VanEck®

February 2023

# The year for EM bonds

# or

# China reopening plus high carry good for EM bonds

Eric Fine, Portfolio Manager/Head of Active EM Debt

# Outlook Summary



## I. Economic landscape supportive of EM bonds

- Carry a growing driver
- EM fundamentals are relatively strong

## II. Market landscape supportive of EM bonds

- In credit, HY sovereigns look cheap, HY corporates and IG do not
- In local, Latam looks cheap
- Duration mattered more than credit quality, so far

## III. Curated EM bonds are winners

- Once allocations to bonds begin, EM debt discussion is inevitable

## IV. The bottom line

- Portfolio implications/summary

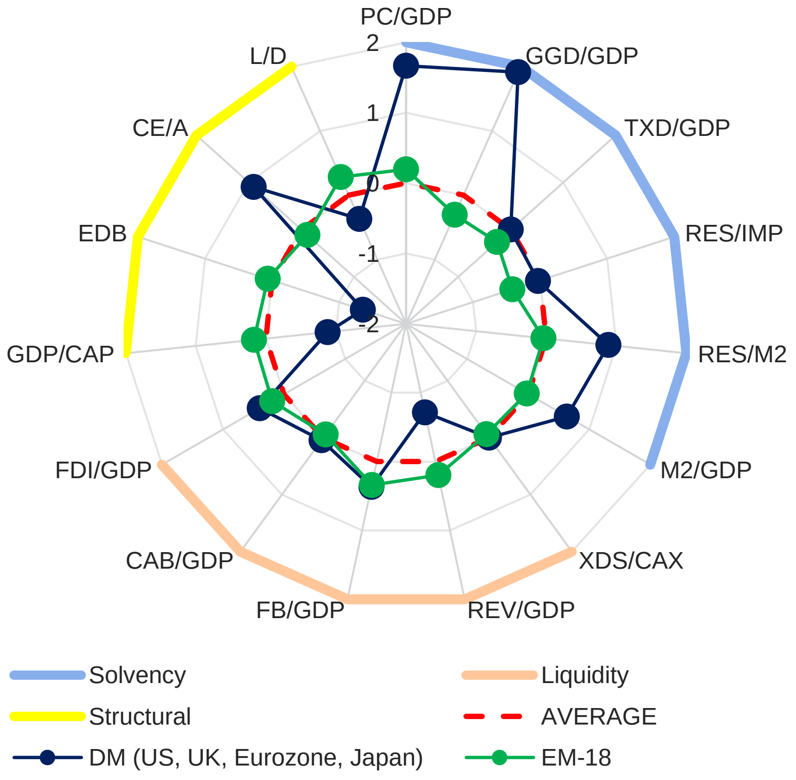
# I. Economic landscape supportive of EM bonds

# Economic landscape – EM fundamentals strong overall

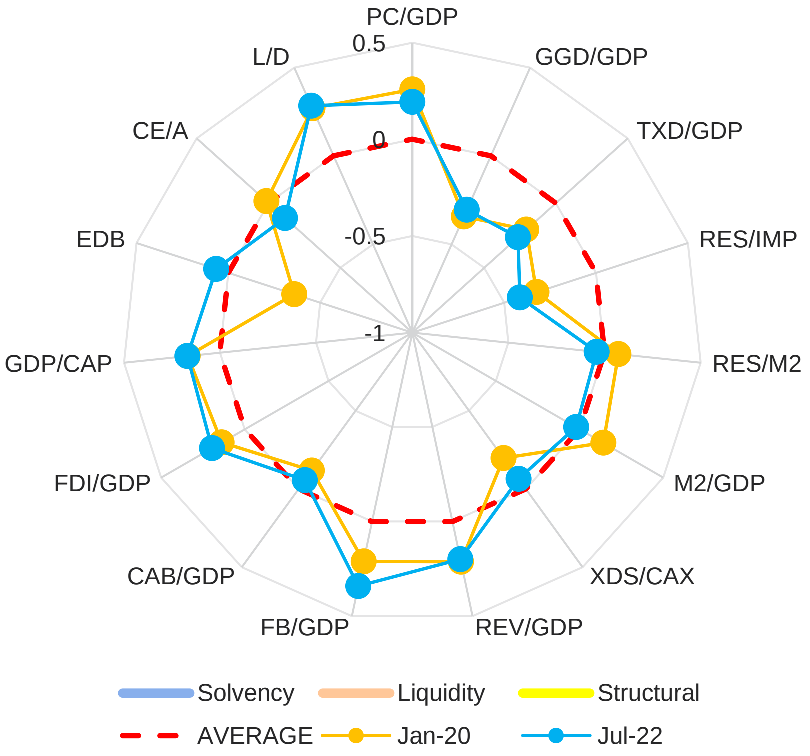


- DM continues to have high government and private debt, low “reserves”, and leveraged banking systems
- EM fundamentals across a range of metrics look better/similar now compared to the pre-COVID snapshot
- EM post-pandemic fundamentals continue to look much better than DM post-pandemic fundamentals across a range of metrics

**EM vs. DM in 2022**




**EM - Before And After COVID**




**Source:** VanEck Research, IMF, Moody’s, World Bank; Bloomberg LP. Data as of December 2022.

# Economic landscape – China re-opening

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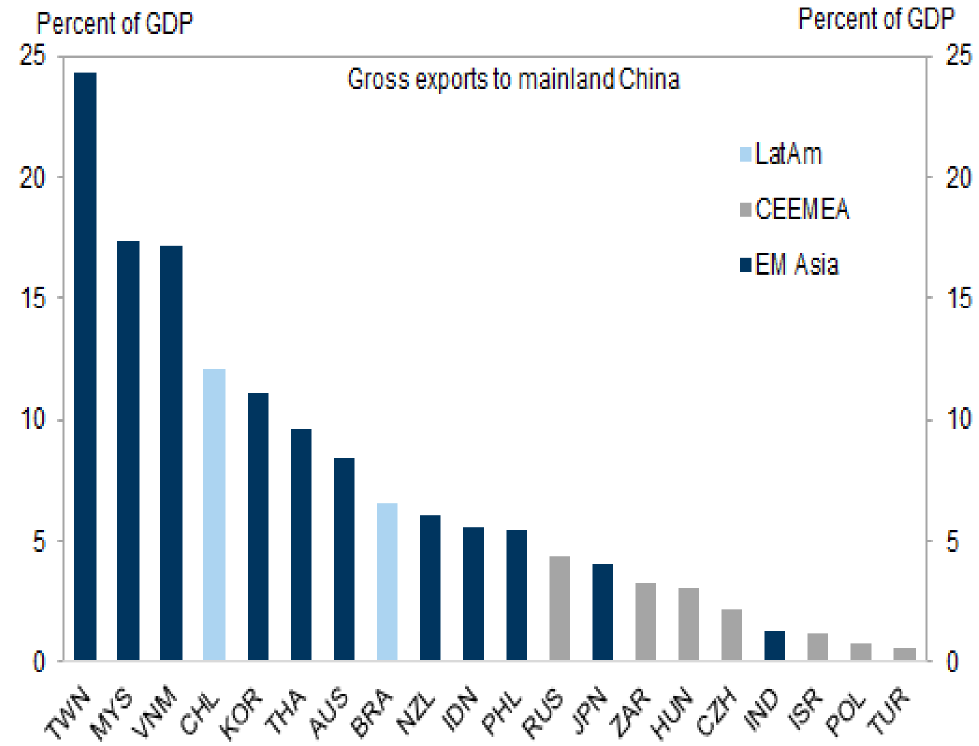
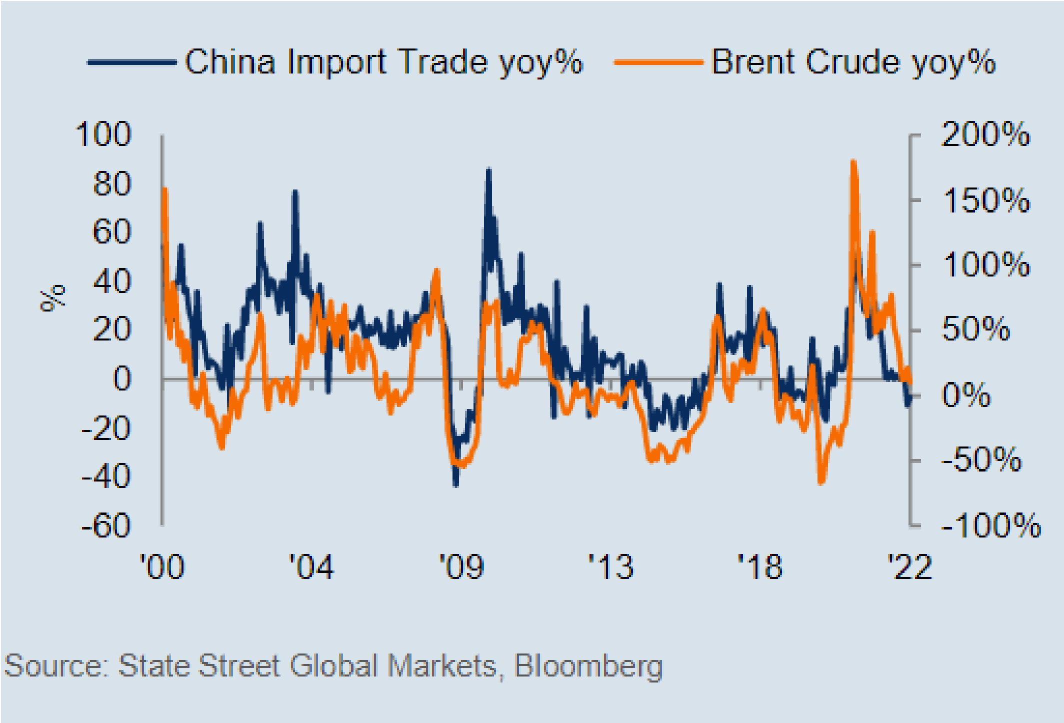
- China re-opening remains unpriced
- Direct repercussions for commodities and ROW growth




Source: Haver Analytics, Goldman Sachs Global Investment Research




**Source: Goldman Sachs (left);** State Street (right). Data as of January 2023.

# Economic landscape – debt levels favor EM

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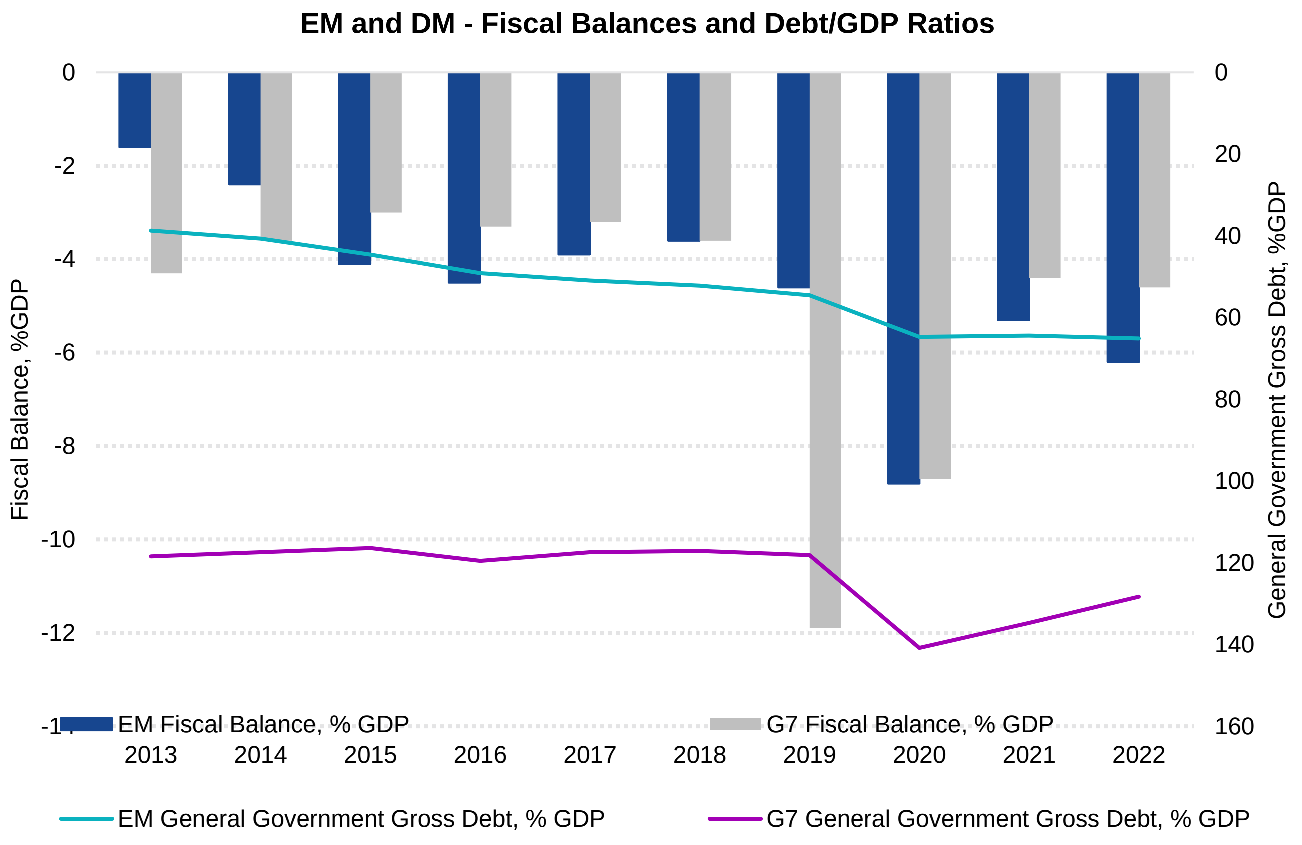
- EM debt levels remain below DM




**Source:** IMF. Data as of October 2022.

# Economic landscape – external accounts favor EM

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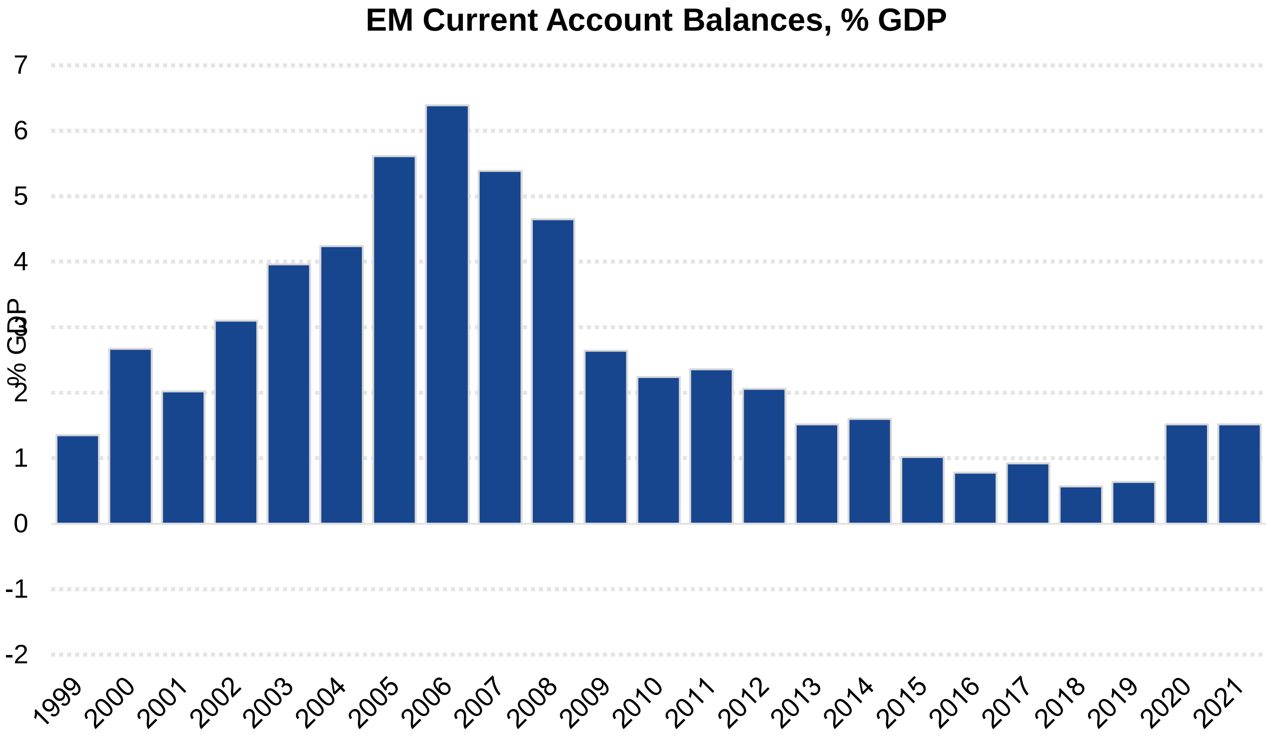
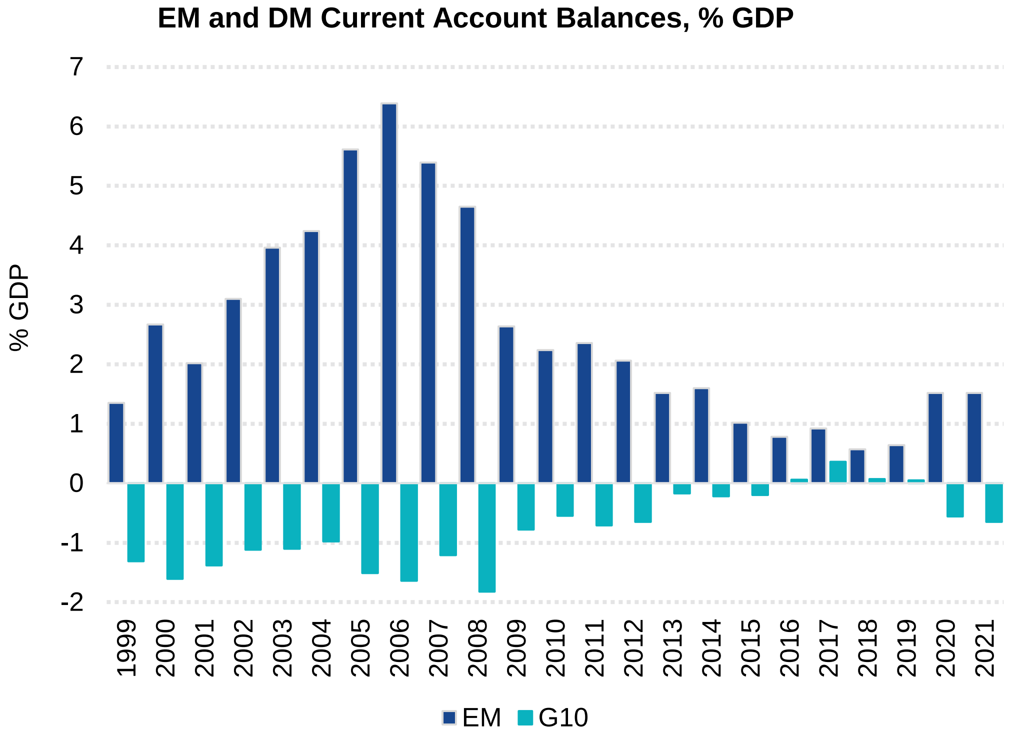
- EM current account surpluses are at the highest level since the European crisis of 2012-2013
- This is significantly better than the onset of pre-COVID Fed hiking cycle



# Economic landscape – external accounts favor EM

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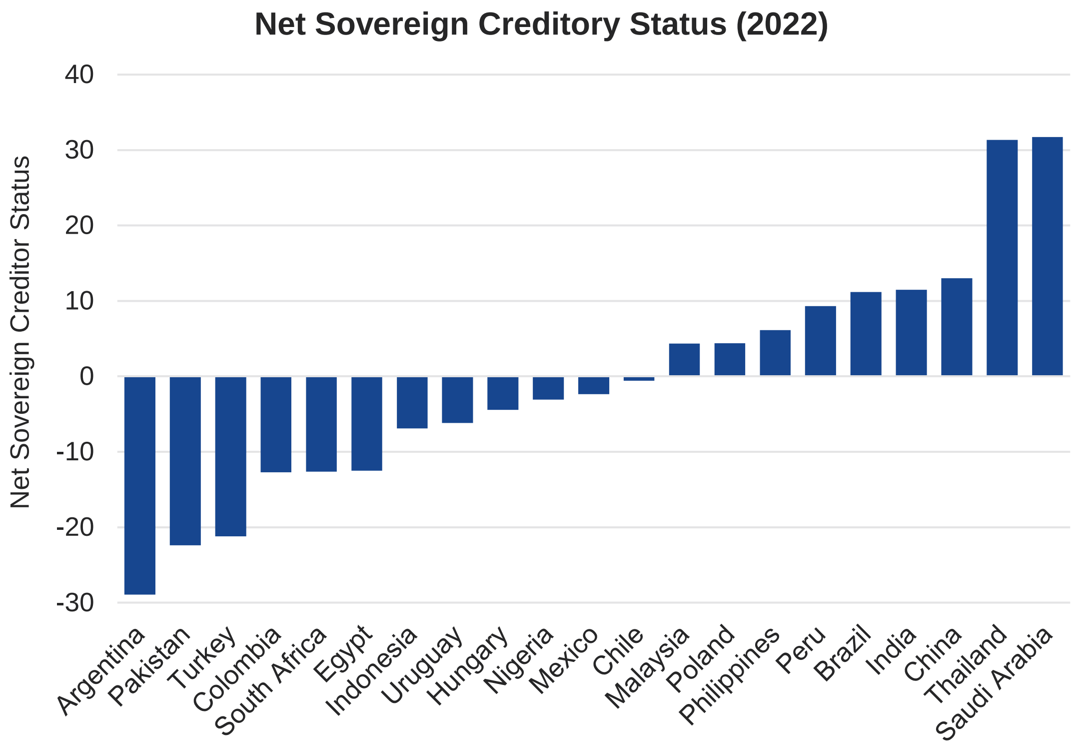
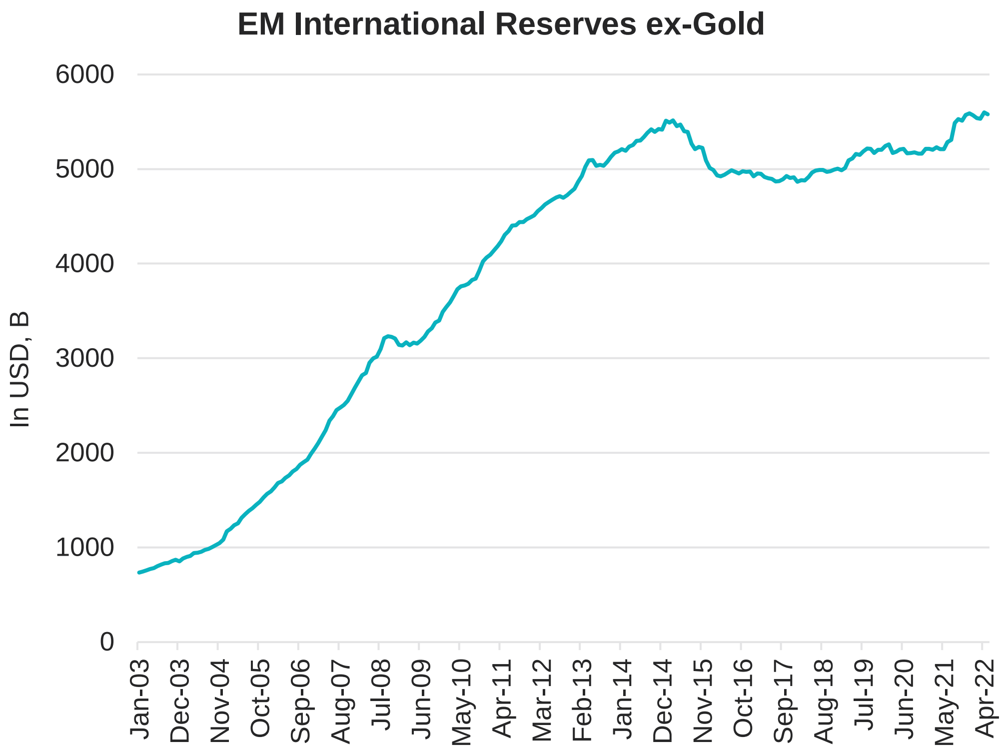
- This is especially the case of better-rated “mainstream” emerging markets
- There are plenty of EMs, which are sovereign net creditors
- EM international reserves are at a multi-decade high – despite the COVID crisis




**Source: VanEck Research; Moody’s (left chart); Bloomberg LP (right chart).** Data as of July 2022.

# Real Rates Very High in EM vs. DM

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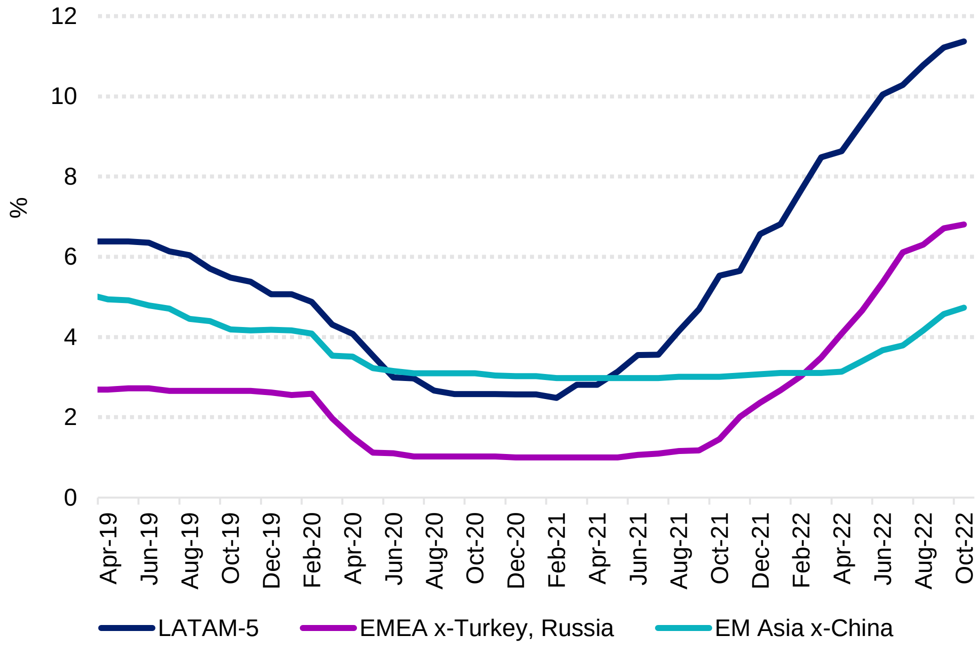
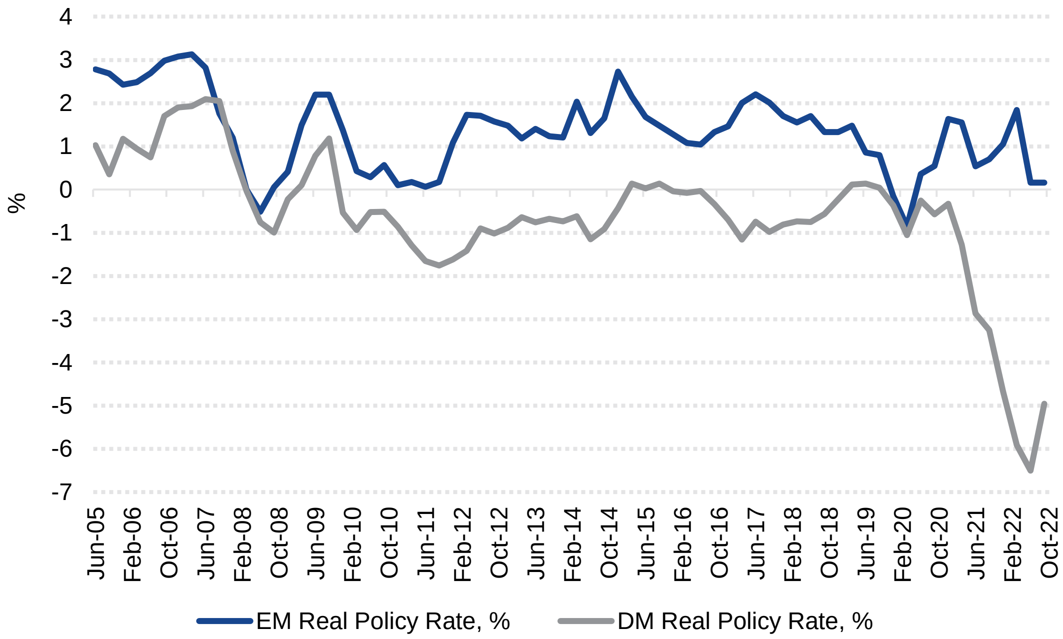
- The market always demanded that EM pay higher "insurance premium" in the form of higher real rates
- The nominal policy rates in EM are currently above the pre-pandemic level, and the real policy rate is roughly in the same ball park as before COVID
- However, the extent of the market's forgiveness of DMs' policy transgressions (hugely negative real policy rates) is really quite extreme
- EM real policy rates are incredibly high compared to DM real policy rates.

**EM Nominal Policy Rates, %**




**Ex-Post Real Policy Rates in EM and DM, %**




**Source:** VanEck Research; Bloomberg LP. Data as of October 31, 2022.

# External and Fiscal Accounts EM vs. DM

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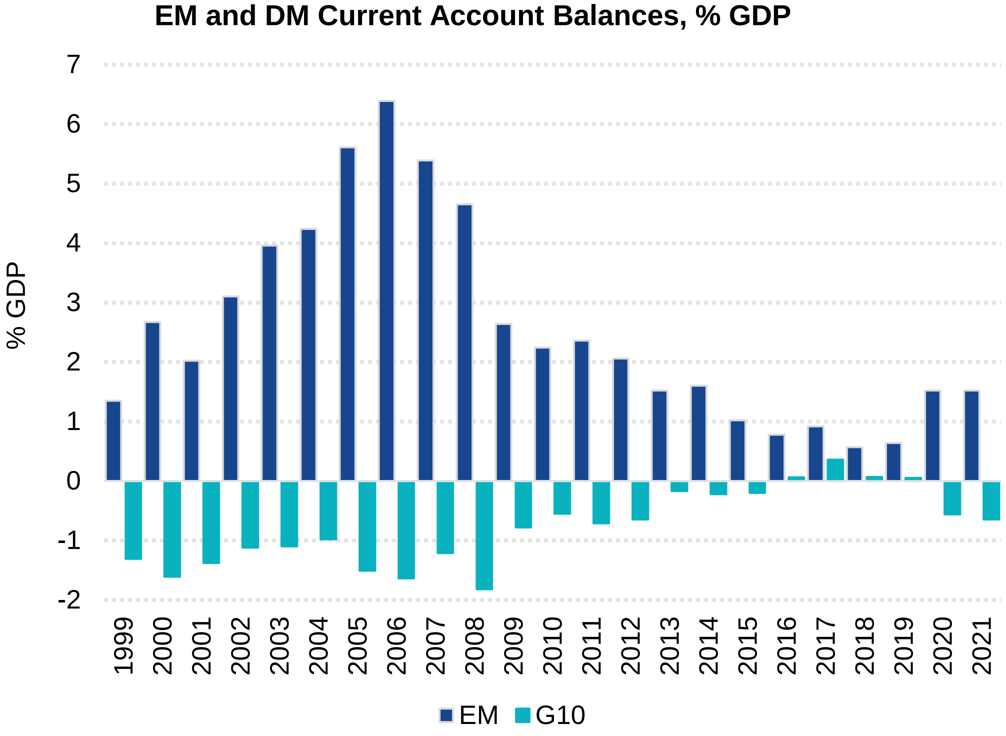
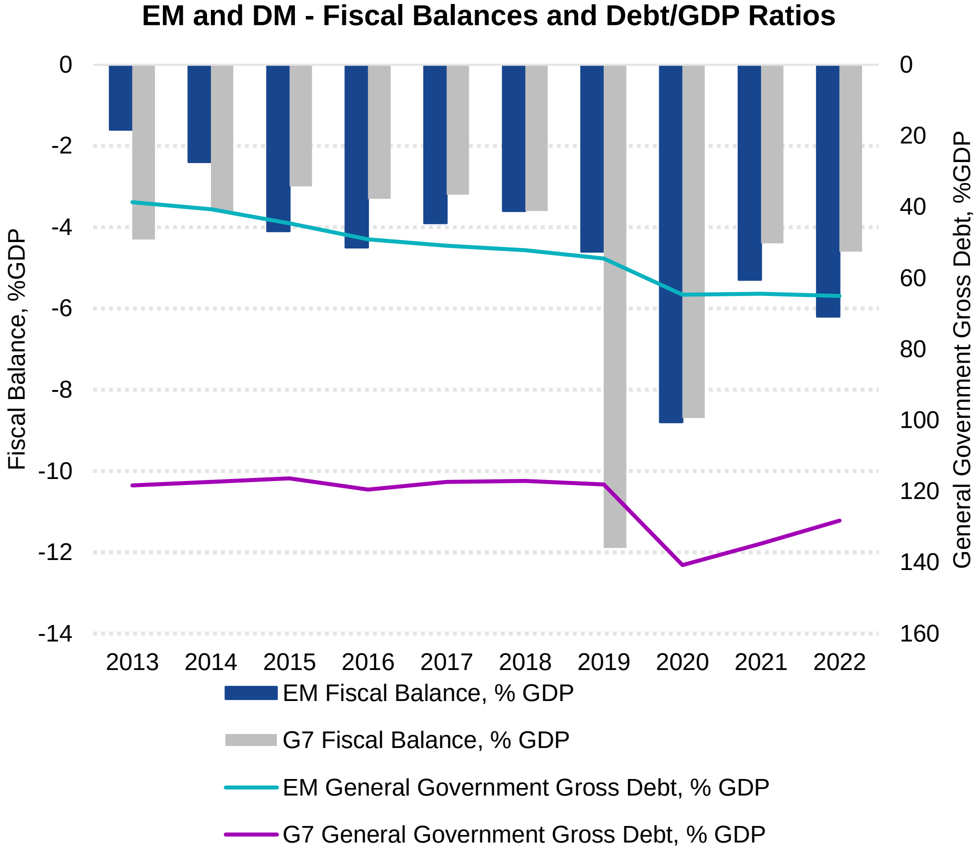
- External surpluses in EM are high
- Deficits and Debt, especially, in DM are high




**Source:** VanEck Research; Bloomberg LP. IMF Fiscal Monitor. Data as of October 2022.

# EM Hiked Earlier and More in the Current Cycle

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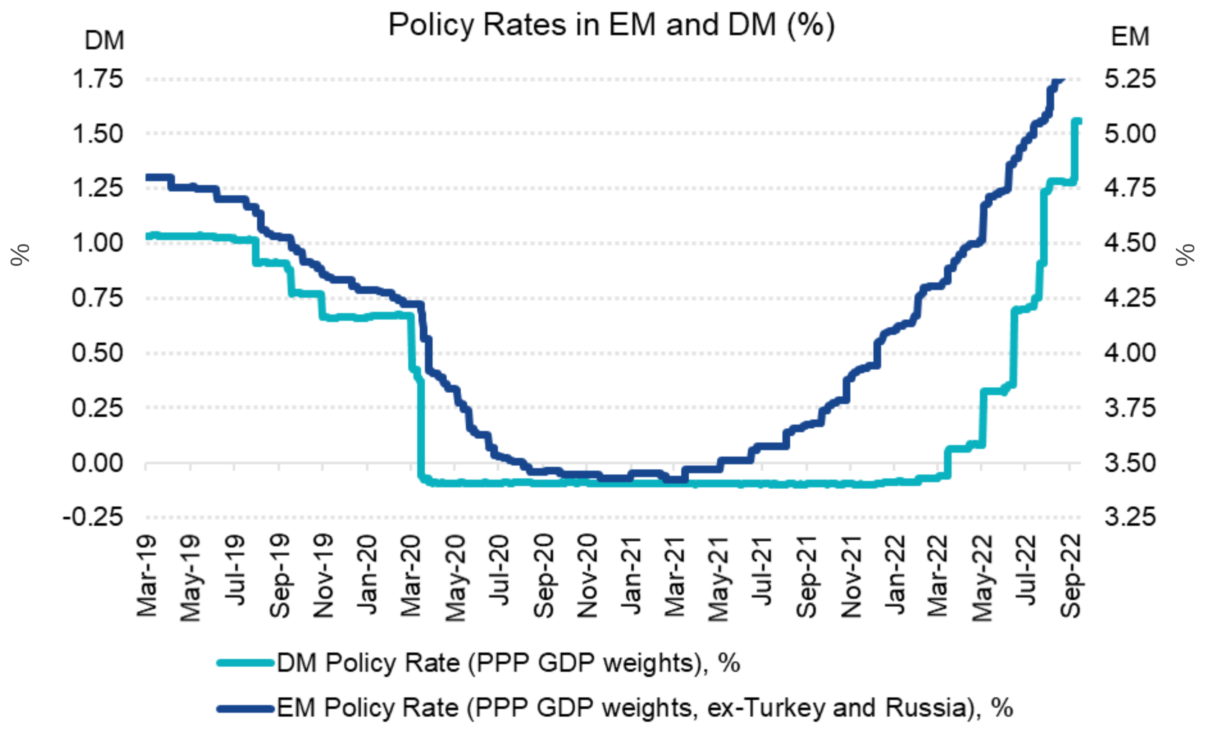
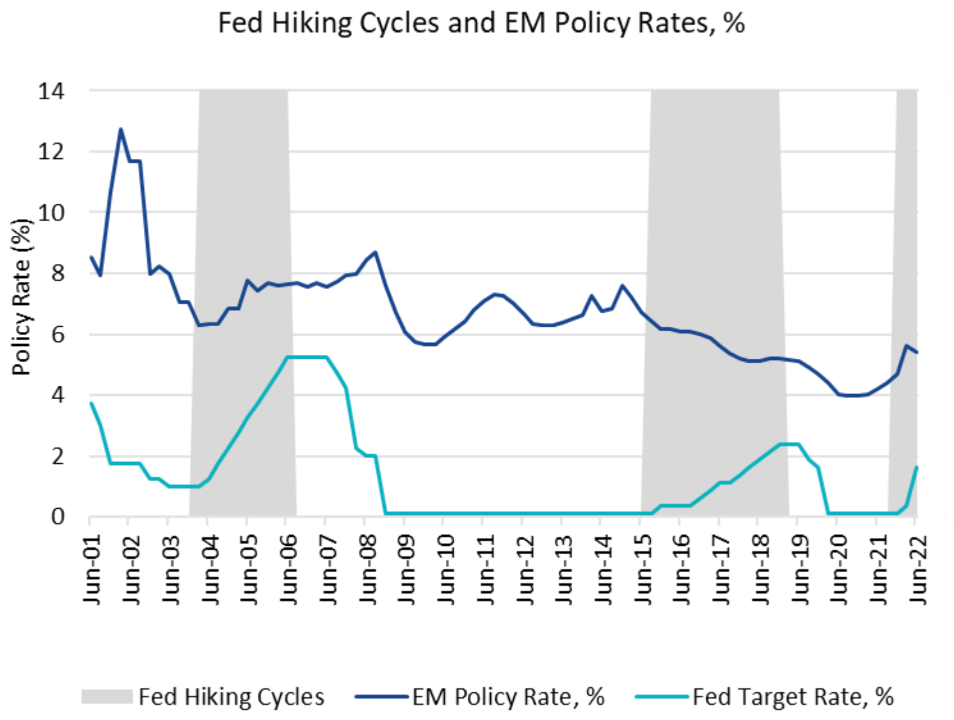
- The current global tightening cycle is unusual in the sense that it was led by emerging markets, which started hiking much earlier than the Fed in order to address rising inflation pressures




**Source:** VanEck Research; Bloomberg LP. Data as of September 2022.

# The rise of a commodity currency bloc

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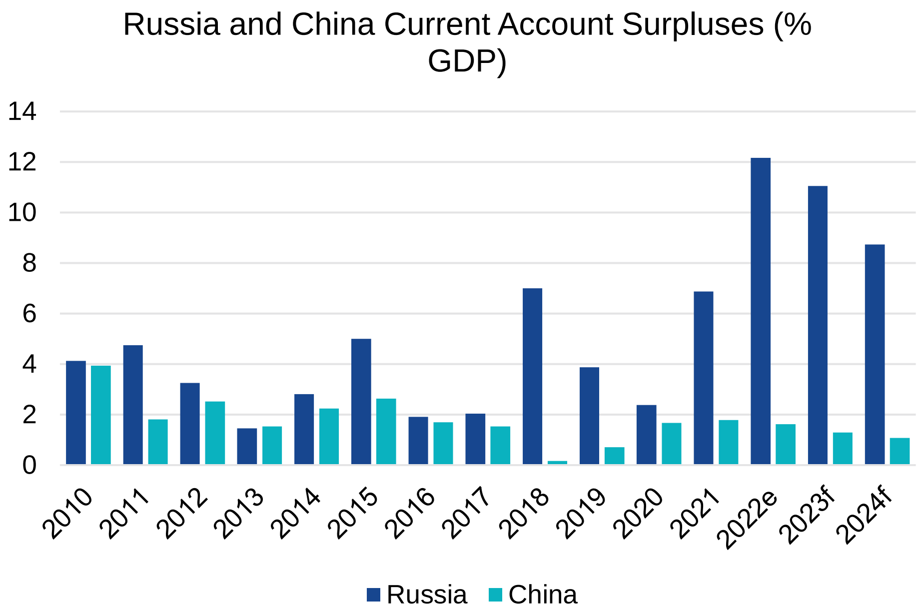
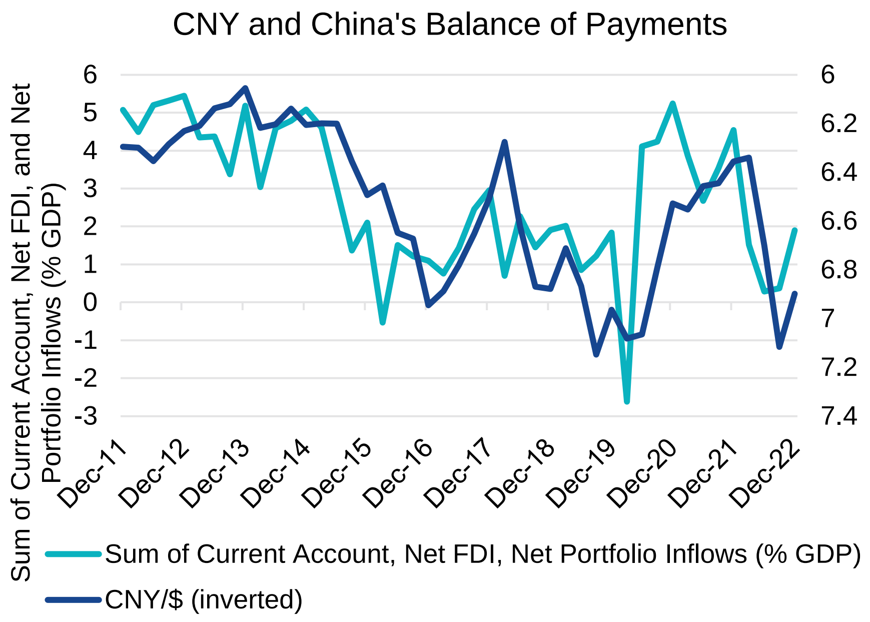
- DMs will never abandon the sanctions regime, in our view
- China will likely get caught in the sanctions web
  - But, the solve-for is CNY…China can and will keep it stable, we believe – barring unusually high portfolio outflows
- So, countries with large current account surpluses (Russia and China) are being forced into a currency bloc
- These currencies will become commodity-based currencies, we think
- EMFX strength as anti-inflation weapon




**Source:** VanEck Research; Bloomberg LP. Data as of January 2023.

# II. Market landscape supportive of EM bonds

# Market landscape – Investment Grade (IG)

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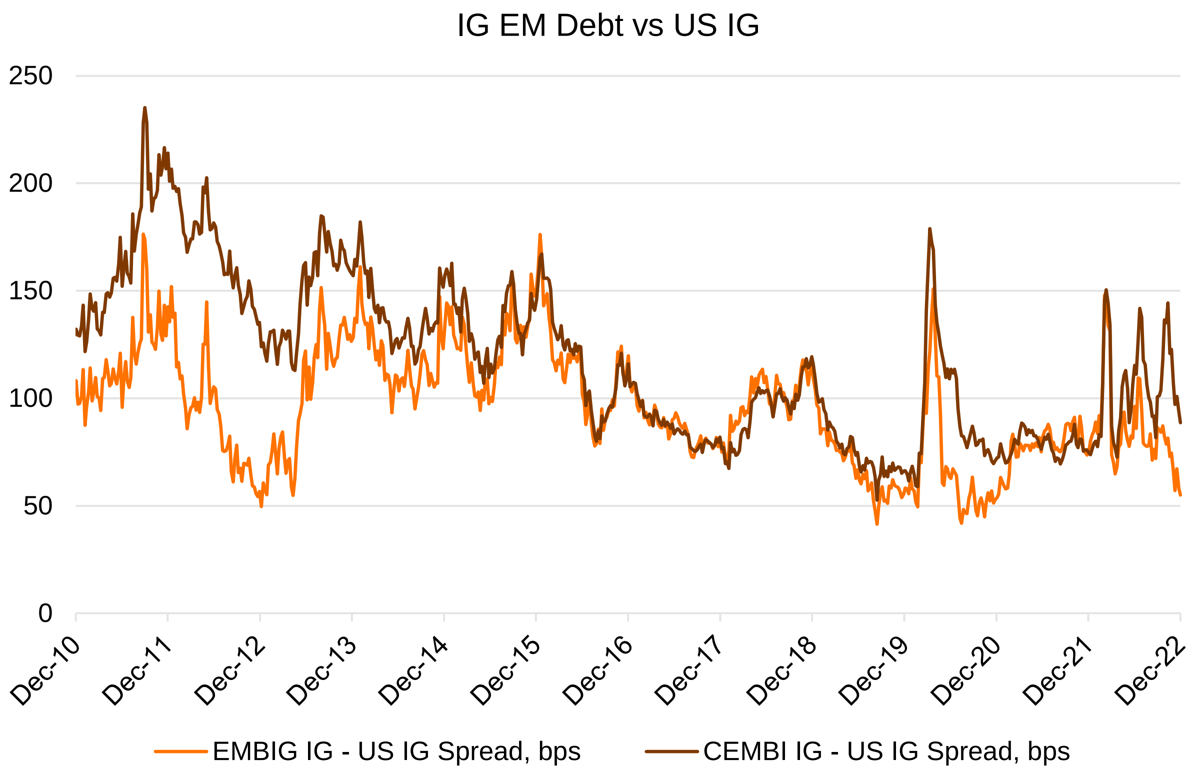
- Investment Grade (IG) “looks” unattractive
- EM Sovereign and Corporate IG (minus US IG) at long-term low spreads
- EM IG Sovereigns do have selected long-duration, low-beta, high carry, low USD price, asymmetric convexity if you can find it.




**Source:** VanEck Research; Bloomberg LP. Data as of December 2022.

# Market landscape – High Yield (HY)

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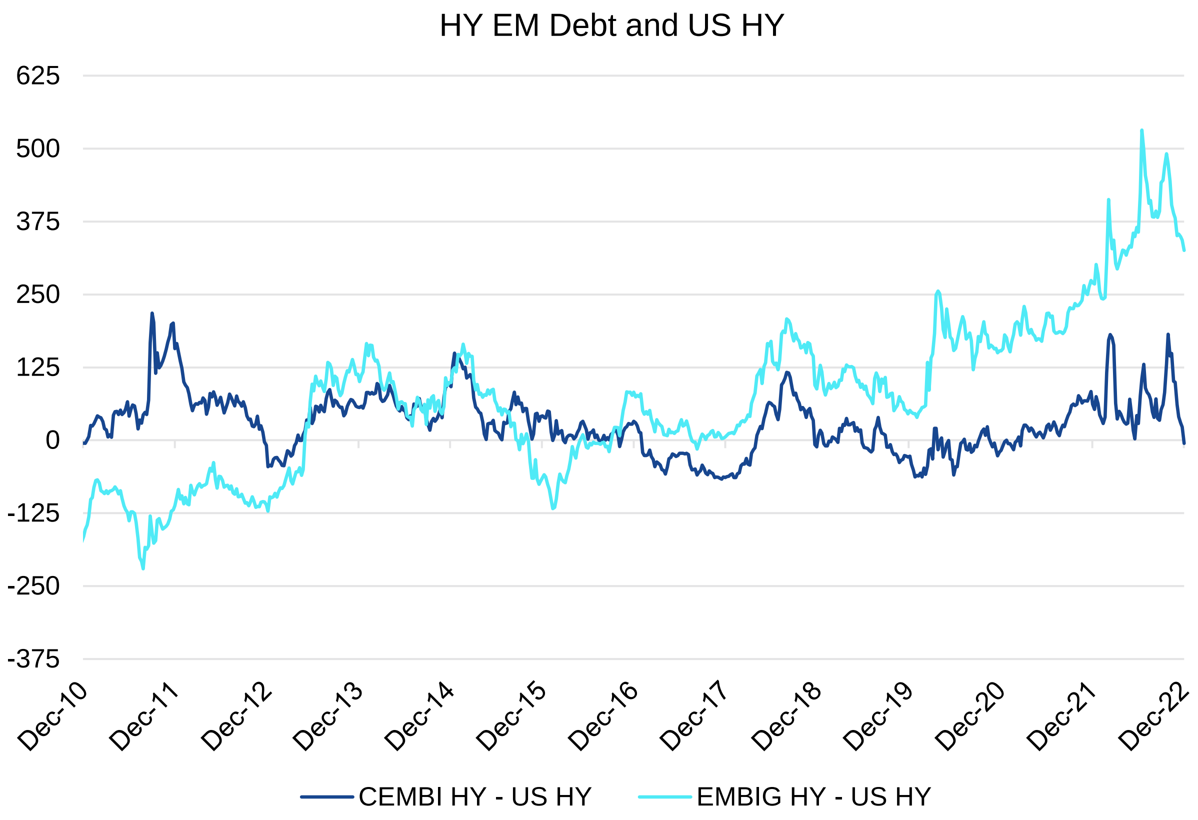
- EM Sovereign HY (minus US HY) still near crisis highs, EM Corporate HY spreads (minus US HY) near lows
- EM HY Sovereigns “look” cheap
- EM High HY Corporates don’t “look” cheap

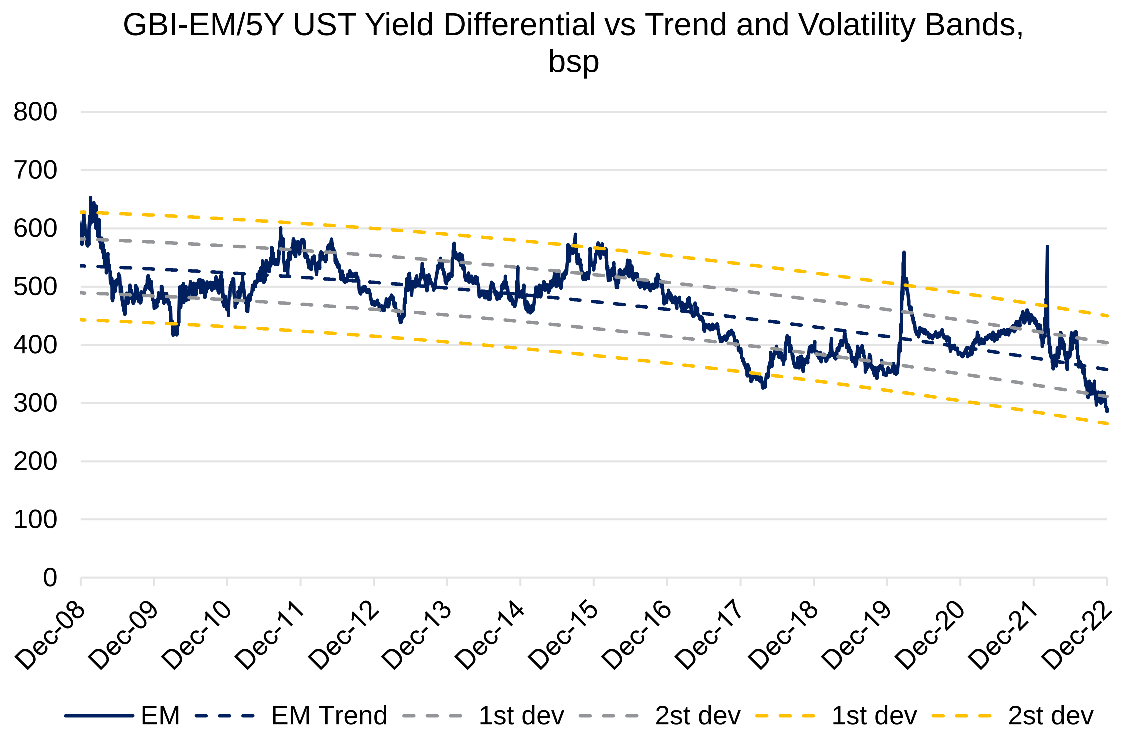


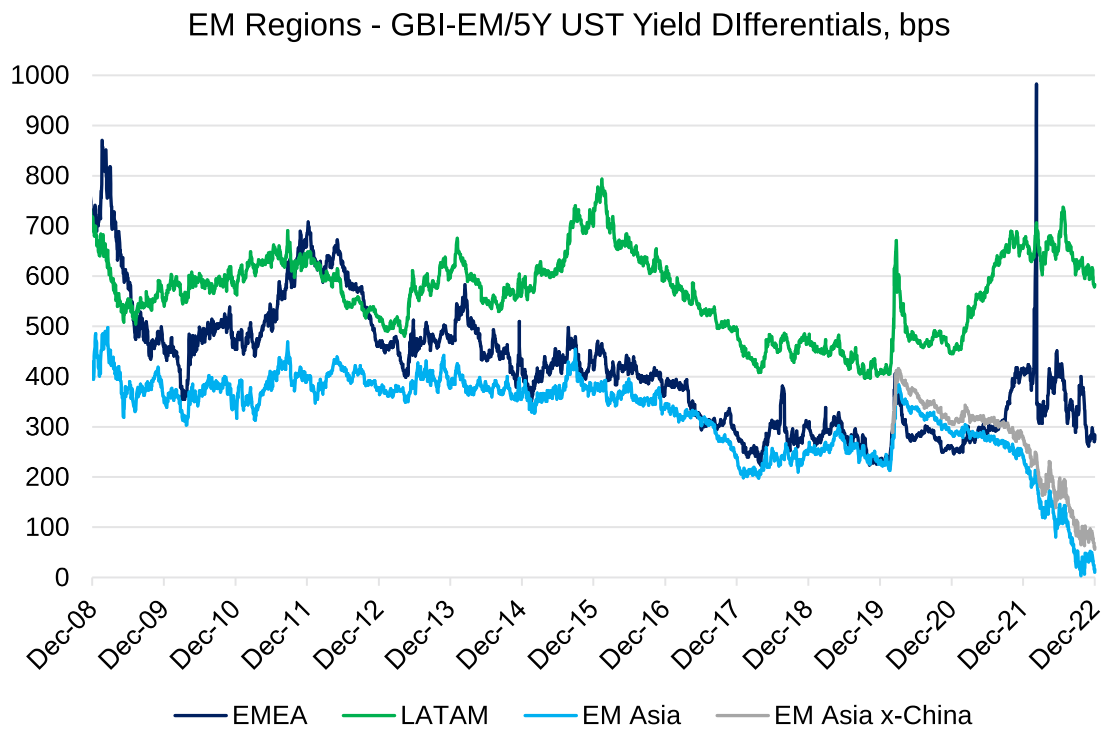

**Source:** VanEck Research; Bloomberg LP. Data as of December 2022.

# Market landscape – local currency



- Overall, EM local still not “looking” cheap
- But the top-line data obscure important developments, such as the significant cheapening in Latam
- And Asia appears to be in a re-rating/graduation process based on secularly-improving fundamentals



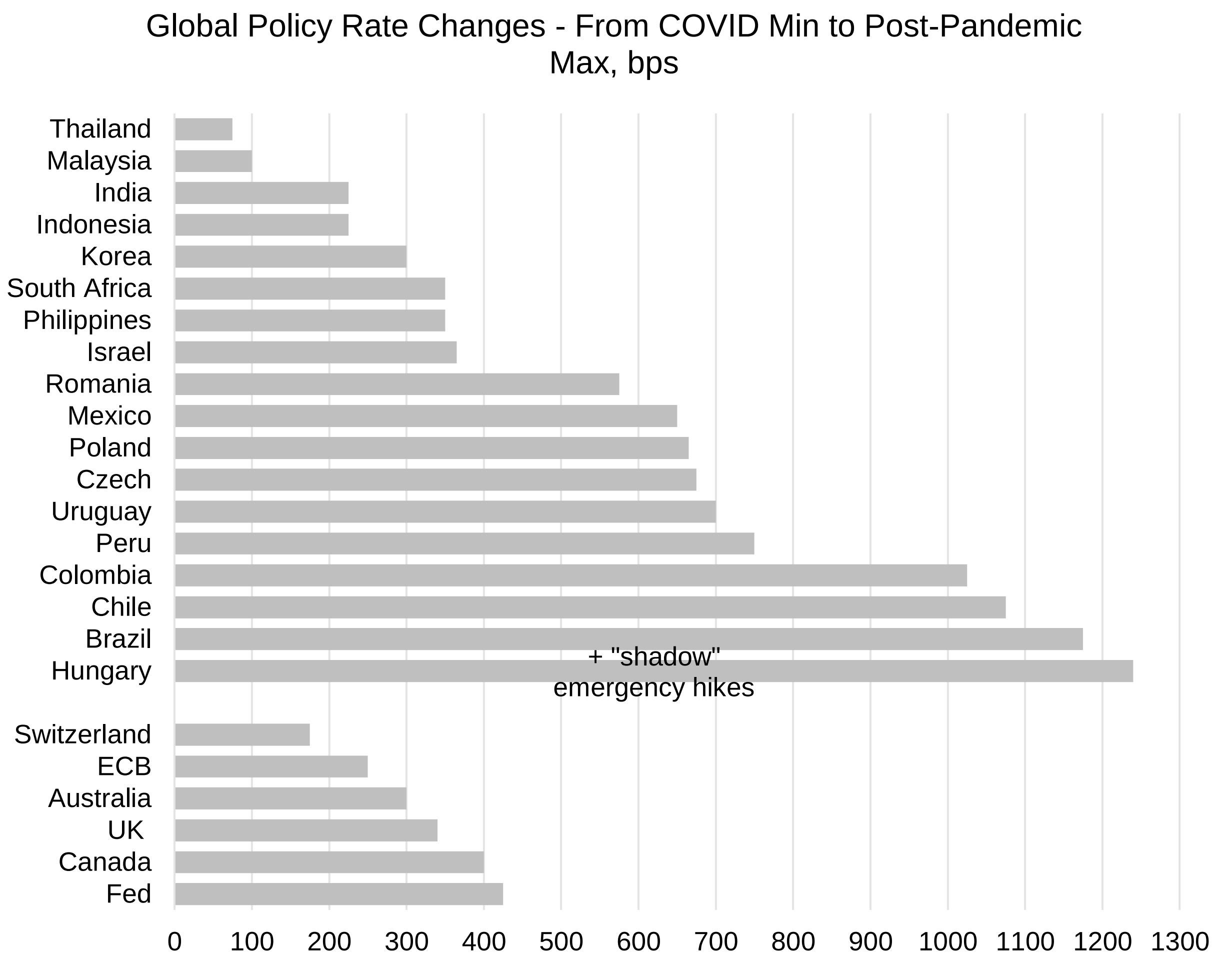




**Source:** VanEck Research; Bloomberg LP. Data as of December 2022.

# EM hiking “champions”



- EM average policy rate hides important differences among individual countries
- Several key EMs hiked very aggressively – exceeding the amount of cumulative rate hikes in major DMs by a very wide margin
- Some EMs – like Brazil – had the steepest hiking cycle in nearly two decades

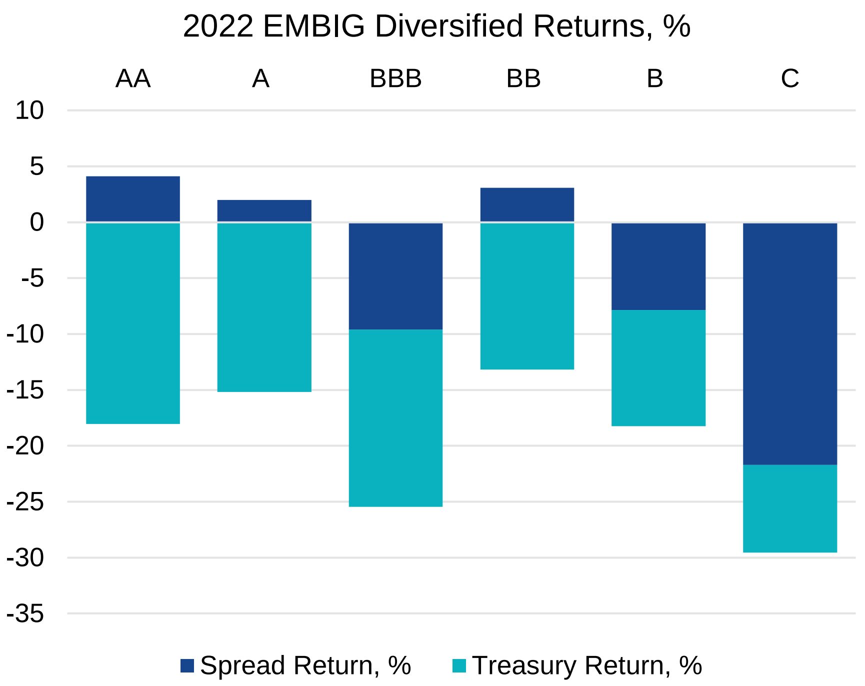


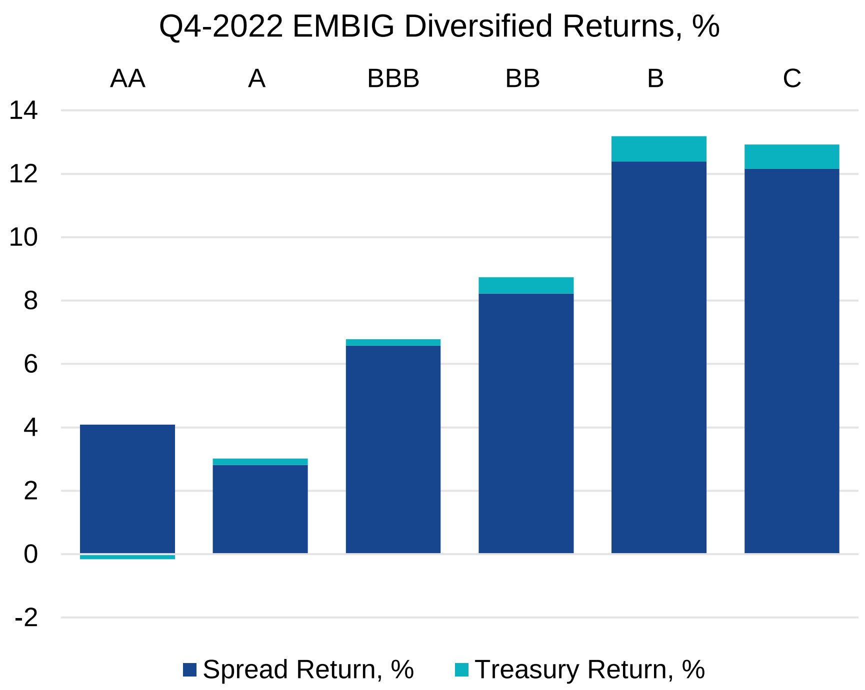

**Source:** VanEck Research; Bloomberg LP. Data as of January 24, 2023.

# Market landscape – Carry and spread dominating



- In 2022, all bonds sold off
- Ratings didn't help in 2022 – single-B performed in-line with single-A
- In Q4 2022, all bonds rallied
- Spreads drove returns and low-rated outperformed high-rated in Q4




**Source:** Bloomberg LP. Data as of December 2022.

# III. Our view – Curated EM bonds are winners

# EM carry dominates global bonds

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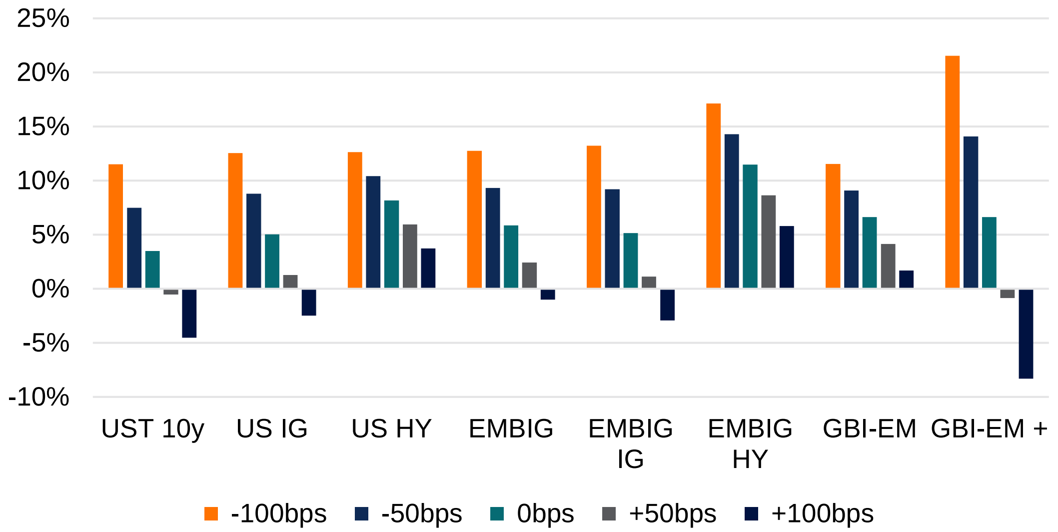
- EM bonds generate highest carry
- Carry cushions even substantial risk-free rate rises
- EM sovereign HY especially attractive

Returns on Fixed Income (%) from -100bps to +100bps Shift in Yield Curve




**Fixed Income 12 month Returns**

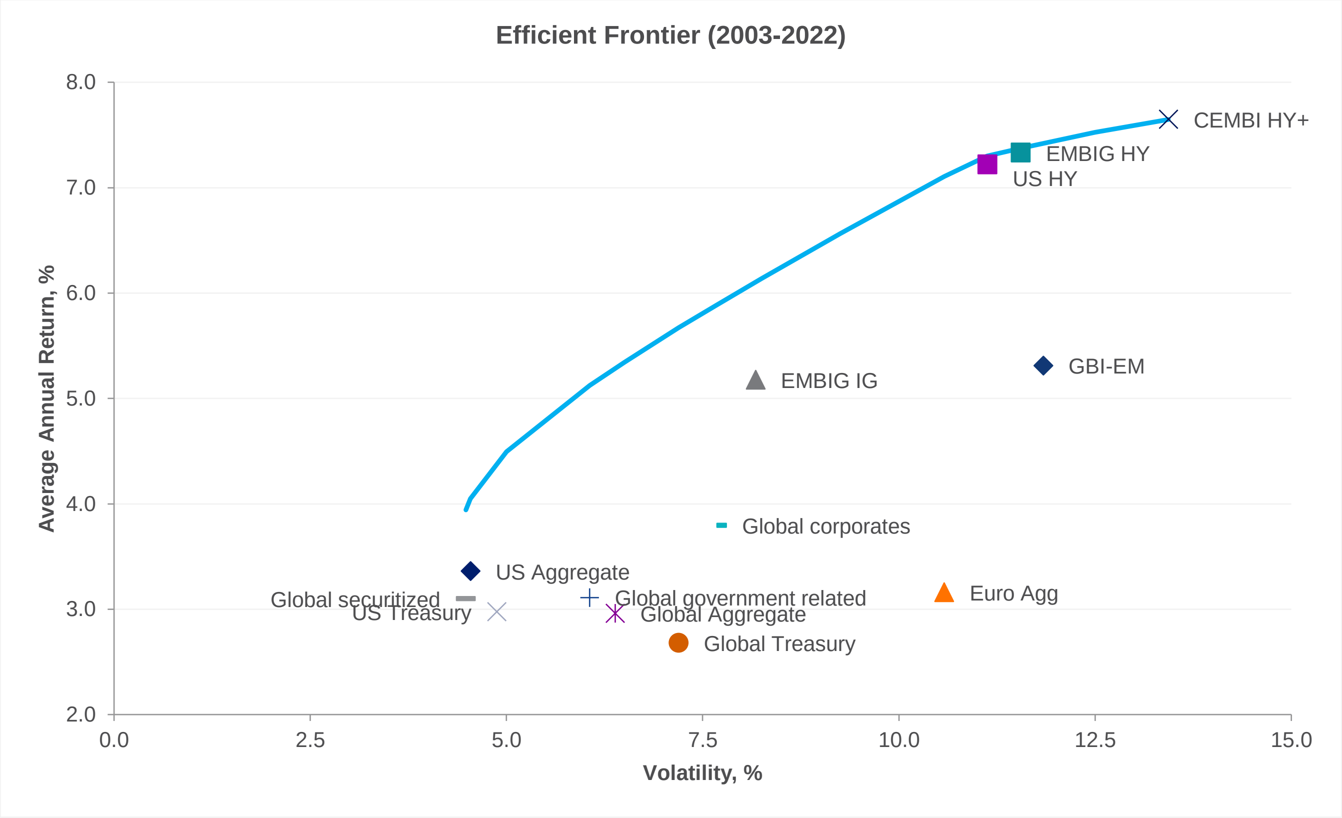
| | V. Dovish | Dovish | Unch | Hawkish | V. Hawkish |
|---|---|---|---|---|---|
| Index | *-100* | *-50* | *0* | *50* | *100* |
| UST 10y | 11.5% | 7.5% | 3.5% | -0.5% | -4.5% |
| US IG | 12.5% | 8.8% | 5.0% | 1.3% | -2.5% |
| US HY | 12.6% | 10.4% | 8.2% | 6.0% | 3.7% |
| EMBIG | 12.8% | 9.3% | 5.9% | 2.4% | -1.0% |
| EMBIG IG | 13.2% | 9.2% | 5.2% | 1.1% | -2.9% |
| EMBIG HY | 17.1% | 14.3% | 11.5% | 8.6% | 5.8% |
| GBI-EM | 11.5% | 9.1% | 6.6% | 4.2% | 1.7% |
| GBI-EM + | 21.5% | 14.1% | 6.6% | -0.8% | -8.3% |
| - USD/EM FX | *-10%* | *-5%* | *0%* | *5%* | *10%* |

Source: VanEck Research; Bloomberg LP. Data as of January 2023. UST 10YR (CT10 Govt) is defined as Current United States 10 Year Government Note. US IG (LUACTRUU) is defined as U.S. Corporate Investment Grade Index. The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issues by US and non-US industrial, utility and financial issuers. US HY (LHVLSTAT) is defined as US High Yield Index. A component of the US Corporate High Yield Index that is deigned to track a more liquid component of the USD-denominated high yield, fixed-rate corporate bond market. The US High Yield VLI uses the same eligibility criteria as the US Corporate High Yield Index, but includes only bonds that have a minimum amount outstanding of USD500M and less than five years from issue date. EMBIG (JPGCGDCY) is defined as J.P. Morgan EMBI Global Diversified Current Yield. GBI-EM (JGENVHYG) is defined as J.P. Morgan GBI-EM Global Diversified Composite Yield to Maturity. Past performance is not indicative of future results. Please see important disclosures and definitions at the end of the presentation.

# EM bonds dominate historical performance



- EMD is seriously under-represented in global bond portfolios, using a simple backward-looking efficient frontier
- EMBIG HY is on the frontier, while US HY is not (EMBIG HY has slightly higher yield and lower volatility and yet EMD is highly scrutinized and HY is a global portfolio stalwart)




**Source:** VanEck Research; Bloomberg LP. Data as of December 2022. Past performance is not a guarantee of future results.

# Efficient Frontier Argues for Sizable EMD Allocation

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- Efficient frontier shows that EMBIG HY and CEMBI HY can provide equally (or even more) attractive risk-return opportunities than US HY, which is normally the “substitute” asset class that global fixed income uses, instead of allocations to EM debt – especially when US HY is no longer supported by the Fed
- For desired volatility of, let’s say 7.5 (7.68 in our table below) the optimal allocation among the various fixed income options is – 18% in EMBIG HY, with the rest being US HY and US treasuries

**USD-based global fixed income portfolio's efficient frontier and implied weights (CEMBI details, EMBIG details)**

Data set - monthly, 2003-2022

| | LOW RISK ← | | | | | | | | | | | | | → HIGH RISK |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Portfolio st dev | 4.48 | 4.54 | 5.00 | 6.06 | 6.50 | 7.19 | 7.68 | 8.25 | 9.25 | 10.58 | 11.13 | 11.55 | 12.50 | 13.43 |
| GBI-EM | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| EMBIG HY | 0% | 0% | 0% | 3% | 8% | 14% | 18% | 23% | 31% | 41% | 55% | 50% | 39% | 0% |
| CEMBI HY+ | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 4% | 23% | 61% | 100% |
| Global Aggregate | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Global Treasury | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Global government related | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Global corporates | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Global securitized | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| US Aggregate | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| US HY | 23% | 25% | 36% | 47% | 48% | 49% | 50% | 51% | 53% | 55% | 41% | 27% | 0% | 0% |
| Euro Agg | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| US Treasury | 76% | 75% | 64% | 49% | 44% | 37% | 32% | 26% | 16% | 4% | 0% | 0% | 0% | 0% |
| CEMBI IG+ | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| EMBIG IG | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| EM FI (GBI-EM, EMBIG, CEMBI) | 0% | 0% | 0% | 3% | 8% | 14% | 18% | 23% | 31% | 41% | 59% | 73% | 100% | 100% |

**Source:** VanEck Research; Bloomberg LP. Data as of December 2022. Past performance is not a guarantee of future results.

# Curation fits fundamental and market landscape



- China re-opening
    - Asian local-currency (Indonesia, Thailand, Malaysia, Korea)
    - China corporates
    - Selected distressed (Pakistan, Sri Lanka)
    - Selected Eastern Europe (Hungary, Czechia, Romania)
- Commodity price strength and attractive HY Sovereign carry
    - Diversified Sub-Saharan Africa
    - Selective Latam (Argentina, Chile, Colombia, Uruguay, Peru
- Limited value in IG
    - Low IG spread duration
- Caution in some large benchmark weights
    - Brazil
    - Mexico
    - Poland
    - South Africa?

**Source:** State Street. Data as of August 2022.

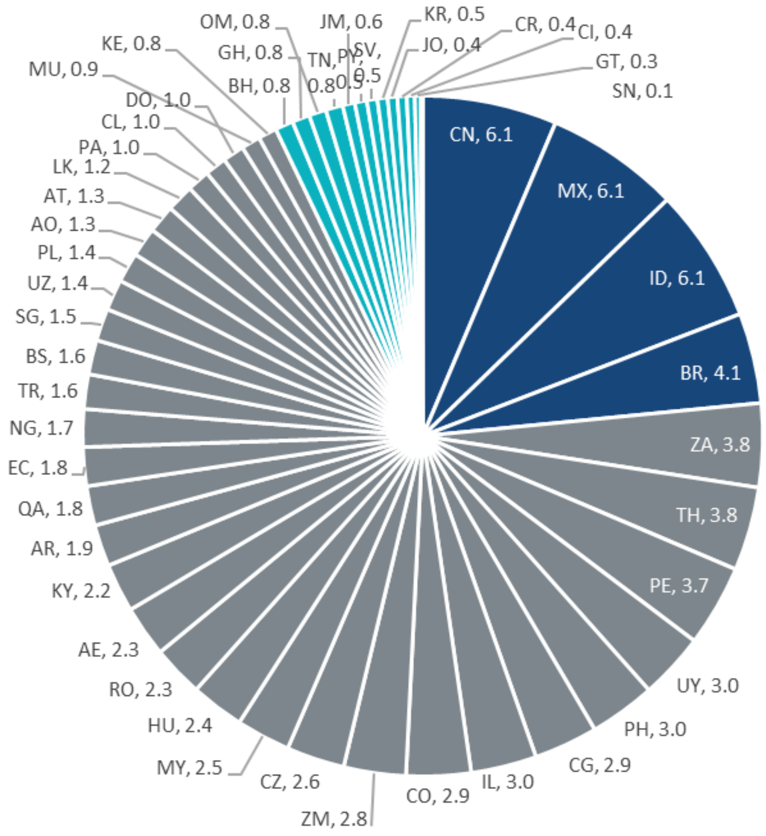
# IV. The portfolio

# VE EMB Summary – Portfolio



- Carry of 7.1%; Duration of 5.6; Local currency exposure of 37%

**Country**




| Currency | % of Net Assets |
|---|---|
| U.S. Dollar | 56.0 |
| Indonesian Rupiah | 4.2 |
| Peruvian New Sol | 3.7 |
| Brazilian Real | 3.3 |
| Uruguay Peso | 3.0 |
| Philippines Peso | 3.0 |
| Zambian Kwacha | 2.6 |
| Czech Koruna | 2.4 |
| Malaysian Ringgit | 2.2 |
| Hungarian Forint | 2.2 |
| Romanian Leu | 2.1 |
| South African Rand | 2.0 |
| Polish Zloty | 1.2 |
| Thailand Baht | 0.8 |
| Euro | 0.7 |
| Israeli Shekel | 0.6 |
| Uzbekistan Sum | 0.6 |
| Chilean Peso | 0.0 |
| South Korean Won | 0.0 |

The table represents the sum of long and short currency positions and therefore may not equal 100%. Cash is also excluded.

**Source:** VanEck Research; Bloomberg LP. Data as of September 30, 2022.

# VE EMB Strategy – Over/Under Performance YTD, by Country

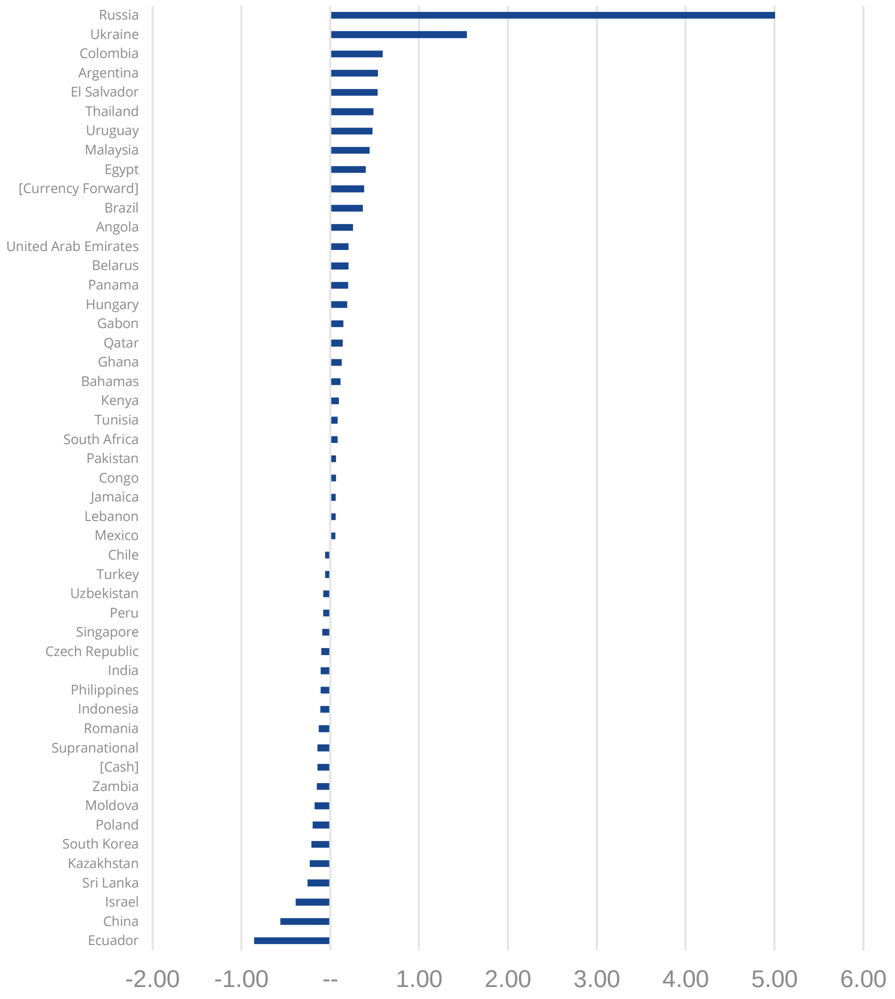


- Key contributors were Russia and Ukraine
  - Fund was the only EM bond fund that owned zero Russia and Ukraine into the invasion
- Duration boosted the fund
  - Fund had a 4-handle duration in 1Q
  - Fund took duration to 8-handle in June
  - Duration is currently 4-handle
- Ecuador top detractor
  - Fund was surprised by adverse political development and closed the position.

China property a detractor, but position was maintained

  - Fund bought after the property and bond market collapse, but collapse continued
  - China re-opening and support for property sector now crystallized

Contribution to Return Difference (Strategy vs Benchmark)




**Source:** VanEck Research; Bloomberg LP. VE EMB Strategy is represented by VanEck Emerging Market Bond Fund. Data as of September 30, 2022. Past performance is not a guarantee of future results.

# V. Curated country selection

# Poland – Nascent disinflation, moderating imbalances

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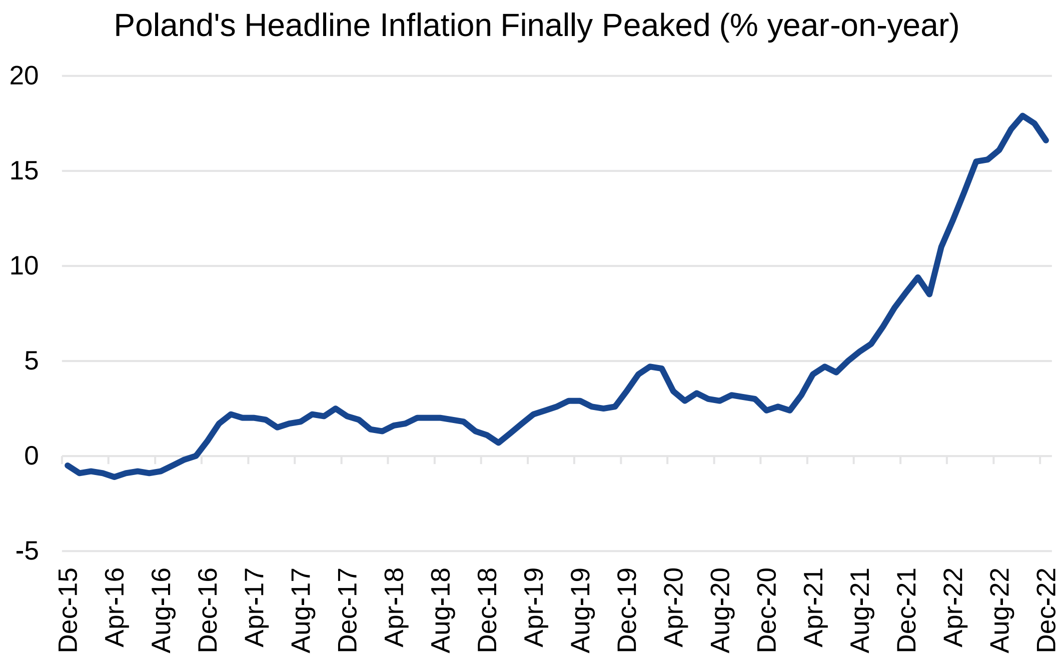
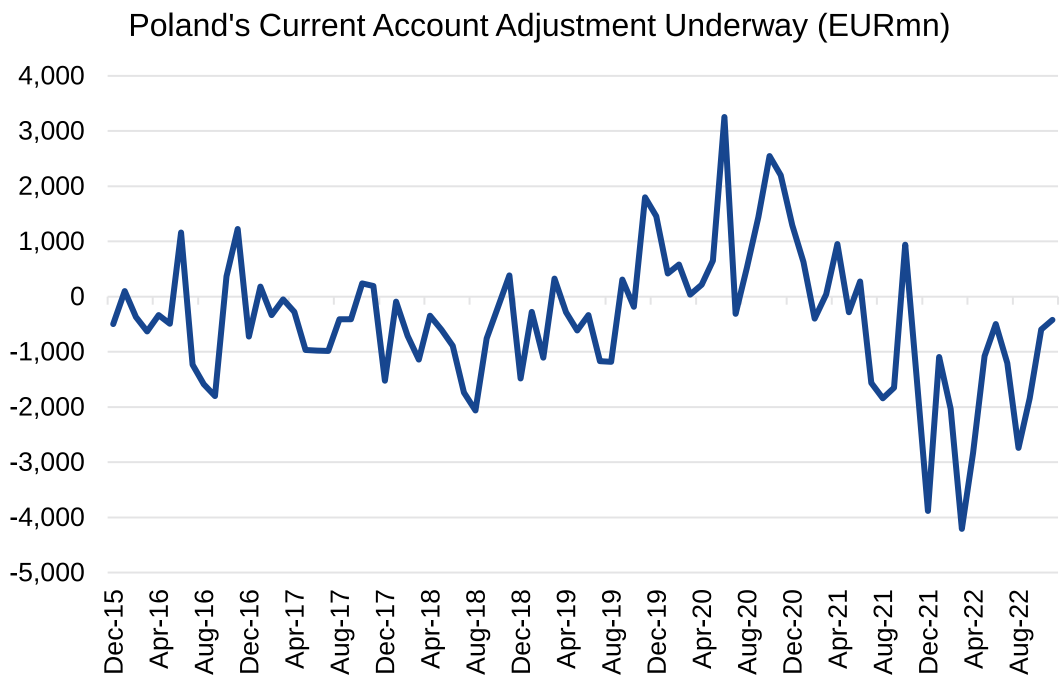
- Inflation finally peaked (albeit very far from the target), easing pressure on the central bank to continue hiking
- Lower energy prices and growth slowdown should pave the way for the current account's adjustment
- Geopolitical risks and a possibility of a pre-election spending spree should be monitored closely going forward




**Source:** VanEck Research; Bloomberg LP. Data as of January 2023.

# Hungary – Focus on correcting past mistakes

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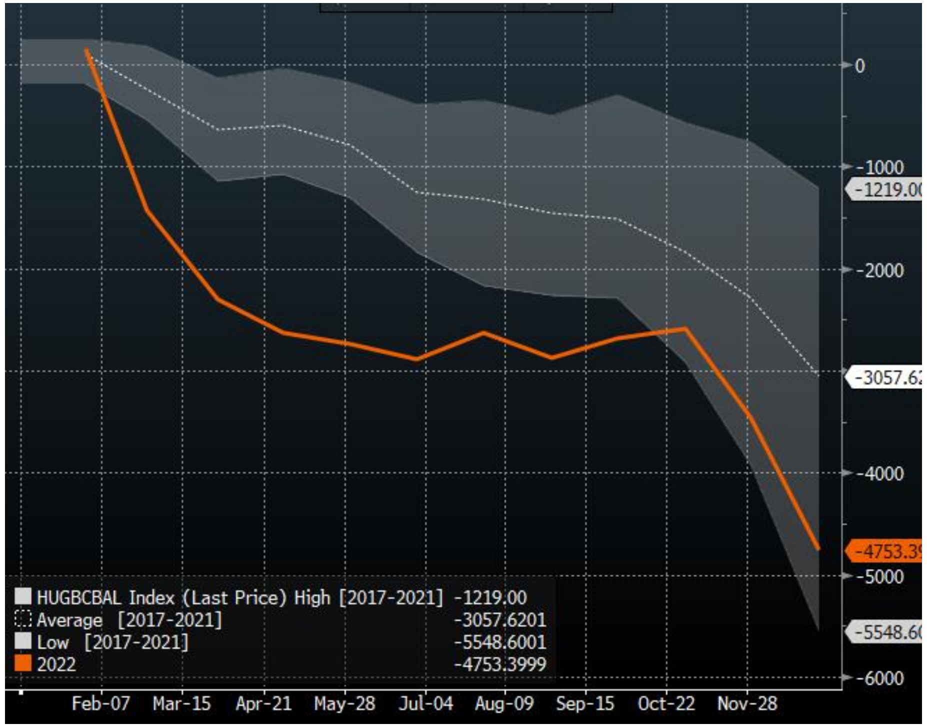
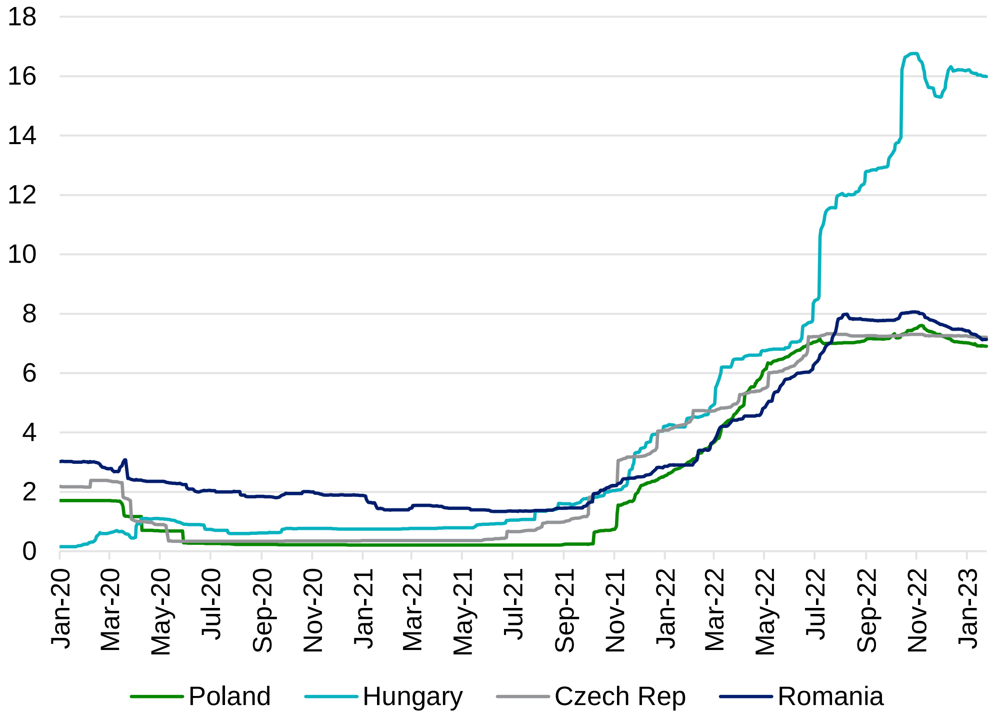
- Hungary's politics generates a lot of bad press
- But the government is working on correcting the fiscal overspending in the run-up to the elections…
- …while the central bank is by far the most hawkish in the region

Hungary – Cumulative Fiscal Balance (bn HUF)




Central Europe - Effective Policy Rates (%)




**Source:** Bloomberg LP. Data as of January 2023.

# Czech Republic – "EM Graduate" coping well under stress

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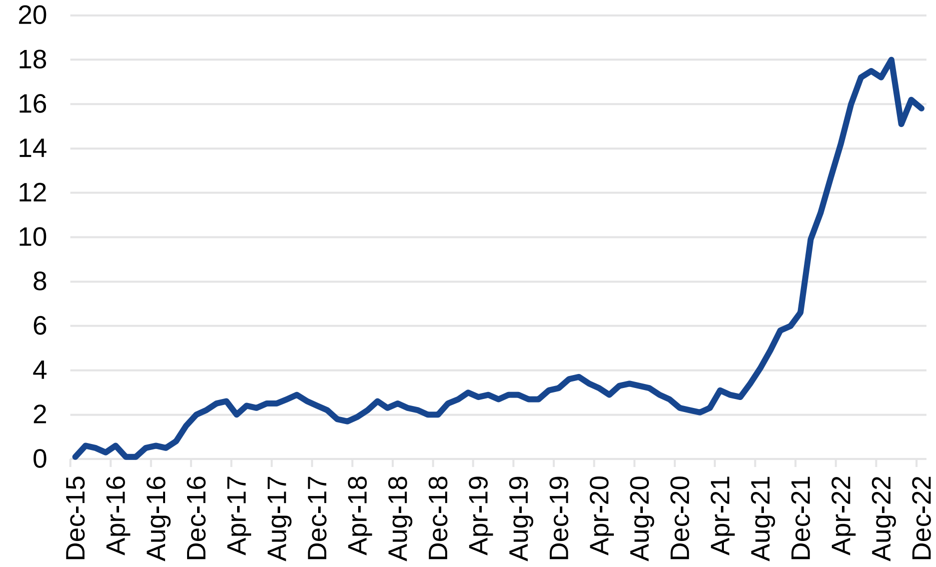
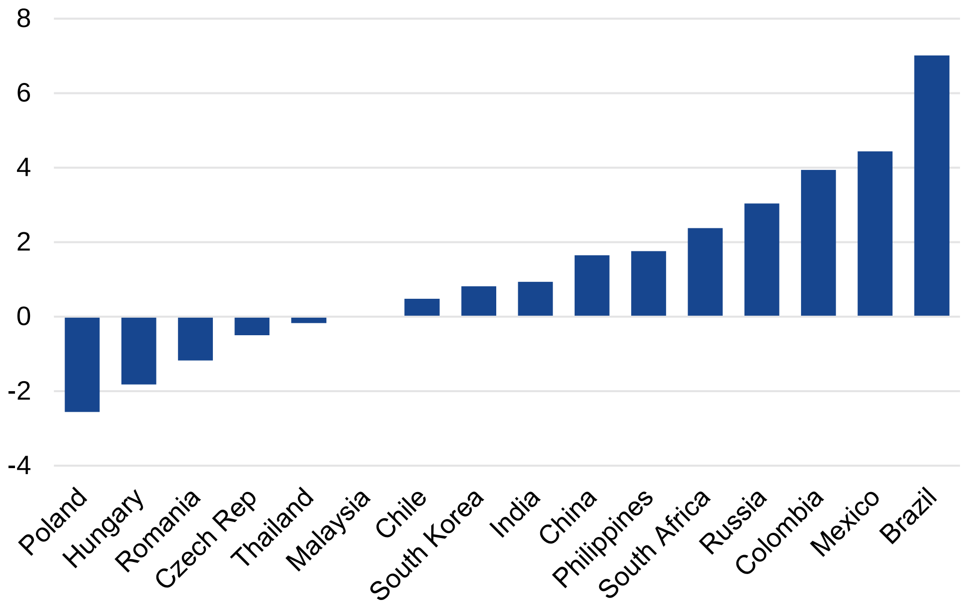
- Meaningful disinflation justifies the central bank's decision to remain on hold – especially as the latest communications do not sound overly dovish, signaling that there is more policy continuity than previously thought under the new central bank's chairman
- The 12m ahead real policy rate is the least negative among the regional peers
- Low growth is a concern in 2023, but both fiscal and current account adjustment are expected to continue in 2023/2024

Czech Disinflation Is Progressing Well (% year-on-year)




Real policy rates 12m from now if inflation and rates expectations were to materialize, %




**Source:** Bloomberg LP. Data as of January 2023.

# Argentina – Tactical opportunities, structural problems

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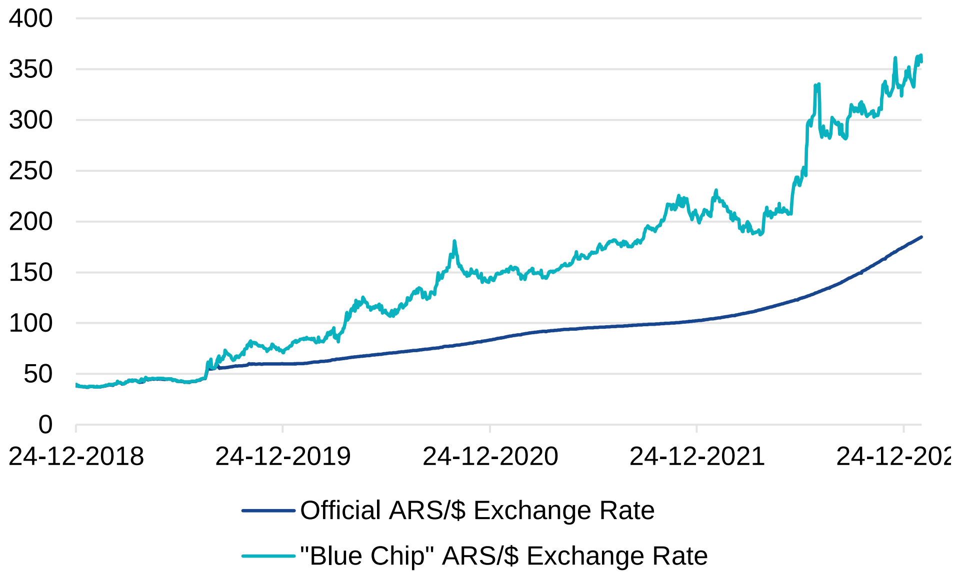
- The USD1bn debt buyback program sent a positive signal re willingness to pay
- The monetary policy is tight, and the government seems to be meeting the IMF targets (albeit often due to high inflation and one-offs)
- But the electoral race can challenge fiscal consolidation, the international reserves are low, and the exchange rate system remains dysfunctional

Argentina's International Reserves, bn USD


Argentina's Multiple Exchange Rates

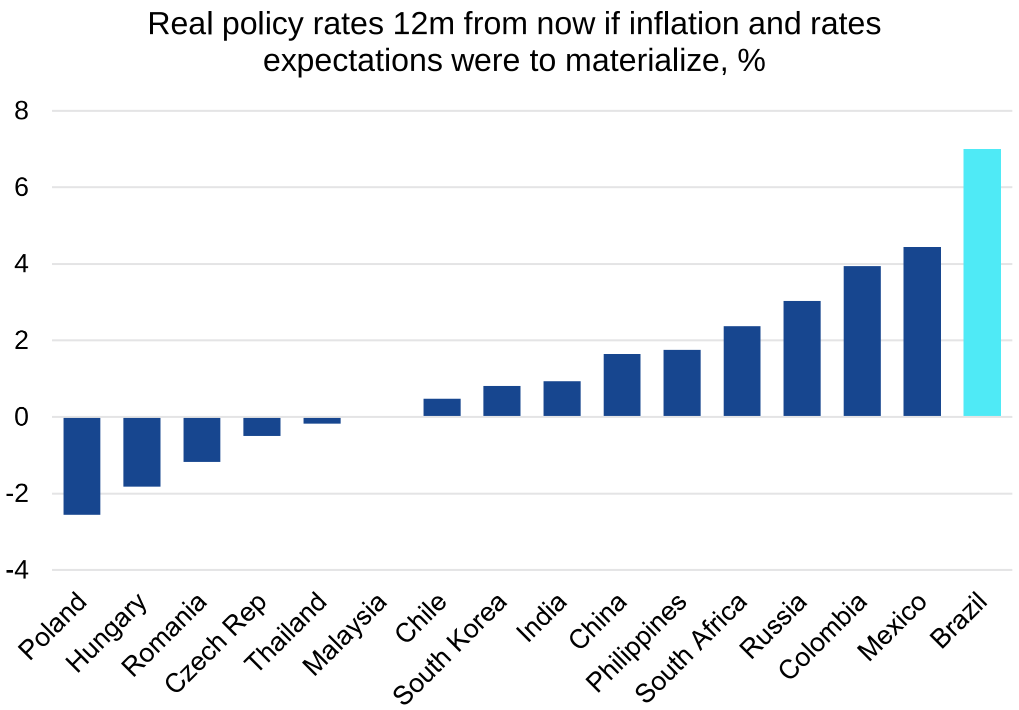


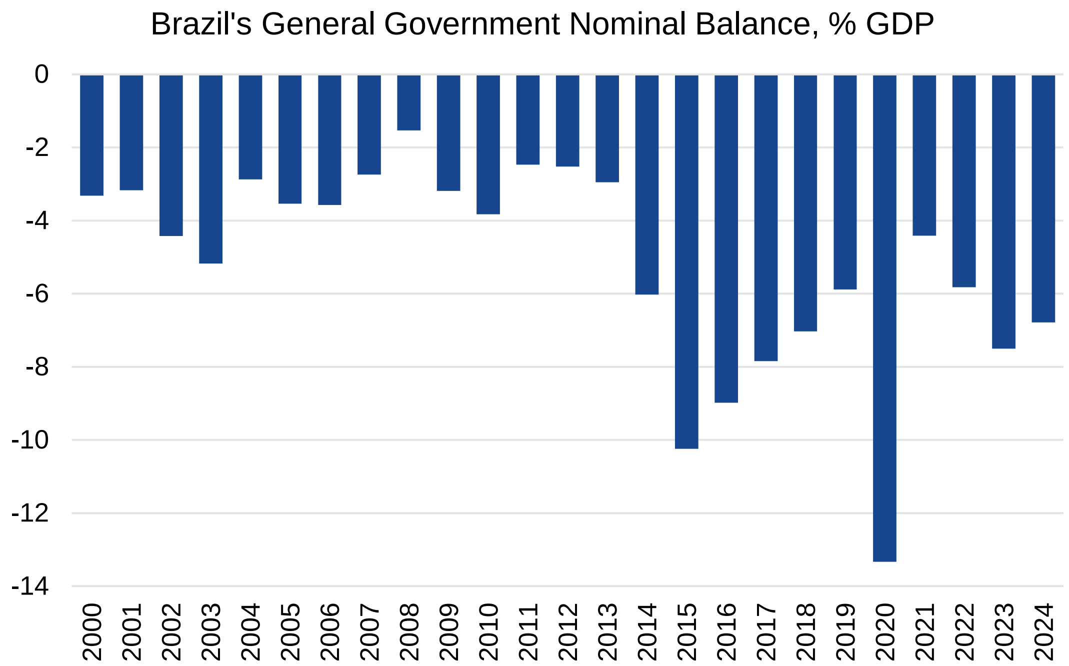

**Source:** Bloomberg LP. Data as of January 2023.

# Brazil – Politics challenging fundamentals



- The central bank's aggressive rate hike frontloading and on-going disinflation resulted in the highest real policy rate among major EMs, and the external balance still looks solid
- However, uncertainty about fiscal plans following under Lula's administration can limit room for rate cuts due to renewed concerns about the debt/GDP trajectory




**Source:** VanEck Research; Bloomberg LP (left); IMF via Bloomberg LP (right). Data as of January 2023.

# Mexico – Orthodox with some serious convergence trades

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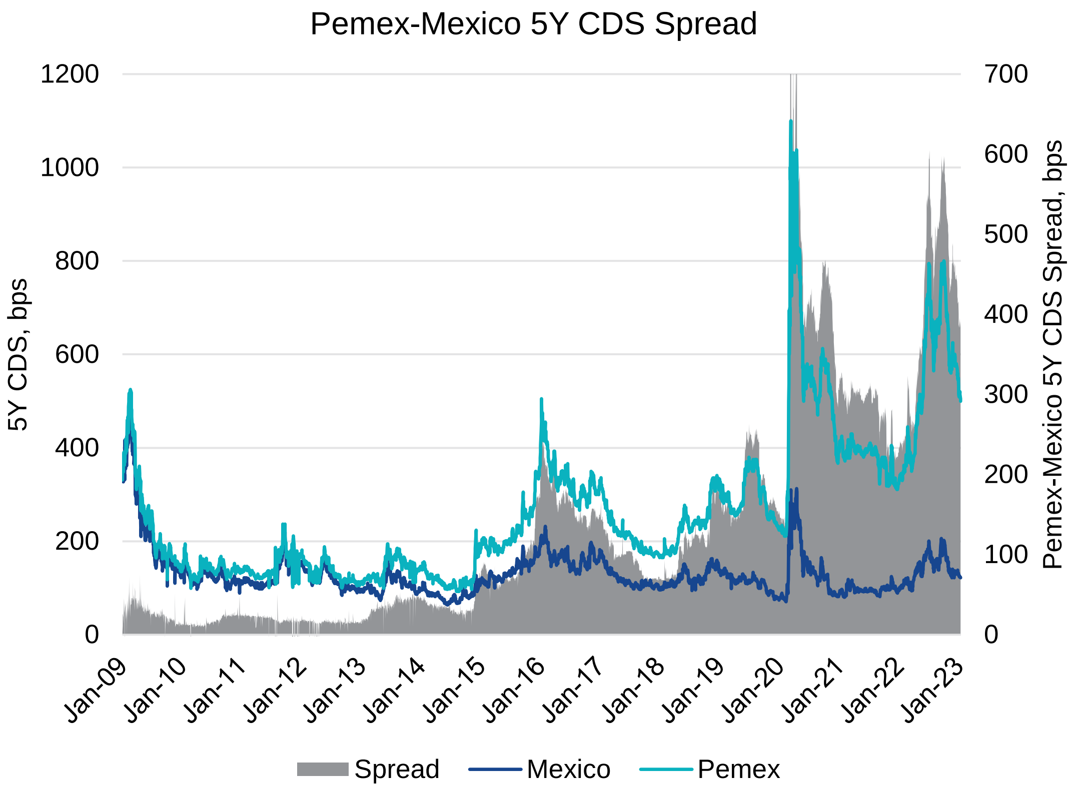
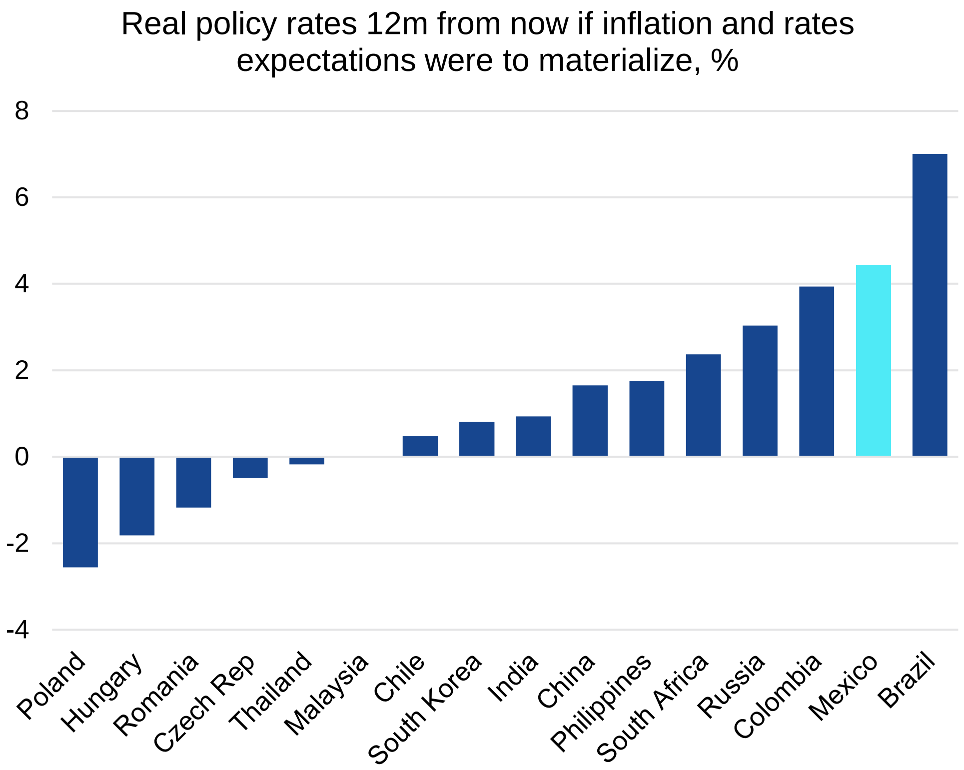
- The disinflation progress is bumpy, but the central bank is credible and the real local rates are positive
- We believe Pemex hard currency debt is cheap relative to sovereign hard currency debt




**Source:** VanEck Research; Bloomberg LP. Data as of January 2023.

# Indonesia – Low inflation, external buffers, strong growth, what else do you want?

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- Growth to maintain pace in 2023 – China re-opening and higher commodity prices support the economy
- The inflation outlook is benign and disinflation is well underway – the central bank can exit its tightening cycle
- The real ex-ante policy rate is positive, also leaving room for eventual rate cuts
- Current account in surplus, supporting the rupiah


**Indonesia's Macroeconomic Narrative - A Very Attractive Story**

| | | | 2022 | 2023 | |
|---|---|---|---|---|---|
| solid growth | → | Real GDP Growth, % | 5.3 | 4.9 | ✓ |
| low and falling inflation | → | CPI, %yoy | 5.51 | 3.6 | ✓ |
| fiscal discipline | → | Budget Balance, % GDP | -3.5 | -2.9 | ✓ |
| solid external balance | → | Current Account, % GDP | 0.75 | -0.7 | ✓ |
| room for policy rate cuts | → | Ex-Ante Real Policy Rate, % | 2.08 | | ✓ |

**Source:** Bloomberg LP. Data as of January 2023.

# Thailand – Major beneficiary from China reopening

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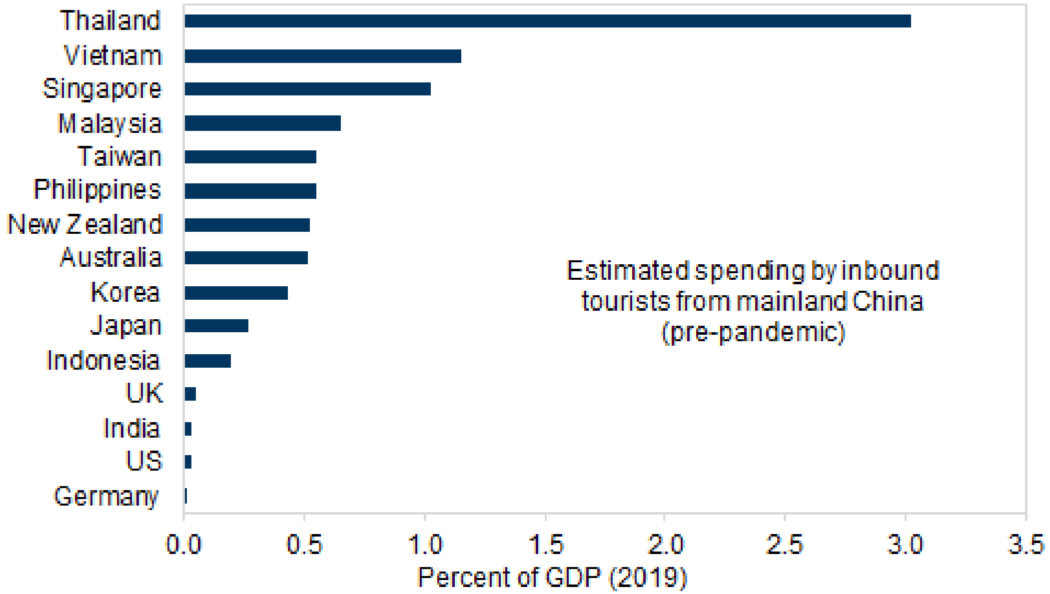
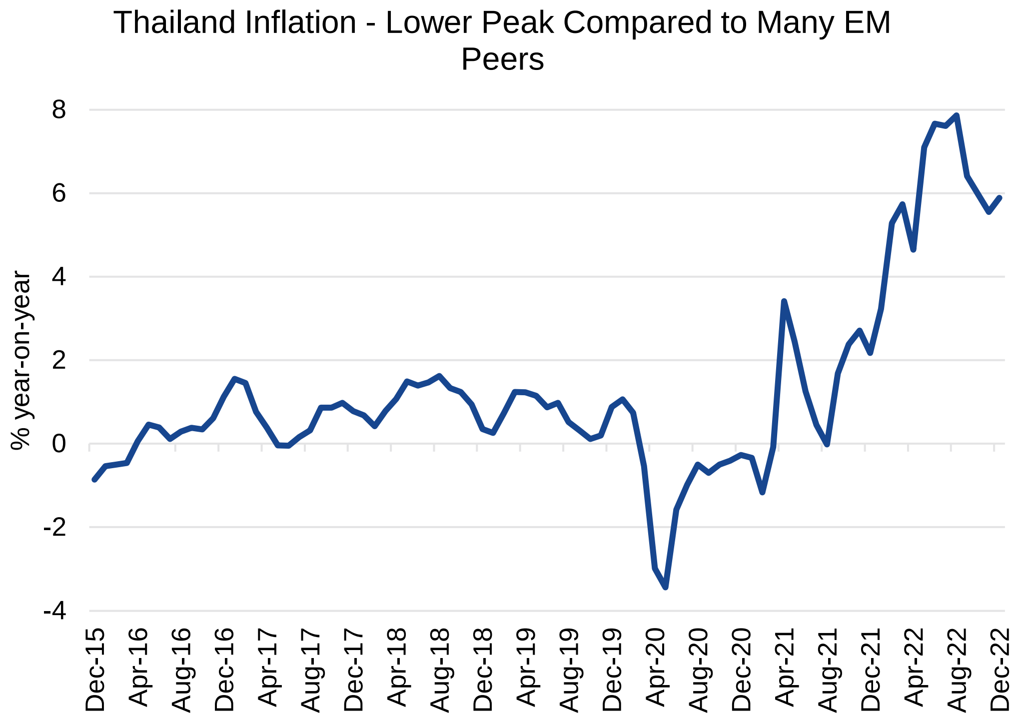
- Thailand is no longer a laggard in global/regional tightening cycles – against the backdrop of speedy disinflation
- Thailand is a MAJOR beneficiary of China's reopening/growth rebound – both as regards tourism revenue (~3% of GDP) and export proceeds (around 24% of GDP)




Note: Estimated using the share of tourist arrivals from China and travel service exports under balance of payments. (Hong Kong = ~6% of GDP)

Source: CEIC, Haver Analytics, Goldman Sachs Global Investment Research




**Source:** Goldman Sachs (left); Bloomberg LP (right). Data as of January 2023.

# Malaysia – Still going strong on many levels

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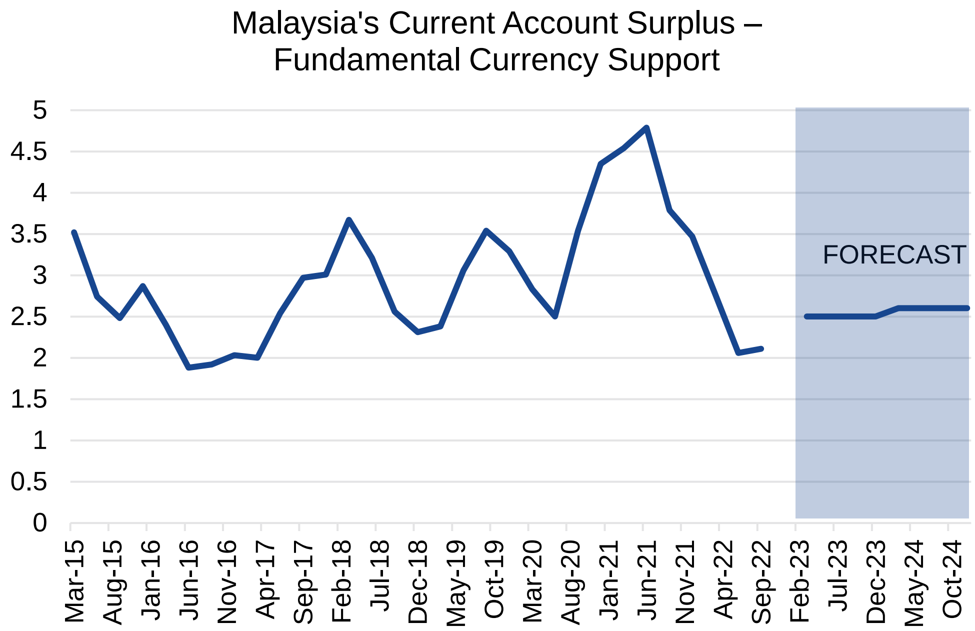
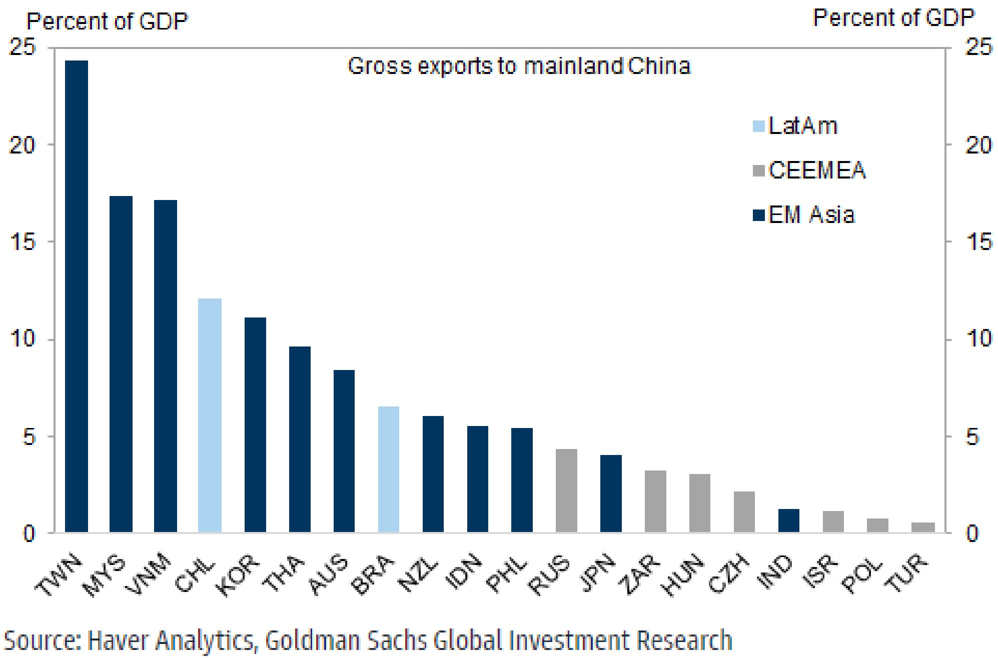
- Lower but more sustainable and resilient 2023 growth (~4%)
- Disinflation justifies an early rate hike pause
- Current account to remain in surplus, and balance of payments to benefit from China tourism/FDI and sizable export exposure to mainland China (~17% of GDP)
- Political uncertainty likely abated after the 2022 elections
- Fiscal challenges remain, but the 2023 deficit is expected to narrow




**Source:** Bloomberg LP (left); Goldman Sachs (right). Data as of January 2023

# South Korea – Peak rate, China tailwinds

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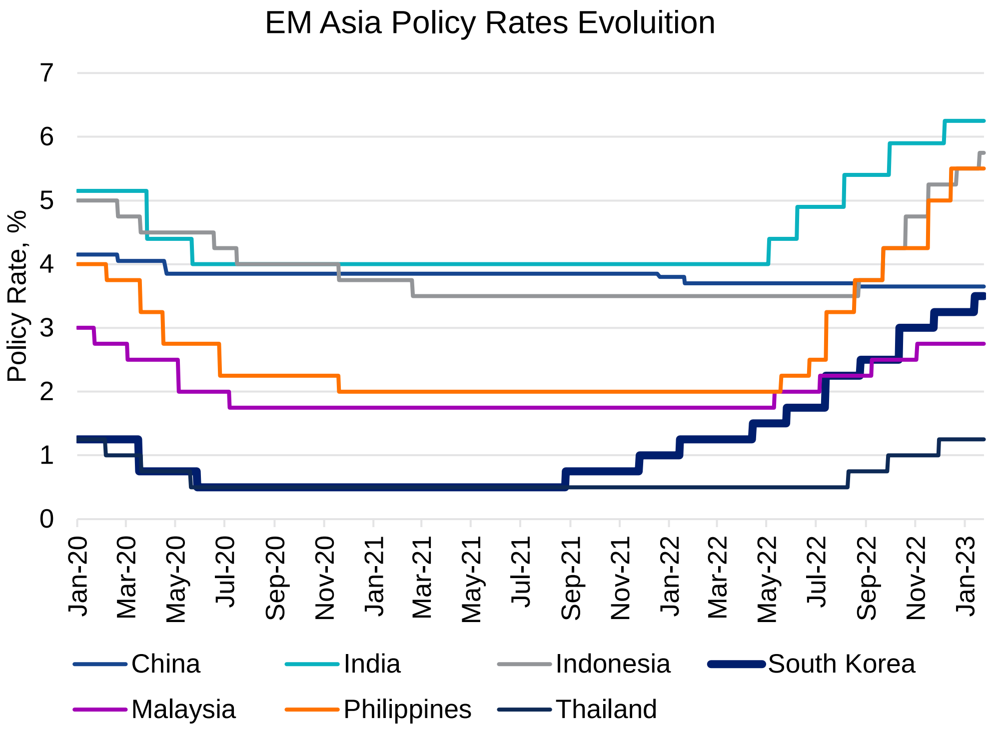
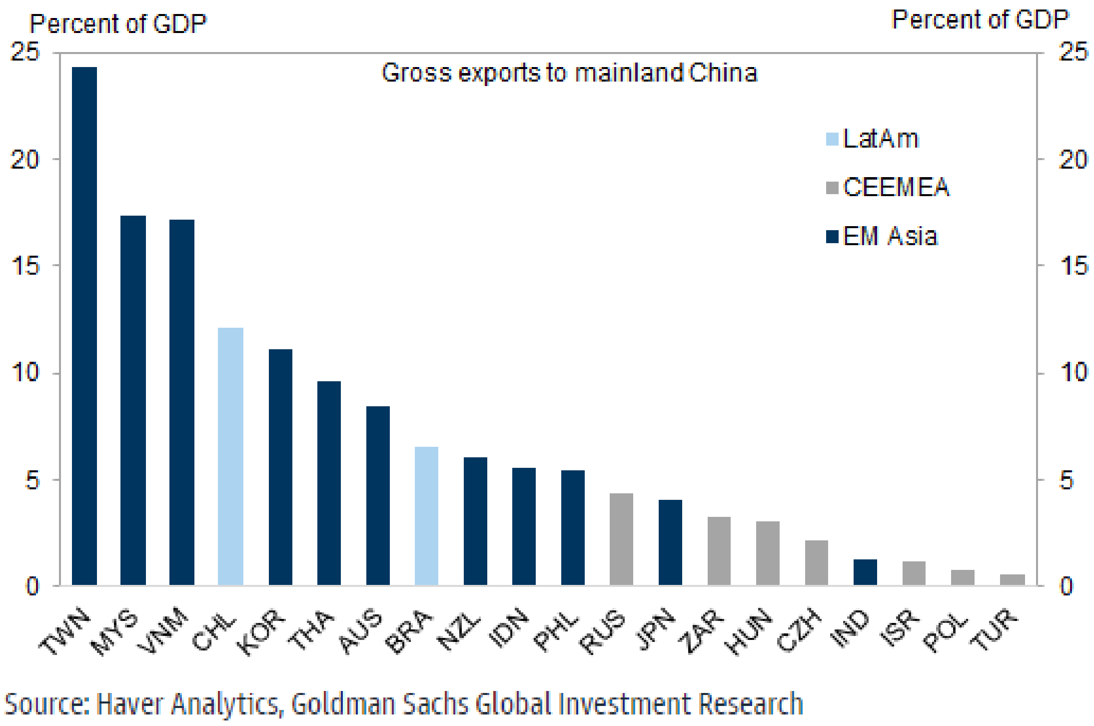
- BoK's proactive tightening puts it in a good position for a pause and eventual rate cuts as inflation is finally easing
- South Korea's sizable exposure to China's re-opening is a boon to GDP growth and balance of payments




**Source:** Bloomberg LP (left); Goldman Sachs (right). Data as of January 2023

# Sub-Saharan Africa – Upside from China's reopening

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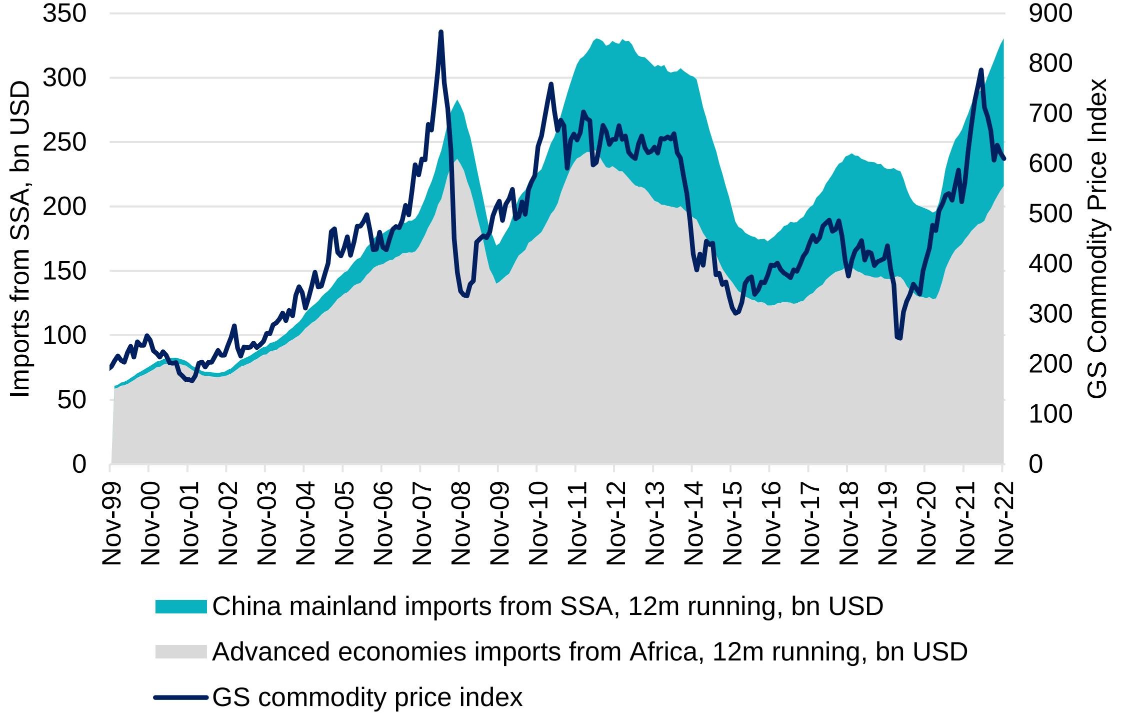
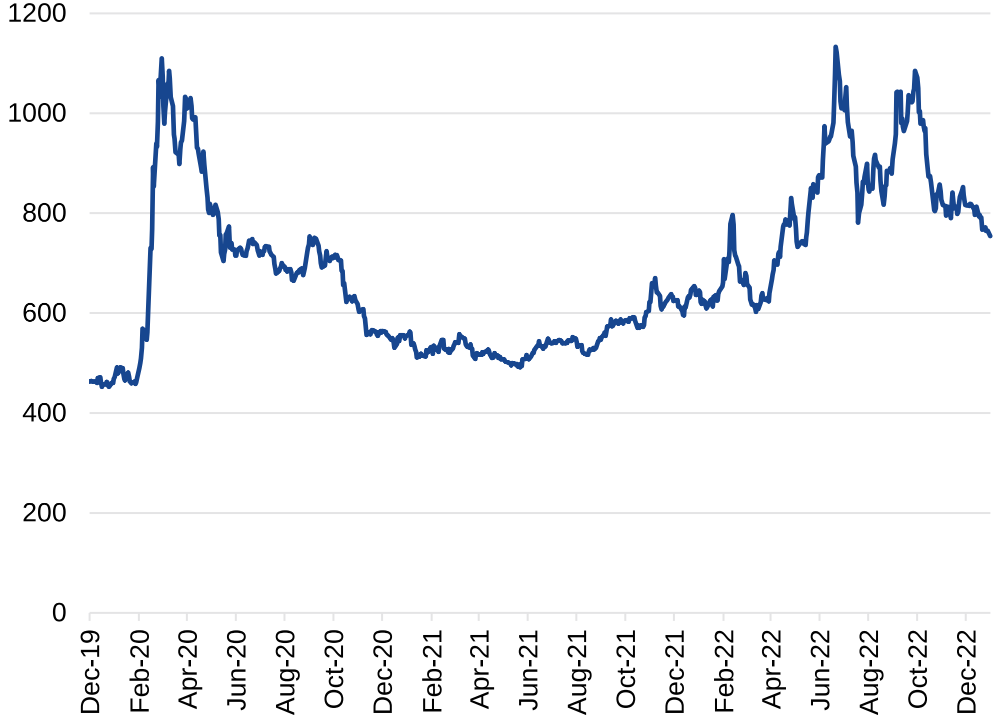
- China's reopening should be a major tailwind for SSA commodity exporters - both for growth and capital/FX inflows
- Lower contemporaneous external vulnerabilities due to renewed access to the international capital markets and clarity on debt restructuring (Ghana, Zambia), but debt affordability/debt distress is a huge issue in the region




**Source:** Bloomberg. Data as of January 2023

# Index Definitions

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**GBI-EM:** The J.P. Morgan Government Bond Index-Emerging Markets Global Diversified Index. The J.P. Morgan GBI-EM Global Diversified tracks local currency bonds issued by Emerging Markets governments.

**EMBI:** The J.P Morgan Emerging Markets Bond Global Diversified Market Bond Index. It is a benchmark index that measures the bond performance of emerging countries and their respective corporate organizations.

**CEMBI:** The JPM Corporate Emerging Market Bond Index. It tracks the performance of US dollar-denominated bonds issued by emerging market corporate entities1

**50% GBI-EM /50% EMBI:** It is a blended index consisting of 50% J.P Morgan Emerging Markets Bond Index (EMBI) Global Diversified and 50% J.P. Morgan Government Bond Index-Emerging Markets Global Diversified (GBI-EM).

**CEMBI HY+:** The J.P. Morgan Corporate Emerging Markets High Yield Bond index tracks U.S. dollar high yield bonds issued by emerging markets corporates.

**CEMBI IG+ :** The J.P. Morgan Corporate Emerging Markets High Yield Bond index tracks U.S. dollar investment grade bonds issued by emerging markets corporates.

**EMBIG HY:** The J.P. Morgan EMBI Global Diversified High Yield index tracks returns for actively traded external high yield debt instruments in emerging markets, and is also J.P. Morgan’s most liquid U.S dollar emerging markets high yield debt benchmark.

**EMBIG IG:** The J.P. Morgan EMBI Global Diversified Investment Grade index tracks returns for actively traded external investment grade debt instruments in emerging markets, and is also J.P. Morgan’s most liquid U.S dollar emerging markets investment grade debt benchmark.

**Global Aggregate:** Bloomberg Global-Aggregate Total Return Index Value Unhedged USD is a sub-index of the Bloomberg Global Aggregate Index, which is a flagship measure of global investment grade debt from twenty-four local-currency markets.

**Global Treasury:** The Bloomberg Global Treasury Index tracks fixed-rate, local currency government debt of investment grade countries, including both developed and emerging markets.

**Global government related:** Bloomberg Global Aggregate Government Related Total Return Index Value Unhedged USD tracks global government debt issues.

**Global corporates:** The Bloomberg Global Aggregate Corporate Index is a flagship measure of global investment grade, fixed-rate corporate debt.

**Global securitized:** The Bloomberg Global Aggregate - Securitized Index tracks Securitized (Class 1= Securitized) bonds from the flagship Global Aggregate Index.

**US Aggregate:** The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

**US HY:** The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market.

**Euro Aggregate:** The Bloomberg Euro-Aggregate Index is a benchmark that measures the investment grade, euro-denominated, fixed-rate bond market, including treasuries, government-related, corporate and securitized issues. Inclusion is based on currency denomination of a bond and not country of risk of the issuer.

**US Treasury:** The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.

**US IG:** The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issues by US and non-US industrial, utility and financial issuers.

**The Consumer Price Index (CPI):** is a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

**The Purchasing Managers' Index (PMI):** is an index of the prevailing direction of economic trends in the manufacturing and service sectors.

# Disclosures

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Investments in emerging markets bonds may be substantially more volatile, and substantially less liquid, than the bonds of governments, government agencies, and government-owned corporations located in more developed foreign markets. Emerging markets bonds can have greater custodial and operational risks, and less developed legal and accounting systems than developed markets.

Emerging Market securities are subject to greater risks than U.S. domestic investments. These additional risks may include exchange rate fluctuations and exchange controls; less publicly available information; more volatile or less liquid securities markets; and the possibility of arbitrary action by foreign governments, or political, economic or social instability.

You can lose money by investing in the Fund. Any investment in the Fund should be part of an overall investment program, not a complete program. The Fund is subject to risks associated with its investments in below investment grade securities, credit, credit-linked notes, currency management strategies, debt securities, derivatives, emerging market securities, foreign currency transactions, foreign securities, hedging, other investment companies, Latin American issuers, management, market, non-diversification, operational, portfolio turnover, restricted securities, energy sector, sectors and sovereign bond risks. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. As the Fund may invest in securities denominated in foreign currencies and some of the income received by the Fund will be in foreign currencies, changes in currency exchange rates may negatively impact the Fund’s return. Derivatives may involve certain costs and risks such as liquidity, interest rate, and the risk that a position could not be closed when most advantageous. The Fund may also be subject to risks associated with non-investment grade securities.

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