Emerging Markets Debt 3Q 2023 Outlook

After a volatile first quarter, driven mostly by US interest rate movements and the banking sector developments in the US and Switzerland, April and the first half of May delivered relatively calmer macro and trading conditions.

The US debt ceiling discussion introduced volatility again and drove US treasury yields higher across the curve. Now with the issue largely behind us, all eyes are back on growth-inflation dynamics in the US and the remaining appropriate US monetary policy path that will put the inflation genie back in the bottle for good. While the Fed paused its rate hike in its latest June meeting and whether there will be any further rate hikes will be data dependent, we take the view that we are near the end of the US monetary policy hiking cycle but will not see any Fed rate cut for a prolonged period.

For emerging market debt, the second quarter to date performance has been positive, albeit less stellar than the first quarter across all sub asset classes, with emerging markets (EM) Hard currency sovereign delivering 1.06%, EM Hard Currency corporate delivering 0.9% and EM Local currency sovereign delivering 1.93%, based on JP Morgan indices. During this period, both sovereign and corporate spreads have compressed, by around 30 and 15 basis points respectively. Emerging market foreign currencies have delivered largely flat returns against the USD at the aggregate level, whereas local rates have delivered more meaningful positive returns. (Data as 12th of June, JPM)

Fundamental Perspective

Looking ahead, from a fundamental perspective, we continue to keep a close eye on inflation, growth, China and refinancing risk of EM.

INFLATION Headline inflation has come down in most EM countries, whereas core inflation is somewhat sticky in certain areas, such as Central Europe, due to tight labor markets. EM countries have led the monetary policy hiking cycle by hiking early; nevertheless they are showing prudence again by not cutting prematurely, often leading to attractive carry profiles.

GROWTH Growth remains challenging for EM in general but we see healthy pick up of EM growth over developed markets (DM) growth. The IMF's latest forecast for 2023 GDP points to 4% GDP growth in EM vs 1.2% GDP growth in DM. Furthermore, we see agricultural-driven economies doing better, such as India and Brazil. Given the current high monetary policy rates, EM growth is showing remarkable resilience. For example, Brazil's policy rate is currently at 13.75% whereas forecasted 2023 GDP growth is around 1.2%.

CHINA After strong first quarter China economic data, second quarter to date data have turned much weaker. Sentiment is rather bearish on whether China can achieve its 5% 2023 GDP growth target. We think there is room for monetary policy easing and fixed asset investment to help support growth and sentiment domestically. However, this means that we think China will not deliver meaningful growth or inflation impulses for the rest of the world, as China continues to rebalance its growth model.

REFINANCING Last but not least, refinancing risk remains one of the most important factors for our credit differentiation analysis, given the tightening financial conditions. In the EM sovereign space, we believe some Sub-Saharan countries will remain challenged. In our meeting with the IMF last month, we discussed that sovereign default situations and restructuring solutions will have to be case dependent. For example, Zambia opted for the G20 common framework which involves a relatively long negotiation process with multiple external debt creditors, whereas Ghana chose to restructure its domestic debt first and swiftly. We have also agreed with the IMF's view that currently there is little contagion risk from sovereign defaults. In the EM corporate space, as a result of prudent balance sheet management over the years and positive impact of commodities on the asset class, we do not see "higher rates for longer" being acutely challenging for the asset class yet. Nevertheless, we are starting to see some deterioration in corporate fundaments, resulting in our somewhat cautious approach to the asset class. We see credit differentiation a key theme for rest of the year. We see some value in the high yield segment but remain vigilant when it comes to companies with large near term refinancing needs. We look for issuers with evident balance sheet strength.

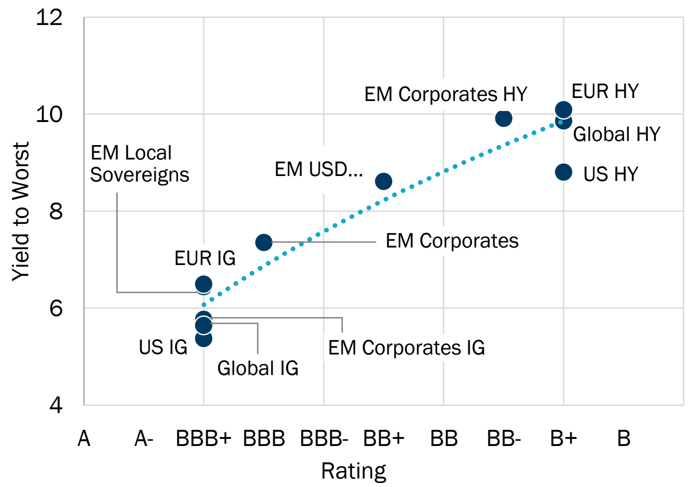
Valuation Perspective

Valuation is the other important consideration. For both EM sovereign and corporate Investment Grade, the spreads signal little value. There are some structural reasons for the tightness of the spreads, such as strong and sticky ownership in Asia with limited supply, and migration of high quality Gulf Cooperation Council (GCC) credits into the investment universe. Furthermore, once we adjust for duration, especially in the case of EM corporates, the valuation becomes more compelling relative to other investment grade asset classes. High Yield spreads look more attractive. However, for EM sovereigns, if we exclude CCC rated countries the valuation becomes more neutral. EM high yield corporate spreads signal attractive valuation relative to US high yield across all ratings; nevertheless we focus on higher rated EM corporates within high yield. We particularly like EM rates currently, given the large monetary policy hike conducted and the relatively benign inflation outlook forward. For example, in Brazil the latest inflation print in May was 3.94%, offering significant positive real yield of almost 9%.

Outlook

Looking ahead, while we maintain our outright cautious stance in the late cycle environment, we have started to reduce our underweight of risk on the back of recent encouraging US data and emerging market economies continuing to show resilience. For example, in Hard Currency sovereign, we have added risk in Nigeria and Egypt due to improvement in their country fundamentals and we have taken profits in high quality GCC credits. In EM corporates, we continue to like Indian Renewables. Gross Gaming Revenue (GGR) is picking up in Macau gaming whereas valuation has not fully caught up with the better than expected fundamentals. We also like the defensive utility sector, whereas we remain cautious on Chinese real estate. We are being selective in Latin America and Africa corporates because of the increased political noise in the former and difficult market access in the latter. In EM local currency markets we like Brazil, Mexico and Indonesia, while maintaining our neutral stance of aggregate EM FX risk vs the USD.

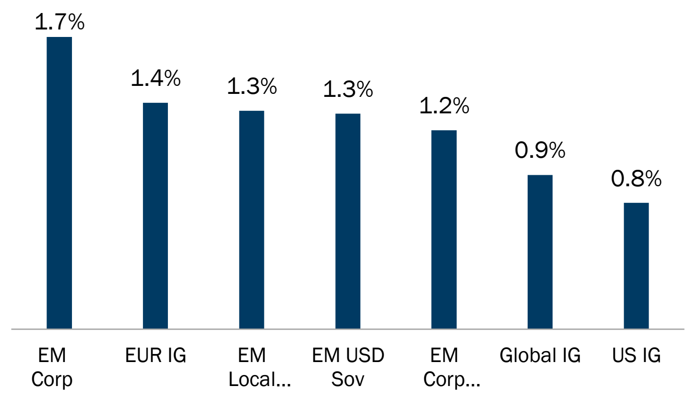
FIGURE 1: CREDIT RATING ADJUSTED, ALL EMERGING MARKET DEBT SUB ASSET CLASSES OFFER ATTRACTIVE YIELDS, EXCEPT EM CORPORATE IG



Data as of May 31, 2023
Source: J.P. Morgan GBI-EM Global Diversified index—The J.P. Morgan Government Bond - Emerging Market Global Diversified Index, J.P. Morgan EMBI Global Diversified Index—The J.P. Morgan Emerging Market Bond Global Diversified Index (EMBIGD), J.P. Morgan CEMBI BROAD DIVERSIFIED Index—The J.P. Morgan Corporate Emerging Market Bond Broad Diversified Index, J.P. Morgan CEMBI Broad Diversified High Yield Index—The J.P. Morgan Corporate Emerging Market Bond Broad Diversified High Yield Index, J.P. Morgan CEMBI Broad Diversified High Grade Index—The J.P. Morgan Corporate Emerging Market Bond Broad Diversified High Grade Index, ICE Bank of America US High Yield Index, ICE Bank of America US Investment Grade Index, ICE Bank of America Global High Yield Index, ICE Bank of America Global Investment Grade Index, ICE Bank of America Euro Investment Grade Index, ICE Bank of America Euro High Yield Index. It is not possible to invest directly in an index. See disclosures for index descriptions.

However, once we adjust for duration, we believe the yield for EM Corporate IG becomes more compelling relative to Global IG and US IG.

FIGURE 2: DURATION-ADJUSTED YIELDS



Data as of May 31, 2023
Source: J.P. Morgan CEMBI Broad Diversified Index—The J.P. Morgan Corporate Emerging Market Bond Broad Diversified Index , ICE Bank of America Euro Investment Grade Index, J.P. Morgan GBI-EM Global Diversified index—The J.P. Morgan Government Bond - Emerging Market Global Diversified Index, J.P. Morgan EMBI Global Diversified Index—The J.P. Morgan Emerging Market Bond Global Diversified Index (EMBIGD), J.P. Morgan CEMBI Broad Diversified High Grade Index—The J.P. Morgan Corporate Emerging Market Bond Broad Diversified High Grade Index, ICE Bank of America Global Investment Grade Index, ICE Bank of America US Investment Grade Index. It is not possible to invest directly in an index. See disclosures for index descriptions.

Meet the MacKay Shields EMD Team

Diverse team with average **19 years' experience** brings unique perspectives and skills:

A combination of bond experience across sovereign, local currency, and emerging market corporates

10 unique languages spoken among the team members

Prior to joining MacKay, the team led management of approximately **$4 billion** across EMD sovereigns and corporates.

Valentina Chen
CO-HEAD & PORTFOLIO MANAGER

Philip Fielding
CO-HEAD & PORTFOLIO MANAGER

Henry Stipp
PORTFOLIO MANAGER & MACRO ECONOMIST

Gordana Ilic
CORPORATE ANALYST

Christopher Garcia
QUANTITATIVE ANALYST

SOURCE INFORMATION

"Bloomberg®", "Bloomberg Indices®", Bloomberg Fixed Income Indices, Bloomberg Equity Indices and all other Bloomberg indices referenced herein are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the indices (collectively, "Bloomberg") and have been licensed for use for certain purposes by MacKay Shields LLC ("MacKay Shields"). Bloomberg is not affiliated with MacKay Shields, and Bloomberg does not approve, endorse, review, or recommend MacKay Shields or any products, funds or services described herein. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to MacKay Shields or any products, funds or services described herein.

ICE Data Indices, LLC ("ICE Data"), is used with permission. ICE® is a registered trademark of ICE Data or its affiliates, and BofA® is a registered trademark of Bank of America Corporation licensed by Bank of America Corporation and its affiliates ("BofA") and may not be used without BofA's prior written approval. ICE Data, its affiliates and their respective third-party suppliers disclaim any and all warranties and representations, express and/or implied, including any warranties of merchantability or fitness for a particular purpose or use, including the indices, index data and any data included in, related to, or derived therefrom. Neither ice data, its affiliates nor their respective third-party suppliers shall be subject to any damages or liability with respect to the adequacy, accuracy, timeliness or completeness of the indices or the index data or any component thereof, and the indices and index data and all components thereof are provided on an "as is" basis and your use is at your own risk. ICE Data, its affiliates and their respective third-party suppliers do not sponsor, endorse, or recommend MacKay Shields LLC, or any of its products or services.

IMPORTANT DISCLOSURE

Availability of this document and products and services provided by MacKay Shields LLC may be limited by applicable laws and regulations in certain jurisdictions and this document is provided only for persons to whom this document and the products and services of MacKay Shields LLC may otherwise lawfully be issued or made available. None of the products and services provided by MacKay Shields LLC are offered to any person in any jurisdiction where such offering would be contrary to local law or regulation. This document is provided for information purposes only. It does not constitute investment or tax advice and should not be construed as an offer to buy securities. The contents of this document have not been reviewed by any regulatory authority in any jurisdiction.

This material contains the opinions of certain professionals at MacKay Shields but not necessarily those of MacKay Shields LLC. The opinions expressed herein are subject to change without notice. This material is distributed for informational purposes only. Forecasts, estimates, and opinions contained herein should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Any forward-looking statements speak only as of the date they are made and MacKay Shields assumes no duty and does not undertake to update forward-looking statements. No part of this document may be reproduced in any form, or referred to in any other publication, without express written permission of MacKay Shields LLC.

Information included herein should not be considered predicative of future transactions or commitments made by MacKay Shields LLC nor as an indication of current or future profitability. There is no assurance investment objectives will be met. **Past performance is not indicative of future results.**

"New York Life Investments" is both a service mark, and the common trade name, of certain investment advisors affiliated with New York Life Insurance Company.

NOTE TO UK AND EUROPEAN AUDIENCE

This document is intended only for the use of professional investors as defined in the Alternative Investment Fund Manager's Directive and/or the UK Financial Conduct Authority's Conduct of Business Sourcebook. To the extent this document has been issued in the United Kingdom, it has been issued by MacKay Shields UK LLP, 80 Coleman Street, London, UK EC2R 5BJ, which is authorised and regulated by the UK Financial Conduct Authority. To the extent this document has been issued in the EEA, it has been issued by MacKay Shields Europe Investment Management Limited, Hamilton House, 28 Fitzwilliam Place, Dublin 2 Ireland, which is authorised and regulated by the Central Bank of Ireland.

NOTE TO CANADIAN AUDIENCE

The information in these materials is not an offer to sell securities or a solicitation of an offer to buy securities in any jurisdiction of Canada. In Canada, any offer or sale of securities or the provision of any advisory or investment fund manager services will be made only in accordance with applicable Canadian securities laws. More specifically, any offer or sale of securities will be made in accordance with applicable exemptions to dealer and investment fund manager registration requirements, as well as under an exemption from the requirement to file a prospectus, and any advice given on securities will be made in reliance on applicable exemptions to adviser registration requirements.

DEFINITIONS

DM: Developed Market. DM countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.

EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

COMPARISONS TO AN INDEX

Comparisons to a financial index are provided for illustrative purposes only. Comparisons to an index are subject to limitations because portfolio holdings, volatility and other portfolio characteristics may differ materially from the index. Unlike an index, individual portfolios are actively managed and may also include derivatives. There is no guarantee that any of the securities in an index are contained in any managed portfolio. The performance of an index may assume reinvestment of dividends and income, or follow other index-specific methodologies and criteria, but does not reflect the impact of fees, applicable taxes or trading costs which, unlike an index, may reduce the returns of a managed portfolio. Investors cannot invest in an index. Because of these differences, the performance of an index should not be relied upon as an accurate measure of comparison.

INDEX DESCRIPTIONS

ICE BOFA GLOBAL HIGH YIELD INDEX — tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or eurobond markets.

ICE BOFA GLOBAL INVESTMENT GRADE INDEX — tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market. You cannot invest directly in an index.

ICE BOFA US HIGH YIELD INDEX — ICE BofA Merrill Lynch US High Yield Index (H0A0) tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

ICE BOFA EURO HIGH YIELD INDEX — The ICE BofA Euro High Yield Index tracks the performance of EUR denominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets.

ICE BOFA EURO INVESTMENT GRADE INDEX — tracks the performance of Euro denominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets.

ICE BOFA GLOBAL BROAD MARKET INDEX — The ICE BofA Global Broad Market Index tracks the performance of investment grade debt publicly issued in the major domestic and eurobond markets, including sovereign, quasi-government, corporate, securitized and collateralized securities.

ICE BOFA INVESTMENT GRADE US CONVERTIBLE INDEX — The ICE BofA US Convertible Index tracks the performance of publicly issued US dollar denominated convertible securities of US companies

ICE HIGH YIELD & UNRATED LARGE DEAL MUNICIPAL BOND INDEX — The ICE High Yield & Unrated Large Deal Municipal Bond Index tracks the performance of U.S. dollar denominated high yield tax-exempt debt publicly issued in the U.S. domestic market by U.S. states and territories as well as their political subdivisions.

J.P. MORGAN CEMBI BROAD DIVERSIFIED HIGH GRADE BLENDED YIELD INDEX — The J.P. Morgan CEMBI Broad Diversified High Grade Index is a sub components of the J.P. Morgan CEMBI Div Broad Composite Blended Yield Index, which covers the investment grade parts of this composite index.

J.P. MORGAN CEMBI BROAD DIVERSIFIED HIGH YIELD BLENDED YIELD INDEX — The J.P. Morgan CEMBI Broad Diversified High Yield Index is a sub components of the J.P. Morgan CEMBI Div Broad Composite Blended Yield Index, which cover the sub investment grade part of this composite index.

J.P. MORGAN CEMBI DIV BROAD COMPOSITE BLENDED YIELD INDEX — The CEMBI Broad Diversified Composite is a comprehensive USD corporate emerging markets bond index that employs a unique approach which uses only a certain portion of the current face amount outstanding for instruments from countries with larger debt stocks. This helps to limit country weights, while reducing index turnover, when compared with the 10% hard-cap approach employed by the GBI-EM series.

J.P. MORGAN EMBI GLOBAL DIVERSIFIED INDEX — The J.P. Morgan EMBI Global Diversified Index (EMBIG) tracks liquid, US Dollar emerging market fixed and floating-rate debt instruments issued by sovereign and quasi-sovereign entities.

J.P. MORGAN GBI-EM GLOBAL DIVERSIFIED INDEX— The J.P. Morgan GBI-EM Global Diversified index is comprised of local emerging market government bonds. For a country to be eligible for inclusion in the index, its GNI per capita must be below the Index Income Ceiling (IIC) for three consecutive years. JPMorgan defines the Index Income Ceiling (IIC) as the GNI per capita level that is adjusted every year by the growth rate of the World GNI per capita, Atlas method (current US$), provided by the World Bank annually.

USE OF ISSUER NAMES

Issuer names used herein are provided as examples for educational and illustrative purposes only and are not intended, nor should they be construed as, recommendations to buy or sell any individual security.

Information included herein should not be considered predicative of future transactions or commitments made by MacKay Shields LLC nor as an indication of current or future profitability. There is no assurance investment objectives will be met.

Past performance is not indicative of future results.

当資料は、一般的な情報提供のみを目的としています。

当資料は、投資助言の提供、有価証券その他の金融商品の売買の勧誘、または取引戦略への参加の提案を意図するものではありません。

また、当資料は、金融商品取引法、投資信託及び投資法人に関する法律または東京証券取引所が規定する上場に関する規則等に基づく開示書類または運用報告書ではありません。**New York Life Investment Management Asia Limited**およびその関係会社は、当資料に記載された情報について正確であることを表明または保証するものではありません。

当資料は、その配布または使用が認められていない国・地域にて提供することを意図したものではありません。

当資料は、機密情報を含み、お客様のみに提供する目的で作成されています。**New York Life Investment Management Asia Limited**による事前の許可がない限り、当資料を配布、複製、転用することはできません。

New York Life Investment Management Asia Limited

金融商品取引業者　登録番号　関東財務局長（金商）第**2964** 号

一般社団法人日本投資顧問業協会会員

一般社団法人第二種金融商品取引業協会会員