EMERGING MARKETS DEBT IN FIVE CHARTS

VIRTUS INVESTMENT PARTNERS

Not the same story as several decades ago

Emerging markets (EM) countries have grown significantly over the past several decades—in terms of both economic progress and advancements in the strength of their institutions. Better monetary and fiscal policies in many EM countries have led to better economic management. This, in turn, has helped to improve capital reserves that allow EM countries to address short-term issues more effectively than in the past and increase their ability to repay debt. Collectively, EM countries have grown more resilient to external shocks, with a greater ability to navigate defaults, geopolitical tensions, and volatility in oil and other commodity prices.

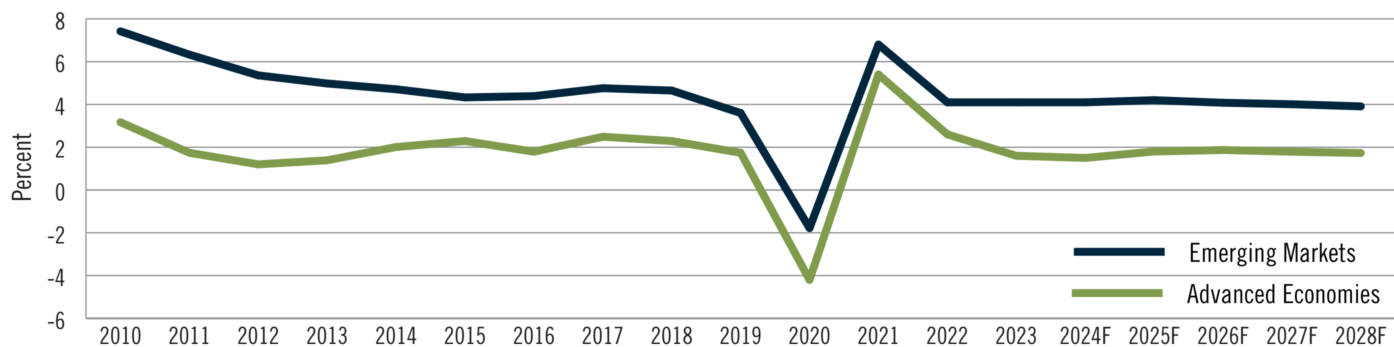
Emerging markets debt seeks to provide strong alpha potential for investors looking to take advantage of a broad investment opportunity set characterized by the following:

1. **Faster growth** and often lower debt levels compared to their developed markets counterparts, combined with improving fundamentals
2. **Relatively low inflation** due to the adoption of sophisticated monetary and fiscal policies, including inflation targets set by independent central banks
3. **Higher real yields**, in most cases, than developed markets
4. **Diversification benefits** across regions, countries, industries, and economic cycles
5. **Attractive valuations,** as current spreads are wide in relative terms (as of April 30, 2024.)

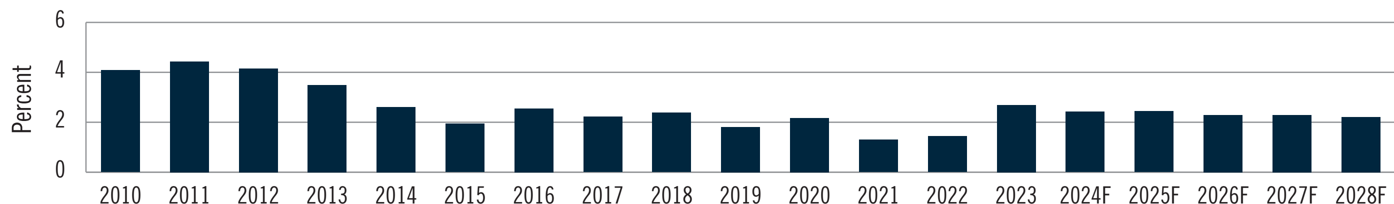
1 Emerging markets continue to grow at a higher rate than developed countries.

The average historical GDP growth rate of EM economies is 5.2%, compared to 1.5% since 2000 for developed economies. Growth forecasts by the International Monetary Fund suggest a further widening of the growth differential over the next two years, with each EM geographic region projected to grow two to three times faster than that of the U.S. At the same time, we also believe that growth outside of the U.S. will likely benefit from ongoing resilience of the U.S. economy. These factors are important because stronger growth often brings positive feedback loops, in our view—supporting fiscal adjustment and improving debt payment capacity for many EM countries.

GDP GROWTH



EM GDP GROWTH ADVANTAGE



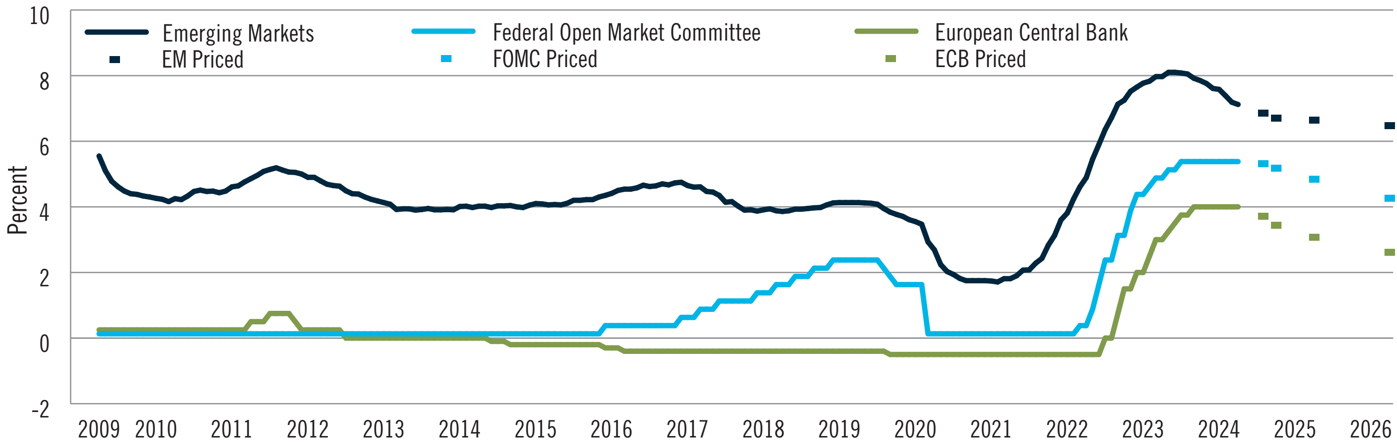
As of April 30, 2024. Source: IMF World Economic Outlook.

2

Many emerging markets countries have room to lower policy rates further, amid global and emerging market disinflation.

Central banks in emerging markets hiked policy rates earlier and more aggressively than their peers in developed markets in response to the sharp spike in inflation levels. An earlier start of the tightening cycle led to significant disinflation and allowed EM central banks to cut rates ahead of many developed markets. The impact of rate hikes on the broad economy was mitigated by low debt levels and high savings. The ability to act proactively and decisively to combat inflation pressures reflect creditable monetary and fiscal policies.

GLOBAL POLICY RATES



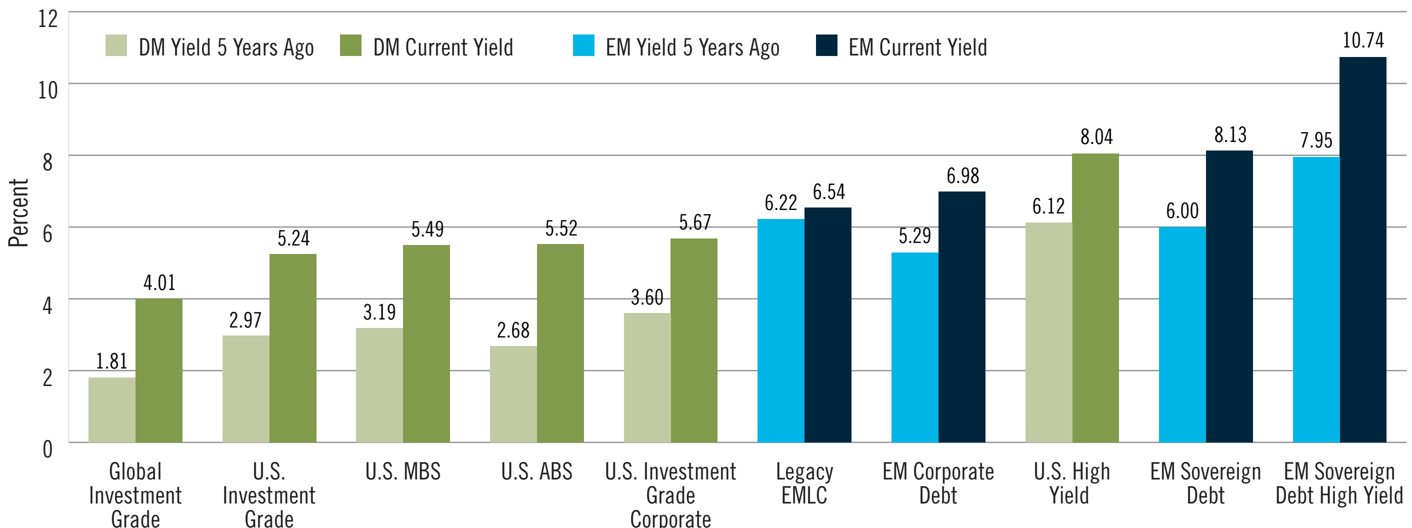
As of April 30, 2024. Sources: Haver Analytics, J.P. Morgan, National Statistics, Stone Harbor Investment Partners. Bloomberg consensus forecast. Information above contains forecasts based on implied forward rates. China, Dominican Republic, Indonesia, Turkey, and Peru are excluded from forecasts. For illustrative purposes only.

3

Emerging markets debt yields remain higher than most developed market (DM) bonds.

While EM government bond benchmarks comprise only 12.5% of the total market value of government benchmark securities, EM bonds contribute over 78% of the yield from government securities globally.

CURRENT YIELD-TO-MATURITY



As of April 30, 2024. Sources: ICE BofA, J.P. Morgan, Stone Harbor Investment Partners. Benchmarks: Global Investment Grade: Bloomberg Global Aggregate Index, U.S. MBS: Bloomberg U.S. MBS Index, U.S. Investment Grade: Bloomberg US Aggregate Index, U.S. Investment Grade Corporate: Bloomberg US Aggregate Corporate Index, U.S. ABS: Bloomberg US ABS Index, Legacy EMLC: J.P. Morgan GBI-EM GD countries in benchmark greater than 10 years, EM Corporate Debt: J.P. Morgan CEMBI BD, EM Sovereign Debt: J.P. Morgan EMBI GD, U.S. High Yield: Bloomberg US High Yield Index, EM Sovereign Debt HY: J.P. Morgan EMBI GD HY. For illustrative purposes only. Indexes defined on page 4.

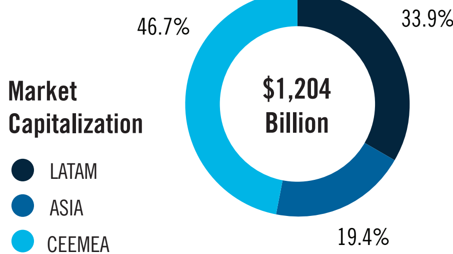
4 Emerging markets offer a diversification advantage.

The widely used U.S. dollar-denominated sovereign bond index, JP Morgan EMBI Global, now covers 70 countries—significant growth from just 10 countries in the early 1990s. The JP Morgan GBI-EM Global Diversified consists of domestic currency government bonds of 20 countries from four geographic regions, and the JP Morgan Corporate Emerging Markets Bond Index tracks U.S. dollar-denominated debt issued by corporate entities in EM countries and encompasses bonds from more than 700 corporate issuers in close to 60 different countries. Each EM country has a different economic, political, and monetary cycle, which allows us to invest where growth is taking place, there is orthodox monetary policy, and a stable, predictable political environment.

Sovereign USD "Hard Currency"

JPM EMBI Global Index

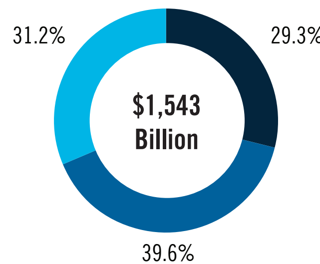
70 Countries
162 Issuers
969 Issues



Sovereign Domestic Currency "Local Currency"

JPM GBI-EM Global Diversified Index

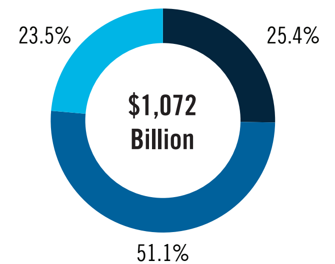
20 Countries
20 Issuers
338 Issues



Corporate Debt USD

JPM CEMBI Broad Index

58 Countries
727 Issuers
1,789 Issues

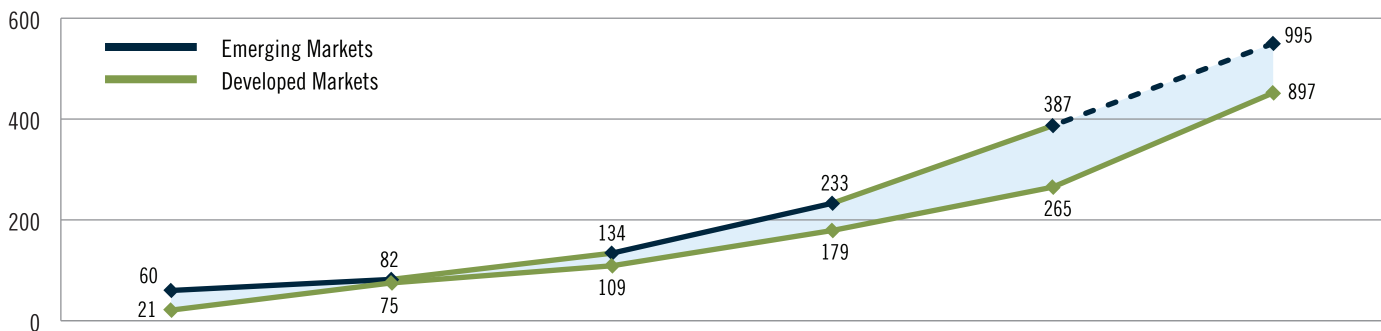


As of April 30, 2024. Sources: J.P. Morgan, Stone Harbor Investment Partners. Indexes defined on page 4. For illustrative purposes only.

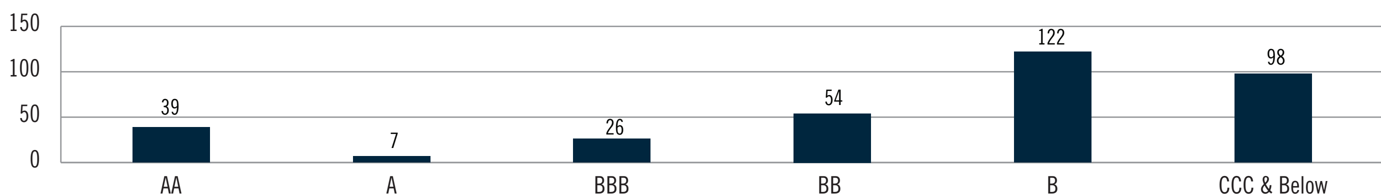
5 The majority of the emerging markets debt market now trades below par and wide to historical spread levels, offering attractive valuations, in our view.

While credit spreads have tightened, better inflation dynamics and growth remain tailwinds for EM credit performance, in our view.

EM AND DM SPREADS



SPREAD DIFFERENCE



As of April 30, 2024. Sources: Bloomberg, Stone Harbor Investment Partners. CCC & Below bonds include performing non-defaulted bonds only. Benchmarks: Bloomberg US Aggregate, Bloomberg US High Yield, Bloomberg EM Aggregate Indexes. Indexes defined on page 4.

Performance

Adding emerging markets debt (EMD) to a fixed income portfolio enhances diversification benefits, the potential for significant yield, and the opportunity to outperform traditional fixed income investments, in our view.

- EMD has outperformed the U.S. Treasury market by over 300 basis points annually for the past 30 years and has outperformed the past 1-, 3-, 5-, 7-, 10-, 20-, and 25-year periods with higher Sharpe Ratios
- EMD high yield has outperformed U.S. Aggregate Bonds and Mortgages over the past 1-, 3-, 5-, 7-, 10-, 15-, 20-, and 25-year periods
- EMD has similar performance to EM equity over the past 25 years, with less than half the volatility

Conclusion

The perception around emerging markets defaults and debt restructuring remains a barrier for some investors. However, the response by many EM countries to the pandemic—the largest market dislocation of the last decade—underscores the strength of their economic and institutional state. For many emerging economies, fundamentals have improved significantly over the last two decades and are supported by fiscal strength and prudent policymaking. In addition, significant support from multilateral and bilateral lenders remains in place for more fragile emerging nations.

Investors seeking to meet income and total return needs may access EM debt through sector-specific portfolios that invest in external sovereign debt, local currency debt, or corporate bonds in specialized mandates, or through blended versions that combine two or more of these sectors. EM strategies can also be managed with specific duration targets and can be tailored as either an investment grade or non-investment grade only portfolio. We strongly believe that market volatility in EM creates investment opportunities that specialists in the asset class with experience navigating through the full credit cycle can seek to exploit. We approach allocations to EM debt in a prudent, disciplined fashion by taking advantage of these episodic dislocations and sporadic dollar rallies to deploy capital. In our view, the additional yield premiums from each sector of the EM debt universe are attractive for fixed income investors.

Authored by Stone Harbor Investment Partners, a Virtus Investment Partner. The commentary is the opinion of Stone Harbor. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

INDEX DEFINITIONS

Indexes referred to herein are broad-based securities market indices. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index. Unless otherwise stated, benchmark performance and characteristics are indicated in this material for information purposes only as the relevant strategy does not intend to track a benchmark. Fund performance and holdings can deviate from the strategy's indicated benchmark. The **Bloomberg Global Aggregate Index** provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the PanEuropean Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment grade 144A securities. The **Bloomberg Mortgage-Backed Securities (MBS) Index** covers the mortgage-backed pass-through securities of Ginnie Mae, Fannie Mae, and Freddie Mac. The MBS is formed by grouping the universe of over 1,000,000 individual fixed rate MBS pools into approx. 5,500 generic aggregates. Each aggregate is a proxy for the outstanding pools for a given agency, program, issue year, and coupon. The index maturity and liquidity criteria are then applied to these aggregates to determine which qualify for inclusion in the index. The **Bloomberg Treasury Index** tracks the obligations of the U.S. Treasury with a remaining maturity of one year or more. The **Bloomberg U.S. Aggregate Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. The **Bloomberg U.S. High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. The **ICE BofA US High Yield Constrained Index (HUC0)** contains all securities in ICE BofA US High Yield Index but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. In the event there are fewer than 50 issues in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis. The **J.P. Morgan CEMBI Broad Diversified** tracks total returns of U.S. dollar-denominated debt instruments issued by corporate entities in emerging market countries and consists of an investable universe of corporate bonds. The minimum amount outstanding required is $350 mm for the CEMBI Broad Diversified. The CEMBI Broad Diversified limits the weights of those index countries with larger corporate debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding. The **J.P. Morgan EMBI Global (EMBIG)** tracks total returns for U.S. dollar-denominated debt instruments issued by emerging markets sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. The **J.P. Morgan EMBI Global Diversified (EMBI Global Diversified)** limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global. The **J.P. Morgan EMBI Global Diversified High Yield** tracks total returns for U.S. dollar-denominated debt instruments issued by emerging markets sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds that have a rating of BB and below. The **J.P. Morgan GBI-EM Global Diversified** consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. The weightings among the countries are more evenly distributed within this index.

Sharpe Ratio measures the efficiency, or excess return per unit of risk, of a manager's returns. It is calculated by taking the portfolio's annualized return, minus the annualized risk-free rate (typically the 30-Day T-Bill return), divided by the portfolio's annualized standard deviation. The greater the Sharpe Ratio, the better the portfolio's risk adjusted return.

IMPORTANT RISK CONSIDERATIONS

Market Volatility: The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended. **Equity Securities:** The market price of equity securities may be adversely affected by financial market, industry, or issuer-specific events. Focus on a particular style or on small, medium, or large-sized companies may enhance that risk. **Foreign & Emerging Markets:** Investing in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **Diversification:** There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio, or that diversification among different asset classes reduces risk. **Geographic Concentration:** A portfolio that focuses its investments in a particular geographic location will be sensitive to financial, economic, political, and other events negatively affecting that location.

Not FDIC Insured	May Lose Value	Not Bank Guaranteed

Past performance is not a guarantee of future results.

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