BlueBay Emerging Markets 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 returns were bolstered by overweight positions in emerging-market sovereign bonds issued by Colombia, Venezuela, Mexico, Morocco and Romania. An underweight allocation to Ukraine had a positive impact on the Fund’s returns, as hopes for a swift Trump-brokered peace deal or ceasefire in the war with Russia faded. Holdings in Pemex, 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 holdings of Mexico’s sovereign bonds also aided the portfolio’s returns. Holdings in Colombian sovereign debt, which traded at deeply discounted levels at the beginning of the period, recorded price increases on optimism that next year’s elections will result in the installation of a more business-friendly government.

During what was a strong six months for the market, positions that hindered returns were those where the Fund had relatively limited exposure. These included Indonesia, China, Bahrain, Saudi Arabia and Qatar.

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.