

GAM Multibond - Local Emerging Bond

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Market environment

Following a challenging October for emerging market debt markets, November saw some degree of stability, albeit ongoing strength in the US dollar continued to act as a headwind to local currency bonds. The JP Morgan Government Bond Index Emerging Market (GBI-EM) Global Diversified Index ended the month -0.57% lower. At the country level, Brazil, Uruguay and Romania were among the underperformers, while Colombia and Turkey outperformed, with the latter reflecting the effects of high interest rates pushing down inflation, while the improving current account deficit further helped sentiment.

Performance

The strategy produced good relative returns during the month, outperforming the benchmark by 16 basis points, with a return of -41 basis points (C USD) for November.

In gross terms and from a top-down angle, November's performance primarily reflected the negative effect of FX exposure, partly offset by a positive contribution from Rates and, to a lesser extent, the effect of Carry.

From a bottom-up perspective, negative relative contributions resulted from our aggregate allocations to Brazil, Thailand, Malaysia and Indonesia. These were in part offset by exposure to South Africa and Mexico, as well as returns from USD cash and cash equivalents.

Positioning

In allocation terms, we again engaged in only a handful of select adjustments to our positioning – both from a top-down and bottom-up angle. We are now short emerging markets (EM) duration, albeit slightly long duration in beta-adjusted terms, while broadly neutral weight in EM FX.

Our allocations remain structured around the following unchanged cyclical top-down themes:

- Overweight EM Rates in countries with steeper yield curves, positive real yields and a sustainable fiscal outlook
- Underweight EM Rates in countries with low/negative real yields
- Overweight EM FX where balance of payments fundamentals appear most solid and/or in countries that are best positioned to outperform the global economic and/or commodity price cycle
- Underweight EM FX where balance of payments fundamentals and/or fiscal/monetary policy are most challenged
- Underweight or avoiding markets exposed to adverse political and/or economic event risk

Outlook

At the outset, 2025 looks like being a challenging year for our asset class, and the main issue is identifying which challenge is biggest. China's economy has been the motor for the commodity exports that drive many EM, and it seems clear that 2024's stagnation has not been enough to trigger the sort of aggressive policy response which has lifted the economy in the past. The Trump administration in the US is set on derailing the decades-long drive to globalise that has been a driver of EM progress. The European economy remains moribund, and Europe is the only credible driver for global growth that does not produce a stronger US dollar – an environment in which EM currencies invariably struggle.

On the positive side, cyclical drivers are, if not positive, at least not obviously negative. Growth in the US remains robust and reasonably balanced, though has been dependent on loose fiscal policy without recent precedent. The post-Covid inflationary surge does look to have been transitory. Bond markets are pricing very



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substantial rate cuts – larger than the expected cuts at the start of previous cutting cycles, but these do not look outlandish.

In summary, the biggest challenge for investors appears to be keeping faith with a group of countries that – dollar-denominated debt aside – have often disappointed in recent years, in the absence of an obvious catalyst for a rally. The biggest opportunity is that, with the exception of China, most of these challenges are prospective and may not actually happen, while in the meantime, valuations look attractive.

For more information, please visit GAM.com

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JPMorgan GBI-EM (Government Bond Index-Emerging Markets) Global Diversified Composite Index is a comprehensive global local emerging markets index that consists of regularly traded, liquid fixed-rate, domestic currency government bonds and includes only the countries that give access to their capital market to foreign investors (excludes China, India and Thailand). This index is unhedged USD.

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