

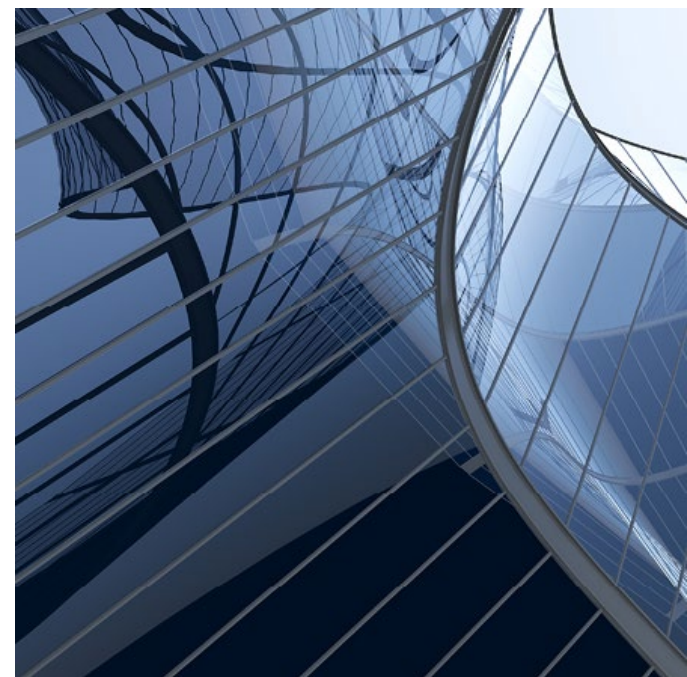
Morgan Stanley

INVESTMENT MANAGEMENT

Emerging Markets Debt Monitor

Emerging Markets Team

Q1 2023



Important Information and Disclosure

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Q1 2023 Recap

Q1 2023 RECAP**Q1 2023 Recap**

- EMD markets produced firmly positive performance during the first quarter of the year despite a mixed backdrop for global capital markets.
- China re-opening combined with expectations that the U.S. Federal Reserve (the Fed) may be nearing the end of its tightening cycle helped fuel gains during the first part of the period.
- Ongoing hawkish rhetoric from Fed officials seemingly concerned with maintaining tighter financial conditions combined with a January inflation print above expectations poured water on the market rally in February.
- The volatility across global capital markets stemming from banking stress in some developed markets led to a divergence in EMD segments as local markets – both FX and rates – rallied strongly while the USD-denominated segments – both sovereign and corporate – suffered from broad credit spread widening globally. That said, the strong rally in U.S. Treasuries did notably aid the USD-denominated total return profiles.
- The one-year anniversary of Russia’s invasion of Ukraine came and went while the conflict carries on. The situation remains tragic even as the range of potential outcomes has seemingly narrowed over the past nine months.
- All EMD risk factors produced positive performance during the full period with the local segment producing the strongest returns given strengthening currencies and falling local interest rates. The corporate space was the next best-performing segment of the market as spreads widened but the rally in U.S. Treasuries buoyed the total return of the index. The USD-denominated sovereign index within the EMD universe was up the least as spreads widened more here than in the corporate segment but, again, the rally in U.S. Treasury yields also pushed this index into positive territory.
- The asset class experienced positive inflows during the period representing a significant turn in technicals for the space after record outflows in 2022. Approximately \$2.1 billion net flowed into dedicated-EMD funds globally during the quarter with hard-currency representing \$2.9B and local currency dipped slightly into outflows representing -\$0.7B.

Q1 2023 RECAP**Q1 2023 Recap, *continued*****Asia**

- China's economic recovery was the most notable factor within the region during the quarter. Its COVID-reopening was accompanied by the easing of select regulations and combined to push economic activity higher. However, the initiative to bolster national security, in part, by seeking to build certain capabilities onshore that don't currently exist may weigh on growth potential longer term and bears scrutiny.
- Sri Lanka and Pakistan remain in similar states of debt distress. However, Sri Lanka gained support from India, China and the IMF for its restructuring plans while Pakistan is still looking for a deal.
- ASEAN countries are benefitting from a tailwind caused by the efforts of many multi-national companies to expand investment across the region. However, politics in certain spots may be getting in the way: Vietnam and Malaysia are two we're watching closely.

CEEMEA

- Inflation continues to be a large challenge for core countries in Eastern Europe (Poland, Hungary, Czech Republic) while policy responses have been varied.
- Elections in Nigeria went smoothly. Turkish elections are coming and will be critical in shaping the future of policy; the opposition is leading in polls.
- Ukraine came to a staff-level agreement with the IMF on a large support package; the first of its kind for a country at war.
- Saudi Arabia and Iran appeared to take significant steps towards a diplomatic rapprochement; early stages but would be a notable positive for the region as a whole.

LATAM

- Inflation dynamics diverged somewhat as Brazil experience disinflation while that in Mexico, Colombia and Chile remained stubbornly high.
- Political rhetoric in Brazil eased during the quarter as a more-modest-than-expected fiscal package was approved – both a positive sign.
- Growth in the northern parts of Mexico continues to be robust as companies seek to capitalize on “near-shoring” while politics remain subdued.
- Argentina's economic challenges continued to deteriorate even off of already heightened levels; elections are coming later this year, but necessary policy adjustments will be a tall task for whoever is in charge.

Q1 2023 RECAP**EM Corporate Credit – Q1 update and outlook*****After a strong start to 2023, the risk off sentiment in the markets has driven EM corporate spreads wider despite relatively strong fundamentals***

- Q1 2023 credit spread returns for the CEMBI index asset class was -161bps, while total returns were +94bps, driven primarily by the rally in US rates.
 - Outflows from the asset class and macro uncertainty were the key drivers for spread widening in 2022.
- The year-to-date period has brought a number of idiosyncratic surprises – namely, Americanas in Brazil and the Adani complex, in India. The domestic financing environment in these countries are challenged as domestic debt providers are being extra cautious.
- Despite high cash balances and stable fund flow trends in the asset class, the primary window for new issuance is largely closed to issuers. Only high quality companies located in high quality jurisdictions such as China, Korea, the GCC, etc. are able to access the market freely.
- We remain confident in the fundamental health of the EM corporate issuer universe. However, there is a large wall of debt maturities in 2024 and 2025, and we would need to see a thawing in markets for these maturities to be addressed. For many companies, the domestic market is simply not large enough.
- Property sales data coming out of China has been steadily improving. In addition, developers have been approaching the market with restructuring proposal – the resolution of which is necessary in order for these developers to access onshore financing in size.
- We remain concerned about business models that rely on open capital markets to fund their growth plans. Such issuers will have to either scale back their capital investment plans or find alternate source of funding. Stories that fit this theme have gotten punished in the market during the period.
- The Digicel restructuring process as well as select Latam airlines situations have been moving along over the course of the year and are likely to get resolved in short order. Absent any large surprises, we expect default rates to remain muted this year.
- Lastly, trading liquidity has been particularly challenged during this past quarter. Flows have generally been in one direction – while this has been a challenge to some extent, we have also been able to capitalize on a number of dis-locations – i.e. buying securities at prices that do not reflect the intrinsic value of the debt, or selling securities that are trading inside of fair value.

Q1 2023 RECAP

Index Performance Recap

Q1 2023



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	2.01%	0.25%	1.58%	1.33%	—	—	—	5.16%
J.P. Morgan EMBI Global Diversified	—	—	—	—	-1.25%	-0.13%	3.24%	1.86%
J.P. Morgan CEMBI Broad Diversified	—	—	—	—	-0.44%	0.26%	2.43%	2.24%

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.

Q1 2023 RECAP

Index Performance Recap

YTD as of 3/31/2023

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2022

Index	FX	EURUSD Exchange Rate Move	Rates	Carry	Sovereign Credit Spread	Corporate Credit Spread	U.S. Treasury	Total Return
J.P. Morgan GBI-EM Global Diversified	-4.76%	-1.08%	-11.01%	5.16%	—	—	—	-11.69%
J.P. Morgan EMBI Global Diversified	—	—	—	—	-4.24%	0.47%	-14.01%	-17.78%
J.P. Morgan CEMBI Broad Diversified	—	—	—	—	0.31%	-3.94%	-8.63%	-12.26%

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.

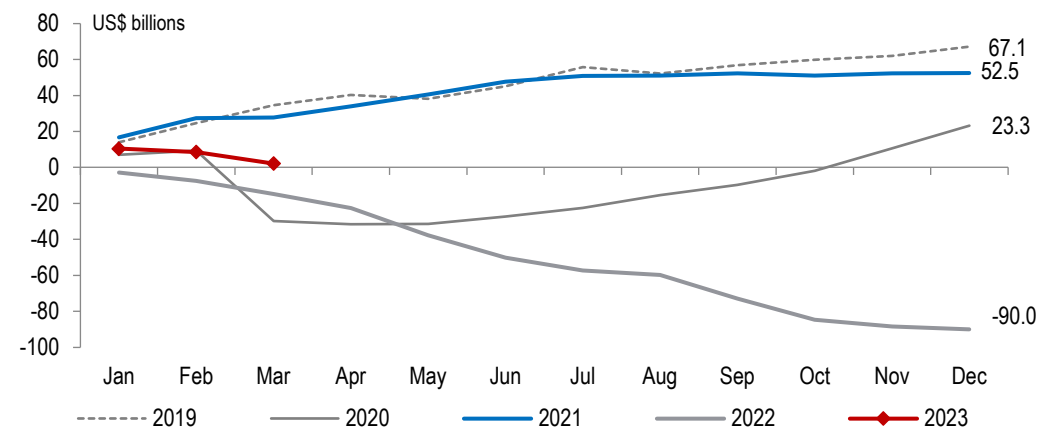
Q1 2023 RECAP

Technical: 2023 Flows YTD

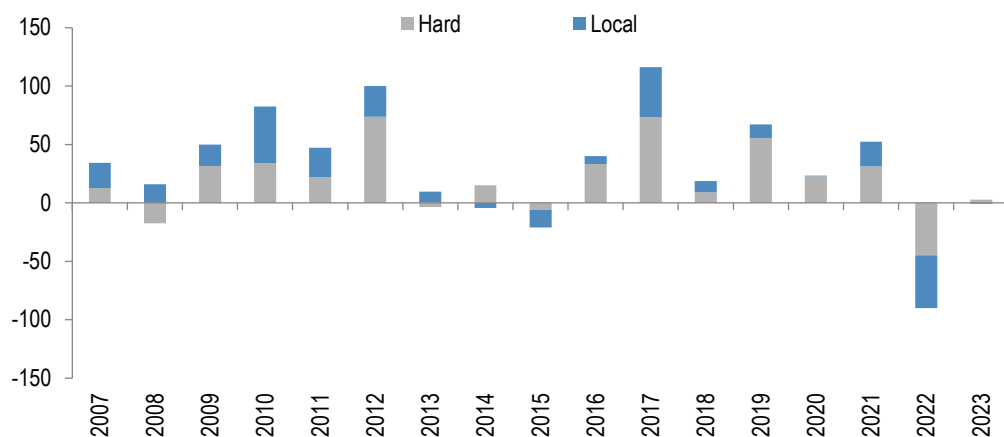
Macro headwinds of 2022 have dissipated, but investors are slow to return to the asset class

- 2022 outflows in hard and local currency funds were the largest annual outflows in recent history, and by a considerable amount.
- January flows for both hard and local currency funds were strong, fueled by the asset class rally that started in the last few months of 2022 and continued into the new year.
- Lingering inflationary pressures and revised rate expectations put pressure on the asset class in February and flows turned negative. This sentiment continued into March due to heightened volatility.

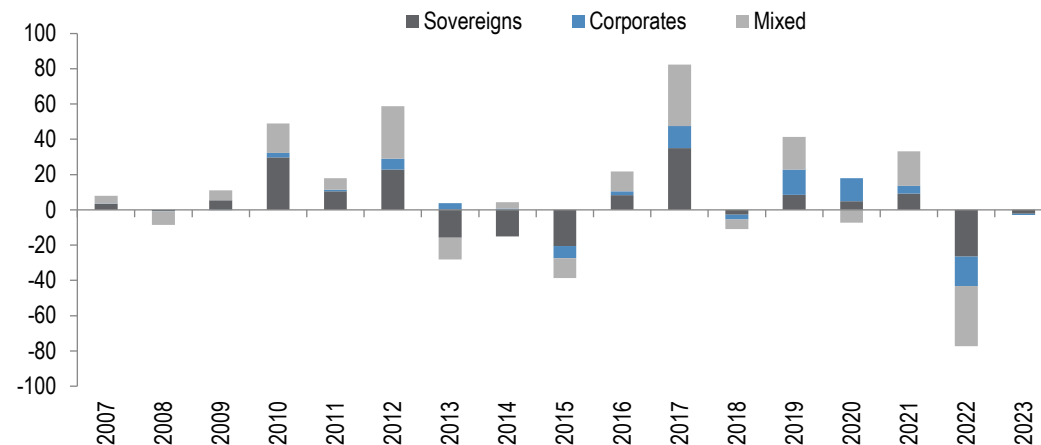
Annual Cumulative Bond Flows



Annual Flows by Currency



Annual Flows by Sovereign/Corporate/Mixed (Retail)



Source for all charts above: JPMorgan. All data as 3/29/2023. For illustrative purposes only. Past performance is no guarantee of future results.

Rotating Topic

EM banks vs. SVB and lessons from the Credit Suisse impairment of AT1 investors

ROTATING TOPIC

How EM Banks differ from SVB

- EM banks in the investment universe are “**national champions**” with **diversified traditional universal banking models**.
- The funding base of most EM banks is **well diversified**:
 - Sticky granular retail deposits dominate
 - Deposit insurance often covers most deposits
- **Less competition for deposits**:
 - Concentrated banking systems comprised of banks with strong deposit franchises
 - Limited investment opportunities for savings beyond bank deposits and gold
- **Stronger liquidity requirements**:
 - EM banks in many countries **must satisfy Basel III’s liquidity ratios** such as LCR and NSFR
 - EM banks are subject to the heightened risks associated with investing in emerging markets compared to more developed economies

*Many banks in the EM investment universe are **systemically important** with access to their Central Bank’s liquidity facilities*

ROTATING TOPIC

EM banks have lower asset-liability imbalances

- **Securities books are typically smaller:** ~20%-25% of total assets vs. SVB's ~57% of assets
 - Exceptions are the banking systems in Brazil, Argentina and Nigeria
- **Long-term fixed-rate securities are less common**
 - Local currency government and corporate bonds are often linked to inflation or an interbank rate
 - The tenure of the domestic fixed rate securities is often shorter than those available in DM
 - EM banks often hedge their securities book for interest rate risk, including the held-to-maturity (HTM) portion
- **Interest rates were never near zero for a prolonged period** in EM, which explains why unrealized losses are lower
- Tight liquidity in local markets is often addressed through macro prudential measures:
 - Example: Bank of Korea and the Korean government introduced liquidity support measures in Oct 2022 following the bankruptcy of Legoland, a large real estate project

ROTATING TOPIC

The Credit Suisse Precedent

- On March 19, 2023 the Swiss regulator FINMA announced the acquisition of Credit Suisse by UBS
 - Acquisition was marketed as a **“private solution” with state support**
- AT1 holders were fully written down, while shareholders retained some value

Could investors in EM banks bear similar losses to those experienced by holders of Credit Suisse’s AT1 bonds before common shareholders do?

- **That depends on local regulation, but we believe it is possible**
 - EM countries don’t have bank resolution or liquidity event legislation that protects the hierarchy of stakeholder claims.
- EM has its own less-known precedent with Indian bank **“Yes Bank”**
 - Local AT1 investors have been permanently impaired before shareholders
- The ECB, Bank of England, Hong Kong Monetary Authority and the Monetary Authority of Singapore made statements that they will protect and support the hierarchy of claims in the resolution of a bank
 - However, their statements did not address: a liquidity event or a “private solution” with extraordinary support (similar to the Credit Suisse/UBS transaction)

ROTATING TOPIC

Bottom Line and Implications for Emerging Markets

Operating under a very different model and stricter regulations, we believe that EM banks are unlikely to be exposed to the same risks as SVB, but EM banks could face a breach of the hierarchy of stakeholder claims similar to Credit Suisse.

- EM banks could be expected to pay increased refinancing costs to access the AT1 market
- Higher refinancing costs could make refinancing uneconomic leading to increased non-call risk for AT1s
- **Fears of impairment could impact the price of tier 2 capital securities**, which are also loss absorbing by design
- **AT1 investors could require better credit protection** through more bond-friendly AT1 features
 - Inclusion of temporary write-down or “conversion to equity” language are two options
- Adoption of bank resolution legislation addressing the hierarchy of claims could become a priority

AT1s have grown significantly in the past few years, particularly in EEMEA



In EEMEA, most AT1s outstanding are denominated in AE, RU, and KW



Source: Morgan Stanley Investment Management. Charts Source: Bloomberg and Barclays Research

Q2 2023 Outlook

Q2 2023 OUTLOOK

Q2 2023 Outlook

Macro Drivers

- The volatility stemming from banking stresses in developed markets has put a damper on the macro picture to some degree. That said, we remain constructive from this perspective.
- The Fed is almost certainly near the end of its tightening cycle, all things considered, which may relieve incessant U.S. dollar strength as well as give cover to some EM central banks that are in a position to ease.
- Expectations for growth differentials between EM and DM countries continued to be revised upwards – meaning the outperformance of EM economies relative to DM economies is expected to be larger than previously anticipated.
- Valuations remain quite compelling across the EMD universe and appear to offer attractive compensation for investors.
- Technicals in the asset class have turned from a big headwind to a small, yet notable tailwind.
- While commodity prices are off of their recent highs potentially supporting lower inflation, they are still high relative to the past decade and should also continue to support commodity export countries.

Country Drivers

- As we've noted previously, many EM central banks had run more orthodox monetary policy than most DM central banks. As a result, we are seeing a number of them at or near the end of the tightening cycles with inflation declining. Coupled with the Fed likely at or near the end of its tightening cycle, we may start to see easing monetary policy in select countries which would lead to lower rates and stronger support of growth.
- While it has been a challenging three years for many countries leading to large-scale fiscal deficits, more and more appear to be recognizing the need to consolidate those deficits. Should a recovery in emerging markets further materialize in 2023, we'll be looking for prudent, counter-cyclical fiscal policies to be implemented where appropriate.
- Growth, inflation and policy are quite divergent across the heterogeneous universe of countries we refer to collectively as "emerging markets." As such, we continue to expect markets to place an emphasis on differentiation amongst countries and credits.

The views expressed are those of the Strategy's investment team and are current only through the date stated on the cover of this presentation. These views are subject to change at any time without notice based upon market or other conditions, and Morgan Stanley Investment Management disclaims any responsibility to update such views. Different views and opinions may be expressed by others. These views may not be relied upon as investment advice and, because investment decisions are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Morgan Stanley Investment Management strategy. Please see additional important information and disclosure contained in the Appendix.

Q2 2023 OUTLOOK

EMD Risk Factor Dashboard

Outlook and summary

	Underweight	Moderate Underweight	Neutral	Moderate Overweight	Overweight	Summary
Currency				◆		We maintain at moderate overweight given the combination of attractive valuations, increasing expectations for growth differentials, and a less-hawkish Fed.
Local Interest Rates					◆	We maintain local interest rates to overweight. Real interest-rate differentials with developed markets remain near their widest levels of the past two decades while the potential for monetary policy easing in select countries is notable.
Sovereign Credit				◆		Sovereign credit remains at moderate overweight as spreads remain wide and notable bifurcation in the market – and thus opportunity – continues to exist.
Corporate Credit				◆		Maintain at moderate overweight given the combination of attractive valuations and underlying fundamental strength of issuers.
EM Equity				◆		Maintain at moderate overweight. Our constructive view on duration suggests long-duration assets including stocks will deliver positive, attractive total returns. As disinflation takes hold, fiscal and monetary policy is likely to turn growth-focused.

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

EM FX

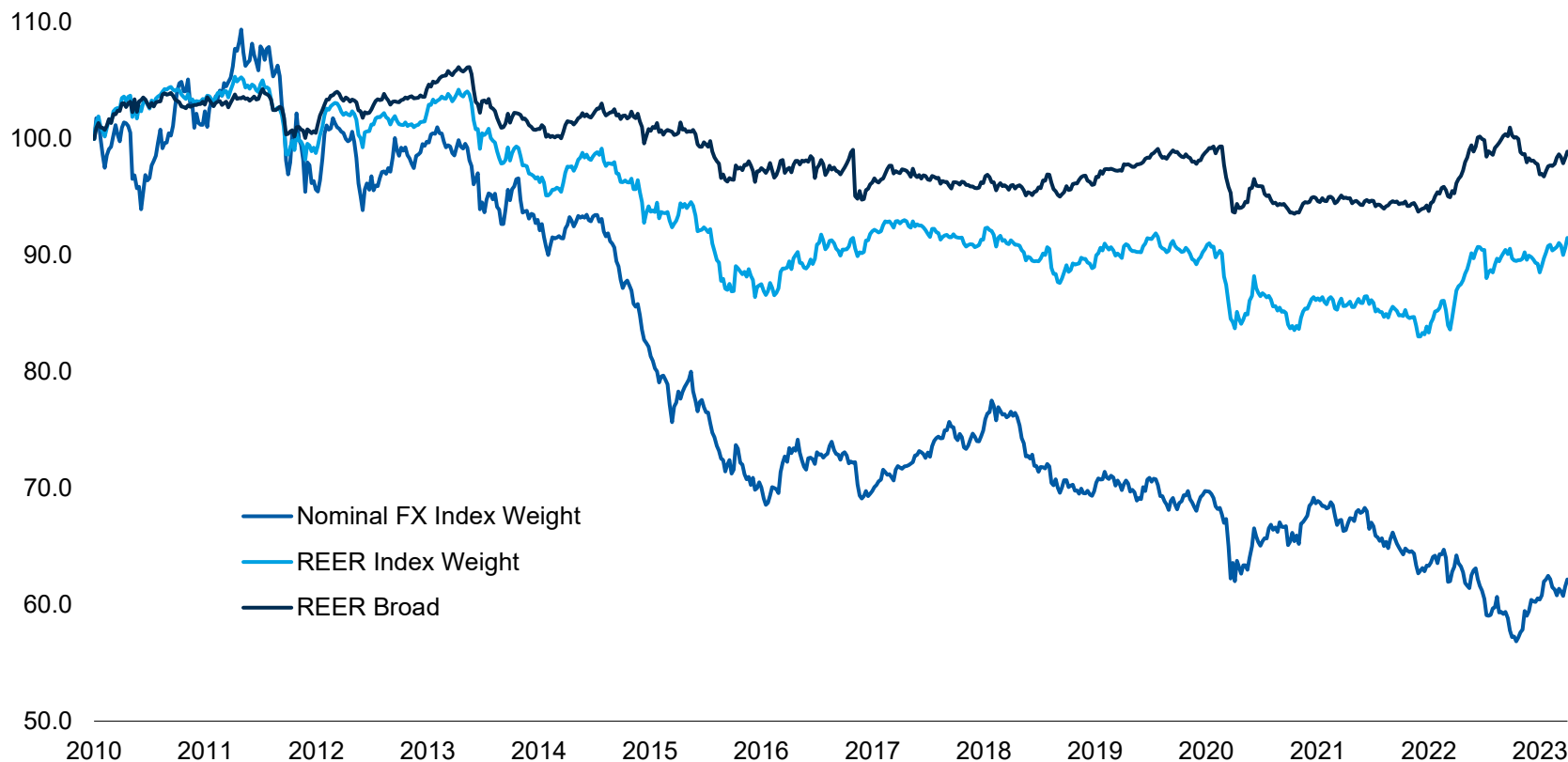
EM FX

EM currencies strengthened a bit in nominal terms, but were essentially flat based on a real effective exchange rate basis largely due to differentials in real rates with the U.S.

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.

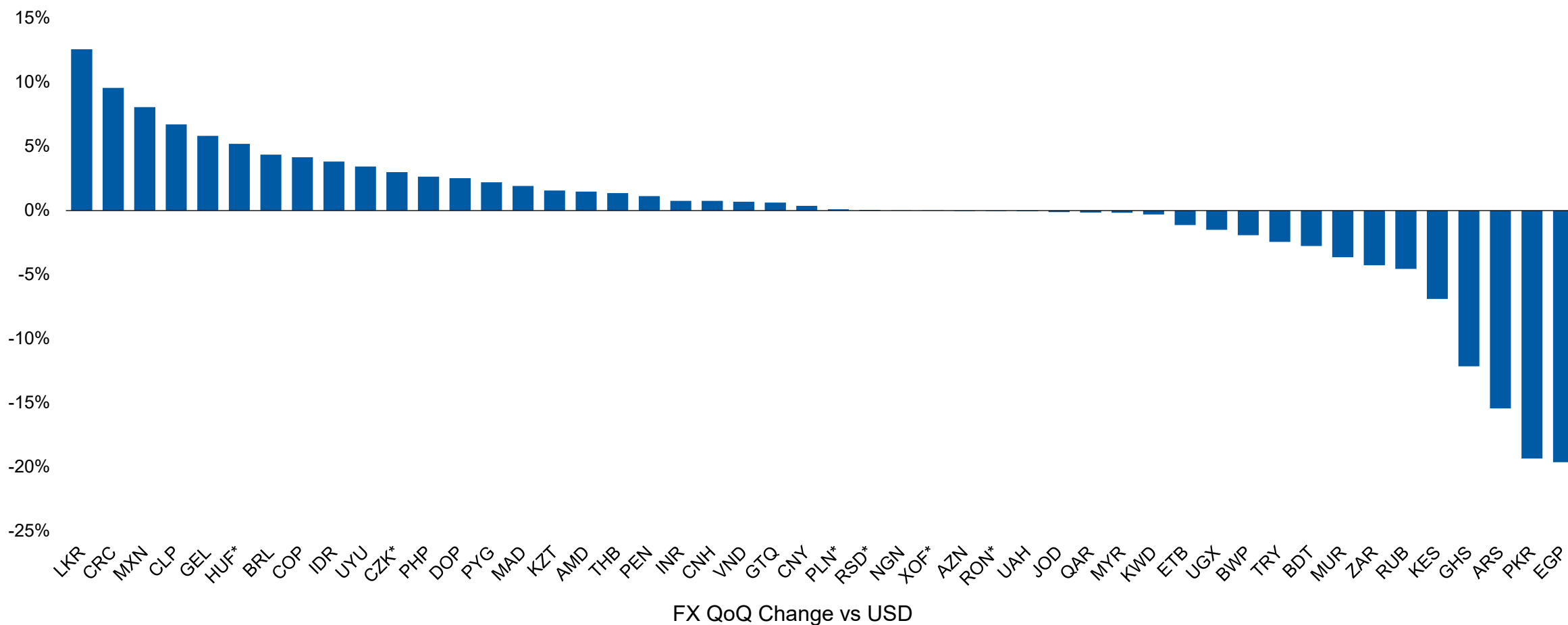
REER Broad: If you broaden the universe beyond the GBI-EM benchmark it shows that FX is not as cheap by this measure but value remains.



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 FX generally strengthened during the quarter in nominal terms as growth expectations and rate differentials favored EM.

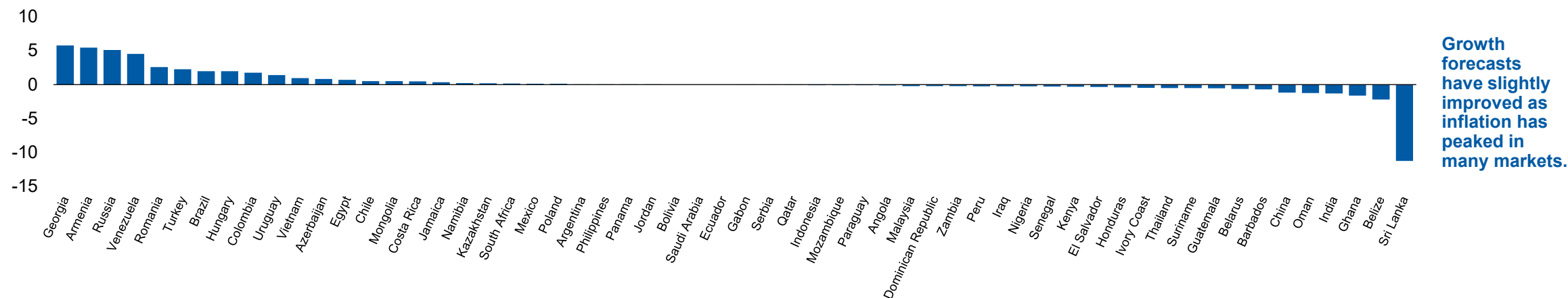


Source: Bloomberg, Morgan Stanley Investment Management. *Versus euro. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

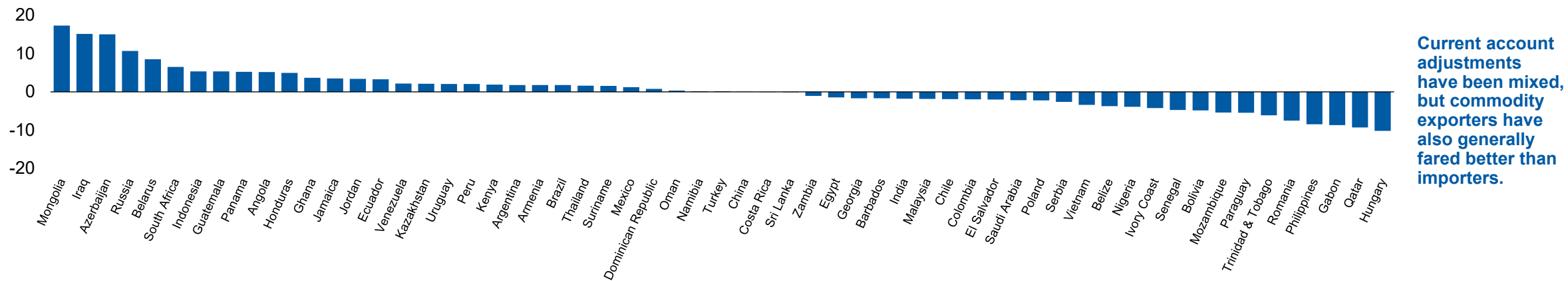
EM FX

EM FX likes good growth and strong external balances.

% Change in IMF Growth Forecasts (From April 2022 WEO to October 2022 WEO)



Current Account % Change as % of GDP (2013 to 2022 Estimates)



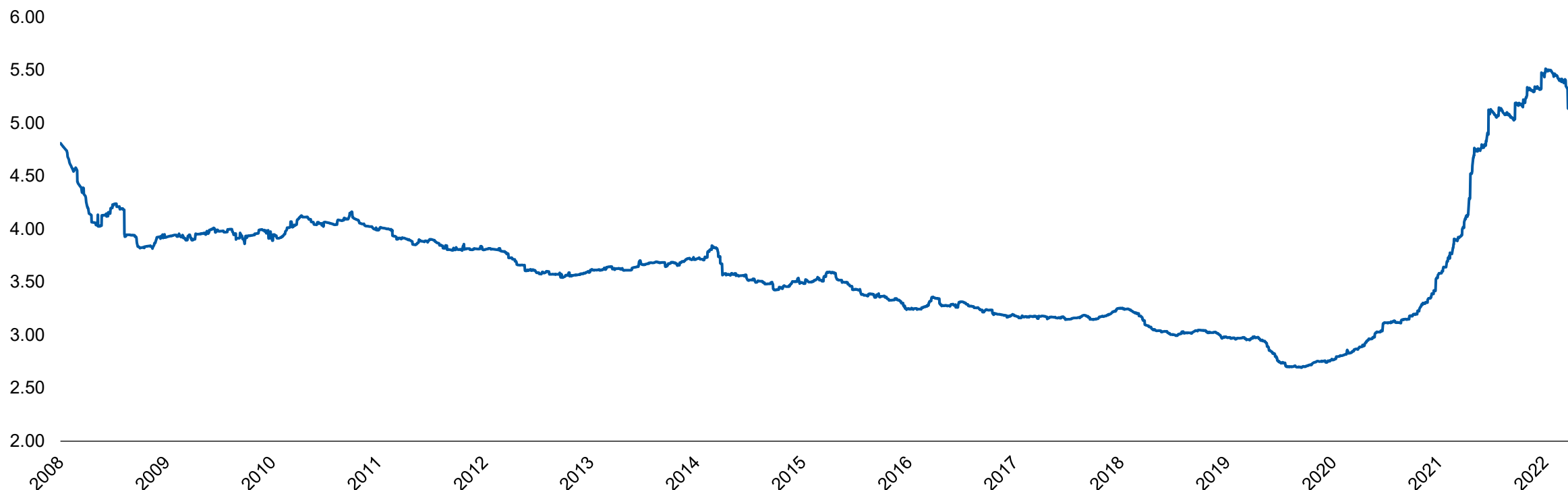
Source: IMF World Economic Outlook (WEO). Data provided is for informational use only. See end of report for important additional information.

EM Interest Rates

EM INTEREST RATES

Aggregate EM inflation expectations are clearly moderating off of recent peaks. Commodity prices have eased while goods prices have already been declining and China’s move away from a zero-COVID policy will likely further ease supply-chain issues.

EM Consensus CPI Expectations*
(% Change YOY)

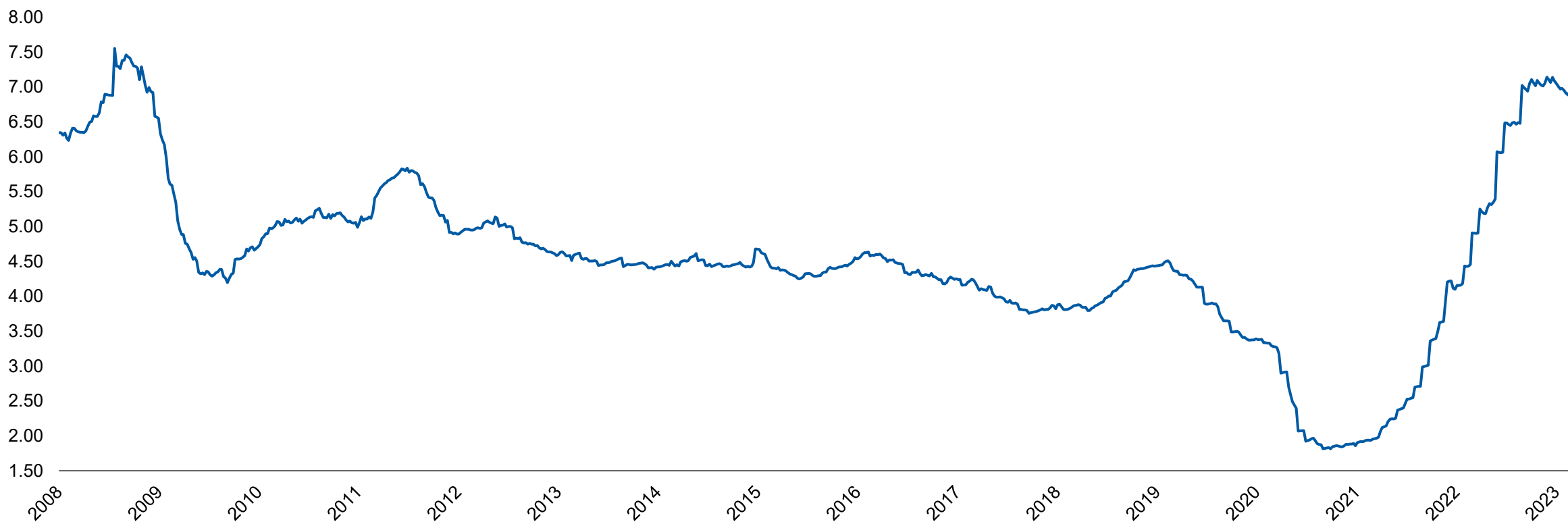


Source: Bloomberg, Morgan Stanley Investment Management. As of 3/31/2023. *Data is the equal weighted average of headline inflation expected in 18-30 months by economists surveyed by Bloomberg, which includes all countries in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified. 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

Policy rate expectations have started to come down as many central banks have moderated their policy stance amidst falling inflation expectations and the Fed likely ending its cycle.

EM Consensus Policy Rate Expectations*

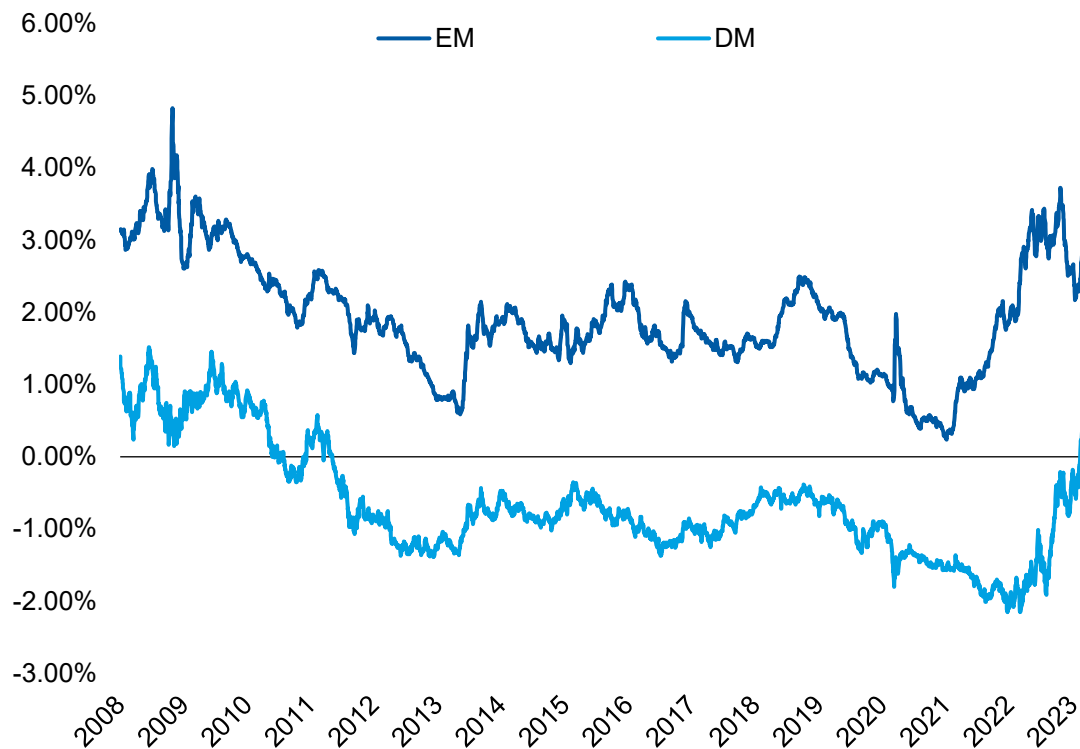


Source: Bloomberg, Morgan Stanley Investment Management. As of 3/31/2023. *Data is the equal weighted average of expected policy rates in 12 months by economists surveyed by Bloomberg, which includes all countries in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified. 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 narrowed significantly during the period, but remain at attractive levels relative to the past 15 years.

EM Real Yields
(Using Inflation Forecasts)



EM-DM Real Yield Differential
(Using Inflation Forecasts)



Source: Bloomberg, J.P. Morgan, Morgan Stanley Investment Management. As of 3/31/2023. 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 widened during the quarter and remain quite 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.

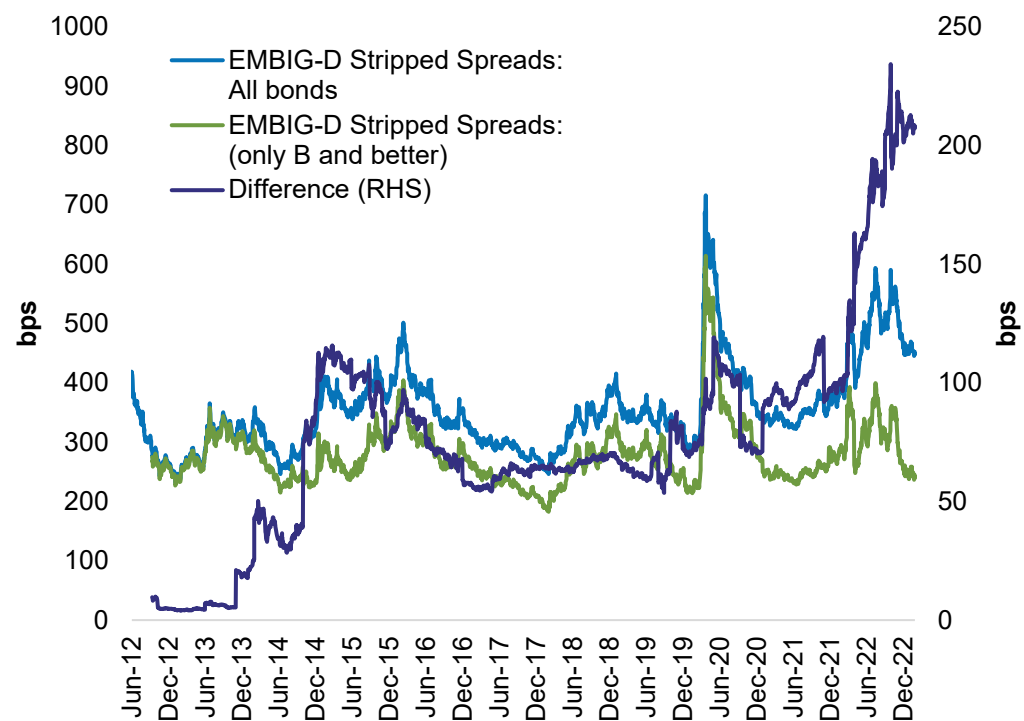
5-Year Equal Weight Sovereign Spread



Source: Morgan Stanley Investment Management proprietary data and calculations. As of 3/31/2023. Excludes Argentina. Underlying individual country spreads are capped at 3,000 bps. All spreads are modeled five year par equivalent spreads allowing for like comparisons across countries and time. This differs from EMBI data which is comprised of discount and premium bonds with different maturities. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

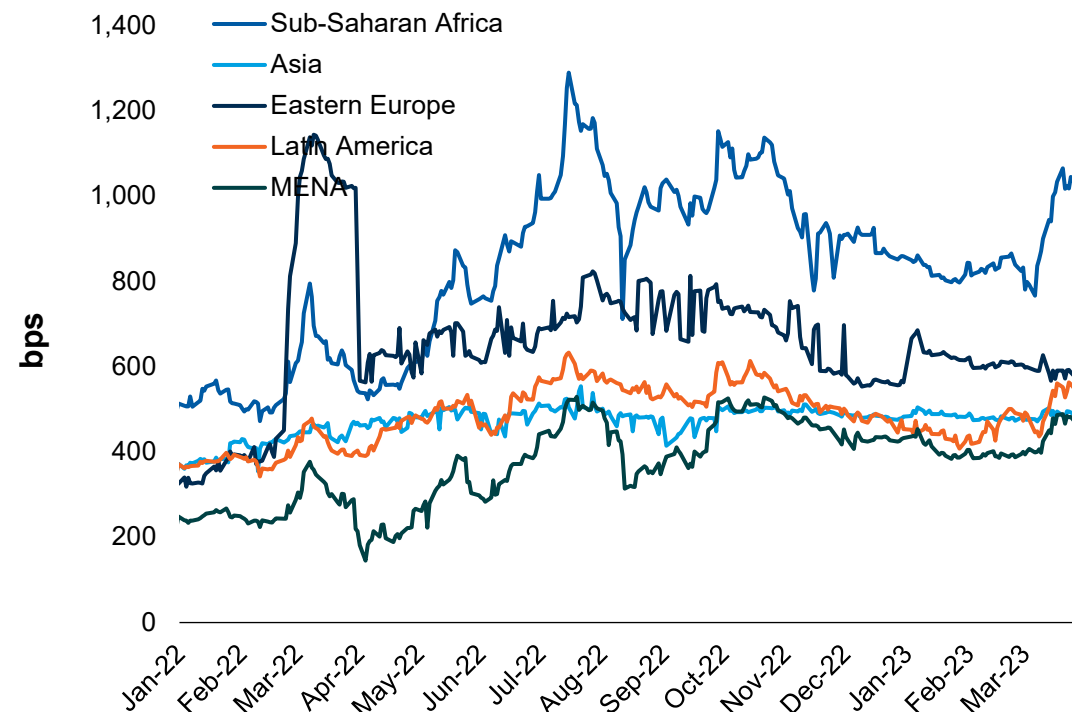
EM SOVEREIGN CREDIT

There is a large dispersion across credit quality. Country selection is key to capture unique value and mispricing in lower quality issuers.



The direction of spreads varied across regions during the quarter as several countries moved further into “distressed” territory.

5-Year Equal Weight Sovereign Spread by Region

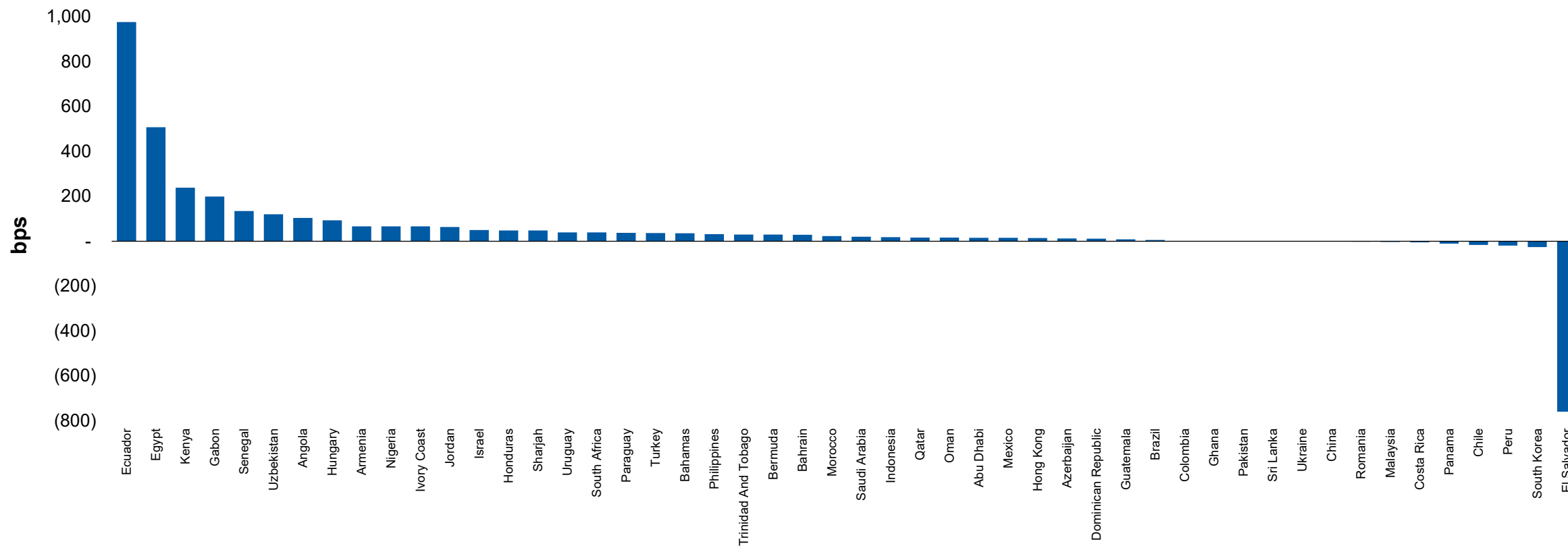


Source: Morgan Stanley Investment Management proprietary data and calculations. As of 12/31/2022 for credit quality and 3/31/2023 for Sovereign Spread by Region. Excludes Argentina. Underlying individual country spreads are capped at 3,000 bps. All spreads are modeled five year par equivalent spreads allowing for like comparisons across countries and time. This differs from EMBI data which is comprised of discount and premium bonds with different maturities. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

EM SOVEREIGN CREDIT

Credit spreads generally widened, but with notable dispersion. Ecuador and Egypt widened most notably with the later moving into “distressed” territory. El Salvador successfully repaid its bond maturity due in January which some had doubted.

Q1 2023 Change in 5-Year Spread

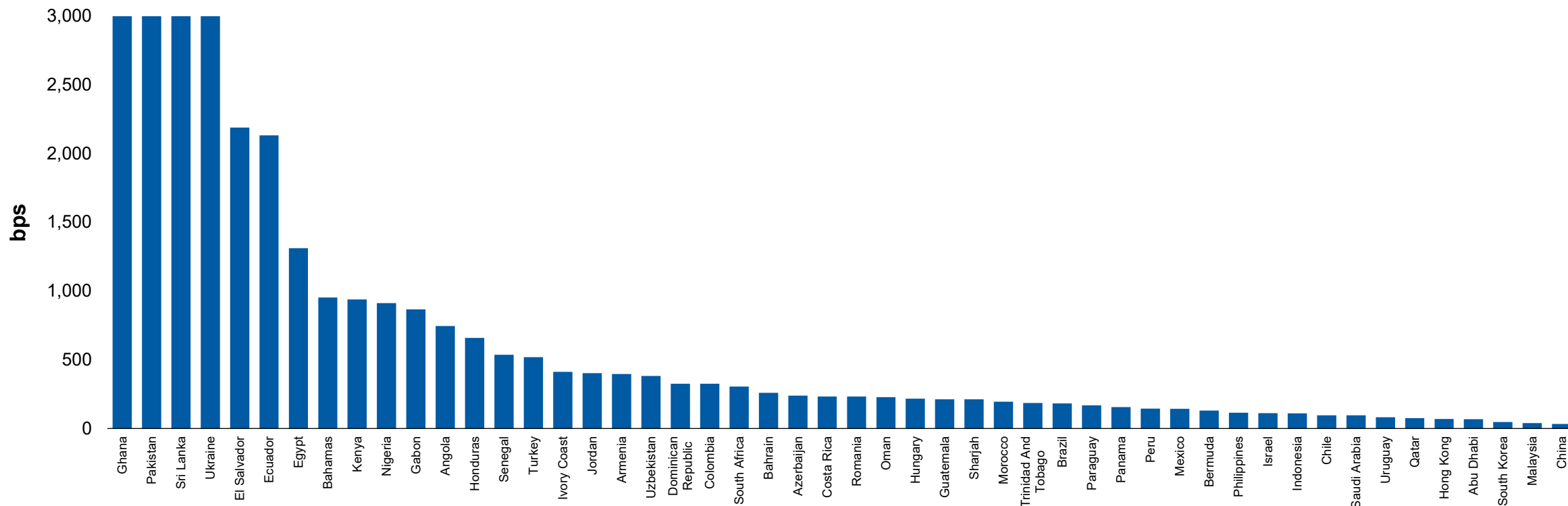


Underlying individual country spreads are capped at 3,000 bps. Source: Morgan Stanley Investment Management proprietary data and calculations. As of 3/31/2023. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional 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 3,000 bps. Source: Morgan Stanley Investment Management proprietary data and calculations. As of 3/31/2023. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

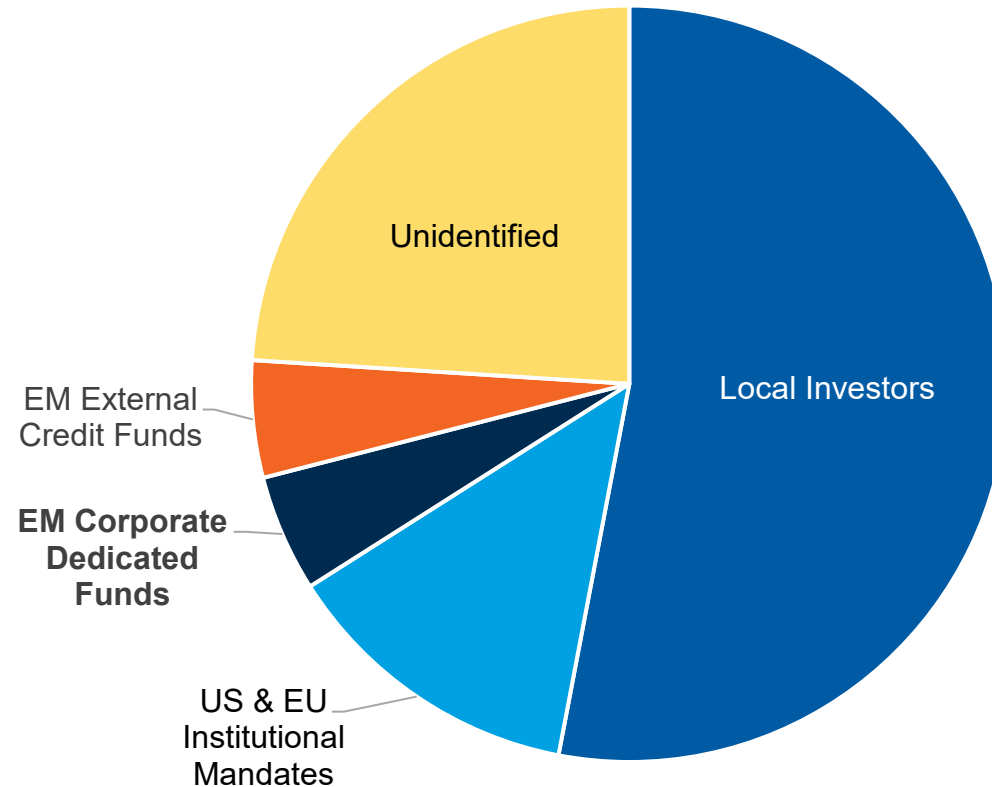
EM Corporate Credit

EM CORPORATE CREDIT

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.



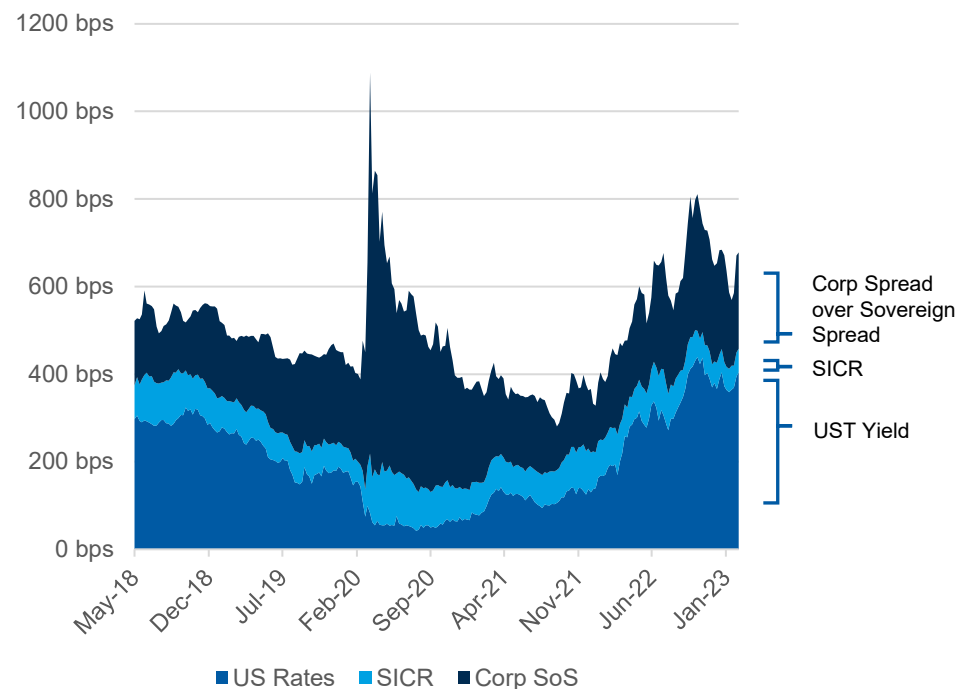
Source: JP Morgan Markets as of 12/31/2022

EM CORPORATE CREDIT

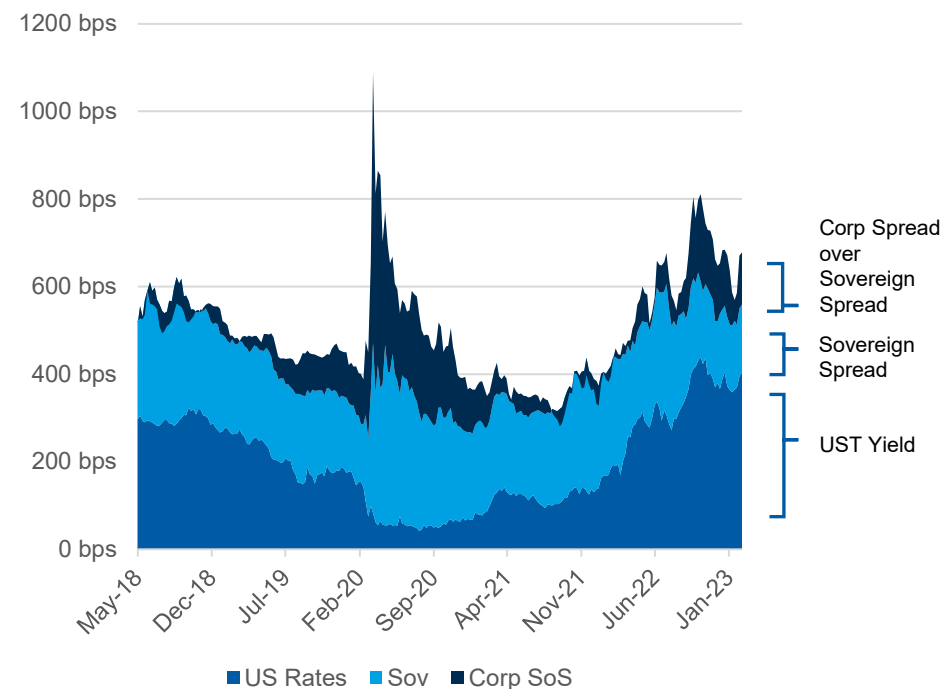
Our Approach

- 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.
- $SICR = Probability(Sovereign\ default \cap Corporate\ default\ given\ sovereign\ default) \times (1 - Loss\ given\ default)$

South American Chemicals Company - Morgan Stanley's SICR Analysis



South American Chemicals Company - Traditional Analysis



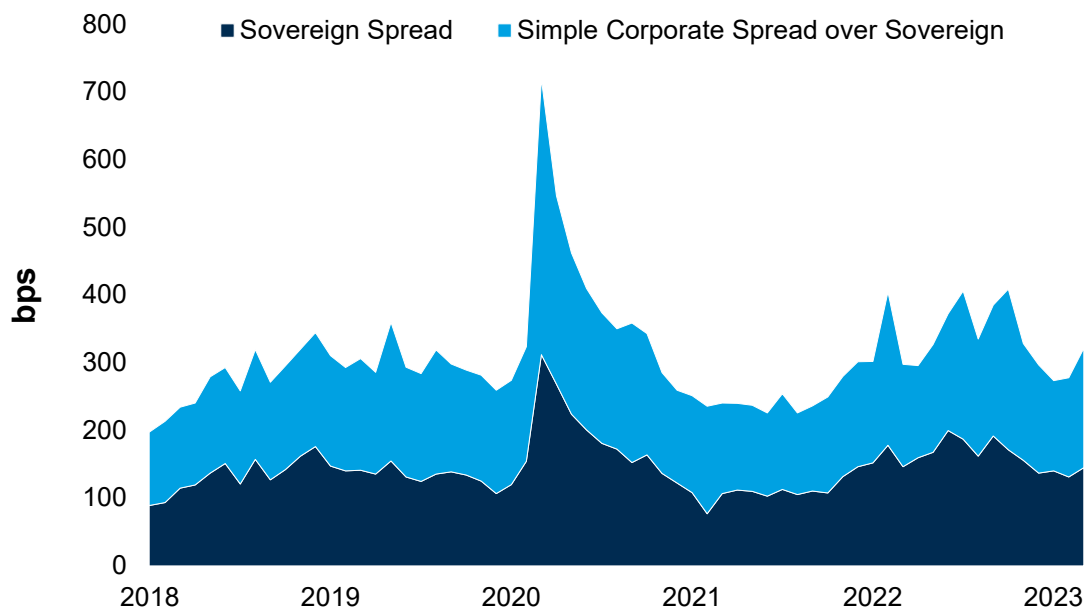
Source: Morgan Stanley Investment Management proprietary data and calculations. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information. This represents how the portfolio management team generally implements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

EM CORPORATE CREDIT

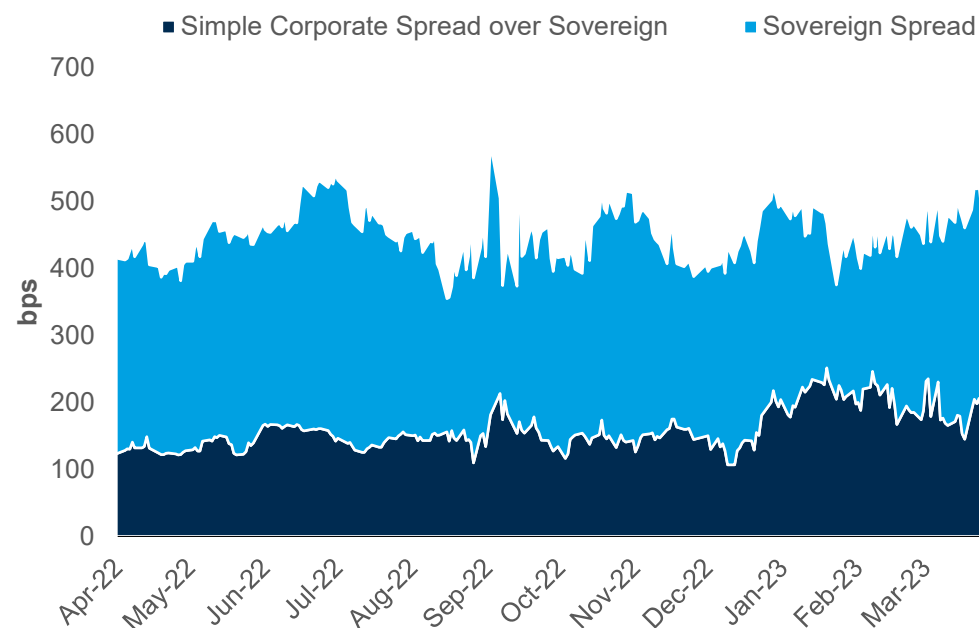
Valuations

Credit spreads widened in the Fall of 2022 when US inflation concerns were at its peak. Risk premiums compressed with improving inflation data, but have recently taken a leg back. Persistent inflation remains the greatest near-term threat for returns in the asset class.

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



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



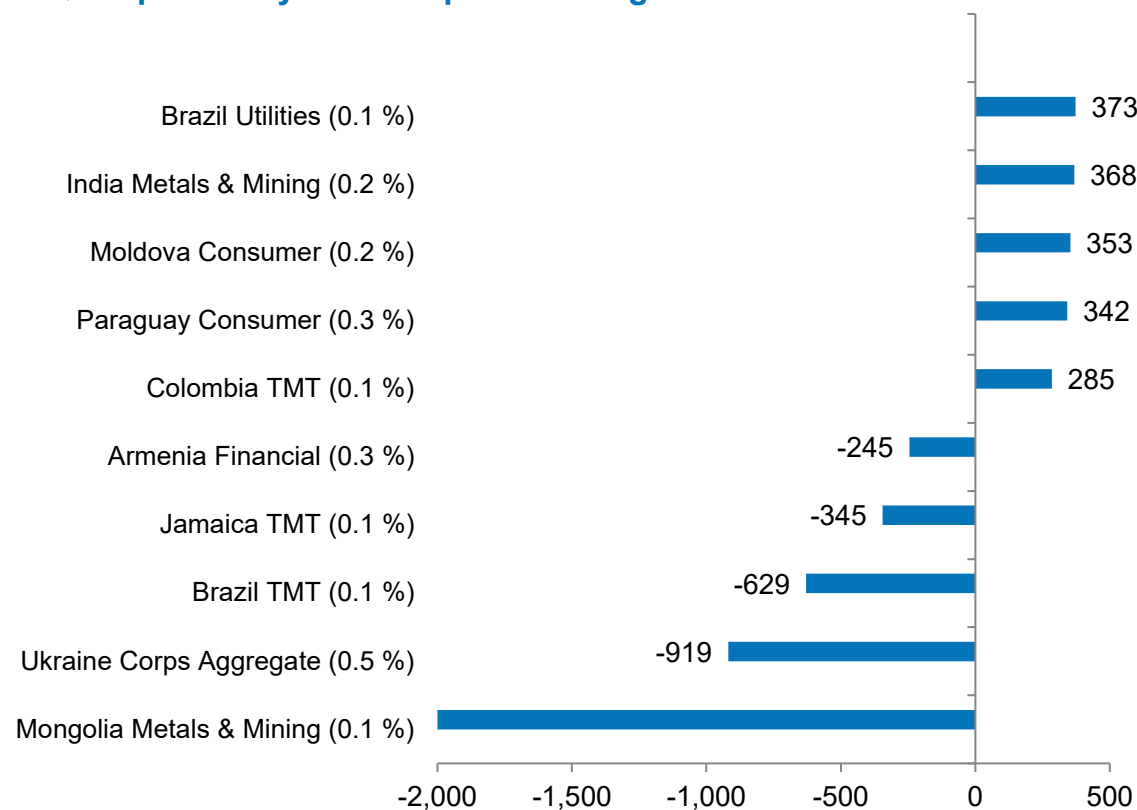
Source: Morgan Stanley Investment Management proprietary data and calculations. As of 3/31/2023. CEMBI bonds used in calculation. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

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Sector Spread Changes

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

Q1 Top Country-Sector Spread Changes



Source: JP Morgan. As of 3/31/2023. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information..

White Paper and Blog Post Summary

WHITE PAPER AND BLOG POST SUMMARY

White Papers: 2021–2022

Date	Headline	Summary
03/30/2023	Economic Policy's Critical Role for Shaping ESG Outcomes in Emerging Markets	While the foundational factors behind improvements in environmental, social and governance (ESG) considerations are seldom investigated at the country level, the evidence demonstrates a clear relationship between the orientation of economic policy and ESG outcomes.
9/9/2022	Emerging Markets Debt: Determinants of Sovereign Bond Quality and Returns	The Emerging Markets Debt (EMD) team at Morgan Stanley Investment Management explores the key drivers of sovereign bond ratings, spread performance and frequency of defaults for a data set of 165 countries from 2000 to 2019. The findings demonstrate the determinant role that economic policy plays, in particular, which is analyzed alongside other macro variables related to the real economy, external sector and political orientation of the government.
9/9/2022	Policy's Pivotal Role in Shaping	Country allocation, more so than sector and stock selection, remains the primary factor for why an international equity fund's return deviates from a benchmark return. In this article, we survey existing literature on studies that examine the critical role that country allocation plays for equity returns and share an economic policy metric used by the Morgan Stanley Investment Management Emerging Markets Debt team to make country-level investment decisions.
6/9/2022	Going beyond active vs. passive in EM debt	The Morgan Stanley Investment Management Emerging Markets team offers proactive management that seeks to fully capitalize on the broadest possible EM opportunity set. Our portfolios offer unique exposures within the EM debt sector thanks to the ability to source our own investments. Such opportunities cannot be captured through routine bond issuances, the secondary markets or passive indexes.

WHITE PAPER AND BLOG POST SUMMARY

Blog Post Summary — 2022/2023

Date	Headline	Summary
1/13/2023	Reflections on 2022 and Research Retreat Highlights	The EM landscape has changed in the wake of the pandemic, which made the conversations at our December 2022 retreat particularly timely. Following the strong rally that closed out the year, we are seeing investors differentiate based not just on their dependence on oil but on varied policy responses to the virus and the potential impacts on health care systems, social dynamics, economies and finances.
12/21/2022	Active Engagement: Good for Both Investors and Issuers in Distressed EM Debt	Our research shows that when managers engage intensively in restructurings, both issuers and investors can benefit. It isn't enough just to review restructuring proposals — the manager needs to have a seat at the table to help devise it.
11/16/2022	Brazil Narrowly Elected Lula: What's Next?	Despite ongoing uncertainties, we think Lula's government will eventually strike a balance between his pre-election promises and fiscal rectitude, given a right-leaning Congress and a vigilant market that will punish deviations toward a more radical agenda.
11/15/2022	Slowing Global Recovery, Geopolitical Concerns Top Worries at IMF Fall Conference	The October fall meeting of the IMF in Washington, D.C. revealed a bleaker global economic outlook than in April, underscoring the protracted strains of global inflation and the Russia-Ukraine War. Meanwhile, positive prospects exist across regions.
10/18/2022	Despite Promising Start, EM Debt Declines in Third Quarter 2022	Looking forward for the remainder of 2022, we expect macro factors to continue driving market sentiment. However, today's valuations imply that investors are 'pricing in' the risks of EM debt more aggressively than many other areas of global capital markets.
9/14/2022	Economic Freedom Broadly Curtailed During Pandemic, Says New Report	Freedom to trade internationally, size of government and regulation were the three areas of economic freedom which, on average, saw the largest declines. The free flow of goods was interrupted by supply chain issues and trade restrictions on essential goods such as medical supplies.
8/4/2022	China's Drift Toward 'Closing-Off' Policies Faces Major Test This Fall	An inward-looking China marks a sea change from a 'reform and opening up' policy that goes back several decades, in which the country's broad economic liberalization helped it attain historic growth rates and modernization.

WHITE PAPER AND BLOG POST SUMMARY

Blog Post Summary — 2022

Date	Headline	Summary
7/15/2022	Inflation, Rising Rates, Ukraine Conflict Take Their Toll in EM Debt in 2Q	Second-order effects from the devastating war in Ukraine along with strict COVID policies in China contributed to inflation levels and negatively affected global growth and EMD performance. Outflows year to date are at all-time highs for both local- and hard-currency funds, which is reflective of the problems in the market and macro environment.
6/29/2022	Inflation Surprise: EM Is No Worse and Sometimes Better Than Developed Markets	The broad factors driving inflation have been well publicized, from the Russia/Ukraine war's influence on gas and grain prices to supply chain issues in China. But some countries have been better at adapting to the new environment. For example, compared with developed countries, we believe Chile and Uruguay have been better at managing inflation growth.
6/1/2022	Volatility and Inflation in Latin America: A Window Opens	Investors seeking duration may want to look at Latin America, as the region has front-loaded both inflation and tightening ahead of developed and other emerging markets.
5/11/2022	The Economic Toll of Russia-Ukraine War Weighed at IMF Spring Conference	The April spring meeting of the IMF in Washington, D.C. illustrated the pervasive impact Russia's invasion of Ukraine has had on slowing the global economy's recovery from the pandemic. Global growth is projected to slow from an estimated 6.1% last year to 3.6% in 2022 and 2023, while inflation is on the rise.
4/11/2022	Emerging Markets Debt Declines on Rising Rates, Ukraine Conflict and China Property	We believe that focusing on country-level macroeconomic and political research — along with standalone analysis of specific risk factors such as currency, credit spreads and interest rates — represents the best approach for capitalizing on today's uncertainty in EM debt.
3/7/2022	All-In Moment for Putin in Ukraine War	Despite reports of notable damages and casualties inflicted by Ukrainian armed forces on Russian troops, Russia continues to make modest gains in the amount of land controlled. Until Russia stops making gains, we think it is unlikely that there will be a negotiated peace agreement.
3/2/2022	Russia-Ukraine Conflict Hard to Analyze and Harder to Predict	The latest situational and capital markets updates relating to Russia's widespread invasion and attack on Ukraine, now in its seventh day. In our view, these events could have unintended consequences and potentially unexpected results. The world order may be reordering before our very eyes.
2/10/2022	China Property: Evergrande May Just Be the Canary in the Coal Mine	What seemed like an isolated credit event for Evergrande has now sent shockwaves across China's real estate economy. We strive, as always, to search for mispriced securities in every corner of our investable universe. China property is no exception. We are leveraging our research and network to build a better mosaic as the situation evolves.
1/18/2022	2022 Outlook: Unearthing Opportunities in an Altered Landscape	In 2022, we expect emerging markets (EM) may embark upon a road to recovery, albeit with potential bumps along the way. For every country like Turkey, where heterodox policy is cause for concern, there are lesser known and overlooked EM success stories.

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Important Information and Disclosure

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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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