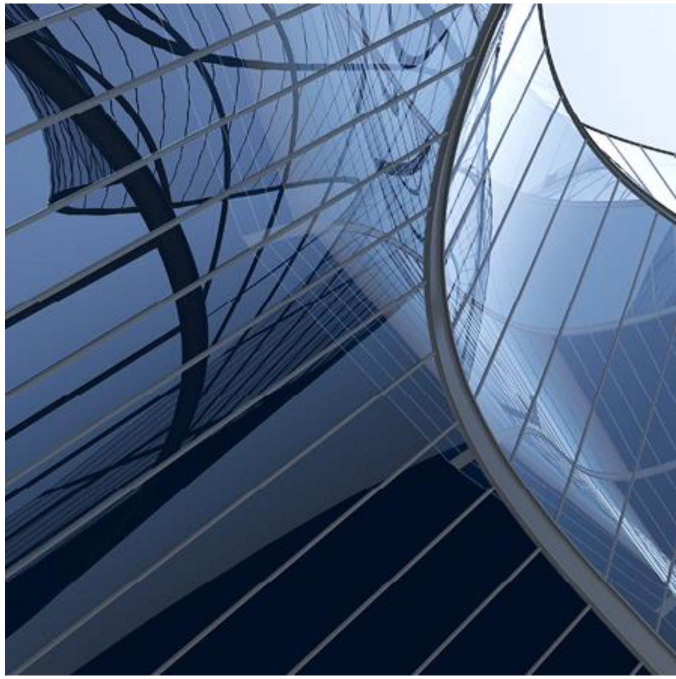
Morgan Stanley

INVESTMENT MANAGEMENT

Emerging Markets Debt Monitor

Emerging Markets Debt Team

Q2 2024



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Q2 2024 Recap

Q2 2024 Recap

- Performance was mixed for EMD markets as currencies weakened overall, despite a strong May, while sovereign and corporate credit were bright spots in the asset class.
- The Fed held rates in June, which was expected, but earlier this year June was predicted to be the start of the cutting cycle. Stubborn CPI prints and solid labor data kept the Fed paused, but there is still the expectation that a cut (or more than one) will happen this year.
- The year of global elections continued with a few notable elections during the period including Mexico, South Africa, and India. In South Africa and India, the incumbents won, but by smaller margins than expected which may help to refocus policies. In Mexico, the handpicked successor of AMLO did better than expected creating volatility in the market.
- China news continued to be quiet this quarter. Policy may be hinting at seeking to address weakness in the economy and structural reforms, but these efforts more on the margin and may just result in the economy weakening at a slower rate.
- Some EM central banks continued to cut rates, although the pace has slowed down and turned more cautious as many continue to wait for the Fed to cut. A few central banks went in the opposite direction and hiked rates earlier this year including Turkey and Egypt, which was important for the direction of policy and to help control inflation levels. However, Indonesia hiked rates during the quarter to help defend its currency – markets are pricing in potential hikes for Brazil.
- Performance for the underlying EMD risk factors was mixed. The EM corporate index was the best performing segment of the market. The country makeup of the CEMBI Index tends to be higher credit quality than the EMBIG Index so spreads marginally tightened, and U.S. Treasury yields were a small contributor despite volatility in the market due to the Index's shorter duration. The USD-denominated EMD sovereign index was the second-best performing index as sovereign spreads were flat, excluding Venezuela PDVSA bonds which were added to the index during the quarter and widened. U.S. Treasury yields were a slight detractor due to the longer duration makeup of the index. The local segment had negative returns as most EM currencies weakened versus the U.S. dollar but carry helped to mute overall weakness.
- Outflows continued, but moderated, during the quarter with approximately -$2.5 billion net going out of dedicated-EMD funds globally during the quarter. Hard Currency funds saw three straight months of inflows, which could be an important indictor for investors' appetites. Hard currency funds had $1.3 billion in inflows while local currency funds had -$3.8 billion in outflows.

Please reference page 2 "Important Information and Disclosure"

Q2 2024 Recap, *continued*

Asia

- China's property market, and lack of demand for housing, continues to weaken the Chinese economy. The latest government policy involves SOEs buying excess housing supply and shifting them to affordable housing, but the scale of this policy may not be large enough. President Xi Jinping appears to remain focused on the technology sector as a national project.
- Narendra Modi won his 3rd term as India's Prime Minister, as expected, but it was unexpected how poorly he and his political party the BJP did. There was initial volatility surrounding the results, but markets have largely calmed. This could potentially lead Modi to reflect, reset, and refocus on reforms.
- An aggressive anti-corruption campaign in Vietnam has resulted in the 8th member of the 17-person Politburo being removed. This may be indicative of a power shift in the highest levels of government with the Head of Ministry appearing to have gained.

CEEMEA

- President Erdogan is doubling down on good policies after his political party lost local elections and net reserves increased to $70B due to portfolio inflows and swap unwinds. But Erdogan can be unpredictable, so we are cautiously optimistic and following progress closely.
- Egyptian reserves climbed to their highest level ever, $46B. Off-budget items were brought on the balance sheet for fiscal reforms, bread subsidies were reduced by 300%, and electricity supply was reduced. Reforms are being monitored including the Egyptian people's reaction to reform measures.
- The ANC won the South Africa presidential election by a smaller margin than predicted and must form a coalition. Markets have generally cheered the ANC's poor performance, but coalitions in the country have historically been quite fragile and the fundamental state of the country remain challenged.

LATAM

- As expected, Claudia Sheinbuam won Mexico's Presidential election – but it was unexpected how well her political party did. A super majority in the lower house and just two seats shy in the Senate will allow her to make changes to the Constitution. AMLO will serve through September with a supportive Congress before Claudia takes office in October. Judicial reform and removing independent agencies are potential policy updates which would be concerning.
- Local markets in Brazil heavily sold off due to fiscal concerns which were exacerbated by floods in the south. The central bank changed their tune to be slightly hawkish and now the market is pricing in hikes. Inflation is marginally increasing due to fiscal and political concerns. Lula is also trying to exert more control on Petrobras with more money being channeled to the government.
- President Mileli had a big win just six months in office as his economic reform bill was approved by Congress. However, there are still concerns in the FX market as the currency is very overvalued and the FX policy has not been adjusted.

Please reference page 2 "Important Information and Disclosure"

EM Corporate Credit – Q2 update and outlook

EM Corporate Q2 Update and Outlook

Despite a lack of dedicated fund flows into the asset class, EM corporate credit spreads have continued to tighten over the course of the second quarter of 2024. We attribute this to two reasons: (i) strong demand from global cross-over and local investors in hard currency debt. US and European IG investment vehicles, in particular, have experienced a large number of inflows and are deploying some of this capital into EM assets to pick up excess spread; and (ii) a lack of a sufficient supply response in the market to match this growing demand. While issuance is up year-over-year, the overall EM corporate debt market still remains in net negative issuance (i.e. maturities and coupons are greater than new issuance). This creates a scarcity of supply for high quality credits, driving credit spreads tighter. We expect this phenomenon to continue through H2 2024 absent an exogenous macro shock. Lastly, we are observing a wrestle between yield and spread buyers in the market – many end investors have flocked to the fixed income market in the past year on the back of high nominal yields (verses historical averages). Most of this yield is coming from the base US rates – we think a significant rally in US rates may cause credit spreads to widen in the short-term given the high presence of yield buyers in our market.

Some key events over the past quarter include:

- Increasing amounts of measures from the Chinese government to stimulate the property market (mortgage easing, onshore lending to developers, removal of price caps, etc.). This has eased investor concerns on some of the "performing" developers that continue to stay current on their bills, but it has not materially changed the tide on household demand for property either as an investment or as a store of value;
- A number of Chinese tech companies raised capital via convertible notes offshore, using the proceeds to do share buy backs;
- The primary market window is open and available for many high yield issuers. We have seen companies in Latin America and EMEA take advantage of this opportunity to raise fresh capital, either for refinancing needs or for capital projects. This window has also produced some new, first-time issuers that represent interesting and exciting investment opportunities. It remains challenging for complicated Single-B issuers to tap the markets, however;
- IG issuance out of the MENA region remains very high. State-owned companies are raising large amounts of capital to invest in capital and infrastructure expansion projects. So far, this has been well absorbed by the market, but there could be a risk of indigestion if issuance out of a select number of countries (such as Saudi Arabia or Abu Dhabi) meaningfully picks up.

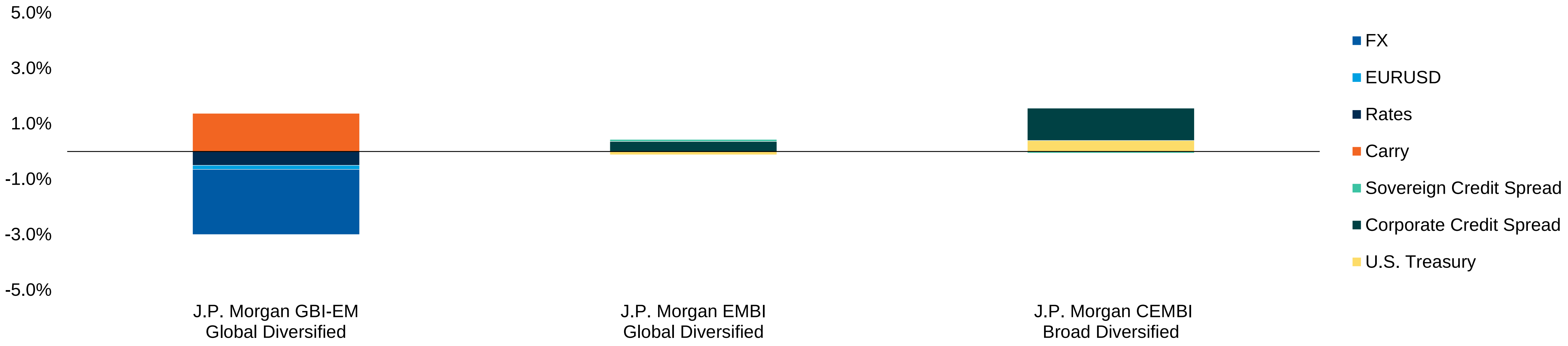
The overall fundamental health of issuers in the EM corporate market remains solid. While credit spreads are, on average, close to fair value, we continue to find a number of exciting investment opportunities via our deep, bottoms-up security selection process.

Please reference page 2 "Important Information and Disclosure"

Q2 2024 RECAP

Index Performance Recap

Q2 2024



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	-2.35%	-0.15%	-0.50%	1.37%	—	—	—	**-1.63%**
J.P. Morgan EMBI Global Diversified	—	—	—	—	0.07%	0.36%	-0.12%	**0.30%**
J.P. Morgan CEMBI Broad Diversified	—	—	—	—	-0.06%	1.17%	0.39%	**1.49%**

Source: J.P. Morgan, Morgan Stanley Investment Management 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. Please refer to page 39 for a description of each index.

Q2 2024 RECAP

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2024 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	-4.66%	-0.64%	-1.14%	2.72%	—	—	—	**-3.71%**
J.P. Morgan EMBI Global Diversified	—	—	—	—	3.07%	0.55%	-1.28%	**2.35%**
J.P. Morgan CEMBI Broad Diversified	—	—	—	—	1.36%	2.50%	-0.02%	**3.85%**

Source: J.P. Morgan, Morgan Stanley Investment Management 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.

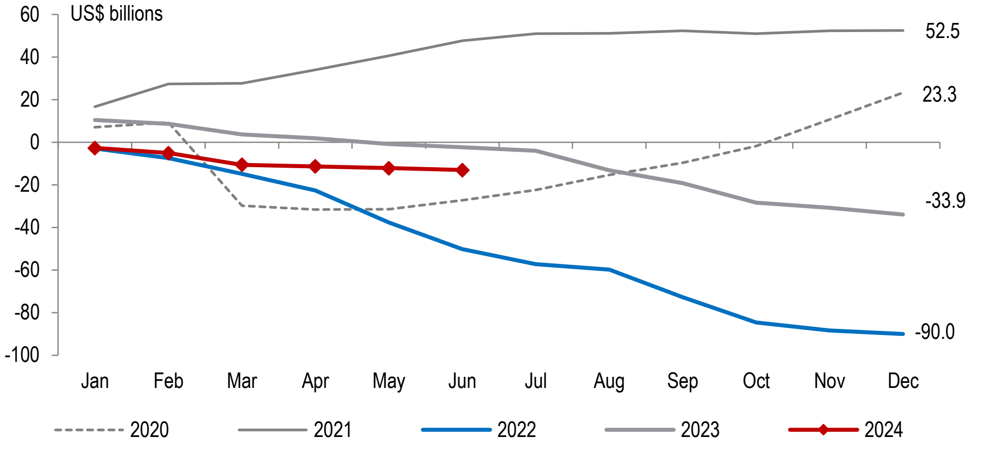
Q2 2024 RECAP

Technical: 2024 Flows YTD

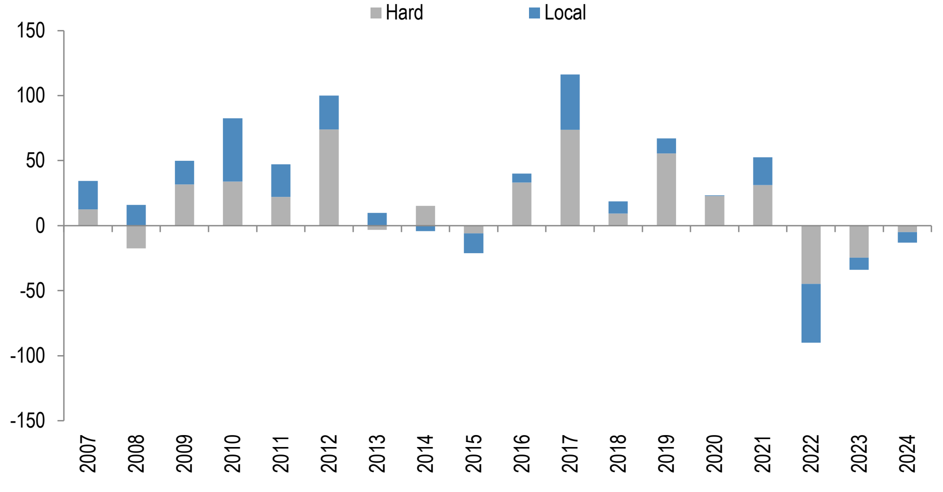
Investors are showing interest in hard currency funds.

- Following two of the worst years in recent history for EMD outflows, the tide appears to be turning. Outflows moderated for the asset class as hard currency funds were in net inflows for the quarter.
- Hard currency funds saw net inflows for April, May and June. Local currency funds remained in outflows for all three months. Currency weakness YTD may be impacting investor's appetite for local currency funds.

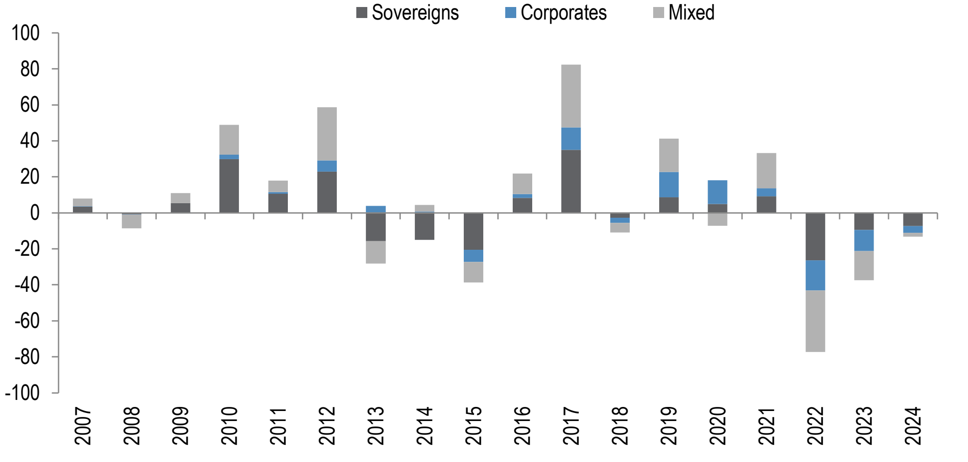
Annual Cumulative Bond Flows



Annual Flows by Currency



Annual Flows by Sovereign/Corporate/Mixed (Retail)



Source for all charts above: JPMorgan. All data as 6/28/2024. For illustrative purposes only. **Past performance is no guarantee of future results**.

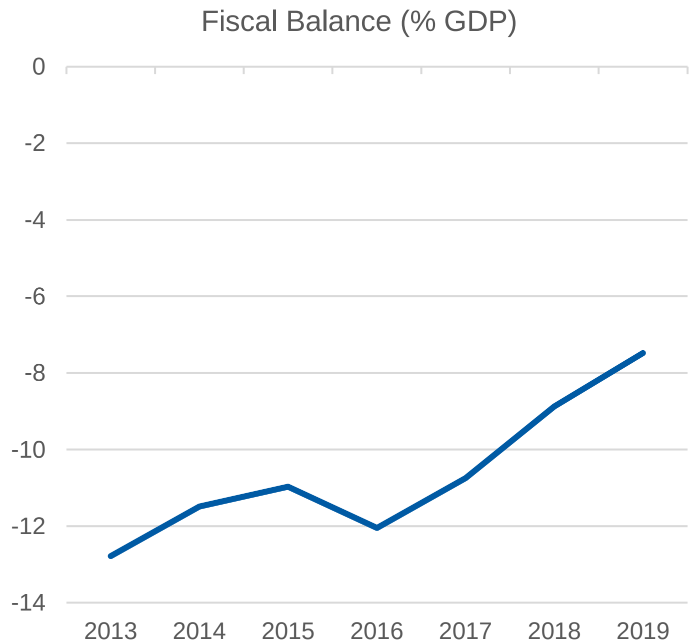
Rotating Topic

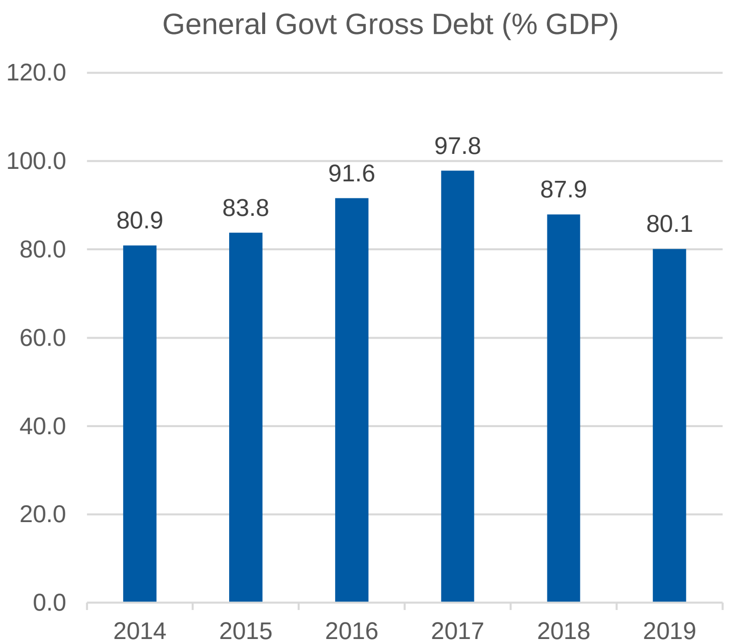
Egypt: Past, Present, and Future

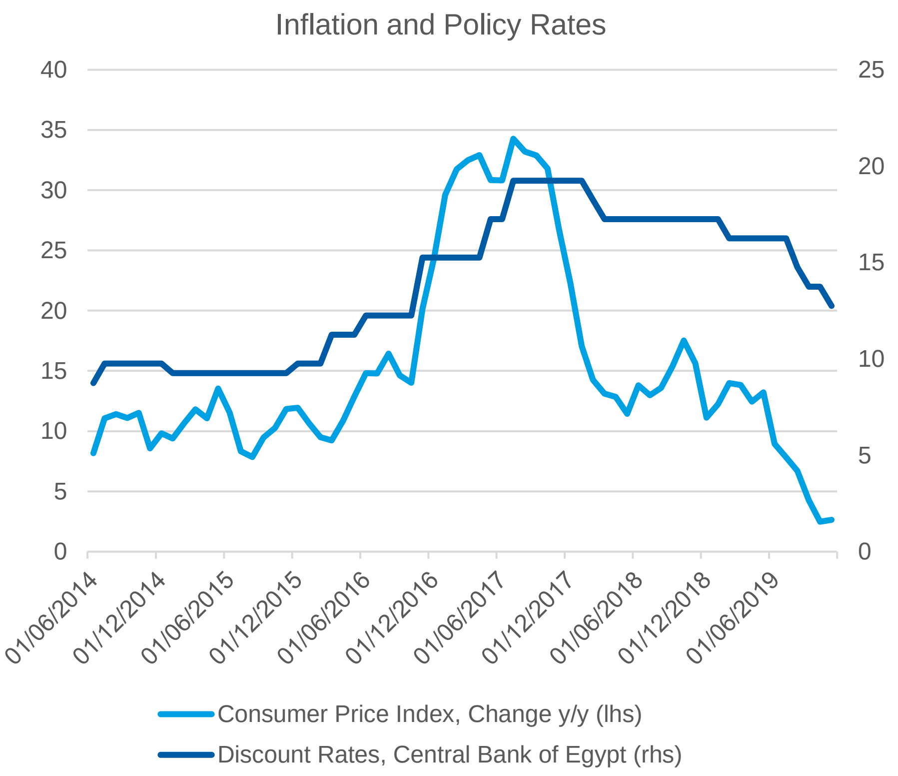
ROTATING TOPIC

The Brave Reform Phase of 2016

- Egypt implemented a home-grown reform program to stabilise the economy and bring down debt.
- Reforms included the liberalization of the foreign exchange market, fiscal consolidation, as well as tight monetary policy to bring inflation down to single digits.
- The macroeconomic situation improved remarkably.







Source: IMF, Egyptian Ministry of Finance and Central Bank of Egypt. Data provided is for informational use only. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. **Past performance is no guarantee of future results.** See end of report for important additional information.

ROTATING TOPIC

The Brave Reform Phase of 2016

Egyptian President Abdel-Fattah al-Sisi: “We are in the bottleneck, and we are on our way out, but if we want to get out, we have to take tough decisions” (2016)

T-bill yields declined sharply

Treasury Bills, 12 Month, Weighted Average, Yield

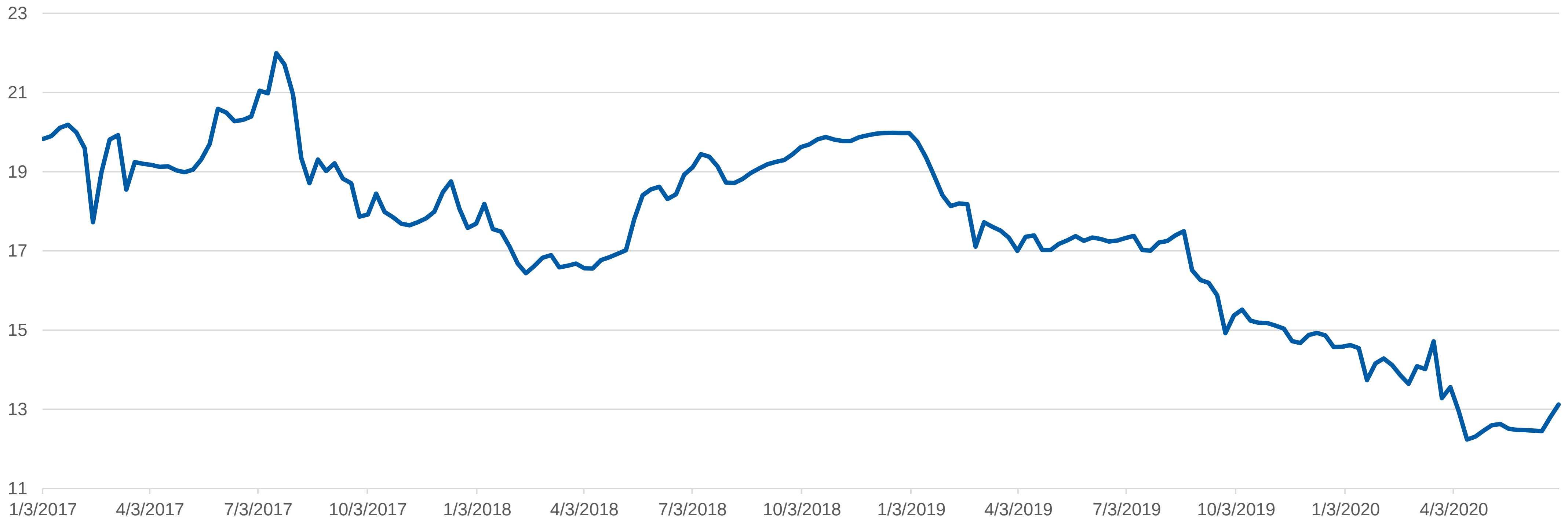


Photo Sources: Wikimedia Commons. Please reference page 2 “Important Information and Disclosure”. Data provided is for informational use only. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. **Past performance is no guarantee of future results.** See end of report for important additional information.

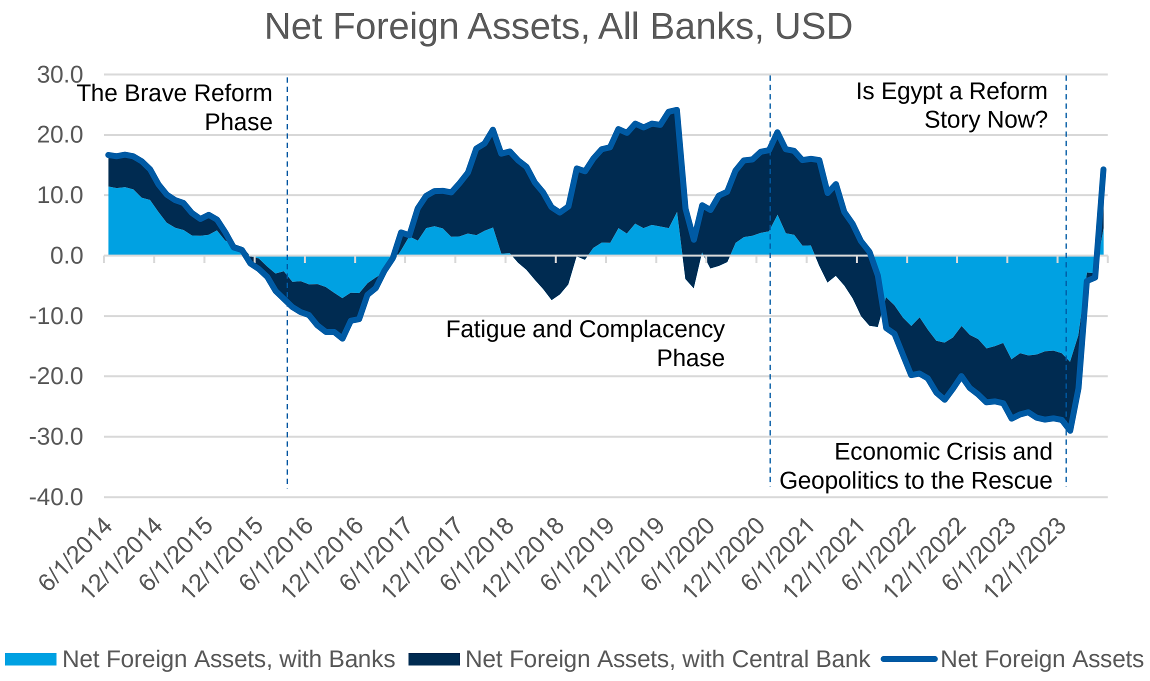
ROTATING TOPIC

The Fatigue and Complacency Phase of 2020

- Egypt implemented many reforms to achieve macro stability, but stopped short of implementing structural reforms, especially those that reduce the role of the military in the economy.
- External shocks including Covid-19 and the war in Ukraine further derailed the economy from its positive trajectory, while complacency from policy makers aggravated the situation.

Economic Crisis and Geopolitical Rescue

- The Central Bank of Egypt relied on reserves to stabilize the currency instead of allowing for currency flexibility, leading to the emergence of a parallel market and fueling inflation.
- Geopolitics re-established the importance of Egypt leading to a ~30% of GDP “bailout”!



List of major announcements of financing deals and sources

FX Sources	Amount	Tenor
UAE investments	$35bn	N/A
Net portfolio flows	$15bn	N/A
IMF program	$8bn	3 years
EU financing	$8bn	4 years
World Bank	$6bn	3 years
UK	$0.4bn	2 years
Rollover Arab deposits	$19bn	N/A
Total sources	$91.4bn	

Source: Central Bank of Egypt, IMF, and MSIM Research; Total financing sources amount to 26.2% of GDP. Data provided is for informational use only. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. **Past performance is no guarantee of future results.** See end of report for important additional information.

ROTATING TOPIC

Is Egypt a Reform Story Now?

- Recent reforms aim to bring down debt and inflation, as well as consolidate the fiscal deficit. Egypt knows how to stabilise the economy and commitment from policy makers is strong.
- One main risk is moral hazard. Substantial front-loaded bailouts can lead to complacency and the perception that geopolitics will always come to the rescue!

List of implemented and announced reforms since 2024

Key policy measures and reforms	Policy area	Implemented
Central Bank of Egypt (CBE) hikes policy rates by 600 bps	Monetary	Yes
CBE transitions to flexible inflation targeting regime	Monetary	Yes
Dollar EGP weakens from 30.9 to 50	Monetary	Yes
CBE removes some but not all FX restrictions on credit cards	External	Yes
The Ministry of Finance (MinFin) sets public investment ceiling of EGP 1trn ($20bn) in FY24/25	Fiscal	No
MinFin targets primary surplus of 3.5% GDP in FY24/25	Fiscal	No
Dollar backlog of at least $8bn is cleared from ports	External	Yes
MinFin uses 50% UAE investment proceeds to reduce public debt	Fiscal	Yes
Egypt announces it will repay its arrears to oil companies	External	No
Govt increases fuel prices (diesel by 21% and gasoline by 9%)	Fiscal	Yes
MinFin plans to include 59 off-budget entities inside budget perimeter	Fiscal	No
MinFin settles overdraft borrowing facility at central bank	Fiscal	Yes
CBE provides full allotment in weekly deposit auction	Monetary	Yes
MinFin to lift fuel/petroleum subsidies by 2025 (excl. diesel)	Fiscal	No
Egypt increases prices of subsidised bread by 300%	Fiscal	Yes

Source: MSIM Research. Data provided is for informational use only. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. **Past performance is no guarantee of future results.** See end of report for important additional information.

ROTATING TOPIC

Unconventional Tools in the Mosaic

Talk shows: Monitoring the pulse on the ground.

An example of topics stirring debates in talk shows:

Electricity power cuts are dominating the coverage of talk shows recently. While the government is taking measures to resolve this in the next few weeks, we think that this could potentially affect social stability if left unresolved.

Talk Show	TV Channel	Time
Kelma Akhira – Lamees El Hadidi	ON	9:30pm Sat-Tues
Ahmed Moussa – Ala Masouleety	Sada el Balad	08:00pm Sat-Weds
Al Hekaya – Amr Adib	MBC Masr	10:00pm Fri-Mon
Yahduth fi Masr – Sherif Amer	MBC Masr	10:00pm Tues-Thurs

Supermarket data: Tracking the change in prices.

An example of how we monitor the real-time change in food prices in Egypt using online supermarket data.

Product	m/m	Product	m/m
Valor Chocolate Dark	0.0%	Lamar Long Life Semi	-12.9%
Bread Soft Roll	0.0%	Roumy Batarekh Cheese	0.0%
Temry Chicken Fillet	-12.7%	Fresh Okras	0.0%
Mafa Tomato Plate	5.9%	Zucchinis Foam	0.0%
Mafa Clementine	20.0%	Ready Melon	0.0%
Mafa Onion Packed	2.0%	Dolphin Light Tuna Slices	0.0%
Eggplants	8.7%	Spinneys Flour	-1.9%
Special Beef Kofta	-5.6%	Sardine Fish	29.4%
El Doha White Rice	19.7%	Altahya Lentils Yellow	0.0%
Cairo Spaghetti Pasta	-22.9%	Potatoes	25.1%
Spinneys Fava Beans	-1.2%	Alameed French Coffee	0.0%
Soulina Mixed Oil	0.0%	Ahmad Tea	0.0%
Star White Sugar Cubes	0.0%	Coca Cola Zero Cans	-6.8%
Just Fresh White Eggs	21.1%		
Monthly change in food inflation: 0.0%*			

*Note: Monthly change reflects the products' weights in the food inflation sub-index; Data collected May 26th and June 26th.

Source: MSIM Research. Data provided is for informational use only. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. **Past performance is no guarantee of future results.** See end of report for important additional information.

Q3 2024 Outlook

Q3 2024 Outlook

Macro Drivers

- While the Fed has indicated it is done with rate hikes, the pause in its cycle continued as inflation remained sticky and this weighed on EM assets.
- Real yields climbed higher and the differential between EM and DM widened. Many EM central banks are continuing their cutting cycles despite the delays of the US Fed. Developed markets including the ECB have started to cut rates.
- As we pass the halfway mark of 2024, many important global elections have occurred including some in developed markets. European election results are showing a shift in sentiment to the right – this could impact immigration, remittances, and could favor countries close to the EU.
- Oil prices decreased following an OPEC+ announcement to boost supply, despite signs of demand weakness.
- Outflows moderated as hard currency flows consistently were in inflows for the quarter. We expect local currency fund flows to improve as developed markets continue to cut rates lowering yields on DM assets.

Country Drivers

- The year of global elections continued with several exciting elections in Q2 including Mexico, India, Dominican Republic and South Africa. Elections can create inflection points for reforms and policy, good or bad. More to come in Q3, including presidential elections in both Sri Lanka and Venezuela.
- Many EM central banks still have additional room to cut rates including the Czech Republic, Hungary, South Africa, and Colombia as real yields are quite high and inflation has moderated notably.
- Zambia and Sri Lanka continue to make important progress in their debt restructurings. Ghana reached a deal in principle with bond holders – an important milestone in its restructuring process.
- Growth, inflation and policy are quite differentiated across emerging markets. As such, we continue to expect markets to place an emphasis on differentiation amongst countries and credits.

Q3 2024 OUTLOOK

EMD Risk Factor Dashboard

Outlook and summary

	Underweight	Moderate Underweight	Neutral	Moderate Overweight	Overweight	Summary
Currency				◆		We keep currencies at a moderate overweight. Currency weakness continued through Q2, but valuations remain attractive and positive carry helps to support performance. An eventual Fed cut will be a macro tailwind.
Local Interest Rates				◆		We keep local rates at moderate overweight. Real-yield differentials with developed markets widened during the quarter as EM rates sold off. Disinflation should continue providing a supportive environment for additional rate cuts.
Sovereign Credit		◆				We maintain sovereign credit at moderate underweight as spreads remain near long term averages. We continue to see more value in off-benchmark countries then benchmark countries.
Corporate Credit		◆				We keep corporate credit at moderate underweight. Spreads continued to compress and are near long term averages, but many exciting opportunities remain for investors dedicated deep fundamental research.
EM Equity				◆		Maintain at moderate overweight. Valuations remain low on absolute and relative basis. Long duration assets, including stocks, are set up to deliver attractive returns.

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

EM FX

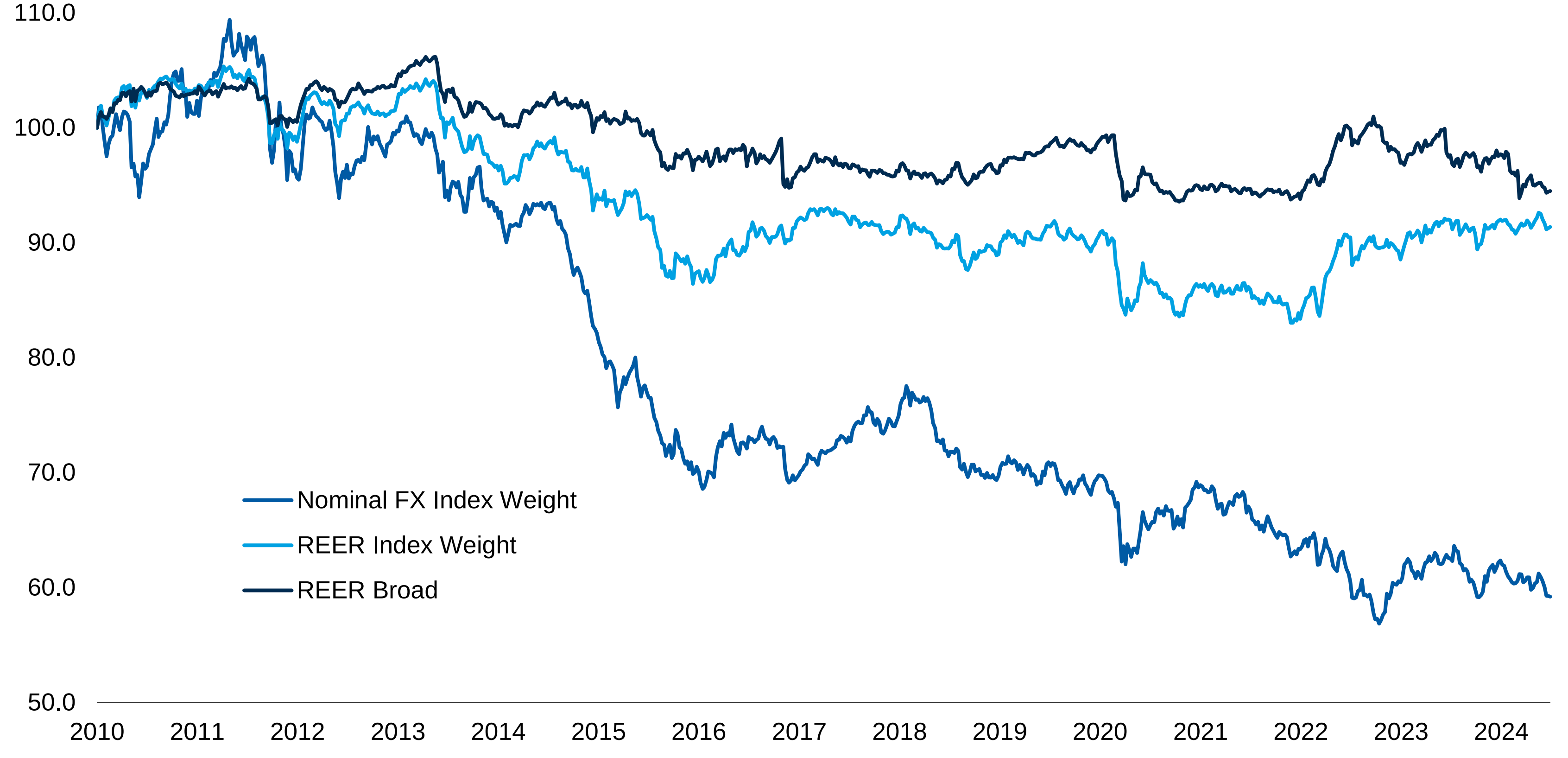
EM FX

EM currencies broadly weakened in Q2. Similar themes from Q1 continued, strong economic data and persistent inflation in the US delayed the start of the Fed's cutting cycle and the US dollar strengthened.

Nominal FX Index Weight: Nominal FX (in GBI-EM Index) has weakened significantly since 2018.

REER Index Weight: 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.

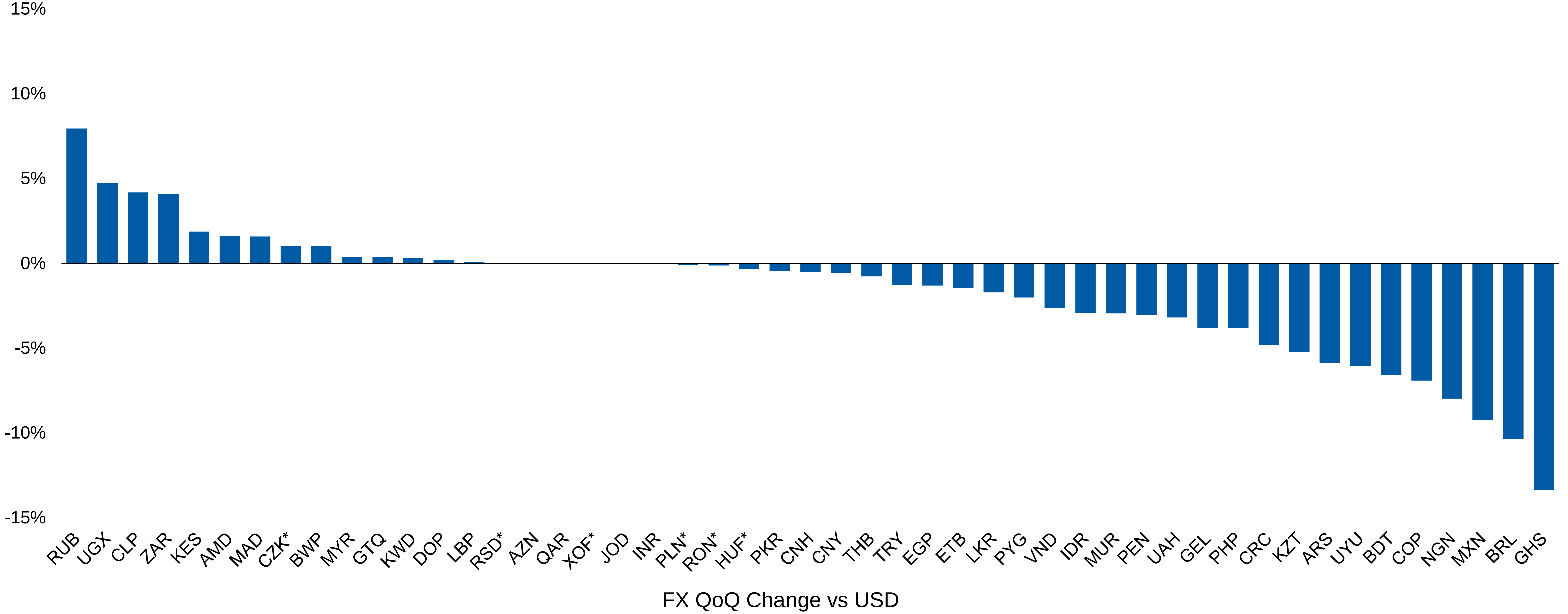
REER Broad: If you broaden the universe beyond the GBI-EM benchmark it shows that FX is not as cheap by this measure but value remains.



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

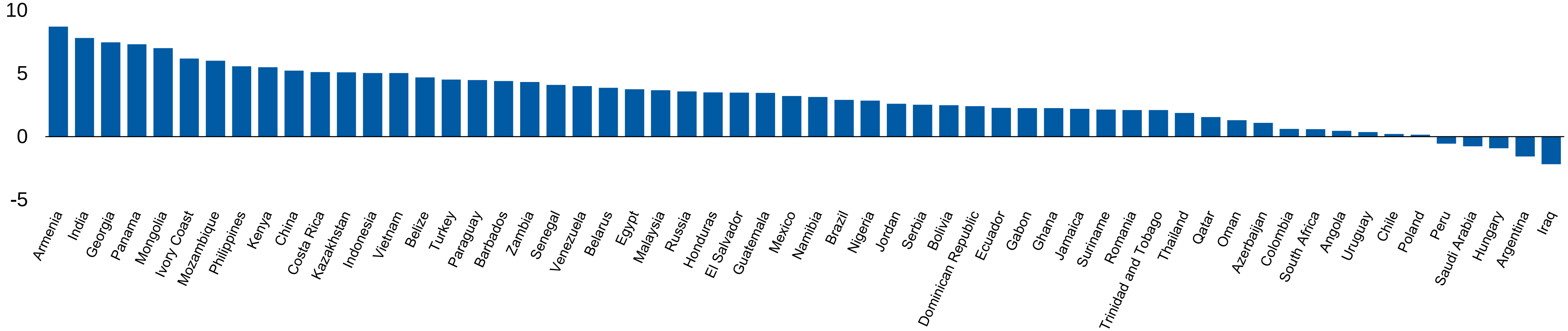
EM currencies broadly sold off during the quarter as the Fed held rates and the timeline of the first cut was pushed out again. An outlier was the Ugandan shilling which had a sharp rally at the end of the month after the central bank intervened.



Source: Bloomberg, Morgan Stanley Investment Management. *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.

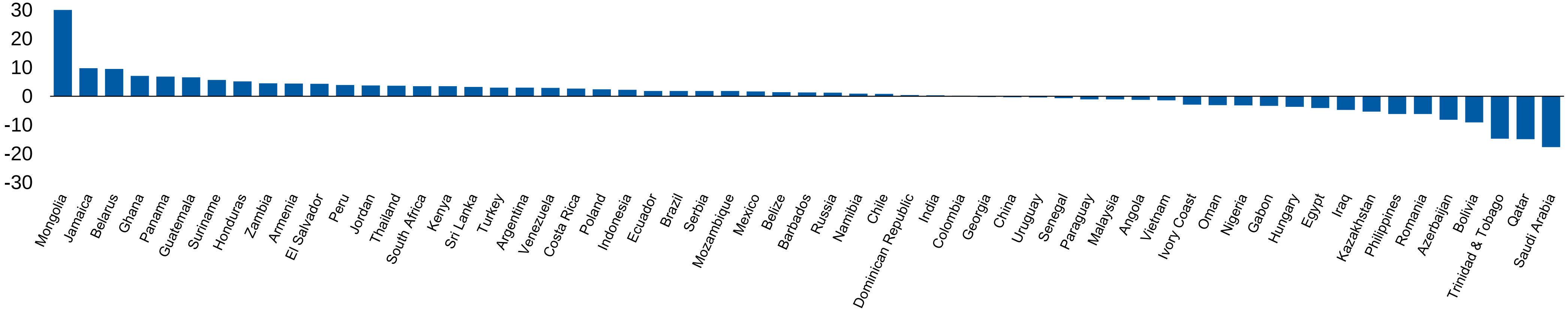
EM FX likes good growth and strong external balances.

% Change in IMF Growth Forecasts (From October 2023 WEO to April 2024 WEO)



Growth forecasts have generally improved as inflation has peaked in many markets.

Current Account % Change as % of GDP (2013 to 2024 Estimates)



Current account adjustments have been mixed, but commodity exporters have also generally fared better than importers.

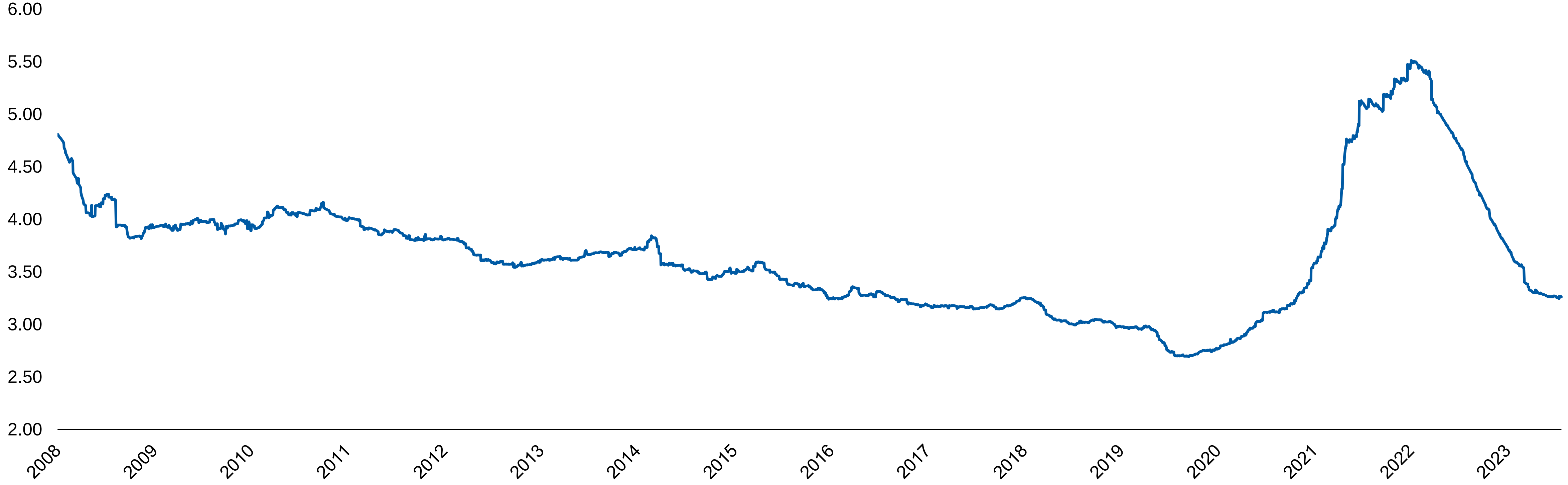
Source: IMF World Economic Outlook (WEO). Data provided is for informational use only. See end of report for important additional information.

EM Interest Rates

EM INTEREST RATES

The global disinflationary trend continued, although at a slower rate. A strong US dollar and sticky services prices muted the trend in EM. DM central banks have started to cut rates – consistent with being about 1-year behind EM in this post-COVID cycle.

EM Consensus CPI Expectations*
(% Change YOY)

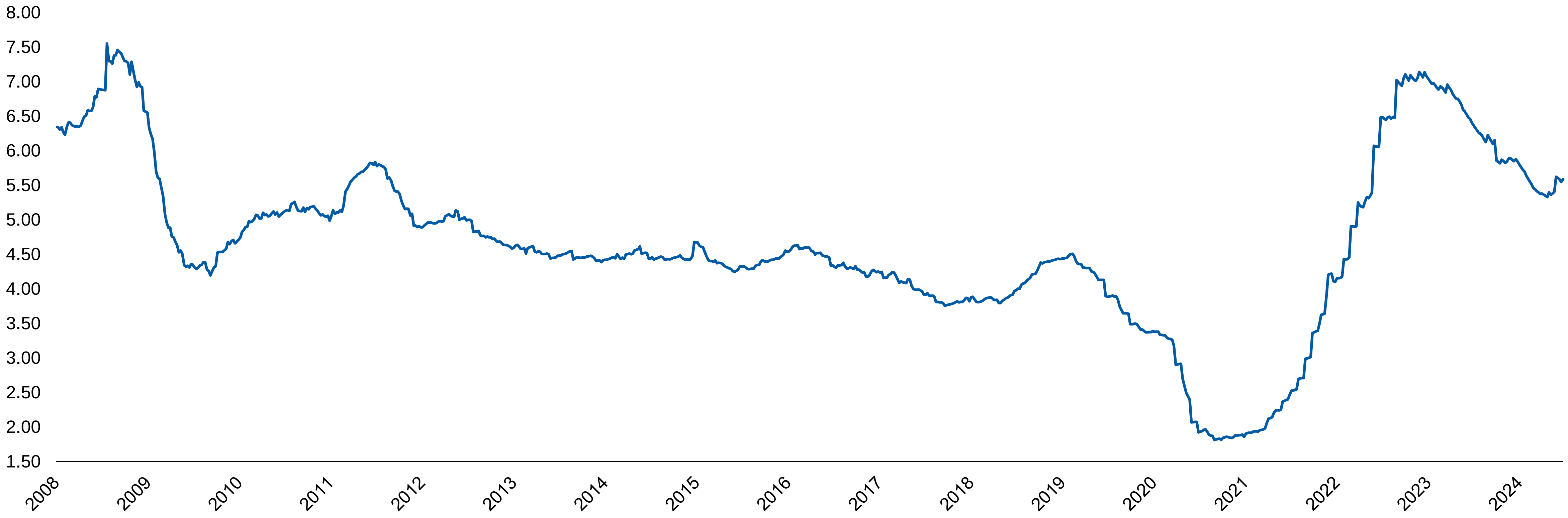


Source: Bloomberg, Morgan Stanley Investment Management. As of 6/30/2024. *Data is the equal weighted average of headline inflation expected in 18-30 months by economists surveyed by Bloomberg, which includes all countries in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified,. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. Data provided is for informational use only. **Past performance is no guarantee of future results**. See end of report for important additional information.

EM INTEREST RATES

Despite a delayed start to Fed rate cuts, several EM central banks are positioned to continue cutting in the near term. However, Indonesia recently hiked rates to help defend its currency and the market is pricing in Brazil to hike.

EM Consensus Policy Rate Expectations*

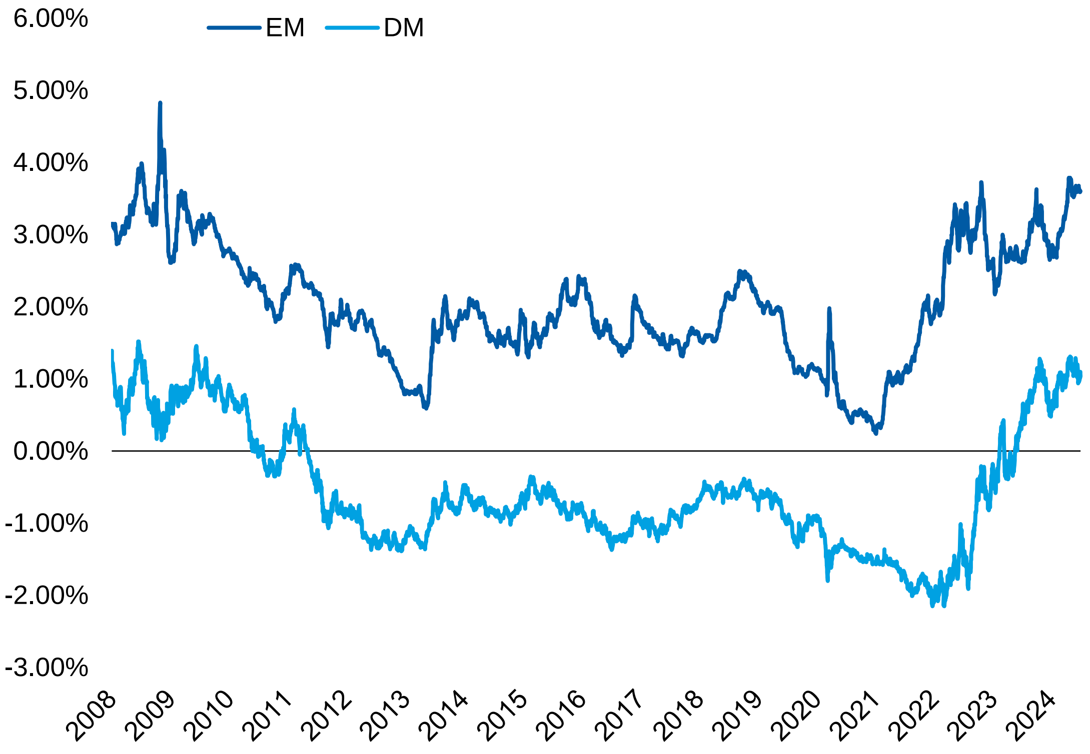


Source: Bloomberg, Morgan Stanley Investment Management. As of 6/30/2024. *Data is the equal weighted average of expected policy rates in 12 months by economists surveyed by Bloomberg, which includes all countries in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. Data provided is for informational use only. **Past performance is no guarantee of future results**. See end of report for important additional information.

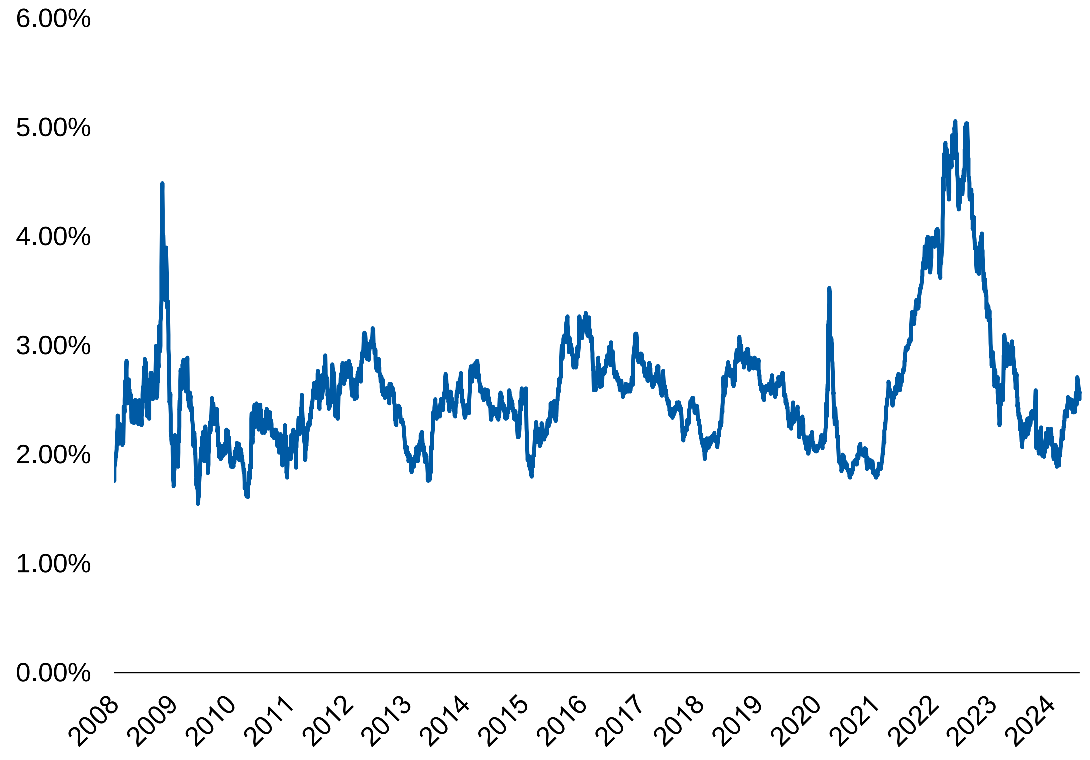
EM INTEREST RATES

EM and DM real yields using inflation expectations. Real yield differentials between EM and DM widened in Q2 as EM rates sold off. However, disinflation continues in many spots and should create a positive macro backdrop for EM rates when combined with DM central bank rate cuts.

EM-DM Real Yields
(Using Inflation Forecasts)



EM-DM Real Yield Differential
(Using Inflation Forecasts)



Source: Bloomberg, J.P. Morgan, Morgan Stanley Investment Management. As of 6/30/2024. 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. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. 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

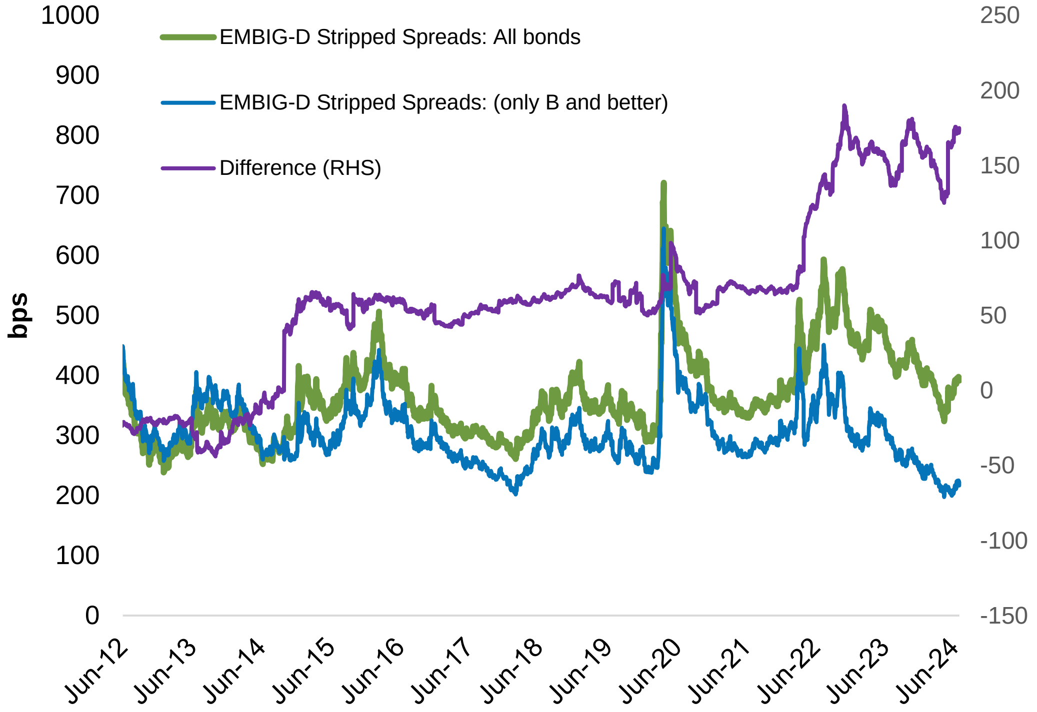
- Sovereign spreads marginally widened during the quarter and remain wide of long-term averages.
- Notable bifurcation remains in the market and even increased during the period as lower credit-quality countries broadly underperformed higher-credit quality countries.
- Fundamentals remain mixed although broadly appear to be improving. Fiscal policy will be critical moving forward and is likely to vary significantly by country.
- As always, idiosyncratic troubled spots remain as do opportunities and, as always, specific circumstances need to be analyzed country-by-country.

5-Year Equal Weight Sovereign Spread

Source: Morgan Stanley Investment Management proprietary data and calculations. As of 6/30/2024. Excludes Argentina. Underlying individual country spreads are capped at 2,000 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.

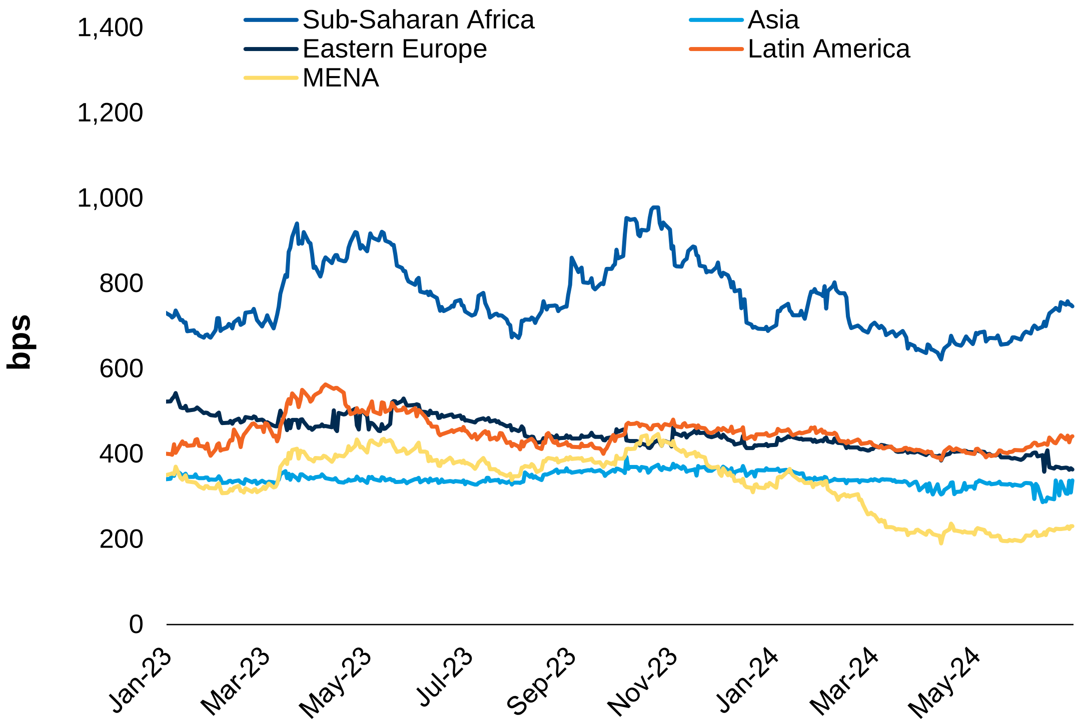
EM SOVEREIGN CREDIT

There is a large dispersion across credit quality. Country selection is particularly important to capture unique value and mispricings in lower quality issuers.



Spreads marginally widened, apart from Eastern Europe where headline inflation continues to come down and a shift in the political environment towards the right has started.

5-Year Equal Weight Sovereign Spread by Region

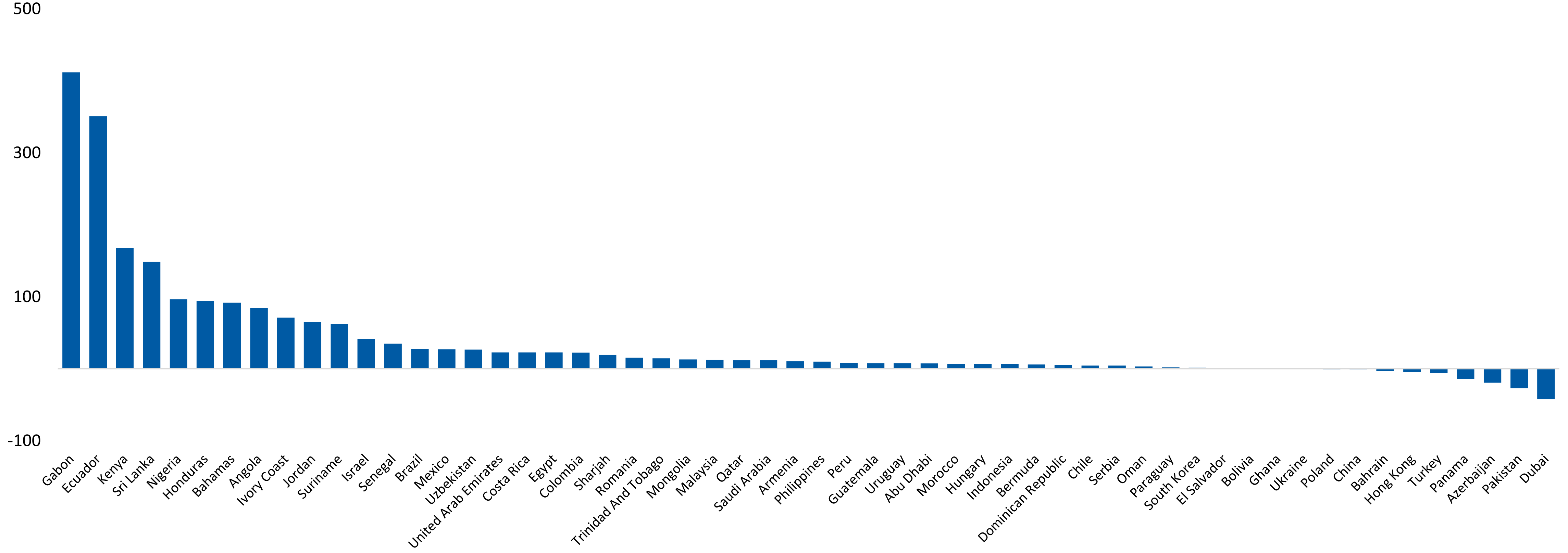


Source: Morgan Stanley Investment Management proprietary data and calculations. As of 6/30/2024. Excludes Argentina. Underlying individual country spreads are capped at 2,000 bps. All spreads are modeled five year par equivalent spreads allowing for like comparisons across countries and time. This differs 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 marginally widened. Spreads remain inline with long term average so upside potential when just looking at the benchmark is limited, but opportunities outside the benchmark remain as several countries continue with reforms and restructurings.

Q2 2024 Change in 5-Year Spread

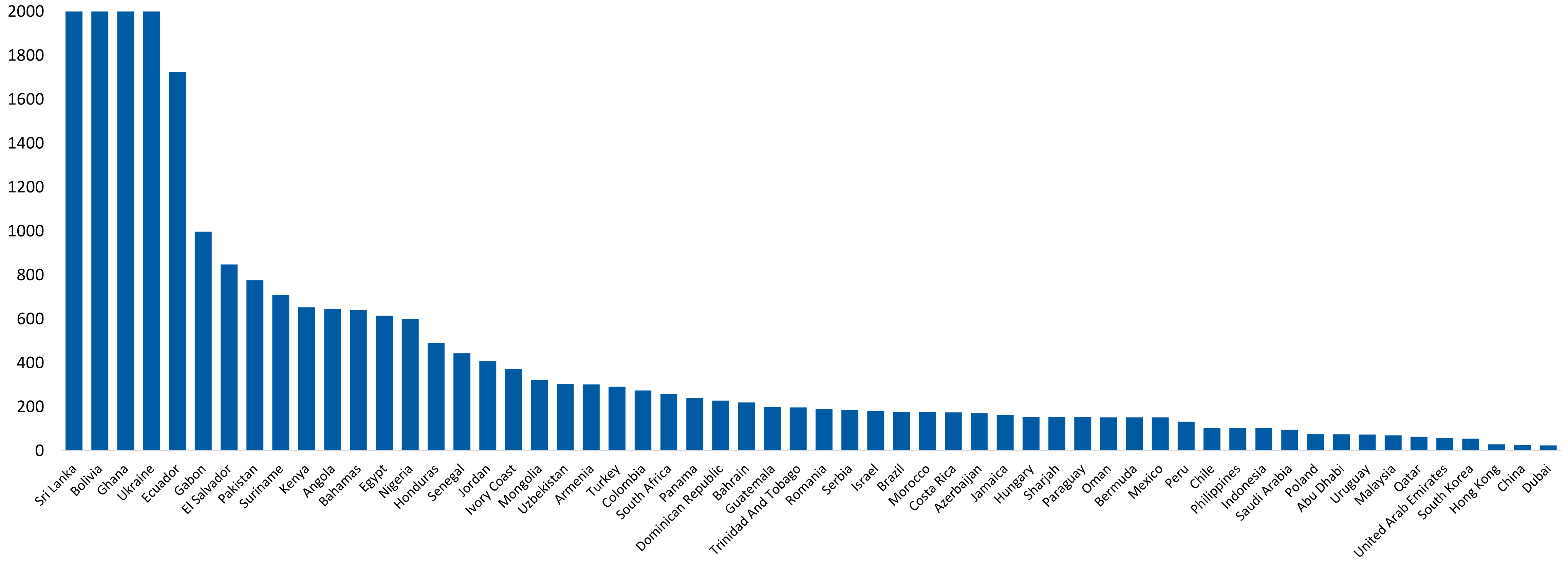


Underlying individual country spreads are capped at 2,000 bps. Source: Morgan Stanley Investment Management proprietary data and calculations. As of 6/30/2024. Data provided is for informational use only. **Past performance is no guarantee of future results**. See end of report for important additional information.

EM SOVEREIGN CREDIT

Variance among issuers increased while the bifurcation based on issuer credit quality remained notable.

5-Year Spreads



Underlying individual country spreads are capped at 2,000 bps. Source: Morgan Stanley Investment Management proprietary data and calculations. As of 6/30/2024. Data provided is for informational use only. **Past performance is no guarantee of future results**. See end of report for important additional information.

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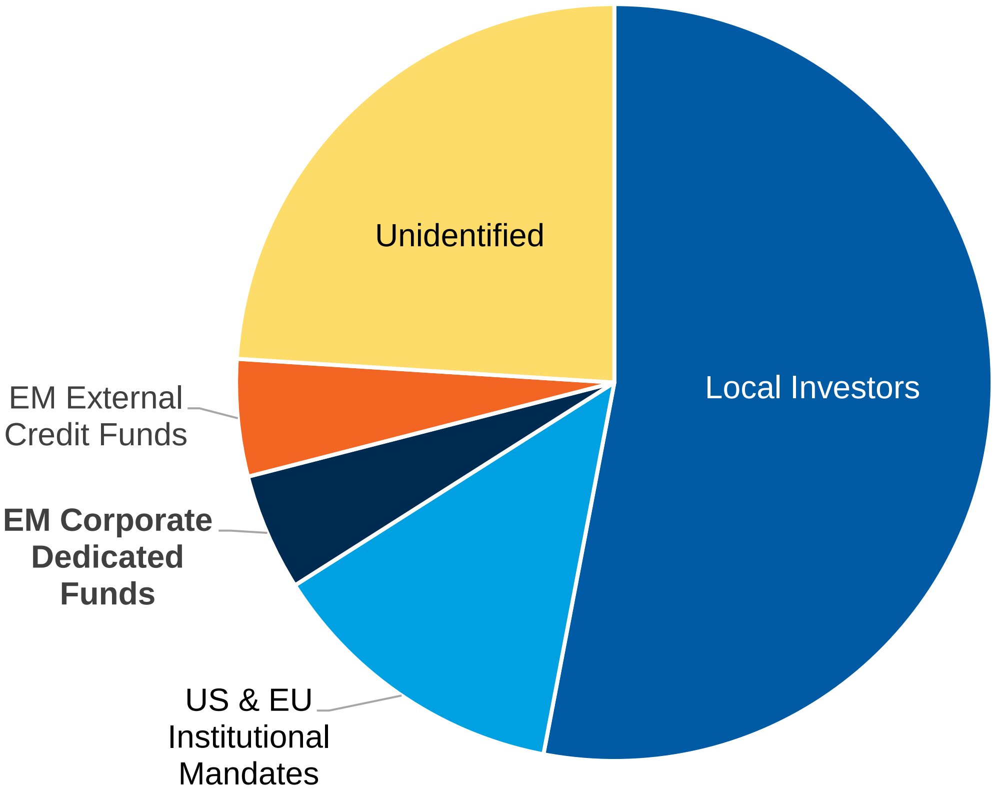
EM Corporate Credit

EM CORPORATE CREDIT

Investor Base

EM corporate debt market is unique because of its disparate buyer base.

- The market attracts capital from a diverse mix of investors with various mandates from EM sovereign and global corporate strategies to local pension funds and private banks.
- While dedicated EM corporate debt managers are growing in number and in size, this group remains a small subset of the buyer universe.
- Our expertise in, and focus on conducting detailed bottoms-up analysis on company fundamentals combined with our world-class sovereign research capabilities uniquely positions us to identify mispriced securities in the marketplace.

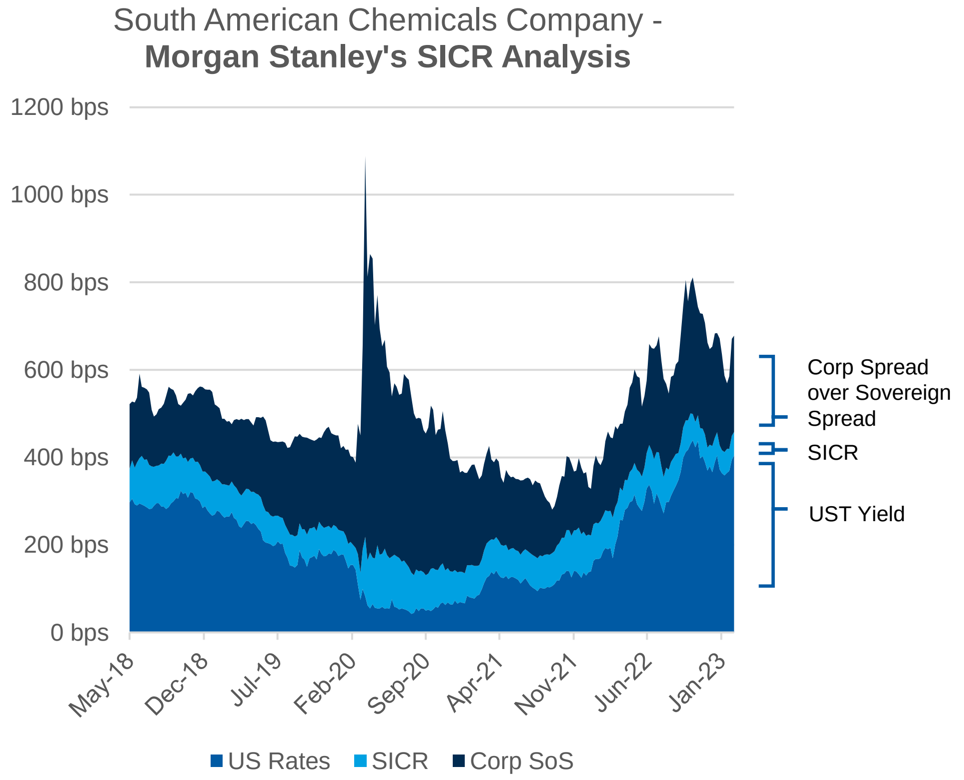


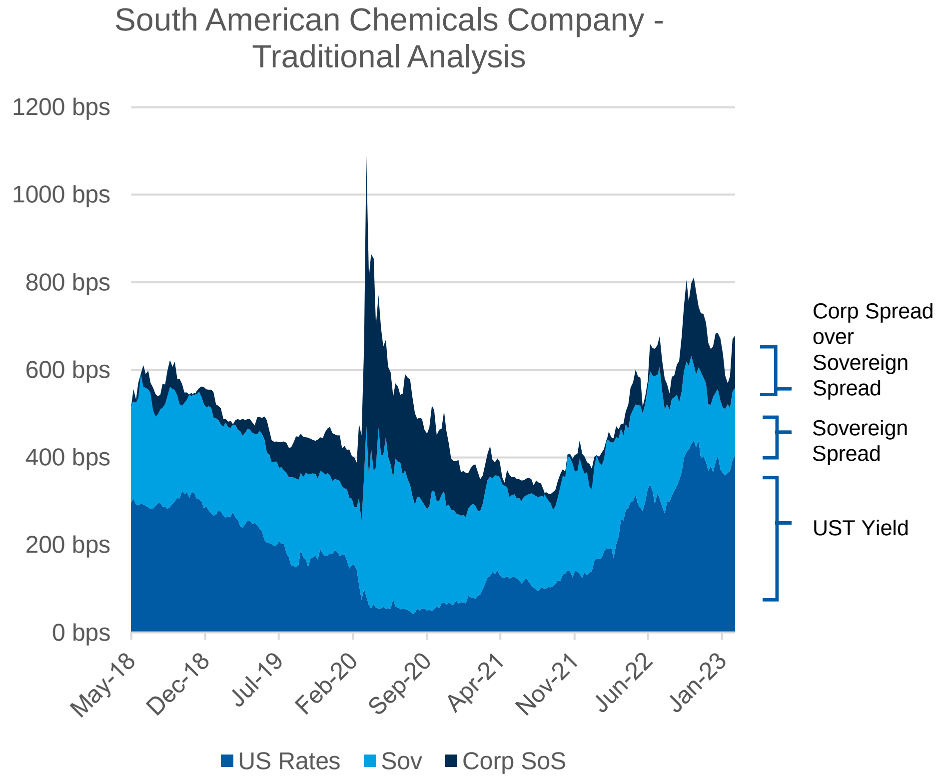
Source: JP Morgan Markets as of 12/31/2022

EM CORPORATE CREDIT

Our Approach

- We decompose risk premia into three components: **US treasury, sovereign-induced corporate credit (SICR), and corporate spread over sovereign spread.**
- We believe our proprietary SICR method most accurately isolates sovereign credit risk premium from corporate risk.
- SICR = Probability(Sovereign default ∩ Corporate default given sovereign default) x (1 - Loss given default)





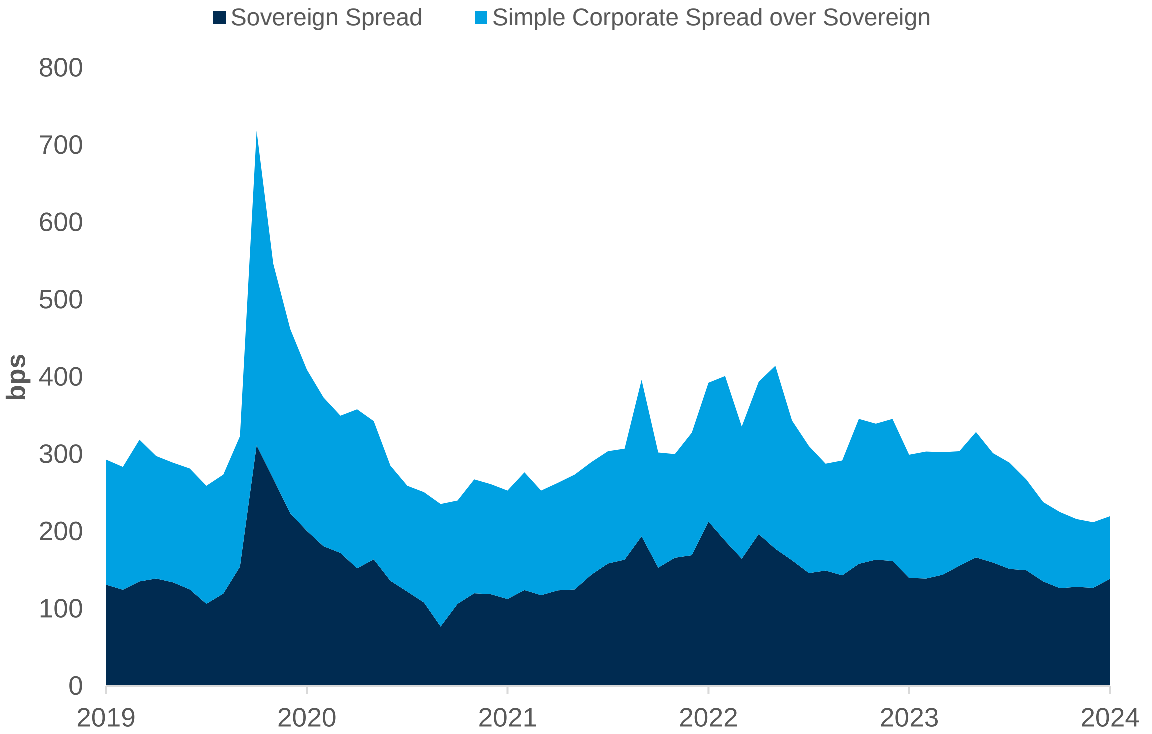
Source: Morgan Stanley Investment Management proprietary data and calculations. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information. This represents how the portfolio management team generally implements its investment process under normal market conditions.

EM CORPORATE CREDIT

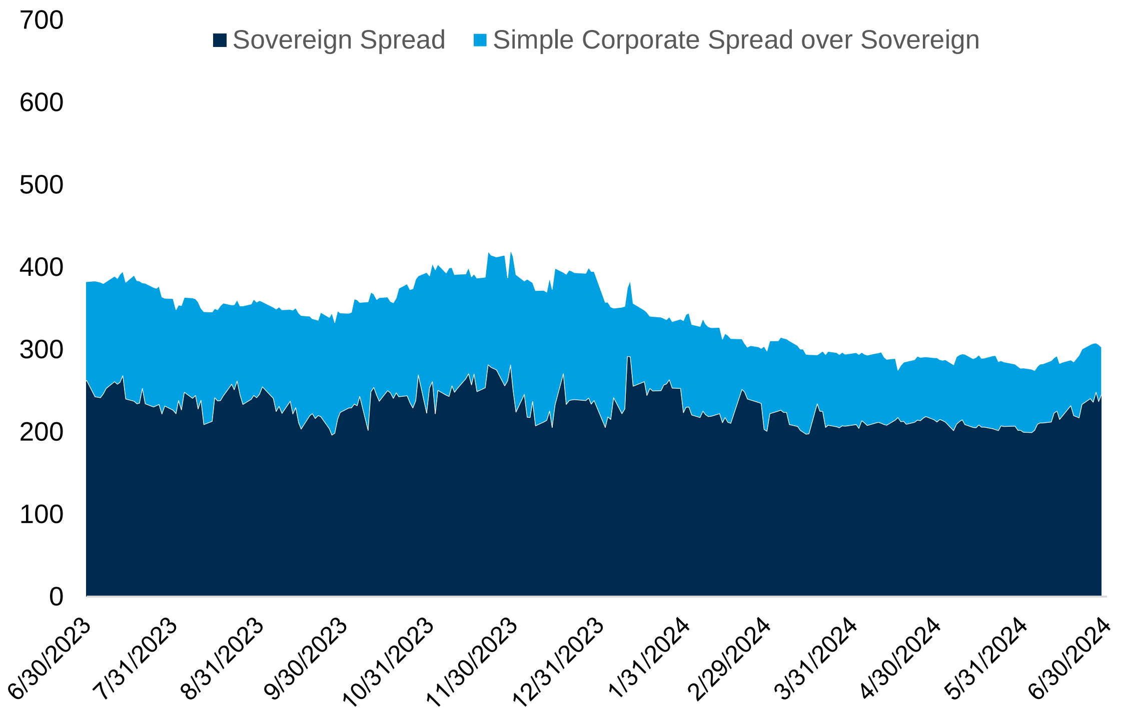
Valuations

The meaningful spread compression from Q4 2023 continued into Q2 2024 driven by strong demand for hard currency debt and net negative issuances in the asset class year to date. Despite a 50% increase in issuance verses 2Q23, the $96bn EM corporate bond issuance of 2Q24 was below the five-year average for second quarter issuance. Even as gross issuance remains low, credit fundamentals for most issuers in the asset class are incredibly strong and capital allocation decisions are generally prudent.

Spread Over Sovereign (CEMBI)
(5-Year Period)



Spread Over Sovereign (EV Universe)
(1-Year Period)



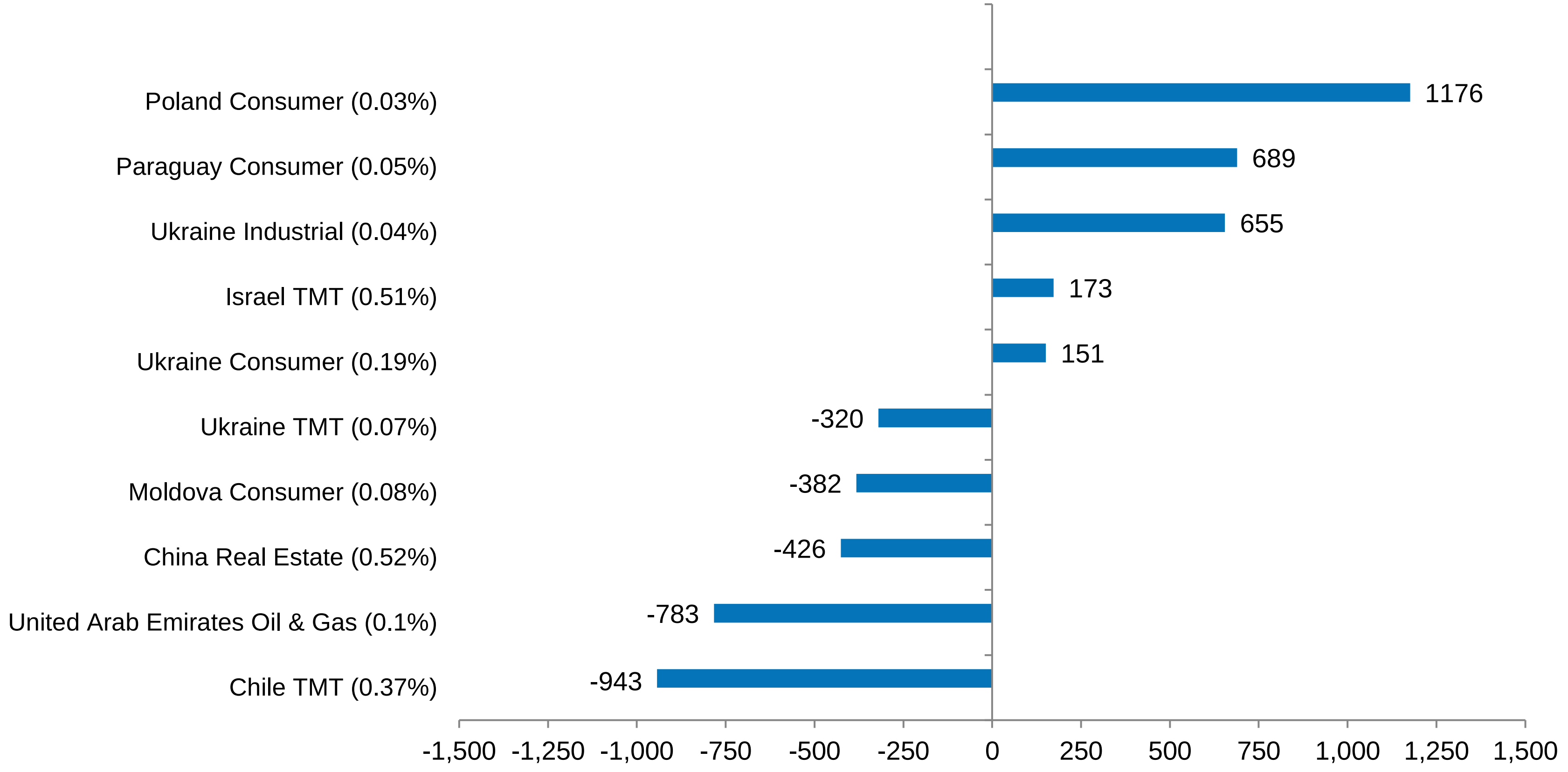
Source: Morgan Stanley Investment Management proprietary data and calculations. As of 6/30/2024. CEMBI bonds used in calculation. Data provided is for informational use only. **Past performance is no guarantee of future results**. See end of report for important additional information.

EM CORPORATE CREDIT

Sector Spread Changes

The chart below highlights spread moves within the corporate asset class bucketed by country-sector (weighting is in parenthesis)

Q2 Top Country-Sector Spread Changes



Source: JP Morgan. As of 6/30/2024. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

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Risk Considerations

RISK CONSIDERATIONS

There is no assurance that a Portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the Portfolio will decline and may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing . Fixed-income securities are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. Investments in foreign instruments or currencies can involve greater risk and volatility than U.S. investments because of adverse market, economic, political, regulatory, geopolitical, currency exchange rates or other conditions. In emerging or frontier countries, these risks may be more significant. Investors should be aware that this strategy may be subject to additional risks, which should be carefully considered prior to any investment decision

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The principal risks involved with investing in the asset classes shown are interest-rate risk, credit risk and liquidity risk, with each asset class shown offering a distinct combination of these risks. Generally, considered along a spectrum of risks and return potential, U.S. Treasury securities (which are guaranteed as to the payment of principal and interest by the U.S. government) offer lower credit risk, higher levels of liquidity, higher interest-rate risk and lower return potential, whereas asset classes such as high-yield corporate bonds and emerging market bonds offer higher credit risk, lower levels of liquidity, lower interest-rate risk and higher return potential. Other asset classes shown carry different levels of each of these risk and return characteristics, and as a result generally fall varying degrees along the risk/return spectrum.

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