BlueBay Emerging Market Unconstrained Bond Strategy 3-year review

January 2025

Polina Kurdyavko
Head of Emerging Markets,
Senior Portfolio Manager

BlueBay Fixed Income Team

Performance (%, gross of fees, USD, as at 31 December 2024)

	1YR	3YR	5YR	10YR	SI
Strategy (net)	11.66	6.43	5.18	5.26	4.96
50/50 sovereign market (blended benchmark)	2.01	-0.90	-0.84	1.92	2.75

Source: RBC GAM, as at 31 December 2024, in USD. Strategy inception date: 20 July 2010. The 50/50 blended sovereign market is: 50% JPM EMBI Global Diversified Index and 50% JPM GBI – EM Global Diversified Index (USD unhedged). The strategy does not have a benchmark. The 50/50 blended sovereign market is provided for illustrative purposes only. **Past performance is not indicative of future performance**. Returns may increase or decrease due to currency fluctuations. All returns for periods greater than one year are shown on an annualised basis.

At a glance:

- A 'best ideas' approach to EM debt investing, without the constraints of a benchmark.
- Dynamic management of investment themes across EM interest rates, currencies and credit.
- Managed by a 26-strong team of highly experienced EM specialists.

Exceptionally strong results over a 3 year-period

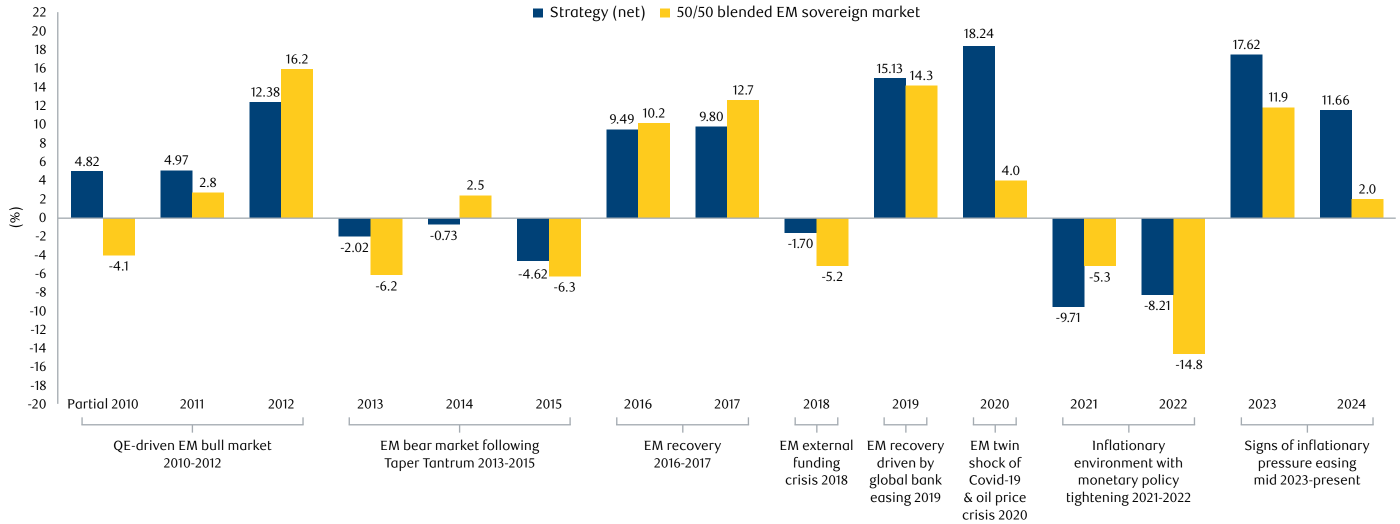
When compared with the shadow benchmark, the BlueBay Emerging Market Unconstrained Bond Strategy has returned outstandingly strong results for the three years ending 31 December 2024. Despite a period of heightened uncertainty with shifting economic and monetary policies, as well as growing geopolitical tensions impacting markets, the strategy has been successful in generating alpha in both positive and negative market beta years.

During this period, the strategy has been particularly successful in identifying and taking advantage of positive turnaround stories within emerging markets (EM); in particular, higher yielding sovereign names that having survived the shocks of the past few years, grown reserve buffers, and reduced near-term liquidity stress, aided by restored market access and bilateral and multilateral support. These include countries such as Argentina, Egypt, El Salvador, Tunisia and Pakistan – all of which have strongly contributed to alpha.

This theme has also been replicated on the corporate side, where declining default rates on the back of improved profitability and lower leverage have seen a number of EM corporates benefit. On the other hand, avoiding pitfalls like Russian assets in the lead-up to and following the invasion of Ukraine, and selectively investing in Ukraine as the likelihood of peace talks increase, have all proven to be beneficial.

> "The strategy has been particularly successful in identifying and taking advantage of positive turnaround stories within emerging markets (EM)."

A compelling 10-year plus track record spanning multiple market cycles



Source: RBC GAM, as at 31 December 2024. This strategy does not have an official benchmark and is actively managed. The 50/50 blended sovereign market is: 50% JPM EMBI Global Diversified Index and 50% JPM GBI – EM Global Diversified Index (USD unhedged). **Past performance is not indicative of future results**. The return on your investment may increase or decrease as a result of currency fluctuations if your investment is made in a currency other than that used in the past performance calculation. Fees and other expenses will have a negative effect on investment returns.

- As the chart above shows, the strategy has been tested across market cycles over its 10-year plus track record, delivering compelling, risk-adjusted, long-term returns and showing resilience through key market events.
- This return profile is consistent across various time periods and business cycles. **On a trailing 3-year basis, the strategy has captured on average 103.93% upside, while capturing only 50.79% of the downside when compared to the 50/50 blended EM sovereign market.**

Source: RBC GAM, as at 31 December 2024.

Current themes and positioning

On a top-down level, we have a positive risk bias to EM credit and local rates, while on the FX side we are being more cautious.

In credit, we expect the spread compression theme to continue in 2025 and given the falling default rate outlook, we are selectively biased towards issuers in the higher yielding segment of both the corporate and sovereign market. At a country level, we are long select higher yielding countries that demonstrate economic improvement or have made progress towards securing new funding. As we are comfortable with the credit risk, we look to be able to generate high yields within the portfolio, which should create a buffer against market volatility.

On the corporate side, we see plenty of alpha generation opportunities across the various sectors. We are long a number of attractively valued quasi-sovereign names in LatAm where we see improving fundamentals and expect a continuation of sovereign support. Another sector that stands to benefit from the supportive external backdrop is Transportation, given a normalisation in oil prices is likely to reduce operational costs and consumer demand is expected to remain robust. Other sectors that look attractive include Macau gaming on the back of the recovery theme in Asia, and Turkish banks and financials which have significantly strengthened their balance sheets since the 2018 crisis.

On the local rates side, we remain constructive. EM rates performed well in 2024. We expect this trend to continue as EM rates (especially across LatAm) offer significant pickup relative to DM peers with regard to average real rates and should offer better risk-adjusted returns over the medium term. In FX, we are being cautious and prefer a more selective approach. We expect the USD to remain relatively firm in the beginning of 2025, as the risk of tariffs as well as inflationary fiscal policy under Trump remain high. However, we would view any significant EM currency weakness on the back of these factors in the early part of 2025 as a buying opportunity.

Outlook

Looking ahead to 2025, the geopolitical backdrop could pose new questions for some EM issuers,but opportunities for others. In the near term, markets will look to adjust to the new U.S. administration, with the implementation of President policies being a key focus. Shifts in trade dynamics, fiscal priorities, and geopolitical strategies could introduce volatility to global risk assets, including EMD. However, for long-term investors, we believe the structural arguments supporting EMD's outperformance remain firmly intact: high yields, strong fundamentals, and attractive relative valuations.

1. Strong fundamentals driving EM credit spreads

- Despite global challenges in recent years, such as supply chain disruptions, inflationary pressures, and geopolitical uncertainties, EM economies have demonstrated resilience. Many EM countries have implemented sound fiscal and monetary policies over the last few years, building stronger macroeconomic foundations that will lower gross financing needs. As a result, we have seen a decisively positive trend in EM sovereign ratings in 2024, which is likely to extend to 2025.

- Similarly, after an elevated default cycle in 2022 and 2023, the EM corporate universe net leverage is close to historic lows, with cash-to-total debt significantly higher than developed market (DM) counterparts. Within this backdrop, we expect that spreads will continue to be driven by the underlying default outlook, which is likely to be well below historic averages for 2025.

2. Local rates outperformance while FX more differentiated

- EM local markets bore the brunt of the repricing heading into and following the U.S. elections, driven by the stronger USD. On the whole, with interest rates in the U.S. likely to remain higher for longer under Trump's fiscal and economic policies, EM currencies could see broad pressure. In EM FX, we are being cautious and prefer a more selective approach. For now, the USD does not appear to be a great funding currency, and therefore investors are likely to approach local markets from the perspective of other funding currencies away from the USD.

- On the local rates side, we remain constructive. EM rates performed well in 2024. We expect this trend to continue as EM rates (especially across LatAm) offer significant pick-up relative to DM peers with regard to average real rates, and should offer better risk-adjusted returns over the medium term. Central and Eastern Europe (CEE) is another region that remains attractive, with countries such as Poland offering attractive relative value, supported by tight fiscal policies and robust growth prospects, and Hungary, where we expect to policy rates to be cut more than priced in.

While volatility is an ever-present risk in EM, it can also create opportunities. An active, tactical approach to EMD, one that is nimble and adaptable to changing geopolitical dynamics, could provide investors with unique opportunities. For investors, we continue to advocate a strategy that adds active exposure to EM over a period of time, thus averaging out some of the volatility.

Why BlueBay for EM Debt?

- **Deep experience:** as a team, we have been investing in EM debt since 2002, with over USD11.9 billion in dedicated AUM.
- **Tried and tested:** our high conviction, 'best ideas' approach has been tested across market cycles, over its 10-year plus track record.
- **Compelling results:** we believe our strong, risk-adjusted, long-term returns and excellent peer rankings are testament to the effectiveness of our strategy.

A large, experienced team of EM sovereign and corporate strategists:

11 regional and sector specialists	19 years of average experience	26 investment professionals
22 years of track record in EM debt	3 traders	9 portfolio managers
300+ Issuers	98 countries	12 sectors

Source: RBC GAM, as at 31 December 2024.

Lead managers

Polina Kurdyavko

Head of Emerging Markets, Senior Portfolio Manager, BlueBay Fixed Income Team

Anthony Kettle

Senior Portfolio Manager, Emerging Markets, BlueBay Fixed Income Team

Brent David

Senior Portfolio Manager, Emerging Markets, BlueBay Fixed Income Team

RBC Global Asset Management (U.S.) Inc.
800.553.2143 | **rbcgam.com**