AMUNDI FUNDS EMERGING MARKETS BOND

Monthly Portfolio Update

30/11/2025

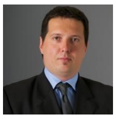
Meet the Team

Ray Jian

Lead Portfolio Manager

Sergei Strigo

Co-Portfolio Manager



Andriy Boychuk

Co-Portfolio Manager

Performance attribution:

The portfolio outperformed its benchmark in November, while delivering strong positive returns year-to-date. November performance was driven by our overweight positioning in Venezuela and Ukraine, as well as an underweight bias to Panama.

Russia–Ukraine talks have advanced around a US-led proposal, but our base case remains that a comprehensive deal is unlikely in the coming weeks despite incremental progress. Ukraine demands an iron-clad security guarantee while Russia's territorial demands remain unresolved. Funding is the critical hinge: IMF approval requires credible financing assurances, with frozen Russian reserves a key potential source, yet Europe currently lacks the budgetary flexibility to provide additional financing. We retain a small overweight position.

Our Venezuela overweight also contributed positively. We continue to favour the country as we see an elevated risk of U.S. military action before year-end that could increase the probability of regime change. If a U.S.-backed government were to take power, Venezuelan bonds could see substantial upside.

Year-to-date the portfolio has produced attractive total returns, with an underperformance versus the benchmark. Positive contributors included our underweights in some Middle East and selected Asian markets (notably the Philippines, China and the UAE). Detractors included defensive cash holdings and our overweights in Ukraine and Senegal.

Portfolio positioning:

We are constructive on the outlook for EM debt, given attractive all-in yields and positive total-return potential for 2026. EM spreads have tightened reflecting stronger fundamentals, credit-rating upgrades and an improved perception of sovereign risk.

Our base case is for a Fed rate cut in December. With markets currently pricing policy rates around 3–3.25% for 2H'26, the rate-cut cycle looks largely priced in. Barring a material collapse in the labour market, we maintain a modest short-duration position and expect to increase it marginally. A growth pickup next year could put a floor under yields.

We add spread and carry in selective, high-quality and idiosyncratic high-yield opportunities. We keep portfolio beta neutral owing to tight spreads. Regionally, we are selectively overweight Latin America, Europe and Sub-Saharan Africa versus Asia and the Middle East.

In recognition of the strong YTD move lower in the US dollar amid medium-term pressures on the currency, we calibrate our sizing considering competing cyclical forces, with our best ideas expressed in high carry, non-beta and idiosyncratic stories such as the Egyptian pound. We further diversify the portfolio with exposure to select corporate credit issuers across regions. In Latin America, we like the airline sector and BBB- and BB credits, given their spread pick up over sovereign and relatively strong corporate fundamentals. We also like the energy sector in Africa, as well as the metals, banking and telecom sectors across corporate credit sectors.

Market review:

In November, EM debt was supported by a constructive global macro backdrop, broad-based disinflation and improving liquidity expectations.

US monetary-policy pricing and long-end moves dominated markets over the month. Fed-cut probabilities swung materially — falling to the mid-20s% intra-month before recovering to around an 80%+ probability by month-end — driving a bout of volatility across markets. After that two-way move, US Treasuries stabilised and the 10-year yield ended the month modestly lower, closing near 4.01% (down about 6bps on the month).

EM monetary policy stayed broadly supportive overall, but with regional differentiation. Asian and CEEMEA central banks were largely on hold. In LatAm, Banxico delivered a 25bp cut to 7.25% while the Brazilian central bank remained at a restrictive stance (Selic at 15%).

Political and geopolitical developments remained fluid, while sovereign credit trends continued to improve. The US draft peace framework for Ukraine revealed gaps with Russian, Ukrainian and European positions, making a near-term settlement unlikely. In idiosyncratic stories, S&P upgraded Ghana to B-, affirmed Qatar at AA with a stable outlook and shifted Uganda to a positive outlook.

Flows and performance stayed supportive, underpinned by improving technicals. Per JP Morgan data, YTD flows into retail EM Bond Funds are now at +$25.2bn. EM hard-currency sovereign debt (JP Morgan EMBI Global Diversified Index) returned 2.13% in November and13.02% YTD, EM local-currency debt (JP Morgan GBI-EM Global Diversified Index) returned 0.46% in November and 15.94% YTD and EM corporates (JP Morgan CEMBI Broad Diversified Index) returned 0.56% in November and 7.95% YTD.

Market outlook:

We retain a positive outlook on EM debt markets as the worst of global trade tensions are largely behind us, and we do not expect a meaningful impact from the US government shutdown to growth. Tariff increases of around 18% will weigh on US growth and consumption, but the impact should be offset by further fiscal policy support and further Fed rate cuts through 2026. Furthermore, corporate earnings remain strong, AI and capex spending are supportive for activity and productivity gains. Given current market conditions, the asset class can continue to deliver mid-high single digit returns, supported by the resumption of inflows, record levels of money-market liquidity and lower US rates.

Emerging markets will remain the biggest driver of global growth in 2026, led by Asian countries like India and China, where activity is supported by stimulus measures and exports. Other countries also retain some flexibility to offset tariffs through monetary and/or fiscal stimulus. Some have also pursued IMF programs and/or debt restructuring subject to adherence to structural reform measures.

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EM debt offers an attractive diversification opportunity away from the US with absolute yield levels still attractive, especially in an environment where global short rates are declining. Some of the higher yielding segments of the market still also offer attractive spread levels relative to their US equivalents. A Fed easing cycle, even if gradual, should reduce the attractiveness of US assets while supporting the duration and income component of EM debt. USD weakness and lower US treasury yields should also underpin EM local rates and currencies. Some countries still have room to cut rates, yet most are approaching the end of their easing cycle, while some (notably Brazil, Colombia, Turkey and Hungary) are more cautious.

Technicals also remain favourable. Investor flows have resumed for the first time since 2021, and hard currency debt net issuance should decline next year due to higher cash flows. Strong returns in 2025 and investors remain underweight the asset class. Strong returns this year and $8 trn sitting in global money market assets should support a pick-up in demand. Credit quality is also improving across the universe as upgrades outpace the level of downgrades.

Our base case is the 'Goldilocks' environment for carry is likely to be sustained. US growth is resilient but will slow below trend along with job growth, enabling further rate cuts from the Fed. The pass-through from tariffs has been modest, although a resurgence in US trade tensions is a risk. Other concerns include an escalation in the geopolitical landscape in the Middle East and/or the Russia/Ukraine conflict.

We maintain a preference for those countries that are commodity exporters, where fundamentals are improving, and/or those that have strong buffers in place to weather an external shock. The impact of tariffs on GDP growth still appears to be the largest for Asia, a region that we remain broadly underweight due to valuations.

We are constructive on EM hard currency bonds given the supportive macro environment and outright attractive yield levels relative to history. Our return profile is largely driven by carry, and we favour high yield selectively as there is still some room for some spreads to tighten. We remain selectively positioned in Latin America and EM Europe and also hold longs in select Sub-Saharan African countries. We remain underweight Asia where spreads are generally tight. From a rating perspective, investment grade issuers offer limited upside at current valuations.

Lower US rates should support EM FX carry; and with EM inflation well-contained, there is still some scope for further rate cuts which could see further gains in local debt duration. As such, we remain long EM rates in countries with high nominal and real yields where there is room to ease policy and/or rates have peaked. Some frontier countries have also seen large devaluations which leaves FX attractively valued. We remain selective and avoid positioning in countries that are more vulnerable to slowing growth or a reversal of capital flows.

EM corporate fundamentals remain solid. There are a few localised high-yield idiosyncratic stories in development but these are not affecting the general market sentiment. Q2 earnings season saw decent results with the exception of the commodity-related sectors, especially Chemicals, given that the uncertainties around the new trade regime dominated most of the quarter. We are more than half way into the Q3 earnings season with initial readings suggesting good results in the Tech sector as some disappointments in the Real Estate.

Technicals remain in robust shape with flows continuing into EM and the primary markets are open and active helping corporates to extend maturity profiles. We expect the HY default rates to stay low, below 3% this year vs its long-term average of 4.4%. As of end September, the rate for the broad EM HY market stood at 2.3%, according to JP Morgan. After heightened 2021-2023 defaults levels, the rates moderated last year and continue to come off.

Combining this with relatively tight valuations, we do not expect an "easy ride" for the remainder of the year and are focusing our research efforts on identifying quality and idiosyncratic stories to generate alpha.

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