Eaton Vance

Q1 2019

Emerging Markets Debt Chart Book

EM Strikes Back

GLOBAL INCOME GROUP

E|V|M

Important information and disclosure

This document contains select pages from Eaton Vance's EMD Chart Book. For the full version, please contact internationalenquiries@eatonvance.com

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Summary

Summary

- Emerging markets debt (EMD) indices had a strong start to the year in Q1, with all risk factors contributing to the positive performance.
- Valuations were attractive coming into the quarter, after a sell-off at the end of 2018. Flows into the asset class were also supportive for the strong performance. Volatility increased through the quarter, though, with US Fed policy and global growth concerns primary factors.
- In this edition of the EMD Chart Book, we will explore further the value of active management specifically in local markets, and also look more closely at the challenges facing Ghana, a country we have identified in the past as particularly vulnerable to shocks.
- Emerging markets (EM) FX outlook is steady at Moderate Overweight. Performance was mixed in Q1, while fundamentals are improving at the margin. The risk factor will be supported by dovish monetary policy, particularly from the US Fed.
- The outlook for rates remains at Moderate Overweight. Despite a significant rally in Q1, inflation continues to fall in EM countries, giving EM central banks room to cut policy rates. The dovish Fed, and reduced risk of trade wars are also positive for the risk factor.
- The sovereign credit outlook remains at Moderate Overweight. Sovereign spreads tightened significantly in the quarter, particularly led by some of the worst performers of 2018. Several countries took advantage of the supportive environment to issue their first Eurobonds. Weaker credit fundamentals will continue to necessitate strong policy responses, and we expect individual country performance going forward to be differentiated based on the quality of these responses.
- Corporate credit maintains a Neutral outlook. Performance in Q1 was strong based on inflows to the EM asset class, and investor appetite for higher yield. Corporate fundamentals are generally strong, however, corporate spreads-over-sovereign are not high enough to fully compensate investors for the idiosyncratic and country-level risks in the sector.

Q1 2019 Recap

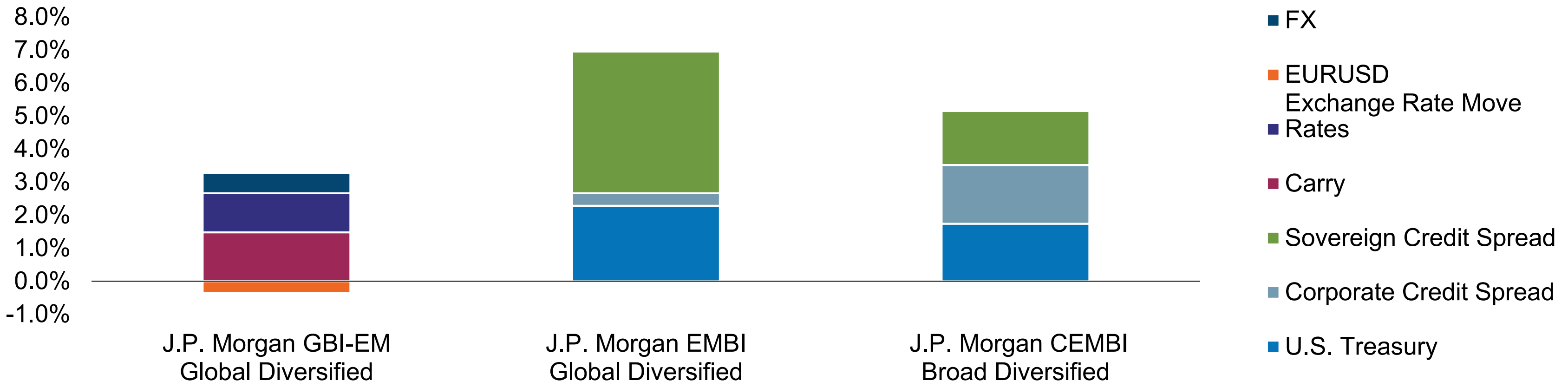
Q1 2019 recap

- EMD assets started the year with a bang, as a dovish Fed, attractive starting valuations, and improving EM fundamentals delivered for the asset class.
- All indices and risk factors contributed to positive performance.
  - Local sovereign debt index performance was up 2.92% with all risk factors contributing to positive returns.
  - External sovereign debt index performance finished up 6.95% for the quarter. Spread compression was the main driver of performance but declining UST yield helped as well.
  - EM corporate debt index performance was up 5.15% for the quarter.
- Significant inflows to the asset class was a supportive technical.
- However, these inflows were met by robust issuance, including inaugural Eurobond issuance by Uzbekistan and Benin.
- The quarter ended with significant volatility as markets try to reconcile easy Fed policy with slowing global growth.

Source: J.P. Morgan, Eaton Vance calculations.

Index performance recap

Q1 2019



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	0.61%	-0.35%	1.18%	1.48%	-	-	-	**2.92%**
J.P. Morgan EMBI Global Diversified	-	-	-	-	4.29%	0.38%	2.28%	**6.95%**
J.P. Morgan CEMBI Broad Diversified	-	-	-	-	1.63%	1.78%	1.74%	**5.15%**

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 not a reliable indicator 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	0.61%	-0.35%	1.18%	1.48%	-	-	-	**2.92%**
J.P. Morgan EMBI Global Diversified	-	-	-	-	4.29%	0.38%	2.28%	**6.95%**
J.P. Morgan CEMBI Broad Diversified	-	-	-	-	1.63%	1.78%	1.74%	**5.15%**

2018

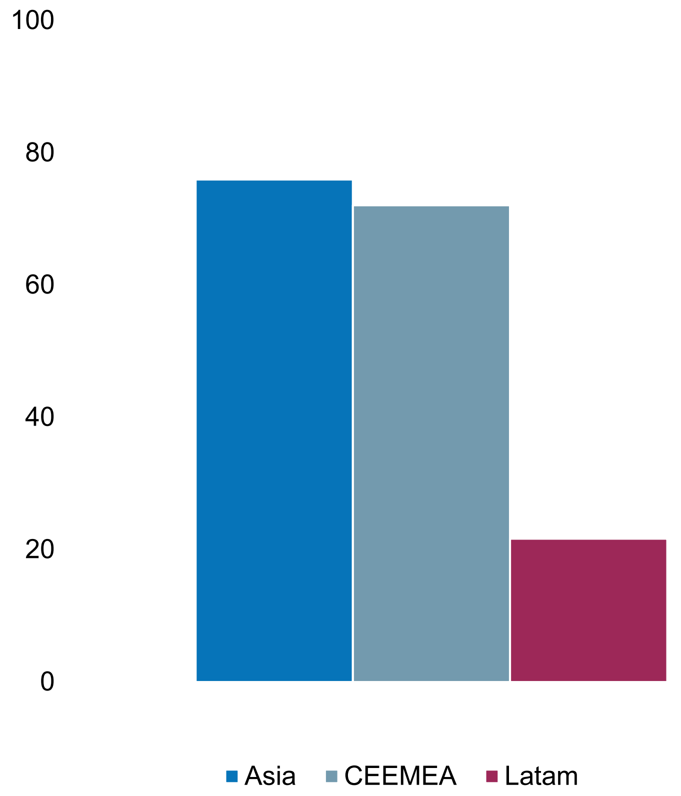
Index	FX	EURUSD Exchange Rate Move	Rates	Carry	Sovereign Credit Spread	Corporate Credit Spread	U.S. Treasury	Total Return
J.P. Morgan GBI-EM Global Diversified	-8.85%	-0.62%	-2.95%	6.20%	-	-	-	**-6.21%**
J.P. Morgan EMBI Global Diversified	-	-	-	-	-5.13%	0.21%	0.66%	**-4.26%**
J.P. Morgan CEMBI Broad Diversified	-	-	-	-	-1.12%	-1.79%	1.25%	**-1.65%**

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.

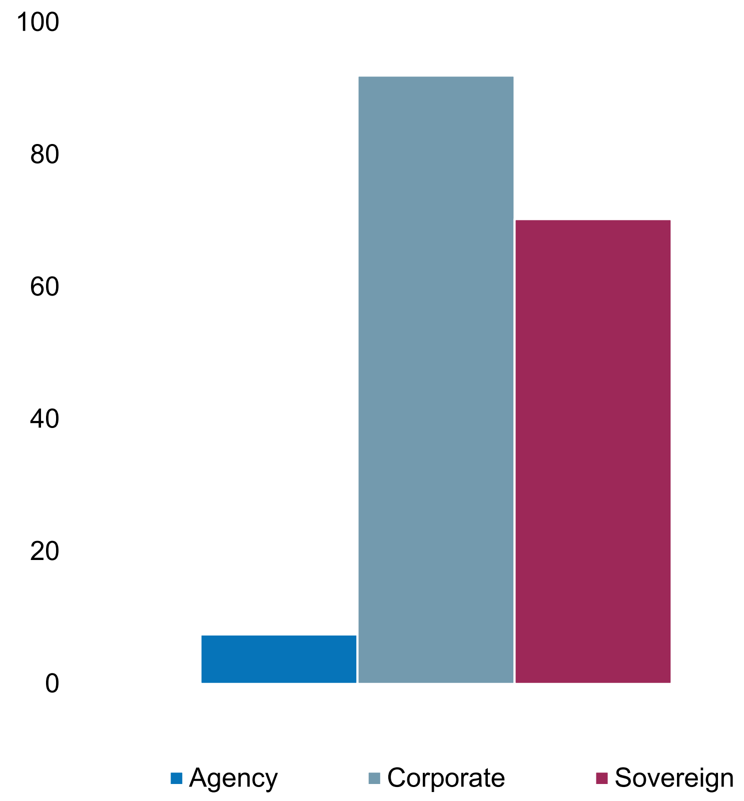
Primary market

Emerging Market Eurobond Issuance for Q1: Total issuance of $170bn

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 Outlook

EM debt risk factor dashboard

Outlook and summary

	Underweight	Moderate Underweight	Neutral	Moderate Overweight	Overweight	Summary
Currency				◆		Maintain at moderate overweight. Continuing supportive external factors.
Local interest rates				◆		Maintain at moderate overweight. Better valuations and more supportive external factors.
Sovereign credit				◆		Maintain at moderate overweight. Rally has resulted in spreads nearing fair value but carry remains.
Corporate credit			◆			Maintain at neutral. While corporate balance sheets remain strong, potential unforeseen sovereign crises or a slowdown of fund flows could drive spreads wider.

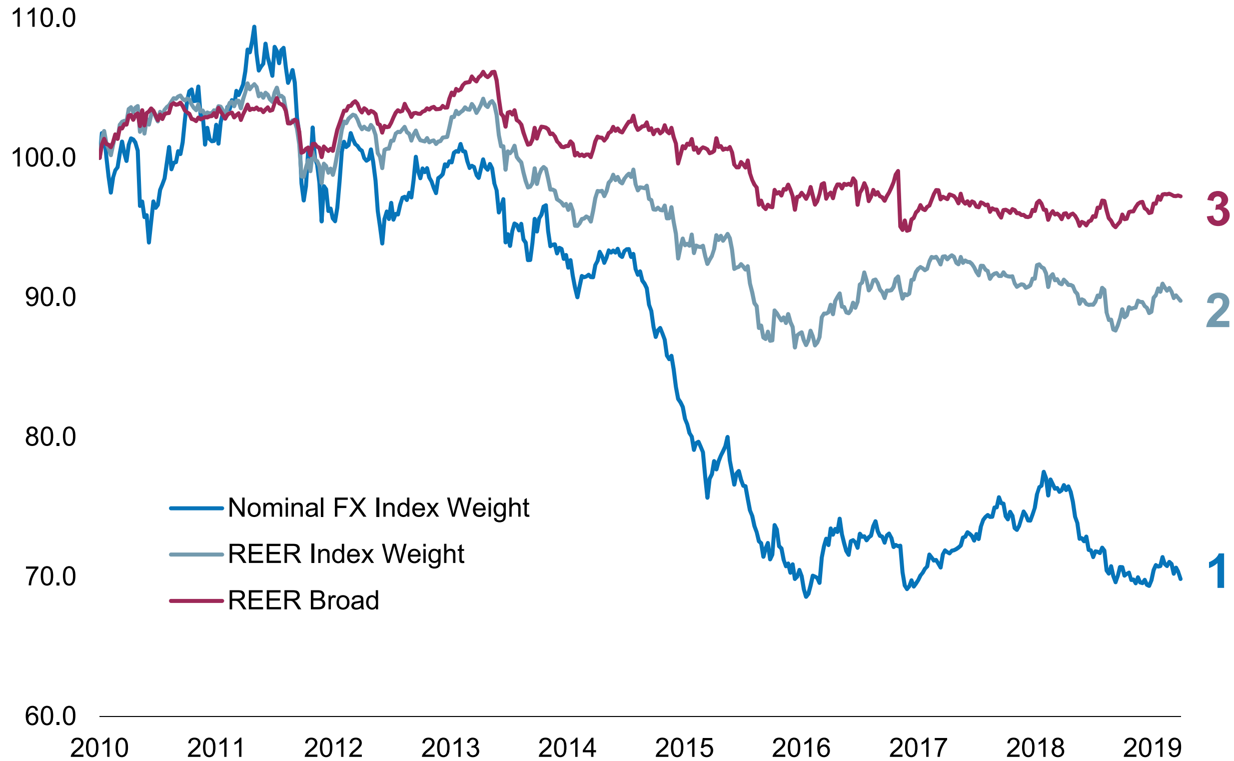
Data provided is for informational use only and should not be considered investment advice.

EM FX

EM FX

Nominal FX has adjusted sharply, but valuation is not as straightforward.

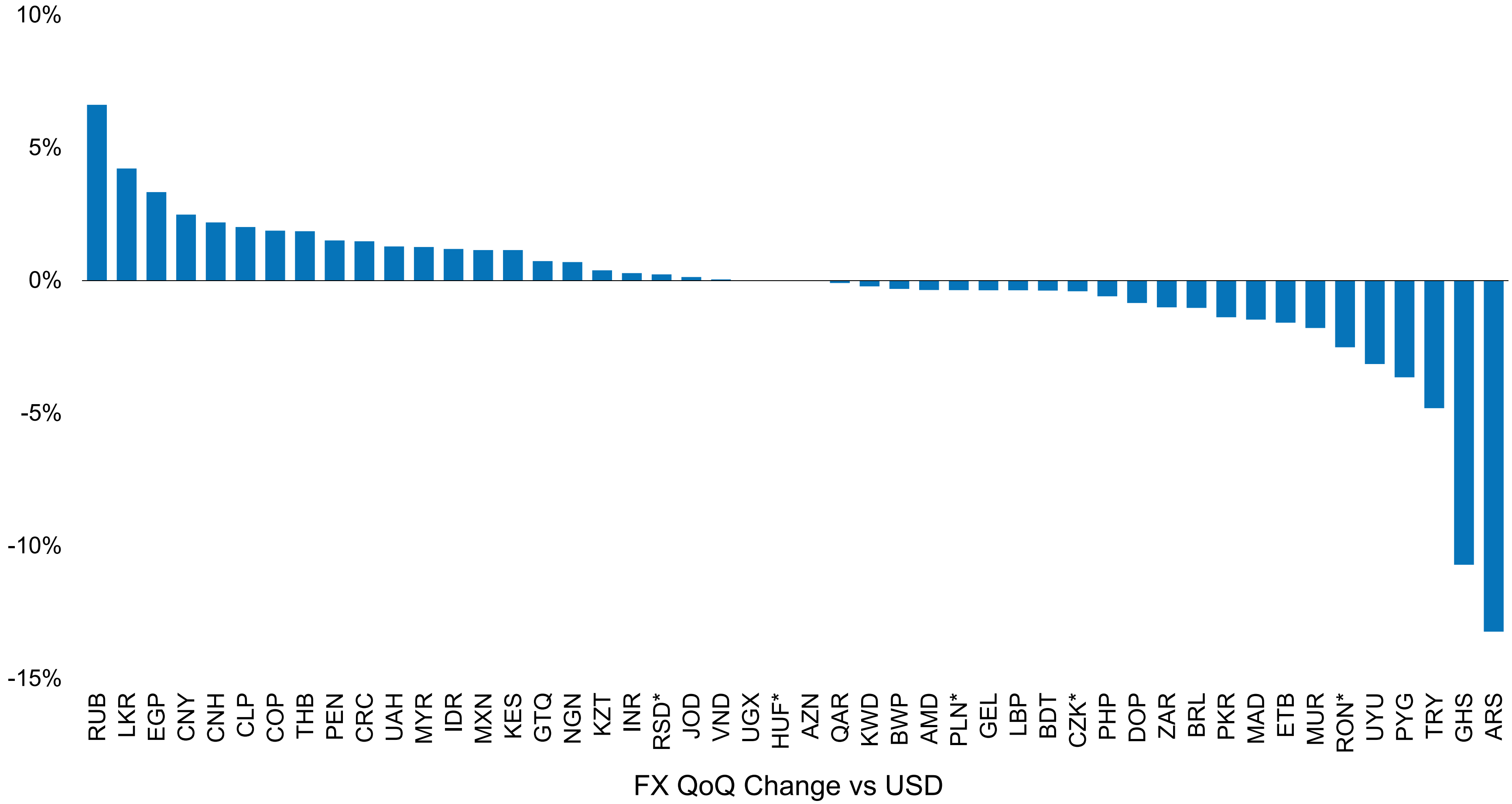
1. Nominal FX (in GBI-EM Index) has once again sold off.
2. But looking at real effective exchange rate (REER) is a better way to get a sense of value. This shows a recent rally
3. If you broaden the universe beyond the GBI-EM benchmark it shows that the sell-off has been slow, steady and most recently appreciating.



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

FX performance was mixed in Q1

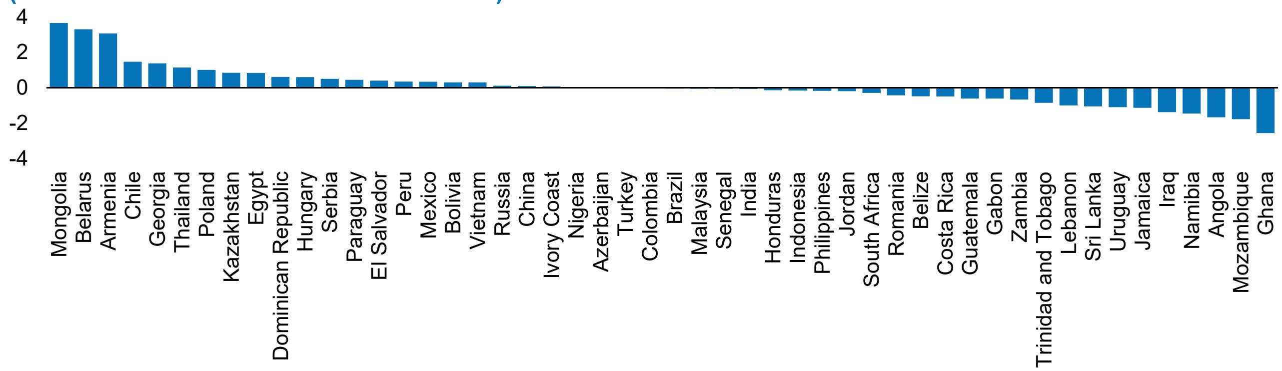


Source: Bloomberg, Eaton Vance. *Versus euro. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM FX

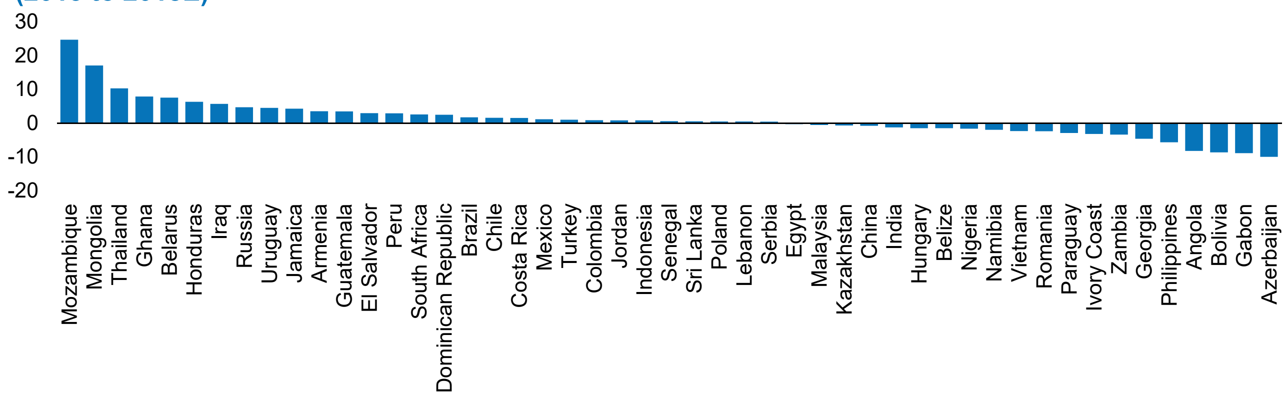
EM FX likes good growth and strong external balances…

% Change in IMF 2018 Growth Forecasts
(From Oct 2017 WEO to Oct 2018 WEO)



The frequency and magnitude of downward revisions has increased over the year.

Current Account % Change as % of GDP
(2013 to 2018E)



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

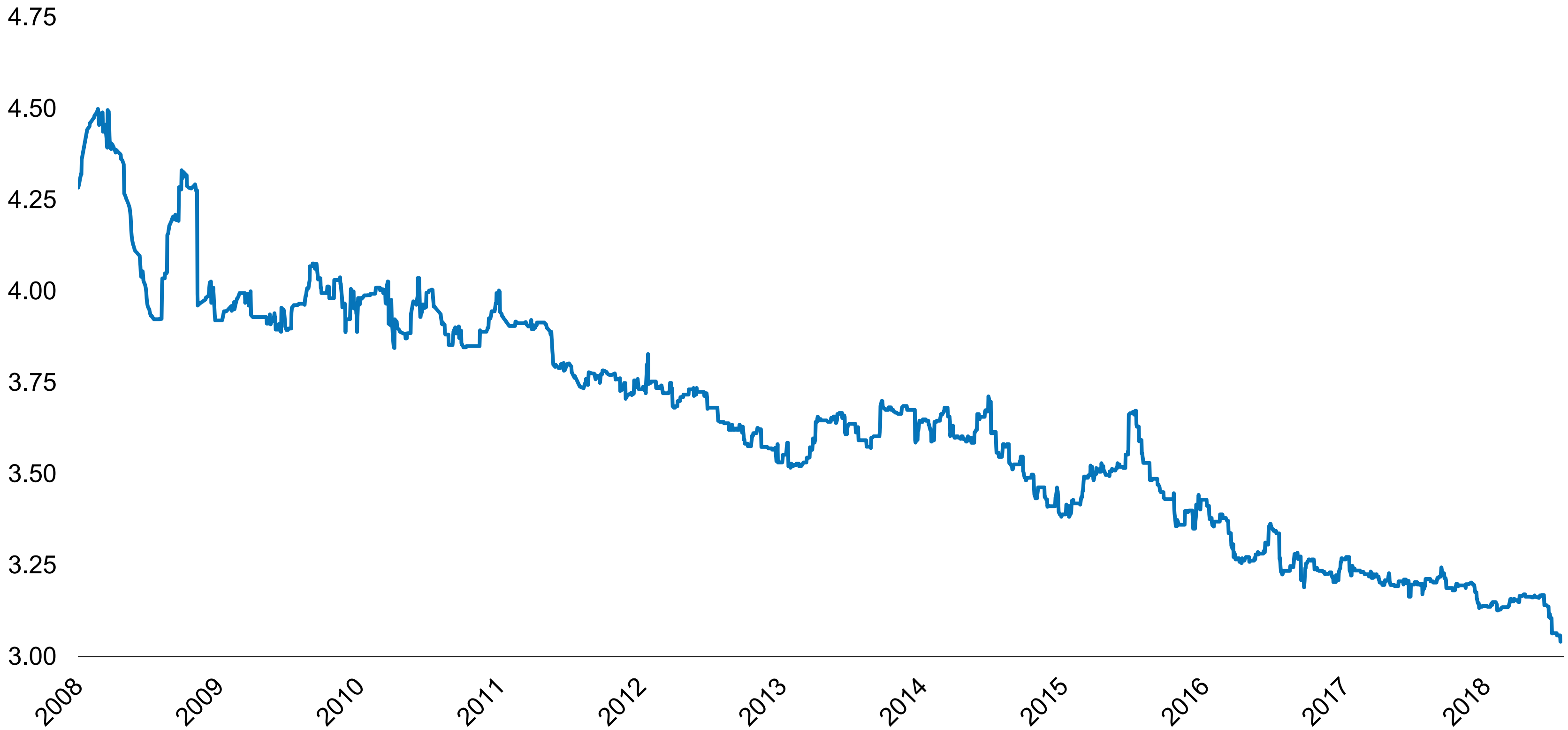
Source: IMF World Economic Outlook (WEO). Data provided is for informational use only. See end of report for important additional information.

EM Interest Rates

EM rates

Inflation still falling: Economists' medium term expectations of inflation in emerging markets take another leg down.

EM Consensus CPI Expectations*
(% Change YOY)

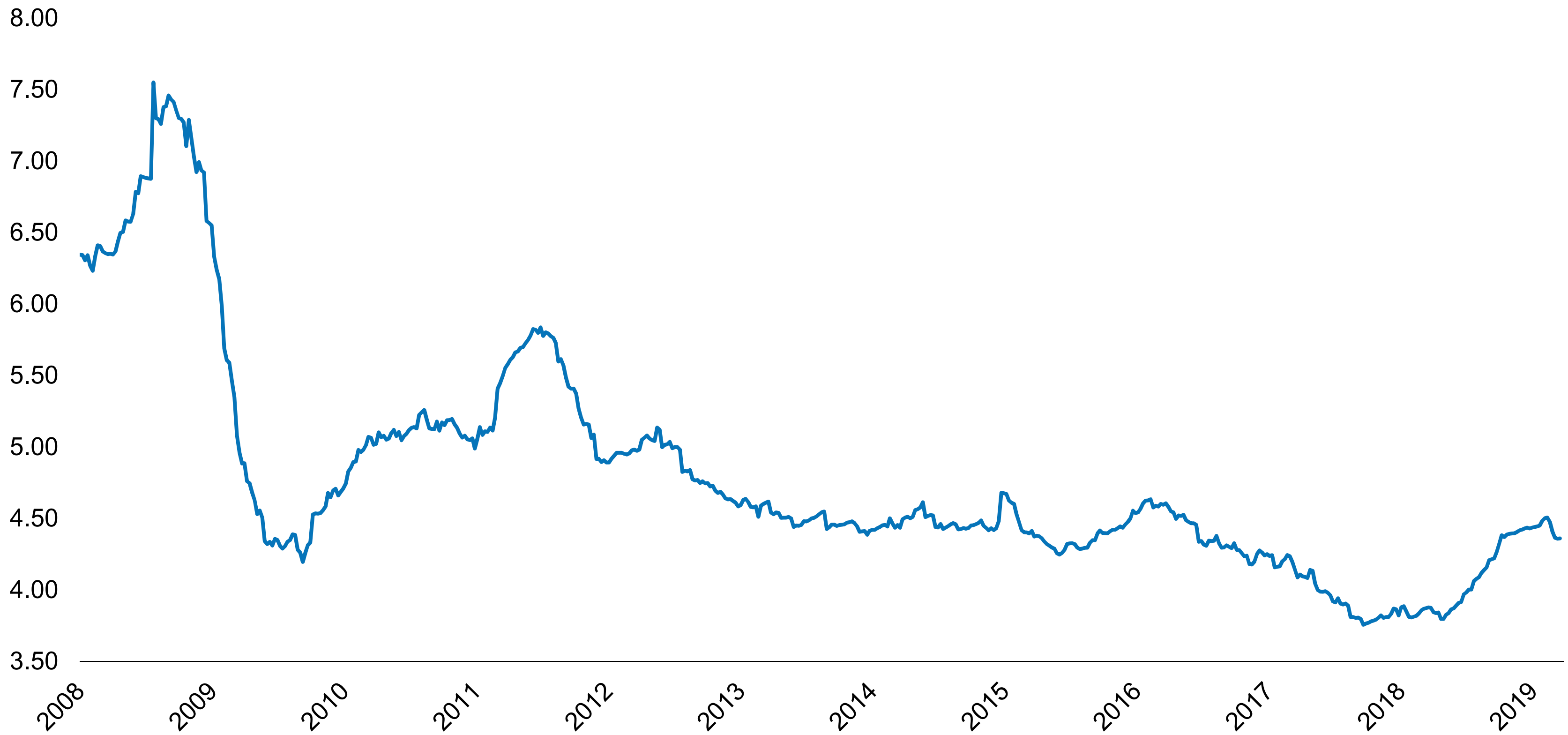


Source: Bloomberg, Eaton Vance. *Data is the equal weighted average of headline inflation expected in 18-30 months by economists surveyed by Bloomberg, which includes all countries in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified, except Argentina. Data provided is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

EM rates

Economists are rapidly revising their policy rate expectations lower in EM. We expect this trend will continue.

EM Consensus Policy Rate Expectations*

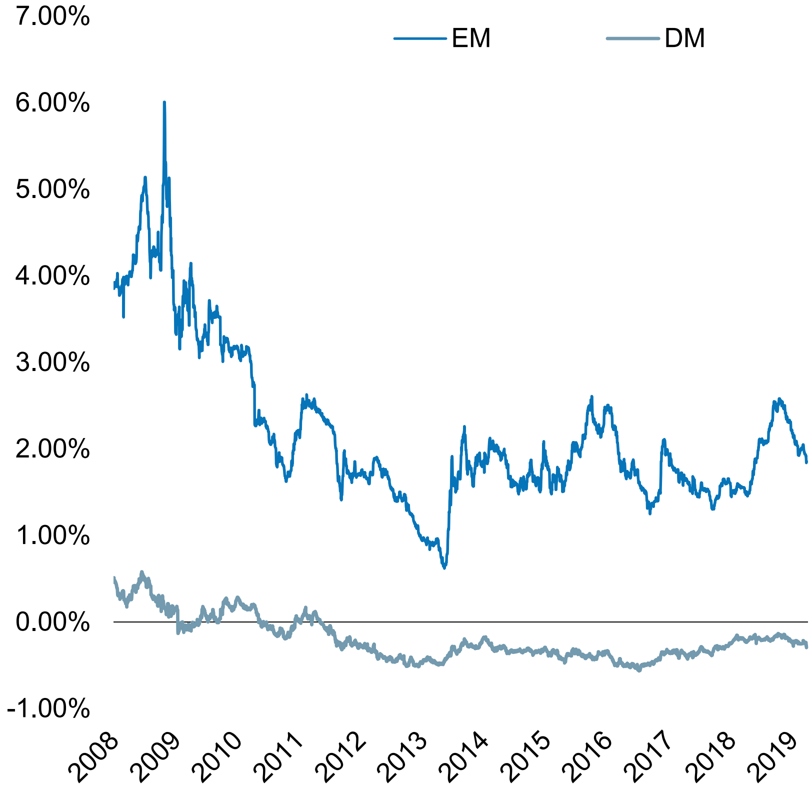


Source: Bloomberg, Eaton Vance. *Data is the equal weighted average of expected policy rates in 12 months by economists surveyed by Bloomberg, which includes all countries in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified, except Argentina. Data provided is for informational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

EM rates

EM-DM real yields using inflation expectations: No longer screamingly cheap, but still reasonably valued.

EM Real Yields
(Using Inflation Forecasts)

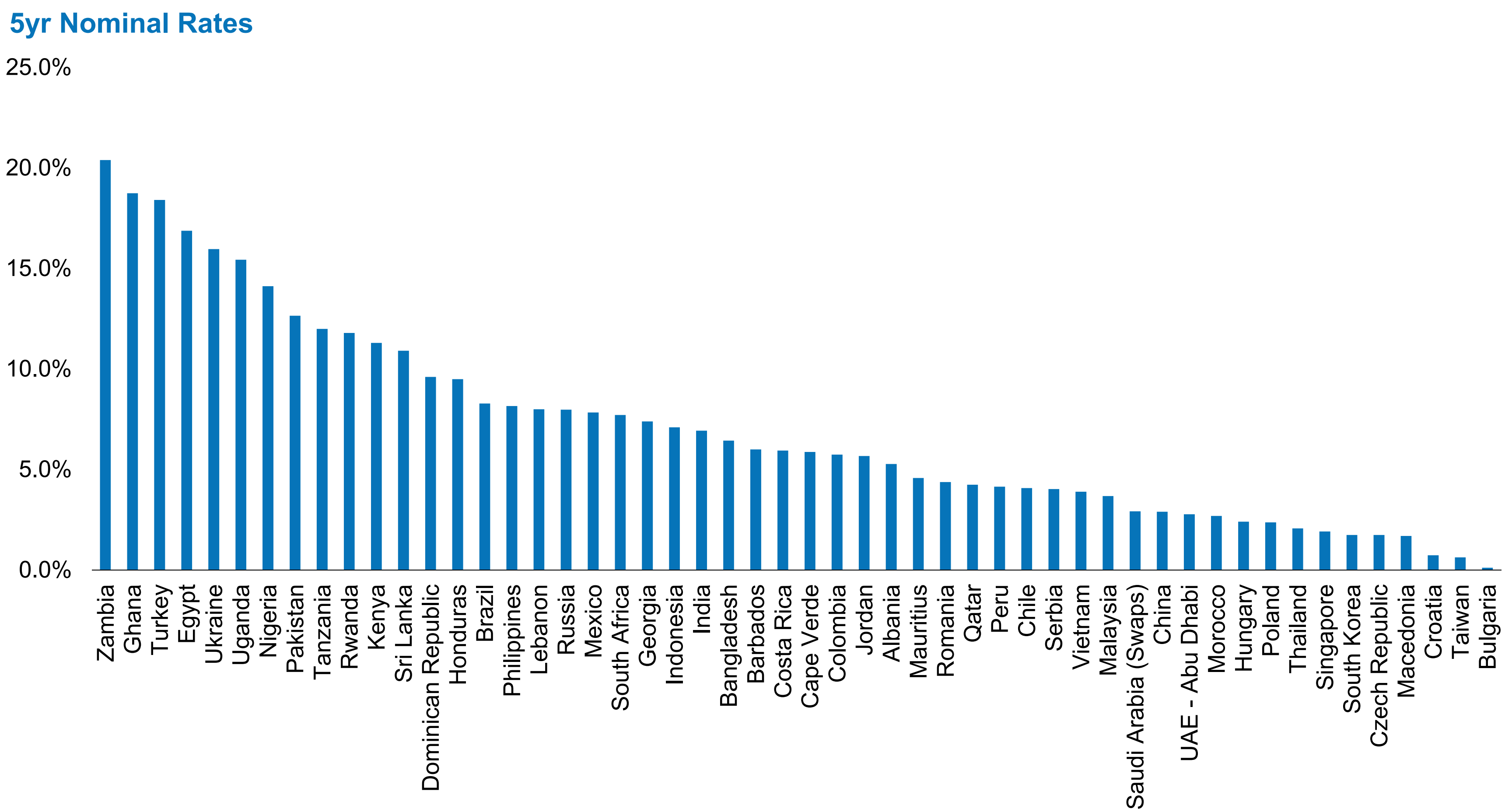


EM-DM Real Yield Differential
(Using Inflation Forecasts)

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 rates

Country pickers market: five year nominal interest rates vary greatly across countries.



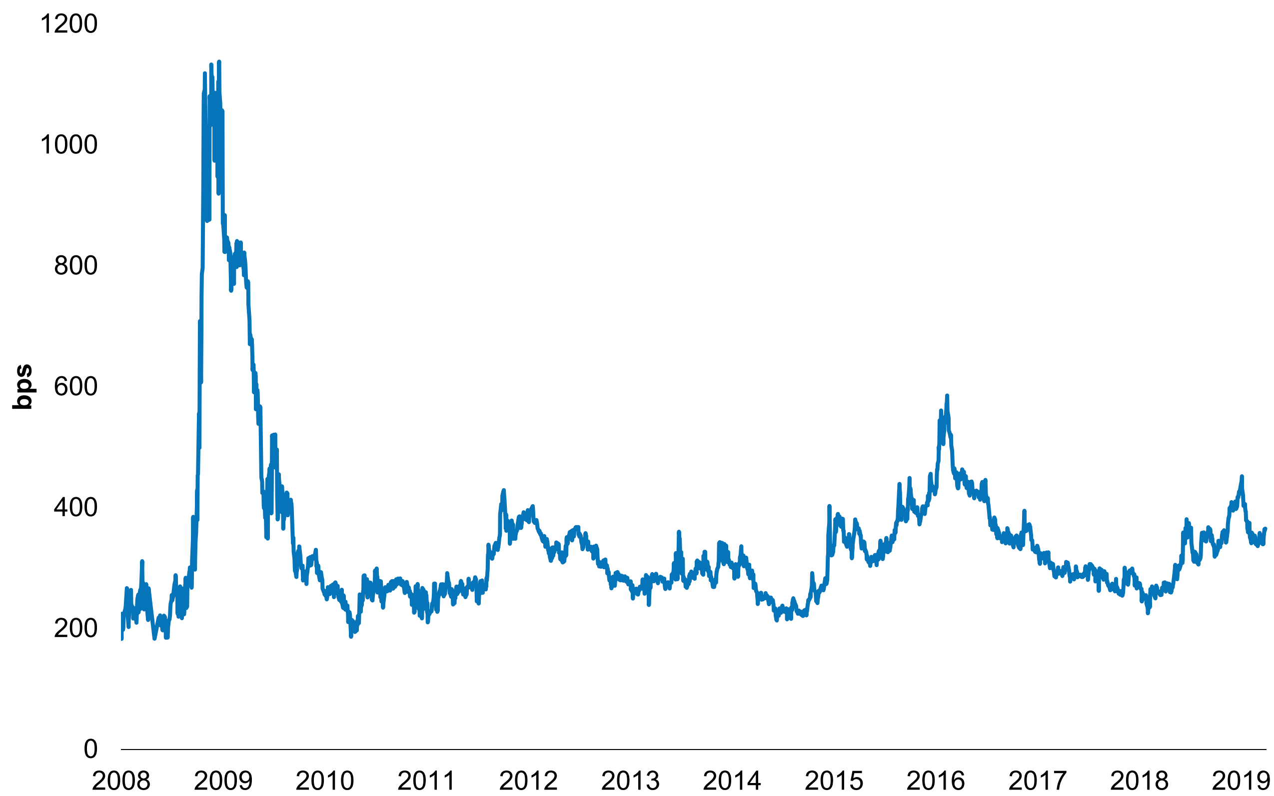
Source: Eaton Vance proprietary data and calculations, as of 3/31/19. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM Sovereign Credit

EM sovereign credit

- Spreads are now entering our neutral range.
- Credit selection will be crucial in the periods ahead.
- However, weaker credits run a high risk of debt distress. A number of African countries are of particular concern.

5yr Equal Weight Sovereign Spread



Source: Eaton Vance proprietary data and calculations. 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.

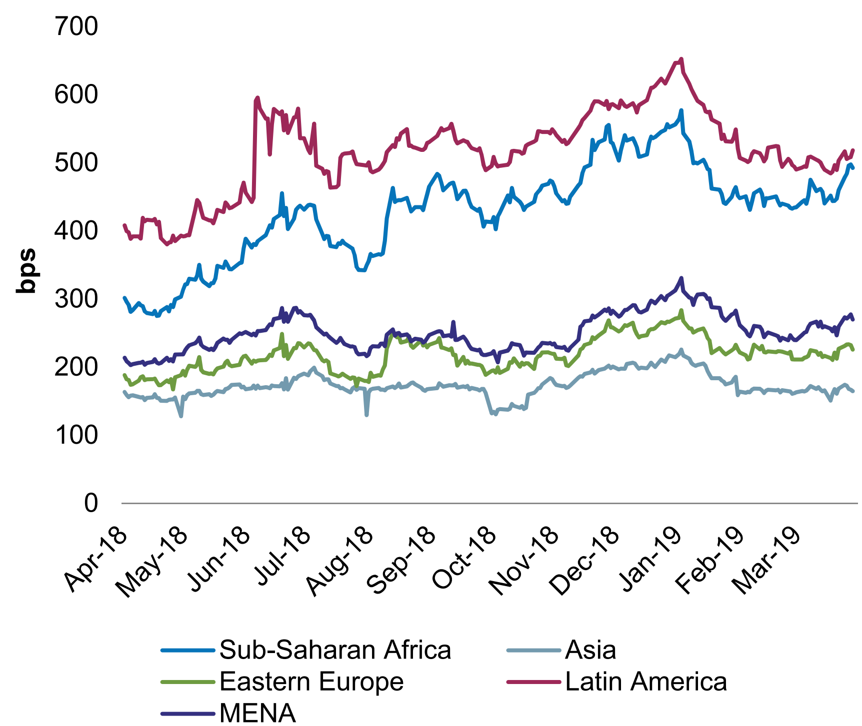
EM sovereign credit

Spreads have rallied significantly in Q1.

5yr Equal Weight Sovereign Spread

All regions have seen tightening.

5yr Equal Weight Sovereign Spread by Region

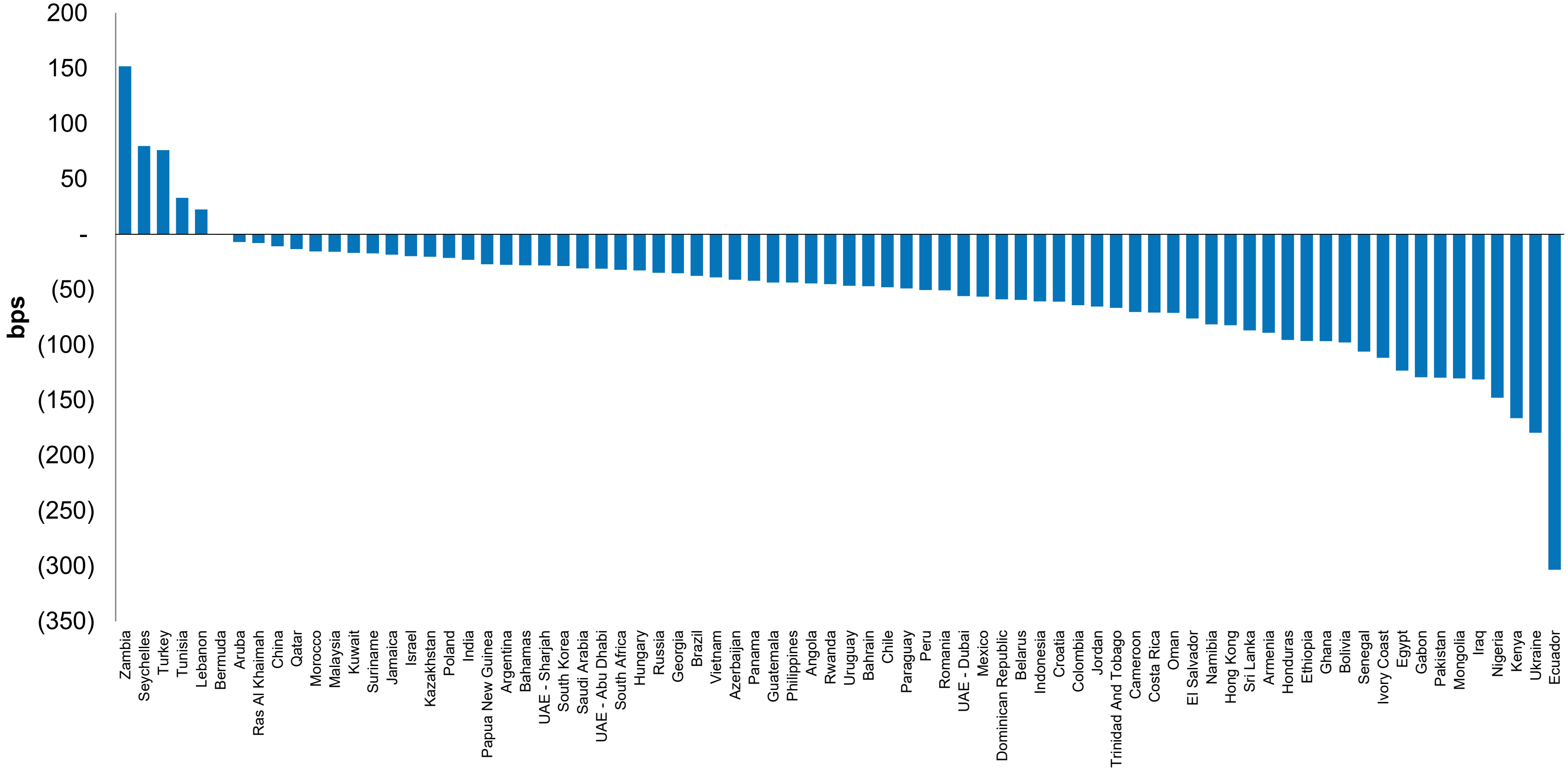


Source: Eaton Vance proprietary data and calculations. All spreads are modeled five year par equivalent spreads allowing for like comparisons across countries and time. This differs from EMBI data which is comprised of discount and premium bonds with different maturities. Data provided is for informational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

EM sovereign credit

Spread tightening nearly everywhere!

Q1 2019 5yr Spread Change

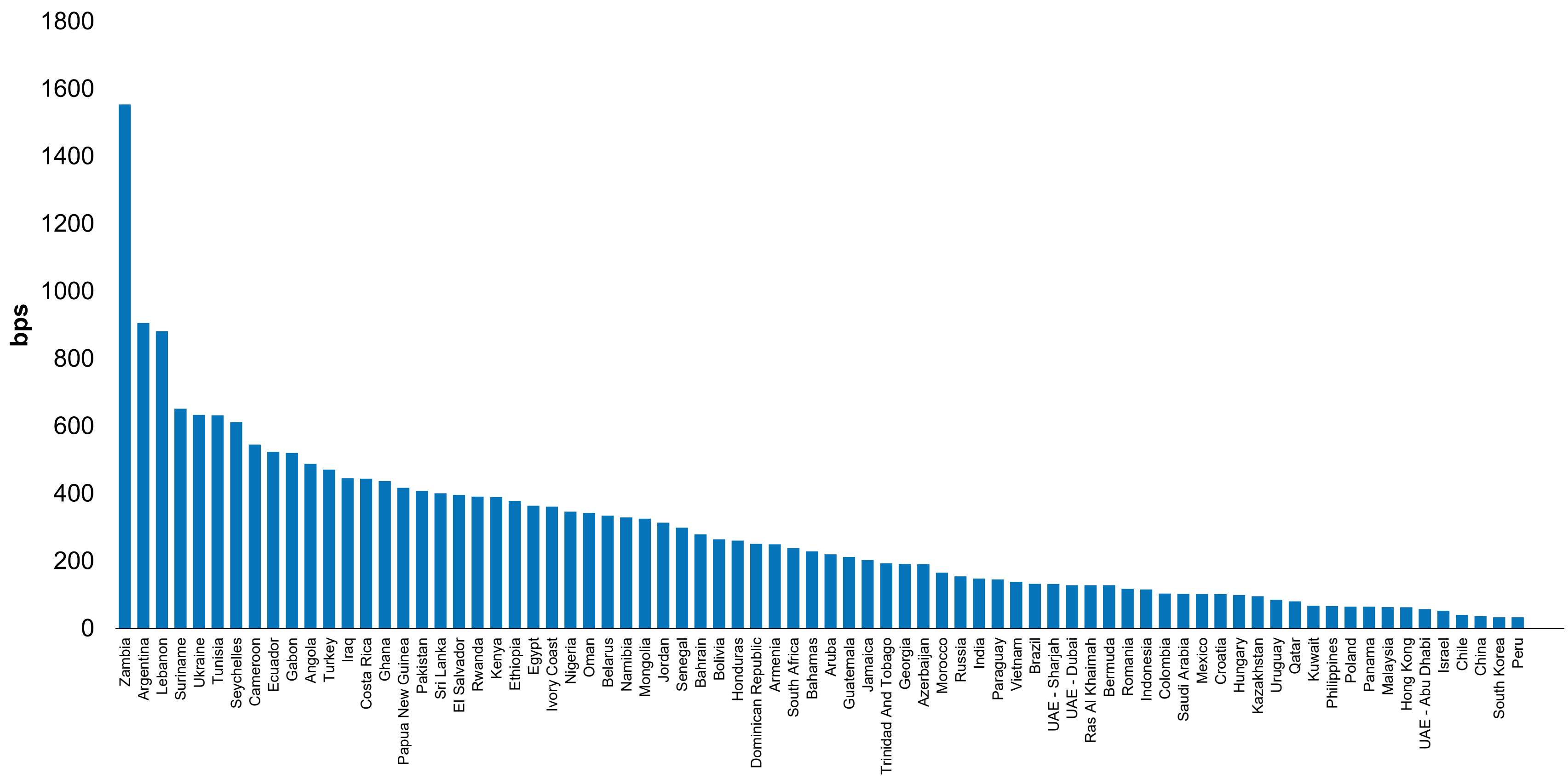


Source: Eaton Vance proprietary data and calculations. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM sovereign credit

EM sovereign credit runs the entire risk spectrum.

5yr Spreads



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

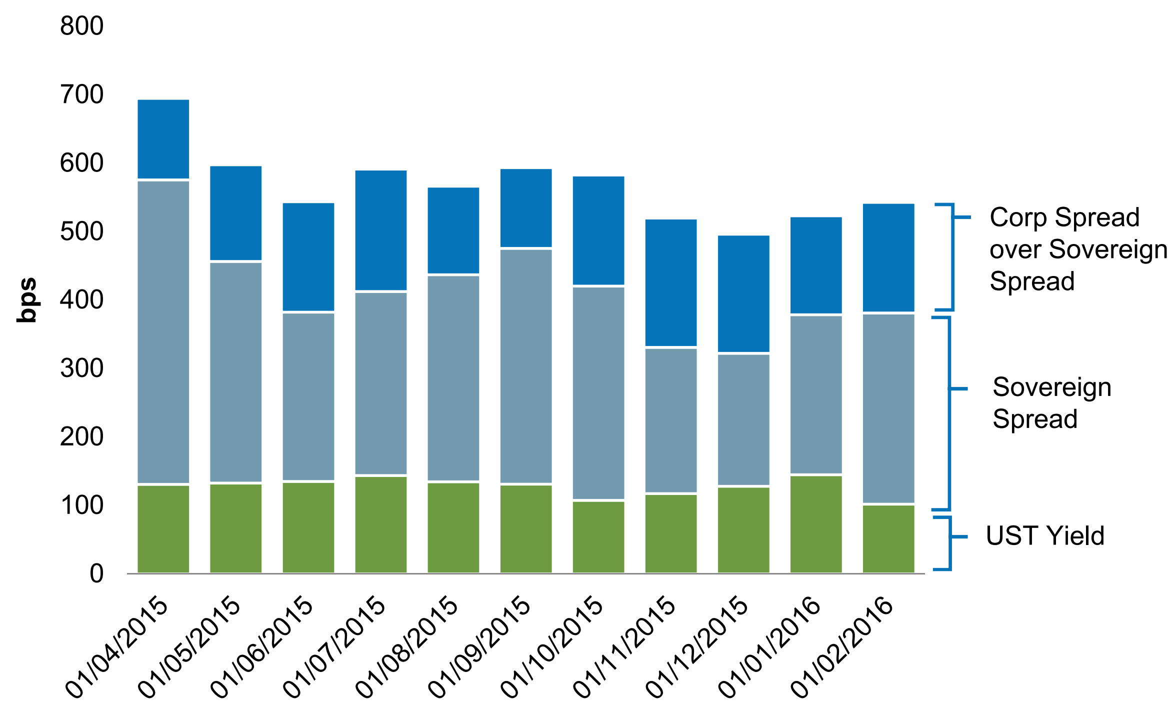
EM corporate debt market is unique.

- 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.
- 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 credit spread and corporate credit spread over the sovereign spread.

Example of Corporate Bond Yield

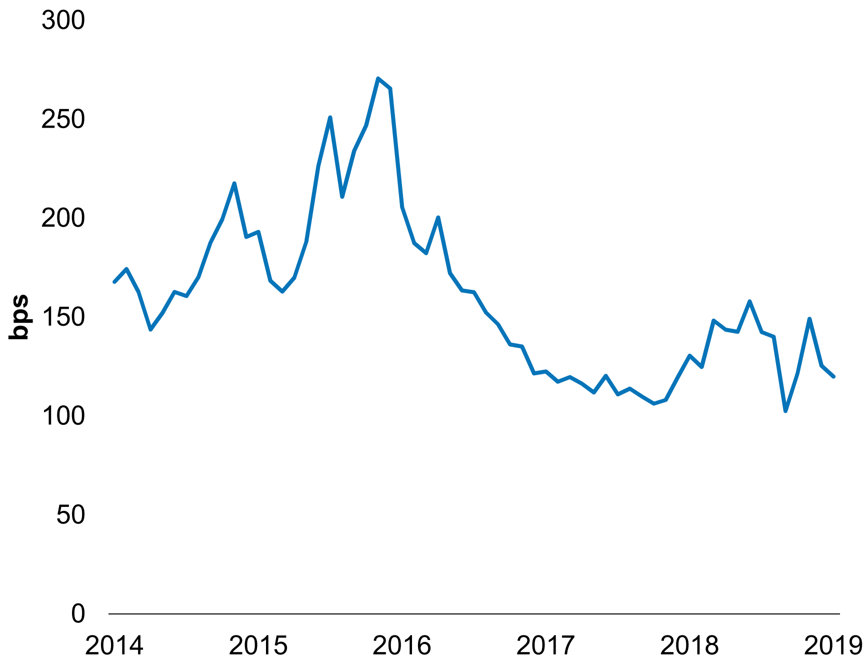


Source: Eaton Vance proprietary data and calculations. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM corporate credit – Valuations

After climbing to levels north of 250bps, spread-over-sovereign levels in EM corporates have compressed materially during the year-to-date period. Current levels of approximately 200bps offer limited compensation for corporate credit risk.

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.

Asset Allocation

Asset allocation

The Asset Allocation section attempts to analyze the value of EM debt as part of a broader portfolio.

- We take a “risk factor” approach when defining asset classes. For credit products, this means we strip out the rates component and analyze the spreads only.
- The section considers the risk and return characteristics of the following asset classes:
  - EM Sovereign Credit (J.P. Morgan EMBI Global Diversified, spreads over Treasuries)
  - EM Corporate Credit (J.P. Morgan CEMBI Broad Diversified, spreads over Treasuries)
  - EM Local Markets (J.P. Morgan GBI-EM Global Diversified)
  - US High Yield (ICE BAML US High Yield Index, spreads over Treasuries)
  - US Investment Grade (ICE BAML US Corporate Index)
  - US Equities (S&P 500)
  - US Treasuries (Bloomberg Barclays US Treasury Index)
- The data we use begins in January 2003, which is when the GBI-EM was launched.

Asset allocation

- With the broad recovery of asset markets in Q1, financial assets look richer than they did in Q4.
  - Given the continued fall in global rates, the GBIEM and Treasuries seem to offer the least value among the asset classes we consider. They take the bottom two slots for the expected excess return percentiles and, along with IG, make up the bottom three for prospective risk-adjusted returns.
  - Treasuries now offer expected excess returns in the 10th percentile on a historical basis. This is not too surprising given the inversion in much of the curve. Bills now yield more than 10yr Treasuries.
- Hard currency EM debt richened since our last publication, but still seems to offer the most attractive excess returns.
  - CEMBI and EMBI take the top two spots for expected returns and, along with HY, are in the top three spots for expected risk-adjusted returns.

Asset allocation – Risk/return analysis

- Tables are sorted most attractive > least attractive.
- Excess Return Percentiles measure the assets' current expected excess returns relative to where they have been in the past.
- Forward-looking Sharpe Ratio is calculated as forward-looking excess return divided by historical volatility.

Historical Risk/Return Analysis

Ann. Excess Returns (%)		Volatility (%)		Sharpe Ratio	
S&P	8.05	UST	4.21	S&P	0.61
GBIEM	4.95	IG	4.78	EMBI	0.53
HY	4.79	CEMBI	7.73	CEMBI	0.48
EMBI	4.57	EMBI	8.58	HY	0.48
CEMBI	3.74	HY	9.96	GBIEM	0.42
UST	1.76	GBIEM	11.75	UST	0.42
IG	1.05	S&P	13.23	IG	0.22

Forward-Looking Risk/Return Analysis

Excess Return (%)		Sharpe Ratio		Excess Return Percentile	
HY	4.84	CEMBI	0.49	EMBI	76%
S&P	4.56	EMBI	0.49	CEMBI	61%
EMBI	4.22	HY	0.49	IG	53%
GBIEM	4.12	GBIEM	0.35	HY	40%
CEMBI	3.82	IG	0.35	S&P	19%
IG	1.65	S&P	0.34	GBIEM	18%
UST	0.46	UST	0.11	UST	13%

Source: Bloomberg, J.P. Morgan, ICE BAML, Eaton Vance. Forward looking excess returns are calculated as follows: GBIEM and UST: Yield + 1y rolldown -1y Treasuries; EMBI,CEMBI,HY,IG: credit spreads + 1y rolldown; S&P: earnings yield+US potential GDP according to CBO-1y Treasuries. Excess return percentile calculations do not include rolldown. All calculations use monthly returns.

Asset allocation – Downside risk and correlations

- Tables are sorted most attractive > least attractive.
- Normalized Max Drawdown is equal to max drawdown divided by historic annual returns and is a measure of downside risk. It measures how many years of return were lost during the asset class's worst period.
- Skewness is a statistical measure for downside risk (AKA "tail" risk). A more negative number indicates an investor is more likely to experience months with large losses vs. months with large gains.

Downside Risk Analysis

Max Drawdown

UST	-8%
IG	-25%
GBIEM	-30%
EMBI	-31%
CEMBI	-32%
HY	-44%
S&P	-52%

Normalized Max Drawdown

UST	-4.29
GBIEM	-6.00
S&P	-6.48
EMBI	-6.76
CEMBI	-8.56
HY	-9.24
IG	-23.40

Skewness

UST	0.07
GBIEM	-0.57
S&P	-0.76
HY	-1.20
IG	-1.29
EMBI	-1.82
CEMBI	-3.12

Correlation Matrix

	EMBI	GBIEM	CEMBI	UST	S&P	HY	IG
EMBI	1.00	0.69	0.93	-0.32	0.69	0.85	0.83
GBIEM	0.69	1.00	0.61	0.14	0.58	0.51	0.49
CEMBI	0.93	0.61	1.00	-0.28	0.68	0.83	0.87
UST	-0.32	0.14	-0.28	1.00	-0.24	-0.46	-0.35
S&P	0.69	0.58	0.68	-0.24	1.00	0.71	0.61
HY	0.85	0.51	0.83	-0.46	0.71	1.00	0.88
IG	0.83	0.49	0.87	-0.35	0.61	0.88	1.00

Average Correlation

UST	-0.25
GBIEM	0.50
S&P	0.51
HY	0.55
IG	0.56
CEMBI	0.61
EMBI	0.61

Source: Bloomberg, J.P. Morgan, ICE BAML, Eaton Vance. All calculations use monthly returns.

EM Economic Data

EM economic data

	Real GDP (% Change YOY)			CPI (% Change YOY)			Current Account (% of GDP)		
	2017	2018E	2019E	2017	2018E	2019E	2017	2018E	2019E
Asia									
China	6.9	6.6	6.2	1.8	2.6	2.3	1.4	0.7	0.7
India	6.7	7.3	7.4	4.6	5.1	3.9	-1.9	-3.0	-2.5
Indonesia	5.1	5.1	5.1	3.6	3.6	4.0	-1.7	-2.4	-2.4
Malaysia	5.9	4.7	4.6	3.5	3.0	2.5	3.0	2.9	2.3
Mongolia	5.1	6.2	6.3	7.2	8.0	8.1	-10.4	-8.3	-10.8
Philippines	6.7	6.5	6.6	2.9	5.2	3.7	-0.8	-1.5	-1.5
Sri Lanka	3.3	3.7	4.3	7.1	4.7	4.8	-2.6	-2.9	-2.7
Thailand	3.9	4.6	3.9	0.8	0.5	1.1	11.2	9.1	8.1
Vietnam	6.8	6.6	6.5	2.6	4.0	4.0	2.5	2.2	2.0
Europe									
Azerbaijan	0.1	1.3	3.6	10.0	3.5	3.3	4.1	6.6	8.1
Belarus	2.4	4.0	3.1	4.6	5.5	5.5	-1.7	-2.5	-4.2
Georgia	5.0	5.5	4.8	6.7	2.5	3.0	-8.9	-10.5	-10.2
Hungary	4.0	4.0	3.3	2.1	3.1	3.1	3.2	2.3	2.1
Kazakhstan	4.0	3.7	3.1	7.1	6.0	5.2	-3.4	-0.2	0.2
Poland	4.7	4.4	3.5	2.1	2.3	2.9	0.3	-0.8	-1.3
Romania	6.9	4.0	3.4	3.3	3.5	2.8	-3.4	-3.5	-3.4
Russia	1.5	1.7	1.8	2.5	3.6	5.7	2.2	6.2	5.2
Serbia	1.9	4.0	3.5	3.0	2.4	2.5	-5.7	-5.7	-5.6

Source: IMF. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM economic data

	Real GDP (% Change YOY)			CPI (% Change YOY)			Current Account (% of GDP)		
	2017	2018E	2019E	2017	2018E	2019E	2017	2018E	2019E
Middle East									
Egypt	4.2	5.3	5.5	29.8	14.4	11.1	-6.3	-2.6	-2.4
Iraq	-2.1	1.5	6.5	0.2	2.0	2.0	2.3	6.9	3.1
Jordan	2.0	2.3	2.5	3.2	4.2	2.5	-10.6	-9.6	-8.6
Lebanon	1.5	1.0	1.4	5.0	5.4	2.4	-22.8	-25.6	-25.5
Oman	-0.9	1.9	5.0	1.6	1.5	3.2	-15.2	-3.3	-0.5
Qatar	1.6	2.7	2.8	0.4	3.7	3.5	3.8	4.8	6.6
Saudi Arabia	-0.9	2.2	2.4	-1.1	2.6	2.0	2.2	8.4	8.8
Turkey	7.4	3.5	0.4	11.9	20.0	15.5	-5.6	-5.7	-1.4
Africa									
Angola	-2.5	-0.1	3.1	23.7	20.0	12.0	-1.0	-2.1	-1.9
Gabon	0.5	2.0	3.4	1.1	2.8	2.5	-4.9	-1.6	-0.5
Ghana	8.4	6.3	7.6	11.8	8.0	8.0	-4.5	-4.1	-4.0
Ivory Coast	7.8	7.4	7.0	1.1	2.0	2.0	-4.6	-4.6	-4.2
Kenya	4.9	6.0	6.1	4.5	6.9	5.0	-6.3	-5.6	-5.3
Mozambique	3.7	3.5	4.0	7.2	6.5	5.5	-22.4	-18.2	-44.8
Nigeria	0.8	1.9	2.3	15.4	12.9	13.0	2.8	2.0	1.0
Senegal	7.2	7.0	6.7	-0.7	0.8	1.7	-7.3	-7.7	-7.1
South Africa	1.3	0.8	1.4	4.7	5.3	5.3	-2.5	-3.2	-3.5
Zambia	3.4	3.8	4.5	6.1	8.5	8.0	-3.9	-4.0	-3.4

Source: IMF. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

EM economic data

	Real GDP (% Change YOY)			CPI (% Change YOY)			Current Account (% of GDP)		
	2017	2018E	2019E	2017	2018E	2019E	2017	2018E	2019E
Latin America									
Argentina	2.9	-2.6	-1.6	24.8	40.5	20.2	-4.9	-3.7	-3.2
Barbados	-0.2	-0.5	-0.1	6.6	0.0	1.5	-3.8	-3.1	-3.4
Brazil	1.0	1.4	2.4	2.9	4.2	4.2	-0.5	-1.3	-1.6
Chile	1.5	4.0	3.4	2.3	2.9	3.0	-1.5	-2.5	-2.7
Colombia	1.8	2.8	3.6	4.1	3.1	3.0	-3.3	-2.4	-2.4
Costa Rica	3.3	3.3	3.3	2.6	2.2	3.0	-2.9	-3.3	-3.5
Dominican Republic	4.6	6.4	5.0	4.2	4.1	4.1	-0.2	-1.6	-2.1
Ecuador	2.4	1.1	0.7	-0.2	0.7	0.1	-0.3	-0.5	0.7
El Salvador	2.3	2.5	2.3	2.0	1.4	2.0	-2.0	-3.9	-4.3
Guatemala	2.8	2.8	3.4	5.7	3.2	3.9	1.5	1.0	0.4
Honduras	4.8	3.5	3.6	4.7	4.7	4.5	-1.7	-3.2	-3.4
Jamaica	0.7	1.2	1.5	5.2	3.5	5.0	-4.6	-4.9	-4.2
Mexico	2.0	2.2	2.5	6.8	4.3	3.1	-1.7	-1.3	-1.3
Panama	5.4	4.6	6.8	0.5	2.0	2.4	-4.9	-7.0	-6.1
Paraguay	4.8	4.4	4.2	4.5	4.1	4.0	-0.8	-1.3	-0.9
Peru	2.5	4.1	4.1	1.4	2.4	2.0	-1.1	-1.8	-2.2
Suriname	1.9	2.0	2.2	9.3	6.8	6.0	-0.1	-3.3	-2.4
Uruguay	2.7	2.0	3.2	6.6	7.9	6.5	1.5	0.9	0.2
Venezuela	-14.0	-18.0	-5.0	2818.2	2500000.0	10000000.0	2.0	6.1	4.0

Source: IMF. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

Blog Post Summary

Blog post summary – 2018-19

Date	Headline	Summary
3/29/2019	Uncertainty surrounds Kazakhstan's leadership change	The decision by the long-term leader of Kazakhstan, Nursultan Nazarbayev, to step down last week marks the start of a new era for the country. Unfortunately, his decision offers little clarity regarding a successor government, but the initial indications are not encouraging. However, we are hopeful that the economic modernization championed by Nazarbayev will survive, and that the corruption and lack of democracy that characterized his rule will continue to recede.
3/19/2019	Argentina is keeping reform promise (for a change)	Argentina agreed to the harsh medicine needed for disinflation to take hold and set the stage for a good recovery. It is maintaining that course despite a difficult political environment ahead of a presidential election. These are hopeful signs for investors.
3/5/2019	Egypt's privatization moves may boost economy	Egypt began its new initiative to privatize state-owned enterprises, with the partial privatization of the already-listed Eastern Tobacco. Privatization has been under discussion by authorities for the past couple of years, and in early 2018 the government announced its intent to raise $4.5 billion by selling stakes in 23 state companies. Egypt recently completed a successful lending program with the IMF and the financing profile forecasted by the IMF assumes no privatization proceeds, so a successful exercise program, possibly catalyzed by Eastern Tobacco, could be a further boost for the economy.
2/26/2019	South African reforms pale against remaining challenges	The newly released South African budget contains some hopeful promises of reforms, but does little to instill confidence that they will be implemented. The country is struggling with declining revenues, rising expenditures, higher debt and failing state-owned enterprises (SOEs) - most notably the electric power utility Eskom, which is being bailed out by the government.
2/12/2019	EM debt: A new hope, cont.	At the start of the year, we shared our view that the 2018 sell-off in emerging-markets debt has made valuations more attractive, and given the sector a new hope. We pointed to the U.S. Federal Reserve's more dovish attitude and a general moderating of external risk. One of the wild cards we noted was investment flows - despite asset class volatility, they had remained remarkably resilient. A big question for the sector's 2019 performance will be whether investors remain enthusiastic.
2/5/2019	Index inclusion gives Gulf countries a big boost	Countries in the Gulf Cooperation Council (GCC) - Saudi Arabia, UAE, Bahrain, Kuwait and Qatar - have just made their debut in J.P. Morgan's Emerging Market Bond Index - Global Diversified (EMBIGD). Inclusion in this prominent Index is a significant boost for country debt, which becomes eligible for a wider range of both active and passive investors.
1/30/2019	Romania reverses reforms in reaching for revenue	In 2009, Romania began pursuing needed structural reforms and fiscal consolidation, giving EM investors cause for being bullish on the country. However, since 2016, the government has been following an expansionary fiscal policy that has been undermining much of the country's progress. With elections approaching at year-end, the government has been increasing expenditures to curry favor with voters. As spending has increased, the country has raised some taxes, and in so doing, has made policy blunders that appear to be doing more harm than good.
1/24/2019	2018 highlighted potential benefits of off-benchmark EM investing, in a big way	Last year was a challenging one for the main local-currency benchmark: The J.P. Morgan GBI-EM Global Diversified Index lost 6.2%, as 15 of the 19 index components were in the red. But 2018 also demonstrated a principle we have long favored: the advantages of investing beyond the benchmarks, to capture the potential benefits of embracing the diversification capabilities of this asset class. Utilizing the broader investment universe and investing in smaller idiosyncratic countries, off-benchmark investors could have unlocked gains that were simply out of the scope of benchmark investors in 2018.
1/15/2019	Emerging-markets debt: A new hope	In Q4, local-currency EMD was helped by positive returns from rates and carry, which was partially offset by FX losses, for a total return of 2.1%. Sovereign EMD was buoyed by strong U.S. Treasury performance, but that was more than offset by credit spread widening, for a loss of 1.3%. The picture was much the same for corporate EMD - strong U.S. Treasury performance offset by widening sovereign and credit spreads, for a modest loss of -0.04%. Looking ahead, the macro factors that weighed on the asset class in 2018 have moderated: The Fed appears to be giving its tightening policy a pause, while the Trump administration turns its focus inward. And while country fundamentals remain disappointing, we expect improvement going forward.

Blog post summary – 2018-19

Date	Headline	Summary
12/21/2018	The Island of "Misfit Investments"	Every day we search the entire earth looking for unloved investment opportunities - the "misfits" that most investors shun. Frequently, these unloved investments have their roots in negative historical perceptions that have little or no relevance today. Emerging-market countries are especially susceptible to such outmoded and/or unfounded views.
12/19/2018	China's growth slowdown may get a temporary reprieve in 2019	The lagged effects of China's stimulus may finally show in 2019, and given the gloomy consensus, even mid-to-high 6% growth would constitute a surprise to the market. Longer term, the challenges confronting the world's second-largest economy are likely to continue as a drag on growth.
12/11/2018	Bahrain embraces reform	Bahrain may be turning the corner in its long struggle to adjust to lower oil prices. Bahrain is implementing a large, front-loaded fiscal adjustment program. We see a number of developments on the ground that point to a new seriousness on the part of government this time around, including a new 5% value-added tax (VAT) backed by a new finance minister.
12/4/2018	Trade war truce gives EM a "stay of execution"	Emerging markets held a relief rally in the wake of the much-anticipated meeting between President Trump and Chinese President Xi Jinping at the G20 meeting in Buenos Aires. By agreeing to a 90-day truce in their ongoing trade war, the two leaders gave EM investors the best they could realistically hope for.
11/28/2018	IMF speaks the truth ... to South Africa	The IMF has weighed in with a new report outlining just how steep the climb for South Africa is likely to be. The country entered recession in September and joblessness is over 37%. The rand has lost more than 20% against the USD since the start of the year. South Africa's situation remains dire, and it's crucial that the country continue on a reform path, as outlined by the IMF.
11/20/2018	It's business as usual in Malaysia	After Mahathir Mohamad, Malaysia's prime minister, took office last May, he pledged to move from "a nation of kleptocracy to one of true democracy and clean government.“ With Najib Razak’s ouster, the former prime minister accused of illegally channeling billions of dollars from 1MDB, it was an opportunity to begin a much-needed restructuring of the levers of power in the economy, but it appears to be business (or the lack of it) as usual in Malaysia.
11/13/2018	It started with tuna and ended with gas	A deal initially secured by tuna fish has morphed into one backed by natural gas. After two years of wrangling with creditors, Mozambique is said to be on the verge of a restructuring on $727 million worth of defaulted debt. Mozambique's troubles could be a signal of wider problems in Sub-Saharan Africa. With U.S. rates rising, and a number of Africa countries needing to refinance over the coming years, this will not be the last debt restructuring.
11/6/2018	Sri Lanka's sudden power struggle sets market on edge	On October 26, without warning, President Maithripala Sirisena withdrew his UPFA party from the ruling coalition with the UNP party, suspended parliament, dismissed PM Ranil Wickremesinghe and replaced him with recent foe Mahinda Rajapaksa, who was president from 2005 to 2015. Sirisena's move to realign his coalition came out of the blue, but we believe the new government has enough of a vested interest to maintain the progress it has made in recent years.
11/2/2018	Airport cancellation by Mexico's president-elect spooks markets	The move by López Obrador to cancel the massive Texcoco project to build a new airport for Mexico City was not taken as a positive sign by investors. Markets hate uncertainty, yet López Obrador appears to have compounded the concern he generated as a candidate. Investors will be watching to see if his late-campaign statements about respecting contracts are more than just statements.
10/23/2018	Khashoggi killing casts pall over Saudi progress	Saudi leadership is under unprecedented pressure over the killing of Saudi dissident Jamal Khashoggi. The international community appears to be trying to figure out how aggressively it wants to seek removal of Saudi Crown Prince Mohammed bin Salman (MbS). The disengagement of the international community (at least in the short term) is widespread. If it becomes lasting, it could be very detrimental to Saudi efforts to move beyond just being an oil economy.

Blog post summary – 2018-19

Date	Headline	Summary
10/17/2018	Sell-off improves EM debt valuations, but large risks still loom	Q3 for EM debt was a tale of two halves. The EM indexes continued to sell-off for much of the first half, but recovered sharply toward the end. Local-currency debt performance finished in negative territory, while sovereign and corporate spreads recovered. The sell-off has made valuations more attractive, but there are still numerous technical and fundamental question marks looming.
10/9/2018	IMF deal takes some pressure off Argentine peso - for now	Spiraling inflation and declining foreign currency reserves have helped erode the peso's value against the U.S. dollar by more than half since the start of the year, and the economy is in recession. That made the agreement with the IMF to accelerate payments to Argentina welcome news. We believe this program is the kind of harsh medicine needed for disinflation to take hold and will set the stage for a good recovery in the future.
10/5/2018	Economic freedom endures as a driver of EM returns	The 2018 Economic Freedom of the World Report released serves as a reminder of the important link between a country's economic freedom and its growth potential. Economic freedom metrics are key inputs for the Global Income team's research process - we have found them to be valuable indicators of equity and debt potential for emerging-market (EM) countries.
9/25/2018	Lebanon's mounting woes spark red flags in the bond market	Lebanon has always prided itself on the ability to guard its financial stability from its often tumultuous politics and geopolitics. But that reputation has taken a hit lately, as last May's general election - the first in nine years - has yet to yield a government. This, combined with the steady recent decline in the country's fundamentals, the bond market is signaling its concern with widening credit spreads on Lebanon's debt. The country's woes can't be pinned on one particular event, but corruption, turmoil in the Arab world since Arab Spring and the Syrian war have all taken their toll.
9/18/2018	Will Trump pardon this Turkey?	The lira has fallen by 40% against the U.S. dollar this year, with a sharp dip after diplomatic sparring with the U.S. Turkey is believed to be entering a recession. With Turkey's inflation rate expected to hit 20% in coming months, it will be important for fiscal and monetary policies to keep moving in the right direction. Getting Turkey's house in order - or at least partially so - will also pave the way for finding common ground with the U.S. on the issues that have been eroding the relationship.
7/9/2018	EM: Into the wild	Emerging markets debt (EMD) indexes sold off sharply in the second quarter, driven by a combination of macro and idiosyncratic factors, in one of the worst drawdowns since inception of the JPM GBI-EM Global Diversified Index in 2003. EMD is now entering the wild where the main outstanding question is investor behavior with respect to asset class flows.
5/30/2018	Serbia's reform drive gets lift from airport privatization	Ambitious government privatization programs can be the hallmarks of successful economic reform in frontier markets. A good example took place earlier this year in Serbia, which got a lift from the $1.5 billion privatization of Belgrade's airport, Aerodrom Nikola Tesla, an 83% government-owned company. It stands as not only one of the largest privatizations in frontier markets, but also one that has been exemplary in its transparency. With the privatization of Aerodrom Nikola Tesla, Serbia takes an encouraging step in that direction.
5/9/2018	China risks: Deleveraging and the real estate market	Investors are well aware of the risks of excessive debt in China's financial system. The Chinese government is also well aware of these risks, and has made onshore deleveraging a priority for the near term. As China embarks on this program, monitoring the delicate balance between onshore financial deleveraging and the health of its all-important property market will be key for investors to assess the likelihood of a hard landing.
4/27/2018	Local EM debt shines, while external debt declines	Emerging markets (EM) debt was a tale of two sectors in the first quarter. It was a strong quarter for local sovereign debt, and a weak one for dollar-denominated external EM debt, both sovereign and corporate. The broad asset class is being driven by technical factors, not fundamentals, specifically inflows from crossover accounts and ETFs, which are having a noticeable impact on prices.
4/16/2018	Kazakhstan: Rule of law where it once wasn't	Kazakhstan has taken a step to position itself as a financial hub for Central Asia, through the creation of the Astana International Financial Center (AIFC). The AIFC will be regulated by a newly created independent court system based on English common law. Corruption is still a problem for Kazakhstan, but we believe the trend is in the right direction, and the introduction of the AIFC court is a highly visible initiative that should help with the rule of law. As the rule of law improves, we believe it will help with valuations of the country's debt.

Blog post summary – 2018-19

Date	Headline	Summary
3/29/2018	Mozambique’s restructuring proposal needs restructuring	Mozambique is trying once again to restructure its way out of $727 million worth of defaulted debt. But, as was the case in October 2016, the country and creditors appear to be far apart. This is the latest twist in an ongoing financial debacle that also includes an unusual element of mystery. Mozambique wants creditors to accept a big haircut on its debt. Creditors view the proposal as a non-starter, and we think the restructuring process could drag on for a while.
3/21/2018	Vietnam's economy is firing on all cylinders	The bullish case for Vietnam keeps gaining momentum, as a renewed push for economic reform is helping drive growth that hit 6.8% in 2017. Significant efforts have been made to accelerate state-owned enterprise (SOE) reform under the new leadership.
3/14/2018	The end of the two-term limit in China opens a Pandora's Box	The decision by China to remove the two-term limit for President Xi Jinping raises political risk to a level not experienced by investors in the country's modern era. In the short-term, the constitutional change does improve policy continuity and we don't expect drastic negative consequences. However, it is a significant change to the country's fundamentals and has opened a Pandora's Box that will be difficult to close in the foreseeable future.
3/8/2018	Netanyahu's woes largely taken in stride by investors	With the specter of indictments for bribery, fraud and breach of trust hanging over Israeli Prime Minister Benjamin Netanyahu, the headlines so far have had little impact on the market for the country's asset prices. Israel has endured similar scandals in the past, and they have had limited, transitory impact on investor confidence and the economy. Even if Netanyahu were forced to resign, we would expect comparable results.
2/23/2018	Egypt's reforms are promising, but just a beginning	In November 2016, Egypt adopted a flexible exchange rate policy that allowed its currency to float freely, in conjunction with a series of reforms tied to an IMF lending program. The reforms started to have a positive impact on the economy. Inflows into local currency debt are increasing, and some investors are lengthening duration - a sign of growing confidence. Egypt's longer-term prospects will only solidify if and when we see concrete signs of fiscal consolidation.
2/16/2018	How we invest in EM local currency debt	We believe investors should select an active investment management approach to EM local currency investing. But, we also believe they should be aware that most active managers in this asset class may actually be taking very little active risk. An investment approach that utilizes the entire opportunity set, provides significant research depth, captures operational alpha, and demonstrates attractive upside/downside capture ratios over time is likely to more consistently produce alpha.
2/15/2018	What role can EM local currency debt play in portfolios?	EM local currency debt offers investors an alternative source of return potential that may also provide diversification benefits to a portfolio. Those potential return and diversification benefits have historically come alongside equity-like volatility in performance, but smaller drawdowns than more traditional credit markets.
2/14/2018	What's next for EM local currency debt after the rally?	In 2017, EM local currency debt attracted investors sniffing for a bargain after the asset class suffered through three years of negative performance. A favorable macro environment, apparent undervaluation in both absolute and relative terms, and the expectation for further inflow momentum make EM local currency debt attractive. The attractiveness is limited to a degree by concerning fundamentals in some countries.
1/26/2018	2018 EM debt offerings start with a bang	Emerging markets (EM) debt issuance has taken off at a rapid pace in 2018, indicating that the strong investor enthusiasm for the sector has carried over from last year. Demand is being driven not only by cyclical factors, such as low rates in developed economies, but secular changes such as the growth of emerging market ETFs. It is a good sign that investors are starting to differentiate based on fundamentals, but a lot of money is still pouring into questionable offerings.
1/16/2018	Emerging markets debt cools off in fourth quarter	Emerging markets (EM) debt indices limped into year end with a slightly positive fourth quarter. The strong rally of the first three quarters slowed as inflows into EM debt moderated.

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INDEX DEFINITIONS:

J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified is an emerging market debt benchmark that tracks local currency bonds issued by emerging market governments. **J.P. Morgan Emerging Markets Bond Index (EMBI) Global Diversified** is an unmanaged index of USD-denominated bonds with maturities of more than one year issued by emerging markets governments. **J.P. Morgan Corporate Emerging Market Bond Index (CEMBI) Broad Diversified** is an unmanaged index of USD-denominated emerging market corporate bonds. **ICE BAML U.S. High Yield Index** is an unmanaged index of below-investment grade U.S. corporate bonds. **ICE BAML US Corporate Index** is an unmanaged index that measures the performance of investment-grade corporate securities.

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EVMI utilises a third-party organisation in the Middle East, Wise Capital (Middle East) Limited ("Wise Capital"), to promote the investment capabilities of Eaton Vance to institutional investors. For these services, Wise Capital is paid a fee based upon the assets that Eaton Vance provides investment advice to following these introductions.

In Germany, Eaton Vance Management (International) Limited, Deutschland (“EVMID”) is a branch office of EVMI. EVMID has been approved as a branch of EVMI by BaFin.

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About Eaton Vance
Eaton Vance provides advanced investment strategies and wealth management solutions to forward-thinking investors around the world. Through principal investment affiliates Eaton Vance Management, Parametric, Atlanta Capital, Hexavest and Calvert, the Company offers a diversity of investment approaches, encompassing bottom-up and top-down fundamental active management, responsible investing, systematic investing and customized implementation of client

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