RBC Global Asset Management

BlueBay Emerging Markets High Yield Corporate Bond Fund (Canada)

Commentary as at June 30, 2025

Emerging-market bonds performed well in the first half of 2025 as investors became more optimistic that U.S. President Donald Trump's plan to impose high tariffs would not have as dire an impact on the global economy as had been feared. Following a tariff-related sell-off in April, financial markets posted strong returns, with European and emerging markets leading the way.

The Fund's holdings in Mexico, Turkey and Argentina aided relative returns. Performance was held backby the Fund's investment in Azul, a Brazilian airline, and a lack of exposure to some countries in Asia.

An investment in Petroleos Mexicanos, the state-owned oil and gas company, performed well in May and June after Mexico's president, Claudia Sheinbaum, said she would announce a long-term plan to address the company's high debt levels and falling production. The Fund's allocation to Turkish bonds aided relative returns after investors reassessed the impact of President Erdogan's decision to arrest one of his main political opponents.

Argentina reached a loan agreement with the IMF in April that included a larger-than-expected upfront payment to the country's treasury, providing support for Argentine assets. The Fund's significant exposure to Argentine bonds had a positive impact on returns.

Azul, filed for bankruptcy protection after negotiations with bondholders, lessors and major investors. The airline, which continues to operate, agreed to convert some of the company's bonds into equity, an outcome that was perceived negatively by creditors, and the bonds plunged. Elsewhere, the Fund's lack of exposure in China, Philippines and Singapore was negative.

Some near-term risks are beginning to ease, with tensions in the Middle East calming and meaningful progress being made on negotiations regarding tariffs. As a result, investors have shifted their attention back to economic data, which has so far proven more resilient than initially expected. Policymakers at the U.S. Federal Reserve (the "Fed") have signaled the likelihood of two interest-rate cuts this year, and investors appear to believe that the Fed is more likely than not to cut rates. The main risks remain signs of a continued economic slowdown, higher-than-expected inflation and renewed geopolitical tensions. Against this backdrop, we expect a favorable environment for emerging-market fixed income in the months ahead.

The decline in the U.S. dollar in recent months is particularly helpful for emerging-market borrowers because it helps to moderate inflation and provides room for emerging-market central banks to lower interest rates. These rate cuts, in turn, improve growth prospects by lowering local borrowing costs.