

BlueBay Emerging Markets Local Currency 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. Emerging-market assets denominated in local currencies performed particularly well as the U.S. dollar fell across the board.

The first half of 2025 was exceptionally strong for local-currency assets given the U.S. dollar's decline and investors' desire to diversify away from U.S. amid concern that Trump's approach to trade would ultimately hurt the U.S. economy.

The Fund's relative returns were aided by the positive impact of foreign-exchange positions, including overweight allocations to the Egyptian pound, Chilean peso and South Korean won. Additional contributors to the Fund's returns were the South African rand and the Brazilian real, which rebounded from a weak end to 2024, and the Fund sold some holdings in both at a profit. On the other hand, portfolio underweight allocations to the Colombian peso and Thai baht were negative.

The Fund's investments including local-currency bonds and interest-rate swaps – contracts that let investors exchange cash flows to modify exposure to certain assets – had a mixed impact on returns. These investments aided performance in Brazil, Peru, China and South Africa but had a negative impact in Turkey, India and Malaysia.

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 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.

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