

BlueBay Emerging Markets Corporate Bond Fund (US\$)



Commentary as at December 31, 2023

Emerging-market corporate bonds had a positive year. Returns were bolstered by a combination of high yields and an especially strong rally in prices for lower-quality corporate bonds.

The Fund's Brazilian allocation contributed significantly to performance as an agreement to restructure the debt of Samarco, a key metals and mining company, bolstered returns. Performance also came from overweight positions in several Ukraine corporate issuers as Europe and the U.S. moved closer to a decision about using frozen Russian assets to pay for post-war reconstruction of the Ukrainian economy. The Fund's allocation to Argentine sovereign and corporate bonds also aided returns value due to the election victory of President Javier Milei, who promised economic reforms and a significant reduction in the budget deficit.

Allocations to the Chinese Real Estate sector limited performance, as the country's economy continued to struggle and defaults in the sector remained high. Underweight allocations to high-quality assets in Indonesia, Thailand, the Philippines, and Singapore also hurt performance.

The portfolio manager believes that there are several trends supporting higher-yielding bonds and those issued by emerging-market governments and companies. Among these trends are lower-than-average issuance, which could lead to scarcity that drives up prices. The second is that emerging-market default rates are projected by the portfolio manager to come down in the coming year. Finally, recent economic data indicate that inflation is slowing more quickly in Europe than in the U.S.

The portfolio manager notes, however, that emerging-market assets could come under pressure in 2024, as contentious elections in the U.S. and in key emerging markets such as South Africa create concern for investors.

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