Eaton Vance

Q1 2022

Emerging Markets Debt Monitor

EMERGING MARKETS TEAM

E|V|M

Important information and disclosure

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Q1 2022 Recap

Q1 2022 recap

- Emerging markets debt indices sold off notably across the board during the first quarter as markets sought to digest the Russian invasion of Ukraine, further stress in the China property market, and the pricing in of an increasingly hawkish U.S. Federal Reserve (the “Fed”). However, the differentiation within markets was extremely broad as investors sought to digest these events. The situation in Ukraine, of course, drew the attention of the entire world and assets in the region were the clear underperformers. Russian, Belarussian, and Ukrainian assets were generally the hardest hit among index constituents with Russian sovereign bonds being removed from the indices as of the end of the quarter. Most other Eastern European markets were dragged down, as well, given concerns over both the economic impact as well as increased geopolitical risk. On the other end of the spectrum, assets in Latin America and South Africa were generally stronger during the period as investors tended to perceive countries with notable commodity exports, limited trade with Russia, and physically distant from the conflict as being attractive. Asian markets were more mixed, but generally sold off as markets digested further contagion across the Chinese property sector as well as the impact of higher commodity prices and a more hawkish Fed.
- As it was around much of the world, inflationary pressures remain elevated in most EM countries with the commodity-price channel effects of the Russia/Ukraine conflict. That said, many EM central banks have continued reacting with orthodox monetary policy.
- The local-currency segment of the EMD space was the best performing one as, despite the weakness in Eastern Europe, currencies were actually stronger versus the U.S. dollar in aggregate over the period led by Latin America. However, rising interest rates – similar to developed markets – overwhelmed currency strength and created notable, negative total returns. The corporate segment was next also having experienced notably negative performance at the index level. Russia/Ukraine and China property challenges had a large impact on spreads while the sell-off in U.S. Treasuries further impeded returns. The sovereign hard currency space was the worst performing segment; largely for the same reasons for the sell-off in corporates.
- The asset class experienced notable outflows during the period with approximately -$14.1 billion net during the quarter. The split between hard currency and local currency was notable with -$11.9B out of hard currency and only -$2.2B out of local.
- The new issuance market was more quiet during the period given macro stresses and the higher all-in yields issuers have to pay today relative to 3 months ago. However, market access appears open for countries across the credit quality spectrum for those needing funding.

Q1 2022 recap - continued

Asia

- Chinese markets were hit particularly hard with the combination of property market stress broadening and specifics surrounding the delisting of tech stocks being released. COVID also remains a noteworthy issue both on the mainland and in Hong Kong.
- Both Sri Lanka and Pakistan in South Asia struggled with higher oil prices and distressed spreads on USD-debt. Sri Lanka devalued the official FX rate notably and moved towards an IMF program; Pakistan is facing additional political instability with the PM facing a no confidence vote.
- ASEAN was, perhaps, the bright spot with Indonesian, Malaysian, and Vietnamese economies all performing well due to a mixture of commodity prices and "China plus one" corporate manufacturing policies.

CEEMEA

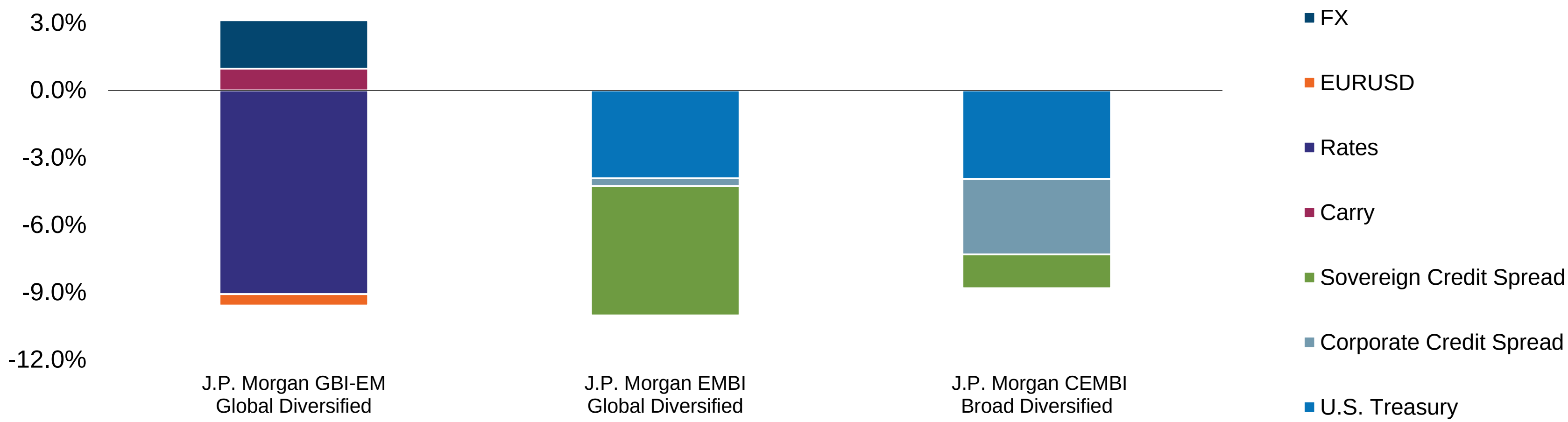
- Russian invasion of Ukraine presented a shock across the region; the inflation outlook appears quite uncertain, but central banks reacted. Poland has appeared to have the weakest monetary-policy response of the big countries in region and the FX market reacted accordingly.
- Russia/Ukraine assets took big hits, but started rallying late in period off of lows and markets appeared to be pricing a more benign outcome.
- While we expected the Egyptian pound devaluation, it was larger than expected and additional support from GCC and IMF appear likely.
- The IMF will likely be busy in the region for the foreseeable future with candidates including Egypt, Zambia, Ghana, Tunisia, Lebanon, Mozambique, and Ukraine (at some point).

LATAM

- Very little impact from Russia/Ukraine is notable – markets pricing the region as a relative winner given somewhat closed economies and commodity exports. Inflation is still quite high across the region and central banks remain hawkish.
- Brazil was a standout performer during the period with massive foreign flows into the equity market and fiscal improvement (primary surplus).
- Politics in Peru and Chile may have moderated with extremes appearing less likely. The incumbents in Argentina appeared to remain very unpopular after mid-terms in the Fall.
- El Salvador continued to see its borrowing costs increase amidst the combination of higher energy prices and seemingly erratic policymaking.

Index performance recap

Q1 2022



Index	FX	EURUSD Exchange Rate Move	Rates	Carry	Sovereign Credit Spread	Corporate Credit Spread	U.S. Treasury	**Total Return**
J.P. Morgan GBI-EM Global Diversified	2.15%	-0.50%	-9.08%	0.97%	-	-	-	**-6.46%**
J.P. Morgan EMBI Global Diversified	-	-	-	-	-3.92%	-0.34%	-5.76%	**-10.02%**
J.P. Morgan CEMBI Broad Diversified	-	-	-	-	-1.51%	-3.37%	-3.94%	**-8.82%**

Source: J.P. Morgan, Eaton Vance calculations. Corporate Credit Spread and Sovereign Credit Spread return attributions are modeled by decomposing the overall spread return to its two components: the sovereign spread and the corporate spread over the sovereign. It is not possible to invest directly in an index. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

Index performance recap

YTD

Index	FX	EURUSD Exchange Rate Move	Rates	Carry	Sovereign Credit Spread	Corporate Credit Spread	U.S. Treasury	Total Return
J.P. Morgan GBI-EM Global Diversified	2.15%	-0.50%	-9.08%	0.97%	-	-	-	**-6.46%**
J.P. Morgan EMBI Global Diversified	-	-	-	-	-3.92%	-0.34%	-5.76%	**-10.02%**
J.P. Morgan CEMBI Broad Diversified	-	-	-	-	-1.51%	-3.37%	-3.94%	**-8.82%**

2021

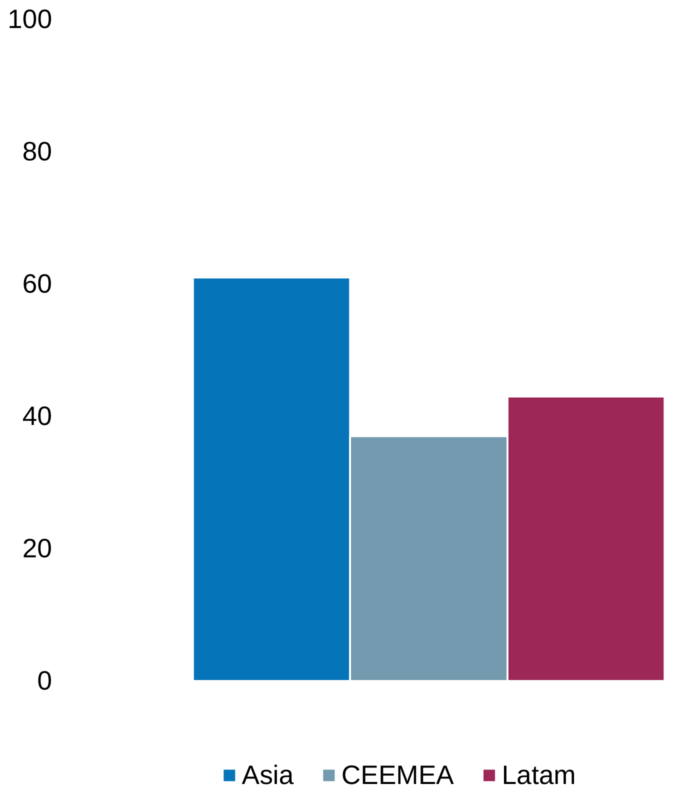
Index	FX	EURUSD Exchange Rate Move	Rates	Carry	Sovereign Credit Spread	Corporate Credit Spread	U.S. Treasury	Total Return
J.P. Morgan GBI-EM Global Diversified	-4.77%	-1.36%	-7.81%	5.19%	-	-	-	**-8.75%**
J.P. Morgan EMBI Global Diversified	-	-	-	-	2.18%	-0.64%	-3.34%	**-1.80%**
J.P. Morgan CEMBI Broad Diversified	-	-	-	-	3.41%	-0.66%	-1.84%	**0.91%**

Source: J.P. Morgan, Eaton Vance calculations. Corporate Credit Spread and Sovereign Credit Spread return attributions are modeled by decomposing the overall spread return to its two components: the sovereign spread and the corporate spread over the sovereign. It is not possible to invest directly in an index. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

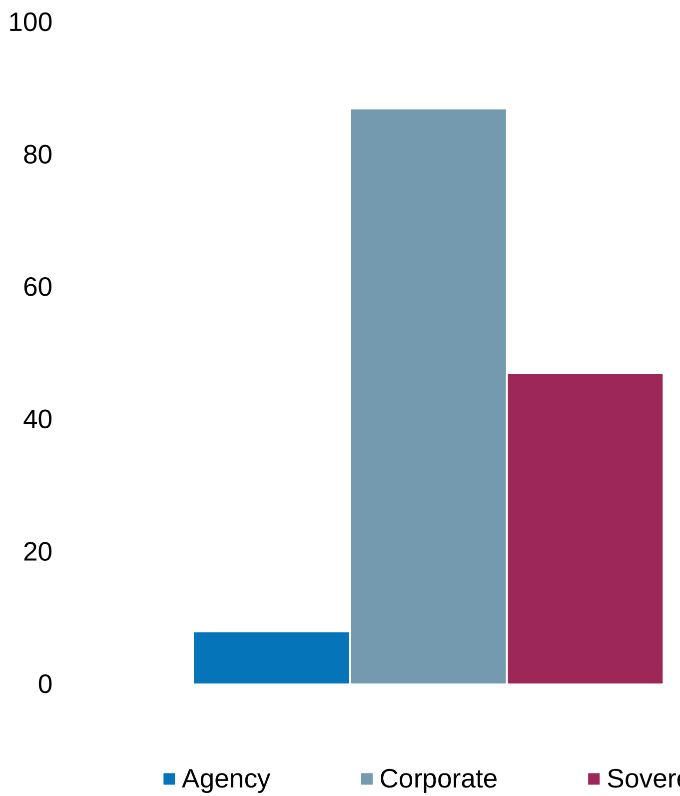
Primary market

- Emerging Market Eurobond Issuance for Q1: Total issuance of $141bn.
- EM issuance was solid for the quarter despite ongoing trouble in the China property market and market volatility from the Russia invasion of Ukraine.

Issuance by Region
(U.S. $ Billions)



Issuance by Type
(U.S. $ Billions)



Source: Bloomberg. Data provided is for informational use only. See end of report for important additional information.

Q2 2022 Outlook

Q2 2022 Outlook

Macro Drivers

- Looking forward for the remainder of 2022, we are optimistic on EMD as valuations appear to be well-compensating investors for the risk.
- The Russia/Ukraine war is a humanitarian tragedy and carries implications for the world order well beyond the scope of this document. It will continue to drive headlines and potentially for quite some time.
- Fundamentals are mixed: simplistically commodity exporters are in better shape while importers are more challenged. Fed tightening is a concern, but markets do appear to be pricing that in somewhat aggressively. COVID appears to broadly be less of a concern albeit with notable exceptions (e.g. China).
- Inflationary pressures remain elevated while many EM central banks have continued to respond with orthodox monetary policy which is a positive. The growth and inflation dynamic remains critical.
- China will continue to be a critical factor, as well. Decreased consumer confidence in the property sector has created broad concerns. That said, targeted policy easing has begun in an effort to stabilize the market.

Country Drivers

- Russia/Ukraine and the commodity-related impact has surpassed COVID as the largest factor at the individual country level. Terms of trade and external balances are being supported in export countries while the opposite is the case for importers. However, direction of policy will continue to be critical in how these dynamics impact economies for both importers and exporters.
- While COVID continues to wreak havoc on lives and livelihoods, many countries have learned to live with the virus and it appears to no longer be the most important factor in most countries.
- Increased inflationary pressures with higher commodity prices nearly across the board continue to be interpreted differently across countries. As noted, most EM central banks have been hiking which we believe will ultimately be a positive decision for their economies. Notable exceptions exist (e.g. Turkey).
- We expect markets to place an emphasis on differentiation amongst countries and credits.

EMD Risk Factor Dashboard

Outlook and summary

	Underweight	Moderate Underweight	Neutral	Moderate Overweight	Overweight	Summary
Currency				◆		We upgrade FX given the combination of valuations and the broad, orthodox monetary policy response to inflation from many central banks.
Local Interest Rates				◆		We maintain local interest rates at moderate overweight. Real interest rate differentials with G3 remain near wides of the past decade, offer attractive value and a cushion from potential further increases in developed-market yields.
Sovereign Credit				◆		Upgrading sovereign credit based on combination of attractive valuations and improved fundamentals in select spots.
Corporate Credit				◆		Upgrading to moderate overweight after one of the worst performance quarters in the asset class's history; we do not believe it was justified by fundamentals.
EM Equity			◆			Maintaining at neutral. We balance relatively attractive valuations with higher interest rates and challenges in China.

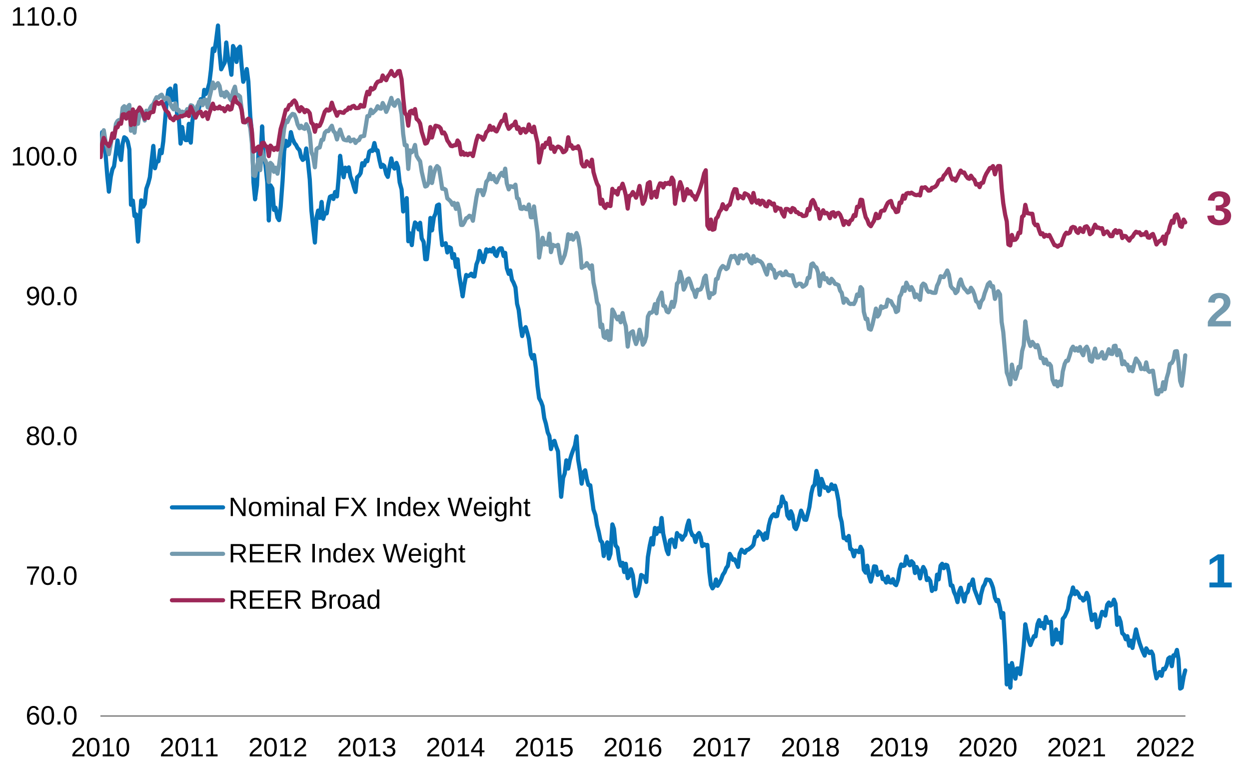
Data provided is for informational use only and should not be considered investment advice.

EM FX

EM FX

EM FX was a bit stronger in aggregate on the quarter despite the Russian invasion of Ukraine and a more hawkish Fed. Those in Latin America and South Africa were particularly strong as higher commodity prices provided a notable offset.

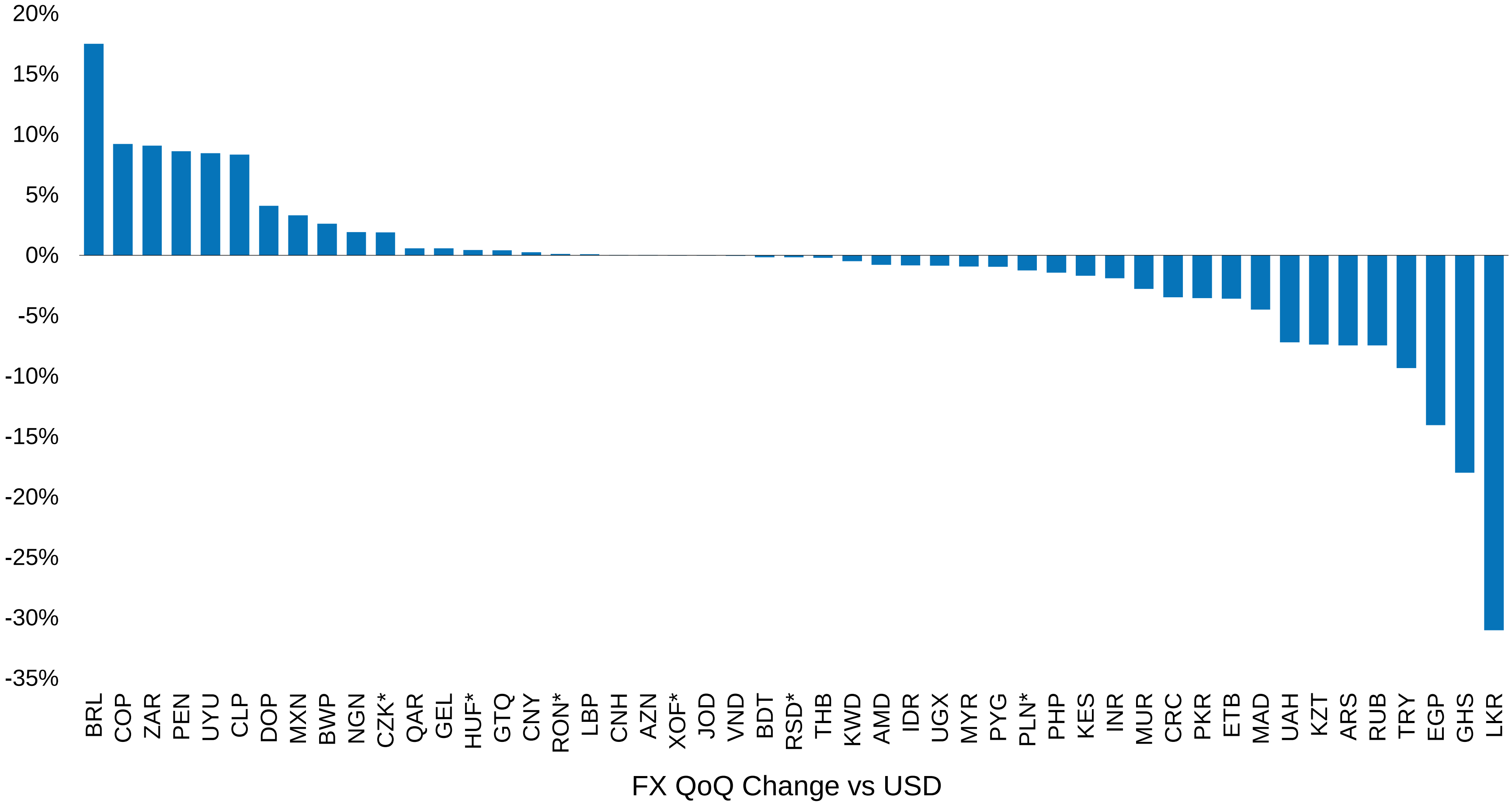
1. Nominal FX (in GBI-EM Index) has weakened significantly since 2018.
2. But looking at real effective exchange rate (REER) is a better way to get a sense of value. This shows less of a decline but still highlights recent volatility and current value.
3. If you broaden the universe beyond the GBI-EM benchmark it shows that FX is not as cheap by this measure but value remains.



Source: J.P. Morgan, Barclays. Nominal FX Index Weight is the J.P. Morgan GBI-EM Global Diversified index currencies and weights. REER Index Weight is the Barclays real effective exchange rate data of the currencies in the J.P. Morgan GBI-EM GD. REER Broad uses Barclays real effective exchange rate data for the following countries equal weighted: Brazil, Chile, Colombia, Hungary, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Romania, South Africa, Thailand, Turkey, China, India, Uruguay, Vietnam, Nigeria, Egypt. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM FX

Dispersion was high in Q1. The Brazilian real was the notable outperformer while Sri Lanka devalued its official rupee rate. Russian ruble and Ukrainian hryvnia were not surprisingly weak; Egypt's devaluation was directly related to the war.

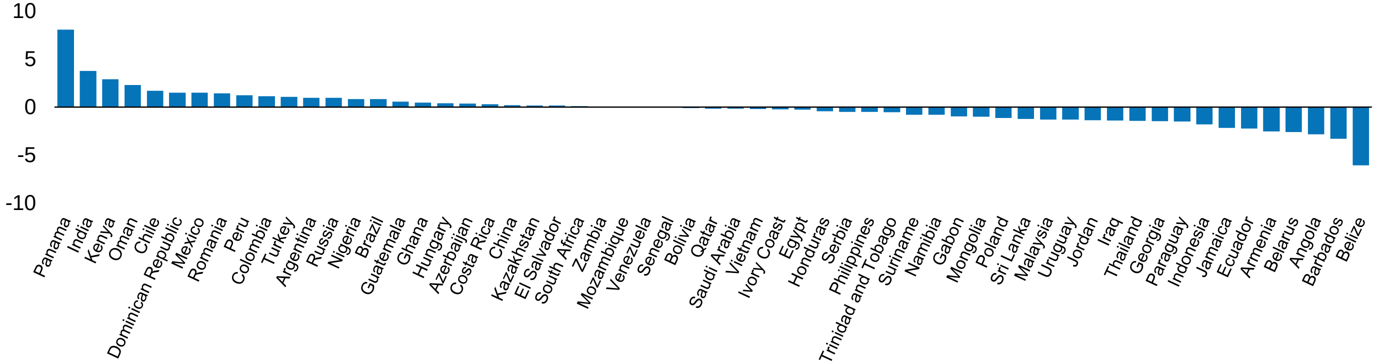


Source: Bloomberg, Eaton Vance. *Versus euro. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM FX

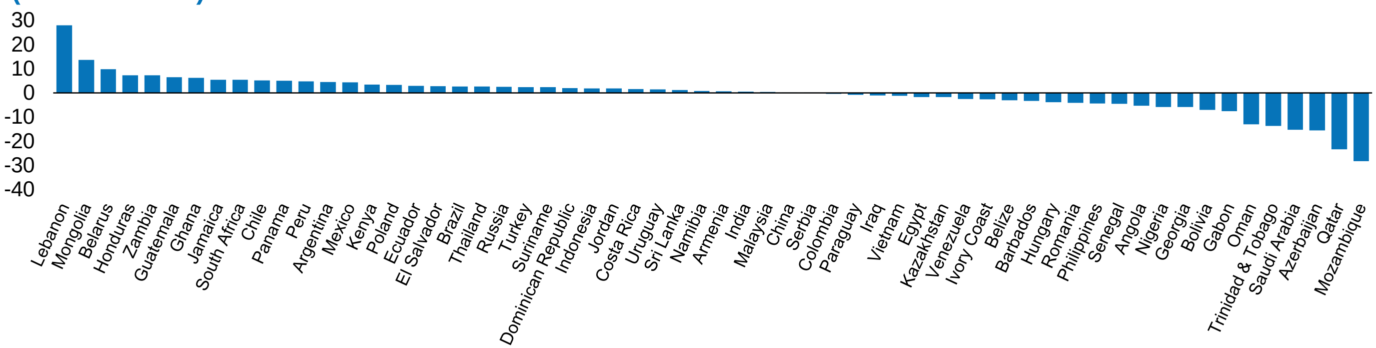
EM FX likes good growth and strong external balances.

% Change in IMF Growth Forecasts
(From April 2021 WEO to Oct 2021 WEO)



Growth forecast are mixed as countries are rebounding from COVID at different rates.

Current Account % Change as % of GDP
(2013 to 2021E)



Current account adjustments have been mixed since the taper tantrum of 2013.

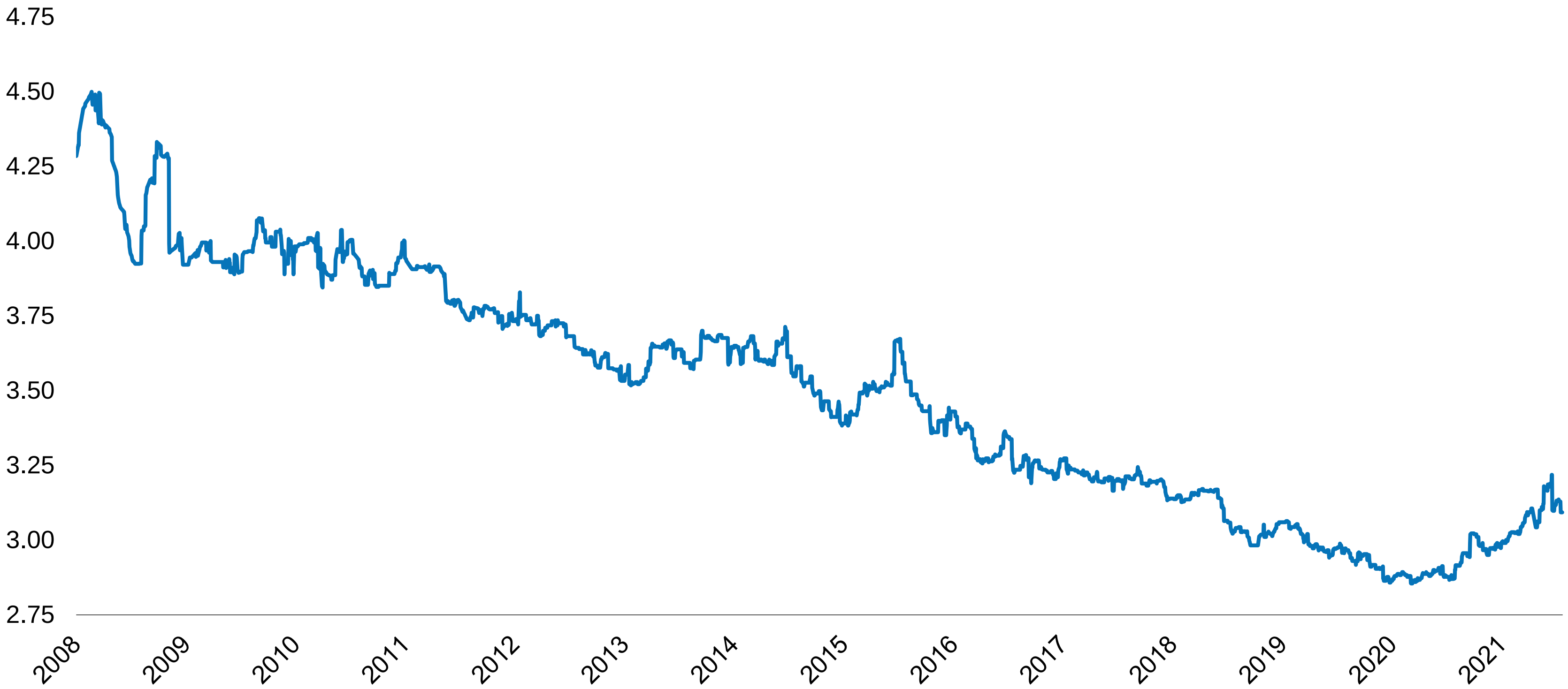
Source: IMF World Economic Outlook (WEO). Data provided is for informational use only. See end of report for important additional information.

EM Interest Rates

EM rates

Inflation pressures remain but many EM central banks responded with rate hikes starting in 2021. Orthodox policy has continued to help control the market's forward-looking inflation expectations.

EM Consensus CPI Expectations*
(% Change YOY)

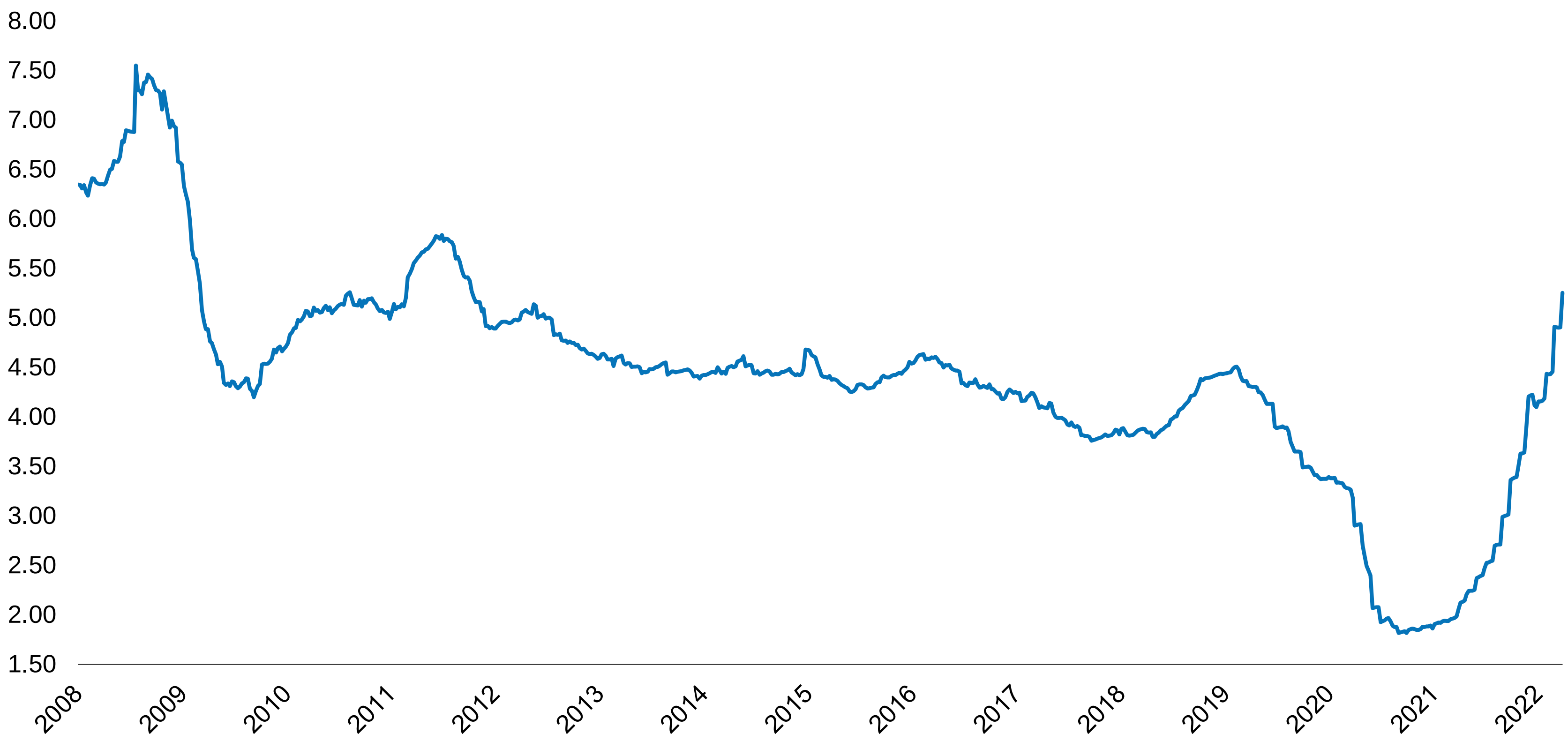


Source: Bloomberg, Eaton Vance. *Data is the equal weighted average of headline inflation expected in 18-30 months by economists surveyed by Bloomberg, which includes all countries in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified, except Argentina. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM rates

Policy rate expectations have continued to surpass pre-pandemic levels. Many EM central banks in aggregate have continued to respond to inflation and an increasingly hawkish Fed with refreshingly orthodox monetary policy.

EM Consensus Policy Rate Expectations*

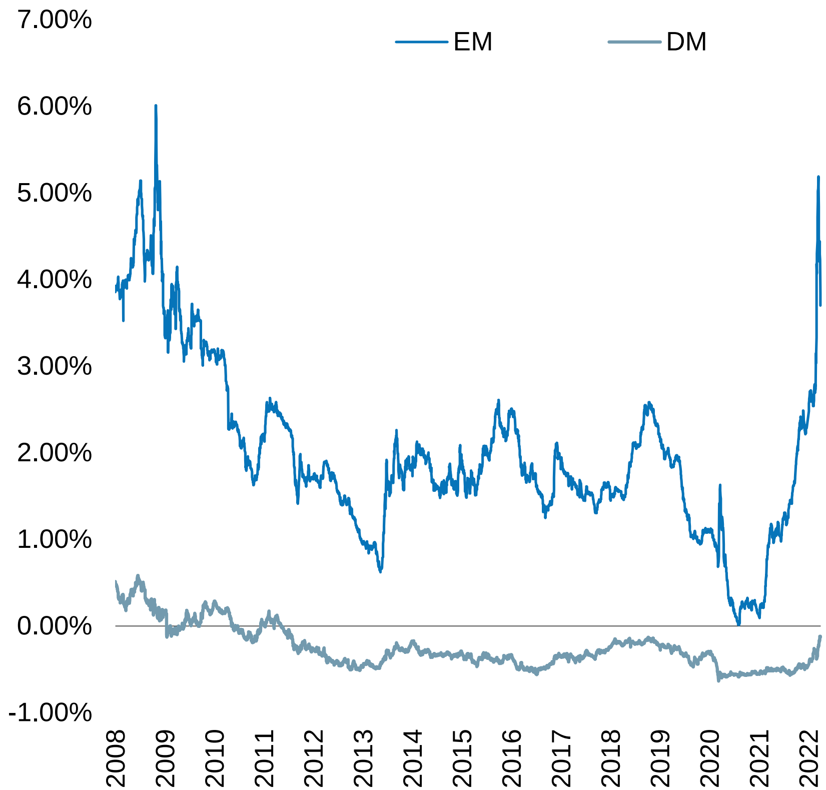


Source: Bloomberg, Eaton Vance. *Data is the equal weighted average of expected policy rates in 12 months by economists surveyed by Bloomberg, which includes all countries in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified, except Argentina. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

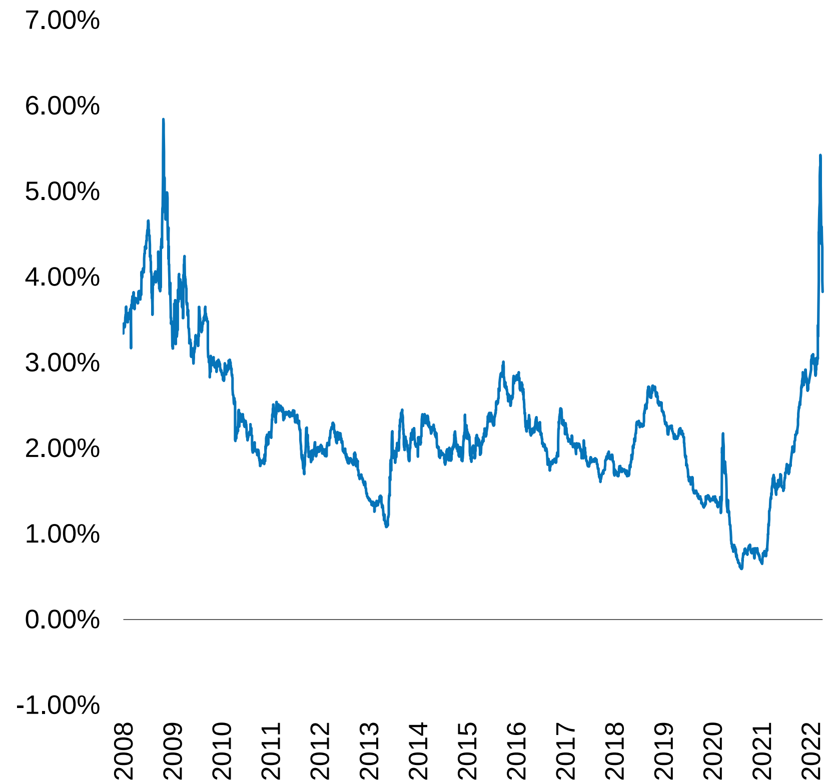
EM rates

EM and DM real yields using inflation expectations. EM-DM real yield differentials moved even wider during the period, back towards their widest levels of the past decade and which we view as possessing attractive value.

EM Real Yields
(Using Inflation Forecasts)



EM-DM Real Yield Differential
(Using Inflation Forecasts)



Source: Bloomberg, J.P. Morgan, Eaton Vance. Real yields are calculated as nominal yield minus headline inflation expected in 18-30 months by economists surveyed by Bloomberg. Excludes Argentina, Turkey, and Romania. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM Sovereign Credit

EM sovereign credit

- Sovereign spreads widened notably during the quarter and ended the period quite wide of long-term averages.
- Fundamentals are mixed as is the macro environment.
- The new issuance calendar remained open across the quality spectrum although issuers appeared hesitant to tap it unless necessary.
- As always, idiosyncratic troubled spots remain and, as always, specific circumstances need to be analyzed country-by-country.

5yr Equal Weight Sovereign Spread

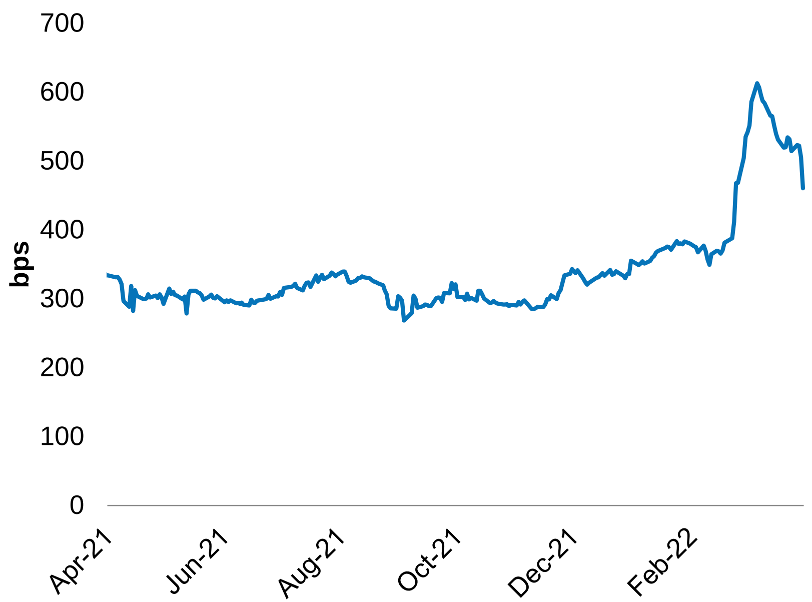
Source: Eaton Vance proprietary data and calculations. Excludes Argentina. Underlying individual country spreads are capped at 3,000 bps. All spreads are modeled five year par equivalent spreads allowing for like comparisons across countries and time. This differs from EMBI data which is comprised of discount and premium bonds with different maturities. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM sovereign credit

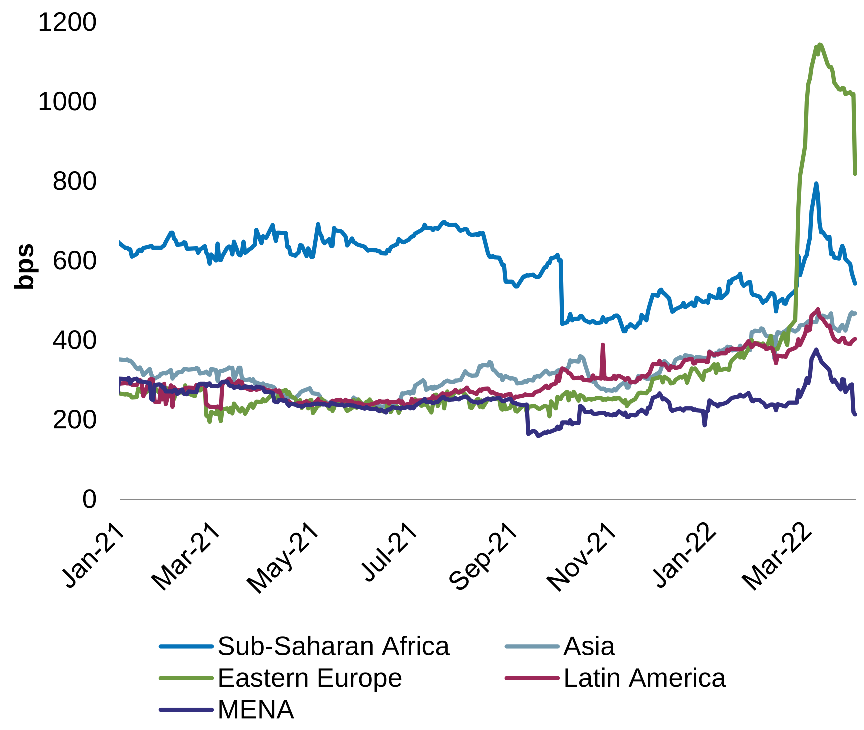
Spreads notably widened for most of the period based on the combination of Russia/Ukraine, China property, and the Fed.

Spreads widened for all regions upon Russia's invasion of Ukraine at the end of February. Over the course of March spreads gradually retraced, but still ended the period notably wider (ex MENA).

5yr Equal Weight Sovereign Spread



5yr Equal Weight Sovereign Spread by Region

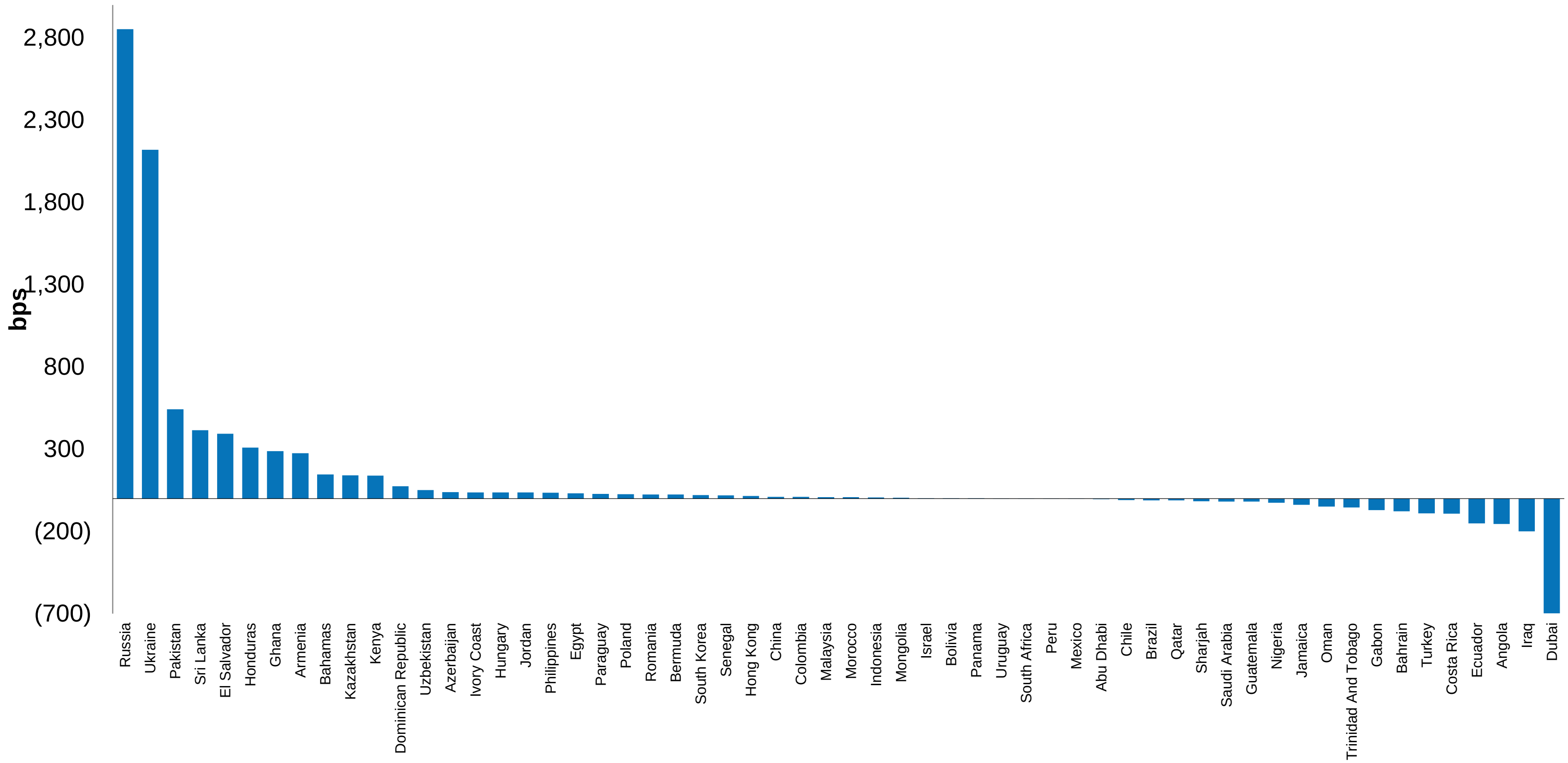


Source: Eaton Vance proprietary data and calculations. Excludes Argentina. Underlying individual country spreads are capped at 3,000 bps. All spreads are modeled five year par equivalent spreads allowing for like comparisons across countries and time. This differs from EMBI data which is comprised of discount and premium bonds with different maturities. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM sovereign credit

Credit spreads generally widened at the country level with only a few spots that tightened (mostly oil exporters).

Q1 2022 Change in 5yr Spread

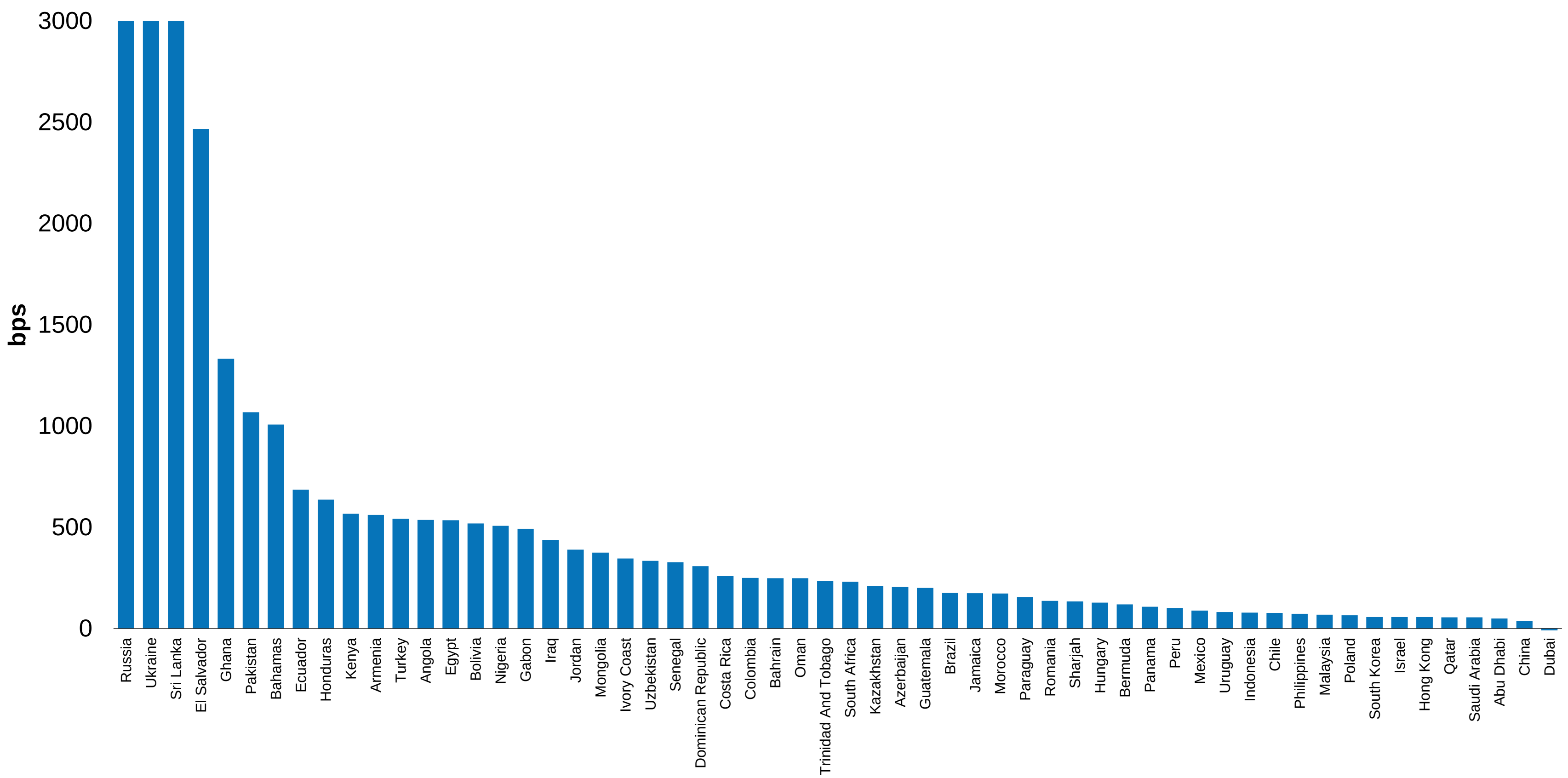


Underlying individual country spreads are capped at 3,000 bps. Source: Eaton Vance proprietary data and calculations. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM sovereign credit

Russia and Ukraine, not surprisingly, saw spreads move quickly to distressed levels. Sri Lanka's fragile position coupled with higher oil prices pushed spreads deeper into distressed territory.

5yr Spreads



Underlying individual country spreads are capped at 3,000 bps. Source: Eaton Vance proprietary data and calculations. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM Corporate Credit

EM corporate credit – The basics

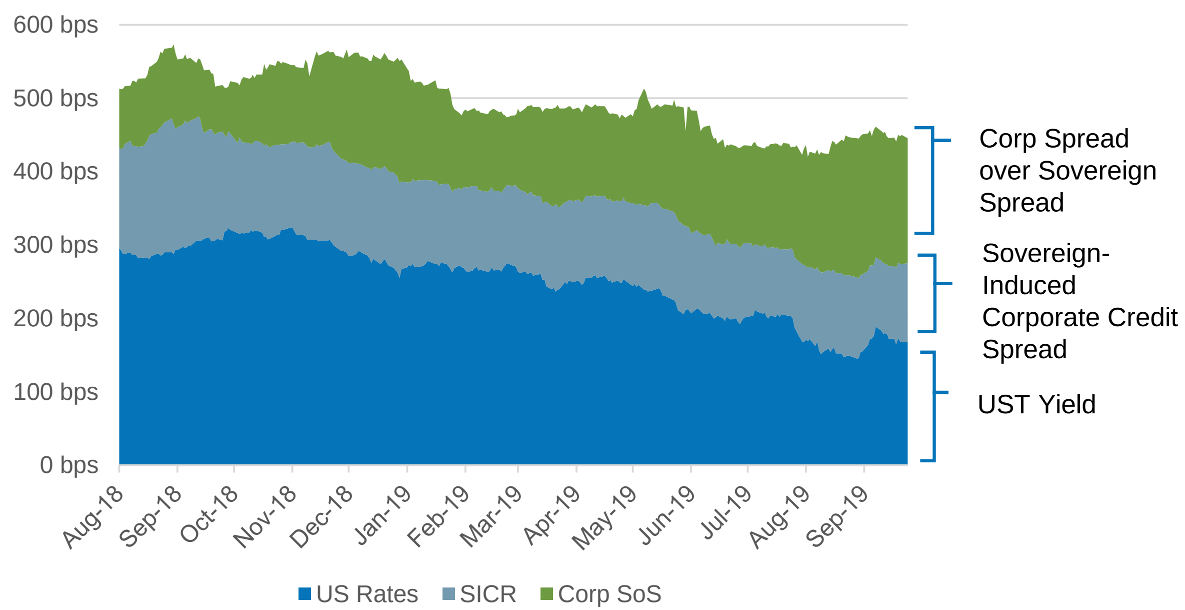
EM corporate debt market is unique.

- The market is an intersection of EM sovereign debt managers, U.S. corporate debt managers and global high yield managers.
- While asset managers are actively growing their pure-play EM corporate debt strategies, this group remains a smaller subset of the buyer universe and inefficiencies are prevalent.
- EM sovereign debt managers look primarily at spread-over-sovereign while corporate credit teams analyze spreads across companies within an industry subsector. We think it is important to incorporate both into the analysis.

How we evaluate EM corporate debt:

- Decompose the yield into its three components: UST yield, sovereign-induced corporate credit spread (SICR) and corporate credit spread over the sovereign spread.

Example of EM Corporate Bond (South American chemicals company 2028s)

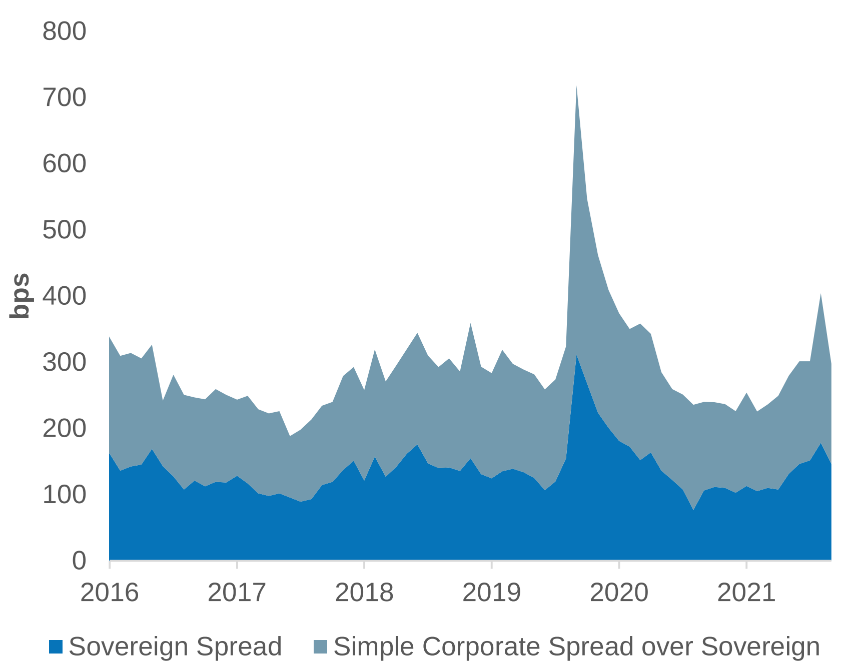


Source: Eaton Vance proprietary data and calculations. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

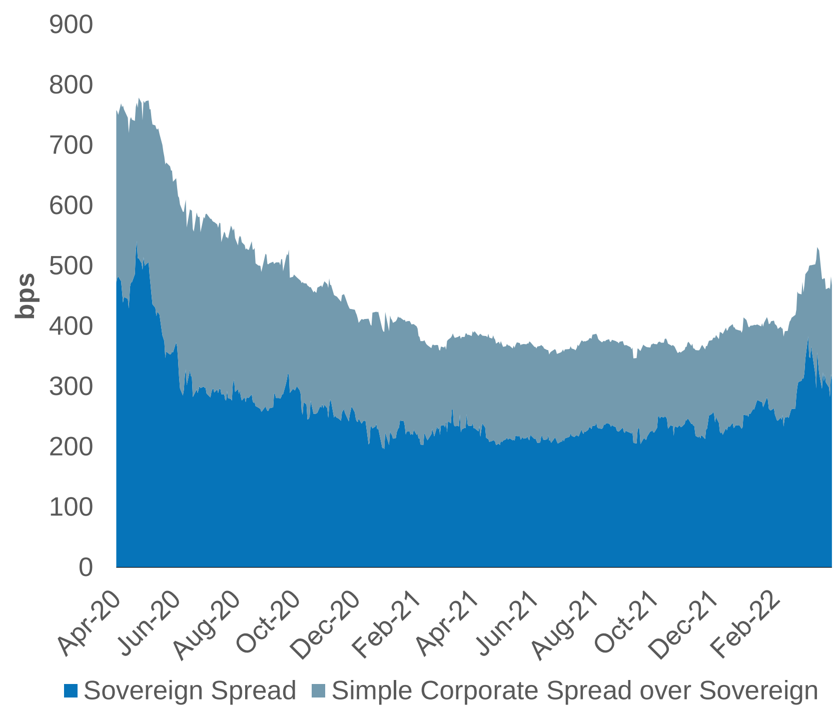
EM corporate credit – Valuations

EM corporates experienced negative returns along with the broader asset class. The Chinese property market is still a major issue for the country and asset class. Fundamental demand, prices, and sentiment are very weak. The government has made efforts to loosen policy, but this has not flowed through to the property developers. The number of defaults could escalate if property sales do not pick up over the next few months. All Russian corporates, with the exception of one due to broken payment channels, are servicing their debt. Ukrainian operations have paused in many spots and interest payments may be delayed for the rest of the year. Contagion from the Russian/Ukraine conflict generally were contained to companies with direct links to either country. The increase in commodity prices had a positive impact on commodity linked corporates. Latin America, as a region, benefited from this increase.

Spread Over Sovereign (CEMBI)
5 Yr Period



Spread Over Sovereign (EV Universe)
1 Yr Period



Source: Eaton Vance proprietary data and calculations. CEMBI bonds used in calculation. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

White Paper and Blog Post Summary

White Paper Summary – 2021/2022

Date	Headline	Summary
2/8/2022	**Uzbekistan: Reform Drive Underpins Improving Investment Case**	Uzbekistan has become a notable emerging markets (EM) turnaround story, with an ambitious reform program that has ushered in economic openness, improved macroeconomic stability and an inflow of foreign investment. We see Uzbekistan as a prime example of how an investment strategy that prioritizes in-depth country analysis and a proactive approach to market access can reward investors in corners of the EM debt universe that are often overlooked.
10/11/2021	**Making Education Investment Grade: The Hidden Returns to the Mobility of Economic Freedom**	We find that economic policy, particularly in the spheres of monetary policy and rule of law, exert a significant influence in producing better intergenerational income mobility outcomes, as families are better able to make long-term investments in their children's education.
8/06/2021	**Economic policy's critical role for shaping ESG outcomes in emerging markets**	While the foundational factors behind improvements in environmental, social and governance (ESG) considerations are seldom investigated at the country level, the evidence demonstrates a clear relationship between the orientation of economic policy and ESG outcomes.
6/01/2021	**Falling volatility supports bullish outlook for emerging markets**	After facing headwinds stemming from the sell-off in U.S. Treasurys over recent months, the outlook appears bright for emerging markets debt (EMD) thanks to a supportive macro environment, improving fundamentals and the attractive valuations available to investors.
5/14/2021	**Economic Transparency means a credit worthy sovereign**	Eaton Vance Management explores the relationship between Economic Transparency and Yield Spreads, Credit Ratings, Stock Price Volatility and Trust in Government across 130 countries. Sovereign Economic Transparency is the extent to which authorities provide timely, reliable and accessible information relating to fiscal and monetary policies and the general economy.
3/04/2021	**Going beyond "active vs. passive" in EM debt**	Eaton Vance offers proactive management that seeks to fully capitalize on the broadest possible EM opportunity set. Our proprietary investment capabilities have been developed over three decades for exploiting idiosyncrasies of the EM debt sector and generating alpha for clients.
2/09/2021	**Five reasons to be bullish on local-currency emerging-market debt**	EM economic growth is leading the global economic recovery, yet EM returns in 2020 lagged the asset gains in developed markets. EM economies did not shut down to the same degree as developed economies in 2020, nor are they shutting down as aggressively now

Blog post summary – Q4 2021/2022

Date	Headline	Summary
3/7/2022	All-In Moment for Putin in Ukraine War	Despite reports of notable damages and casualties inflicted by Ukrainian armed forces on Russian troops, Russia continues to make modest gains in the amount of land controlled. Until Russia stops making gains, we think it is unlikely that there will be a negotiated peace agreement.
3/2/2022	Russia-Ukraine Conflict Hard to Analyze and Harder to Predict	The latest situational and capital markets updates relating to Russia's widespread invasion and attack on Ukraine, now in its seventh day. In our view, these events could have unintended consequences and potentially unexpected results. The world order may be reordering before our very eyes.
2/10/2022	China Property: Evergrande May Just Be the Canary in the Coal Mine	What seemed like an isolated credit event for Evergrande has now sent shockwaves across China's real estate economy. We strive, as always, to search for mispriced securities in every corner of our investable universe. China property is no exception. We are leveraging our research and network to build a better mosaic as the situation evolves.
1/18/2022	2022 Outlook: Unearthing Opportunities in an Altered Landscape	In 2022, we expect emerging markets (EM) may embark upon a road to recovery, albeit with potential bumps along the way. For every country like Turkey, where heterodox policy is cause for concern, there are lesser known and overlooked EM success stories.
12/22/2021	Not Your Typical Currency Crisis in Turkey	Over the past five years, we have seen multiple currency crises in Turkey. Periods of unorthodox monetary policy implementation and credit-fueled growth have, in every single instance, led to high inflation and a weaker currency.
12/3/2021	Ghana’s Woes Show Why In-Depth EM Research is Vital	Ghana has been wrestling with a yawning fiscal deficit while dragging its heels in using IMF resources, and a good deal of the investor base comprises 'hot money' holdings of its local-currency bonds, which makes the debt more sensitive to the whims of foreign investor sentiment.
11/11/2021	Inflation Concerns Eclipse COVID-19 at Washington IMF Meetings	On the inflation front, a divergence in outlook became apparent: IMF officials still lean toward the belief that the inflation surge is transitory, while a growing number of country policymakers are taking the view that supply shocks may last for a while.
10/26/2021	Egypt and Ukraine Added to Emerging Markets Benchmark – A Major Milestone	The EM team devotes significant time, resources and expertise to seek value in countries outside the common EM benchmarks. The recent inclusion of Egypt and Ukraine in the GBI-EM shows why we have always believed strongly in this approach.
10/12/2021	Worries over a More Hawkish Fed and Regulatory Tightening in China Spark 3Q EM losses	EM fundamentals are broadly solid as the global economy continues to expand, albeit at a slower rate of growth than earlier in the year. Primary risks stem from COVID-19, Evergrande/China and the pace of 'tapering' chosen by the U.S. Federal Reserve. We feel that markets are pricing these risks appropriately and valuations generally appear fair.
10/4/2021	World Bank Ends “Doing Business” Report in Wake of Scandal	Problems with the 'Doing Business' report, and the general unreliability of public EM data, are key reasons why we have invested so heavily to build a process based primarily on independent, verifiable data and first-hand knowledge.

Important information and disclosure

ABOUT ASSET CLASS COMPARISONS:

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