Emerging Markets Debt Blended Total Return

Strategy Update by the Loomis Sayles Alpha Strategies Team

PERFORMANCE

AS OF APRIL 2025	1M	3M	YTD	1Y	3Y	5Y	7Y	INCEPTION[2]
Composite (gross)	0.32%	1.54%	2.77%	7.38%	3.40%	3.19%	2.49%	2.17%
Composite (net)	0.29%	1.38%	2.55%	6.69%	2.77%	2.63%	1.95%	1.63%
Blended Index[1]	0.39%	2.42%	3.88%	8.97%	5.67%	3.08%	2.15%	2.59%
Excess return (gross)	-0.07%	-0.88%	-1.11%	-1.59%	-2.27%	0.11%	0.34%	-0.43%
Excess return (net)	-0.10%	-1.05%	-1.33%	-2.28%	-2.91%	-0.46%	-0.20%	-0.97%

Data Source: Loomis Sayles, as of 04/30/2025
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

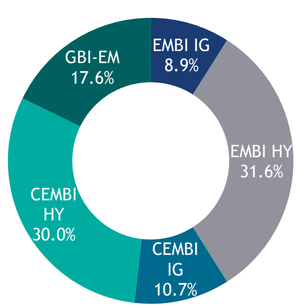
The panel below illustrates the current 'regimes' we are in, either risk-on or risk-off for EM Credit and EM FX, respectively. The regimes strongly influence (but do not mechanistically dictate) top-down asset allocation. Through our research, we have also found that the majority of value-add can typically 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	DETERIORATING	-	04/04/25	IMPROVING
EM FX	RISK-ON	-	05/02/25	DETERIORATING	+	01/31/25	IMPROVING

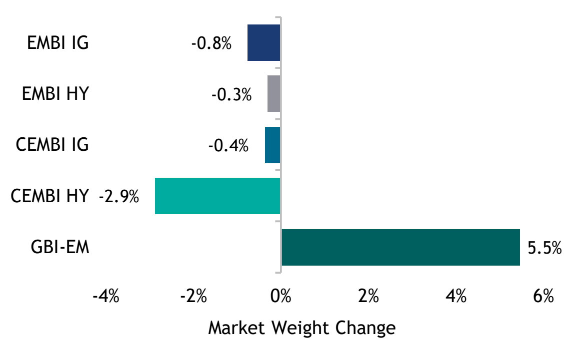
Data Source: Loomis Sayles, as of 04/30/2025
[1] EM Credit (sovereign and corporate) [2] Risk-On = Value OR Momentum (+). Risk-Off = Value AND Momentum (-)
The table presented above is shown for illustrative purposes only. Views and opinions expressed are as of the date indicated and are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.

ASSET CLASS EXPOSURE

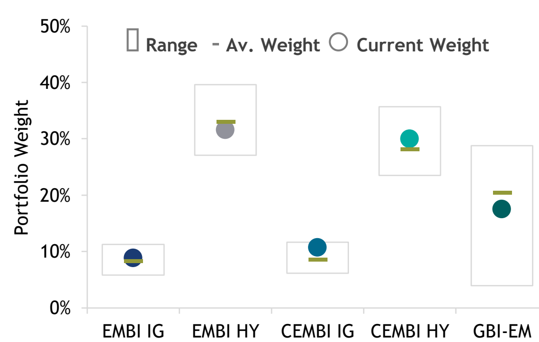
CURRENT WEIGHTS



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 04/30/2025. 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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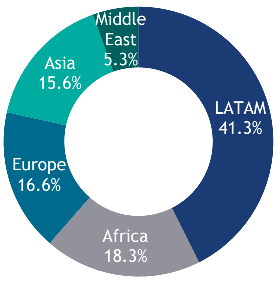
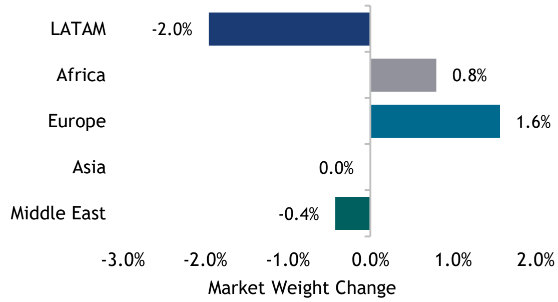
REGIONAL EXPOSURES

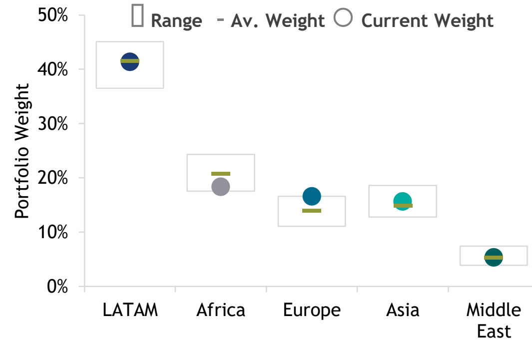
TOP 5 REGION OF RISK (MARKET WEIGHT%)



1-MONTH MARKET WEIGHT CHANGE



12-MONTH PORTFOLIO WEIGHT RANGE



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

Data Source: Loomis Sayles, as of 04/30/2025
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COMMENTARY

APRIL POSITIONING

- Entering April, EM Credit and FX were in risk-on mode despite the market tentatively awaiting the details of “Liberation Day”.
- Local bonds had been the standout performer year-to-date (+4.3% in Q1) as flows begun to shift to non-US assets.
- EM high yield credit spreads widened substantially into the last week of March, signaling investor concerns ahead of the tariff announcements.
- Against this backdrop, we continued trimming lower quality sovereigns and corporates in favor of BBB/A/AA-rated names.
- Portfolio beta was reduced to approximately 0.8 from 0.9 as we migrated further up in quality.

HOW DID APRIL UNFOLD

- The month began with chaos in the Rose Garden. “Liberation Day” proved to be substantially worse than market expectations, altering 100 years of global trade relationships and meaningfully impacting US growth prospects as a result.
- Among the most obvious outcome beyond April 2nd was a continuation of the "sell America" trade. The US Dollar bear market was an example as investors continued to shed US holdings in favor of Euro and emerging market-denominated assets.
- The global market sell-off gathered steam with VIX Index spiking up towards 60 – a level last traded in the August 2024 Bank of Japan intervention period, and before that, March 2020 (COVID). Emerging market assets took a hit, along with every other asset class, as correlations rose with volatility testing crisis extremes.
- We then got a pivot from the White House as President Trump announced a 90-day delay in the higher rates of tariffs for all countries except China. The delay kicked off a series of tariff headlines between the two countries. Despite continued tension between the US and China, emerging market assets retraced some of the sell-off and the UD Dollar continued its trend weaker.
- By mid-month, the narrative was acutely focused on the tariff impact to US growth, raising recession odds, and the rotation out of US assets only accelerated. Emerging markets risk rallied back hard with CCC-rated sovereigns reversing the March/April drawdown and local bonds moving up over 5% on the year.
- We used the mid-month spread widening episode to step back into some dislocated high yield credit risk and added more non-US Dollar exposure, increasing portfolio beta to approximately 1.0.

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 APRIL UNFOLD (CONT'D)

- A new uncertainty entered the market towards month-end, driving 10-year Treasury term premia above 0.80 – levels not seen in over a decade – as Fed independence was called into question when President Trump suggested Chairman Powell should be fired.
- Just as headlines out of Washington seemed to only add cross-asset volatility, Treasury Secretary Bessent spoke at the IMF Spring meetings, tempering market angst by stating the obvious that the current level of tariffs between the US and China was unsustainable.
- Emerging market assets ended April on a strong note, significantly outperforming developed markets on the de-dollarization trade. In real terms, we believe the US Dollar is likely 10-20% overvalued, so a small rotation of institutional capital to rest-of-world is more than reasonable at this stage of the US late-cycle expansion.

MAY POSITIONING

- We are positioned for a risk-on regime with portfolio beta increased to approximately 1.0.
- China is hinting at the possibility of thawing the frosty trade relationship with the US. Despite April's escalation, China's Commerce Ministry expressed willingness to talk tariffs if Washington will show "sincerity".
- Meanwhile, major moves are happening in Asia FX from 1997 financial crisis extremes as markets speculate that trade deals with Asia are on the horizon. While there has been no documented influence by the US Treasury Secretary, we do know Japan, India, Taiwan, and Korea are in active dialogue with the US.
- We also expect the announcement of progress on trade relations with 16 other major foreign trading partners over the months of May and June. If headlines continue to migrate towards the de-escalatory tone that took form the last week of April, we believe we could see risk assets ex-US remain bid, despite lack of clarity.
- The market is once again setting up for a dovish Fed for the remainder of 2025 and into 2026, with potentially 4 interest rate cuts priced over the 12-month forward horizon. All while hard data has yet to line up with downward surprises in survey data, which indicates significant weakness developing in the US as consumption and hiring intentions are pared back by uncertainty. The Fed has maintained their data-dependent stance, so our expectation is they will likely be late to the easing cycle.
- We are on the verge of seeing the largest port delivery drop-off since COVID. In the beginning of May, LA ports activity will be 35% lower year-over-year. While retailer inventories may last 5-7 weeks, if nothing changes meaningfully, we will start seeing fewer selections on shelves, substantial price hikes passed on to consumers, and port worker layoffs.
- In light of this backdrop, we anticipate the rotation out of US assets to continue, even if we do see some one-off trade agreements hit the tape throughout the month. The re-think of the US exceptionalism trade comes not only from the US side of the equation, a stagflationary impulse from trade conflict with lower real policy rates (both of which reduce the relative attractiveness of US assets and associated growth trade). It also comes from the U-turn in German fiscal policy, which provides insulation against a larger rebalancing of FX unhedged US exposure.
- We will need to stay nimble as we navigate various headlines in the weeks ahead with beta with portfolio beta around 1.0.
- We believe some of the key return drivers for the month ahead may include: US TIPS 1-10 year, US Interest Rate Volatility, US Equity Volatility, the US Dollar, and Euro investment grade corporates.

Source: Loomis, Sayles & Co; Bloomberg

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EMERGING MARKETS DEBT BLENDED TOTAL RETURN TEAM

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