6	0.5	0.7	0.4	0.4	0.3	0.3
EMBI HY	0.7	0.2	0.7	0.3	0.8	0.5	0.2	0.4	(0.0)
CEMBI BD	0.6	0.5	0.6	0.5	0.7	0.5	0.4	0.2	0.2
CEMBI IG	0.5	0.6	0.5	0.6	0.6	0.4	0.5	0.1	0.4
CEMBI HY	0.5	0.2	0.6	0.3	0.8	0.6	0.1	0.3	(0.0)
GBI-EM GD	1.0	0.3	0.4	0.3	0.5	0.3	0.3	0.3	0.1
US IG	0.3	1.0	0.3	1.0	0.3	0.2	0.8	(0.0)	0.9
US HY	0.4	0.3	1.0	0.3	1.0	0.7	0.2	0.4	(0.1)
Global IG	0.3	1.0	0.3	1.0	0.4	0.2	0.8	(0.0)	0.8
Global HY	0.5	0.3	1.0	0.4	1.0	0.7	0.2	0.4	(0.0)
Bank Loans	0.3	0.2	0.7	0.2	0.7	1.0	0.0	0.3	(0.1)
Securitized	0.3	0.8	0.2	0.8	0.2	0.0	1.0	(0.0)	0.8
CliffWater BDC	0.3	(0.0)	0.4	(0.0)	0.4	0.3	(0.0)	1.0	(0.2)
US Treasury	0.1	0.9	(0.1)	0.8	(0.0)	(0.1)	0.8	(0.2)	1.0

Source: J.P. Morgan, Bloomberg as of 29 August 2025; Correlation calculated using daily log returns from 2020-2025. Log returns are used given the length of time of comparison (5 years) and to reflect compounding effects over time.

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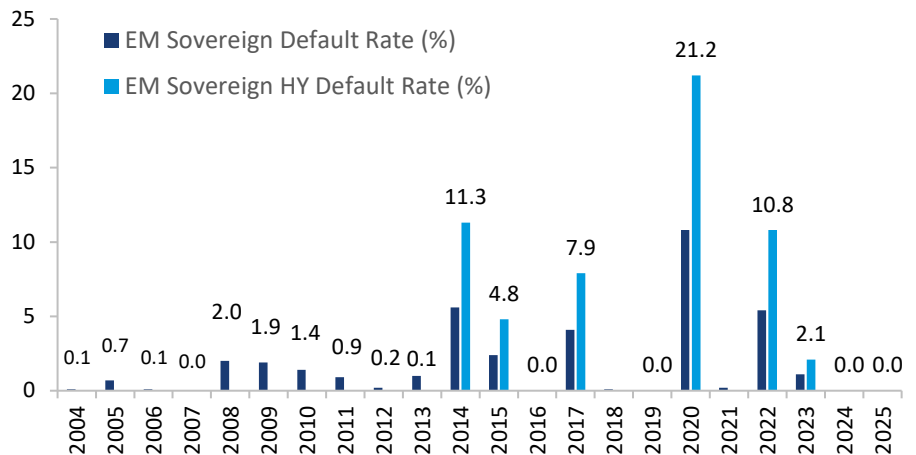
3 | Growth and Event-Driven Opportunities

Frontier markets are in the early stages of economic and institutional growth, offering what we consider potentially high returns in the post-2022 default period with event-driven opportunities not available in DM credit.

Default risk has declined, with global ratings agencies reporting more frontier market upgrades than downgrades for the first time in years.

EM SOVEREIGN OVERALL AND EM SOVEREIGN HY DEFAULT RATES (%)

Default rates peaked in 2020 and have trended down since that time.



Source: J.P. Morgan as of August 2025.

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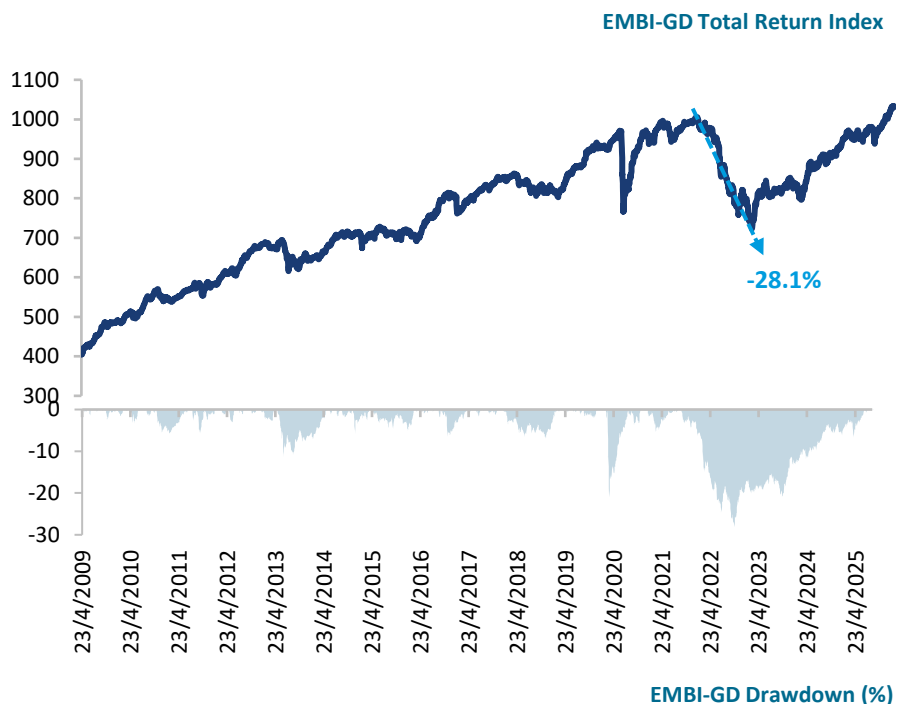
EM SOVEREIGN CREDIT TOTAL RETURN INDEX

The chart below shows the EM sovereign credit total return index (J.P. Morgan EMBI Global Diversified Composite Index) that has fully reversed its post restructuring 2022 drawdown (-28%) as the broad EM universe transitions to credit repair.

Source: Bloomberg, as of 29 August 2025.

Used with permission from Bloomberg.

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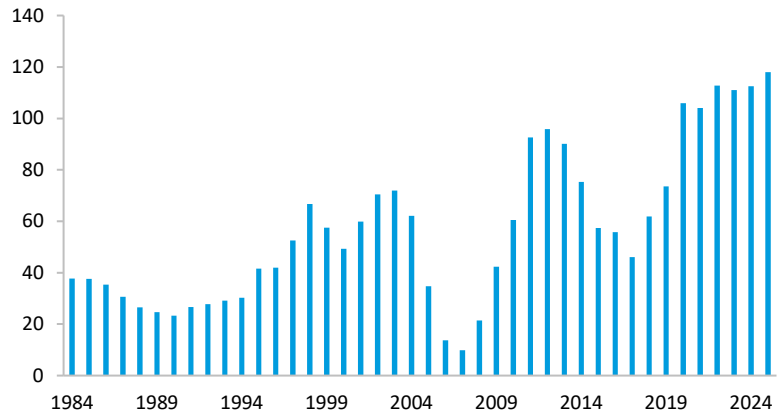
Frontier market support

Many frontier countries have improving fundamentals, such as stable or declining debt-to-GDP ratios, contrasting with rising debt burdens in advanced economies. Markets are not priced for ongoing emerging market-developing market (EM-DM) spread convergence as multi-lateral institutions, namely the International Monetary Fund (IMF), are delivering aid contingent on fiscal reforms to improve debt sustainability. IMF aid has increased to 30-year highs.

IMF aid helps frontier countries regain access to international capital markets by signaling policy reforms and fiscal discipline, which can help lead to lower borrowing costs and improved credit ratings.

The policy reforms required by IMF programs (such as fiscal consolidation and debt restructuring) enhance macroeconomic stability, making these markets more attractive to investors.

TOTAL IMF CREDIT OUTSTANDING – ALL COUNTRIES (USD B)



Source: IMF as of 30 April 2025.

The chart presented above is shown for illustrative purposes only.

Active management

Skilled managers can exploit these inefficiencies and mispricings in frontier markets, especially around credit events or restructurings, leading to outsized returns for those with expertise and patience.

Distressed situations (e.g., Argentina) can present significant price appreciation opportunities for investors with the right insights and resources.

Source: J.P. Morgan, as of 29 August 2025.

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Frontier bonds have historically delivered compelling returns and diversification potential, stemming from their distinct risk profile and lower correlation to global asset classes.

EMBI-GD HY Sovereigns	1Y Return	1Y Volatility	Return/Volatility	Yield
Lebanon	214.3%	45.3%	4.7	144.2%
Bolivia	56.4%	17.7%	3.2	16.9%
Maldives	54.3%	23.8%	2.3	18.9%
Argentina	46.2%	17.6%	2.6	12.3%
Ecuador	42.7%	43.2%	1.0	11.6%
Venezuela	36.3%	30.3%	1.2	167.8%
Sri Lanka	34.9%	16.4%	2.1	7.6%
El Salvador	28.8%	13.1%	2.2	8.4%
Pakistan	23.2%	10.7%	2.2	8.8%
Ukraine	23.2%	23.5%	1.0	14.7%
Zambia	22.3%	16.1%	1.4	3.1%
Ghana	21.5%	13.1%	1.6	8.4%
Nigeria	19.6%	11.6%	1.7	8.5%
Kenya	19.5%	12.1%	1.6	9.0%
Ethiopia	19.2%	5.9%	3.3	14.1%
Mozambique	17.0%	13.6%	1.2	12.2%
Egypt	16.5%	10.0%	1.6	9.5%
Rwanda	16.4%	12.7%	1.3	8.0%
Gabon	16.2%	17.5%	0.9	11.9%
Papua New Guinea	15.4%	4.6%	3.3	7.0%
Honduras	13.8%	4.1%	3.3	6.9%
EMBI-GD HY Index	13.7%	6.5%	2.1	9.4%
Angola	12.2%	15.4%	0.8	10.6%
Uzbekistan	12.0%	5.1%	2.4	5.8%
Iraq	11.4%	3.1%	3.7	5.3%
Armenia	11.4%	4.4%	2.6	6.1%
Suriname	11.3%	7.7%	1.5	7.4%
Benin	11.3%	11.2%	1.0	8.2%
Jordan	10.2%	6.3%	1.6	6.9%
Ivory Coast	9.1%	9.5%	1.0	7.9%
EMBI-GD Index	8.6%	5.6%	1.5	7.3%

Conclusion

Emerging market debt spans a large and diverse opportunity set. Investors typically think in terms of hard currency sovereign (EMBI) and corporate debt (CEMBI) as well as local currency sovereign debt (GBI-EM). Frontier EMD is an interesting subset of the EMBI and GBI-EM universe. While frontier countries are often small and relatively less liquid, they offer commensurately higher yields. The pandemic of 2020 damaged many of these countries but they have since made great strides and are now in a much stronger position. Investors should consider opportunistic allocations to frontier markets in order to harvest potentially attractive returns and to aid their overall portfolio diversification.



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