GMO

VALUATION METRICS IN EMERGING DEBT

EMD Quarterly Valuation Update | 1Q25, with scenario analysis for Trump's tariffs

A NOTE ABOUT OUR METRICS

- QVU metrics are designed to give asset allocators a time series of risk premia associated with the two sovereign emerging debt benchmarks for hard and local currency. The purpose is to help allocators time investment decisions. Our team uses them to create blended currency benchmark portfolios. We cover the pricing of credit in EMBIG-D, and currencies and rates in GBI-EMGD by comparing prices to relevant fundamentals
- Technical appendices covering methodology are available from your GMO representative

1Q25 VALUATION ASSESSMENT

Local currency rates and FX screen very attractive, while hard currency credit is neutral+

HARD CURRENCY DEBT

Credit Spreads: Neutral+

- The current excess spread of 170 bps is in our second quintile of attractiveness
- Historically, an excess spread in this second quintile has been associated with a subsequent mean 2-year annualized credit return of 1.0% (above the risk-free rate)
- This implies a valuations-based neutral+ assessment

USD Rates: Neutral+

- Our "deviation from fair value" for USD interest rates (page 9) shows an improvement in the attractiveness of USD duration, with current levels slightly above fair value

LOCAL CURRENCY DEBT

FX: Very Attractive

- Our expected spot return indicator lands in the most attractive fourth quartile
- Mean subsequent GBI-EMGD weighted spot return has been +8.7% for the fourth quartile and +7.1% for the third quartile

Local Rates: Very Attractive

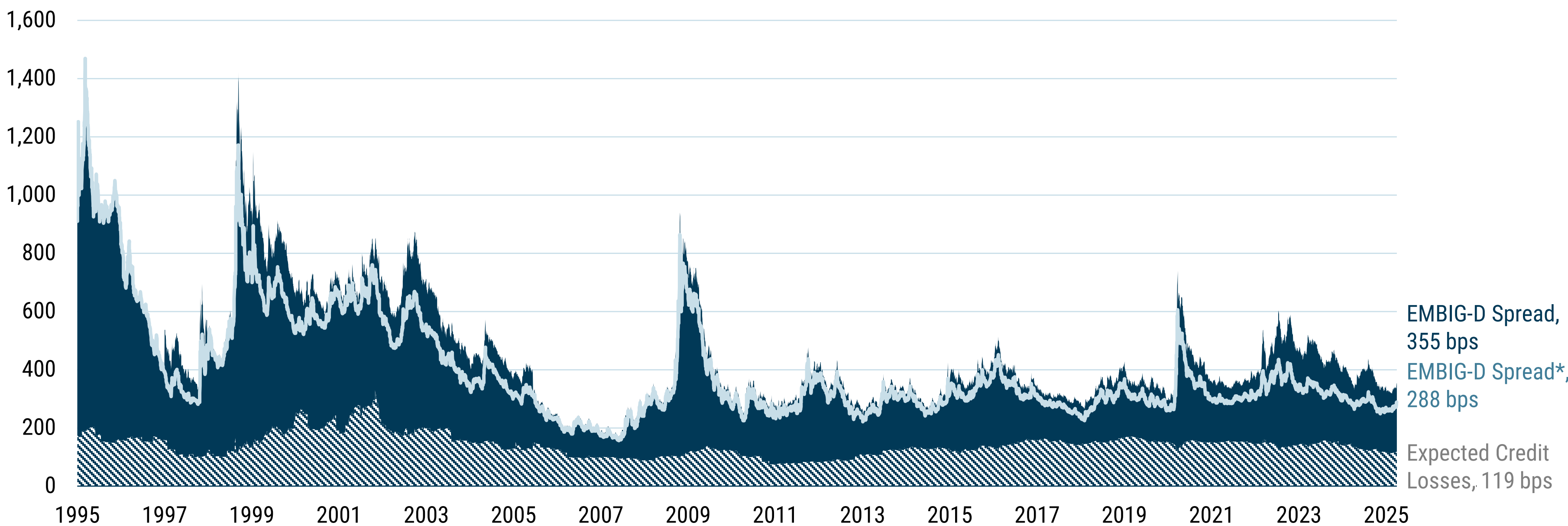
- EM local rates maintained an attractive valuation gap versus U.S. interest rates
- At 0.4%, this is in our most attractive fourth quartile, where the mean subsequent EM/U.S. return differential has been +2.6%

TARIFF TANTRUM TAKEAWAYS

- State of valuations going into “Liberation day”:
  - **Hard currency:** Spreads and U.S. rates were at neutral+ levels
  - **Local currency:** Both FX and local rates were very attractive
- Post announcement –as we did with the COVID shock, we performed some top-down scenario analysis around the metrics we use in this report:
  - **Hard currency:** Our sovereign team stress-tested our 90-country opportunity set for two downside scenarios – a "moderate" downside and a "severe" downside. We considered two channels of impact from the trade war: (1) a U.S. recession, particularly affecting those countries with high economic integration (and trade) with the U.S.; and (2) a global risk channel that chokes funding to EM countries, exposing the most vulnerable to rollover risks.
    - In the moderate case, 27 such countries (39% of EMBIG-D) are downgraded, while the severe case doubles down on these downgrades and adds 5 countries (an additional 12% of EMBIG-D) to the vulnerable list.
    - The output is a change in the expected credit loss from default, which rises from 119 bps at 3/31 (as noted on page 5) to 149 bps (moderate) or 177 bps (severe). The actual duration-adjusted EMBIG-D market spread rose from 288 bps at 3/31 to 308 bps at 4/10/25.
  - **Local currency:** Unlike hard currency credit, where it's reasonable to expect that weak countries get weaker, local debt deals predominantly with relatively strong countries with already undervalued currencies (so far few EM currencies have recovered spot FX losses from Q4 last year). Moreover, the impact on growth, inflation, and financial flows is complex. We are therefore still debating whether we can meaningfully stress test the variables of our FX and rates valuation metrics.

VALUATION: HARD CURRENCY (SPREADS)

EMBIG-D SPREAD (PUBLISHED AND DURATION-WEIGHTED*) AND EXPECTED CREDIT LOSSES



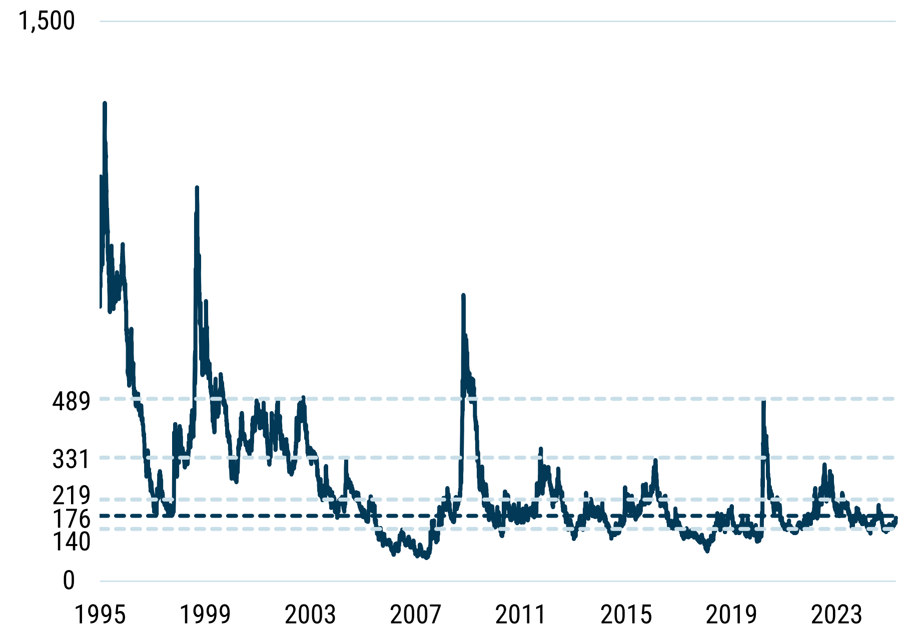
1Q REVIEW

- The EMBIG-D benchmark's published spread over Treasuries widened by 23 bps in Q1, ending the quarter at 355 bps. Our spread-duration-adjusted EMBIG-D spread widened by 27 bps to end at 288 bps this quarter. The gap between the two measures is a result of the defaulted securities in the index (Venezuela, 0.7% MV, and Lebanon, 0.3% MV).
- The expected credit loss rose by 4 bps to 119 bps. Rating actions in benchmark countries were mixed, with upward actions in Saudi Arabia, Argentina, and downgrades in Gabon, Mozambique, and Senegal. Additionally, Barbados, Tajikistan, and Namibia exited the index at the end of March. Meanwhile, Qatar and Kuwait began their phased departure over the next six months as these countries no longer satisfy J.P. Morgan's Emerging markets criteria. Given their high ratings (AA and A+, respectively), the impact of these departures will be to raise the expected credit loss as well as the EMBIG-D spread, ceteris paribus.

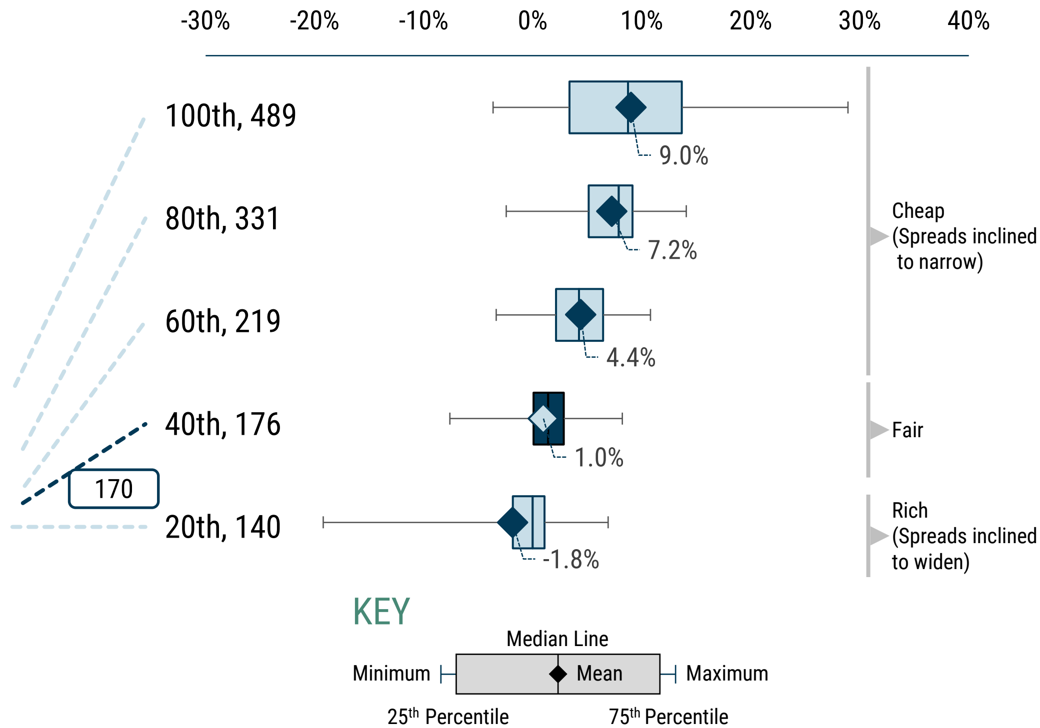
As of 3/31/25 | Source: J.P. Morgan, GMO
* EMBIG-D Spread (Spread Duration Weighted)

VALUATION: HARD CURRENCY (SPREADS)

EMBIG-D EXCESS SPREAD (BPS)* AND PERCENTILE CUT-OFFS



EMBIG-D EXCESS SPREAD* PERCENTILES AND TWO-YEAR ANNUALIZED SPREAD RETURNS



1Q ASSESSMENT

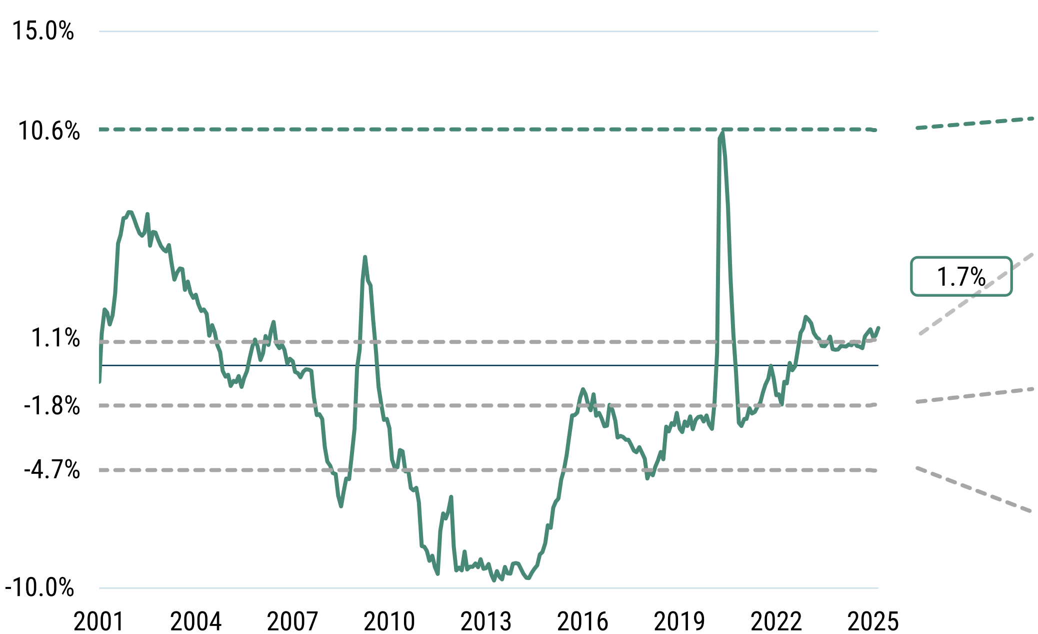
- The current excess spread landed in the second quintile. This quintile has historically had a 1.0% mean 2-year subsequent annualized credit return, ranging from 0.1% (25th percentile) to 2.8% (75th percentile). We consider the current level to be neutral+.
- As noted on page 4, our scenario analysis indicates a change in the expected credit loss, which rises from 119 bps to 149 bps (moderate case) or to 177 bps (severe case). The actual duration-adjusted EMBIG-D market spread has risen from 288 bps at 3/31 to 308 bps at 4/10.

As of 3/31/25 | Source: J.P. Morgan, GMO

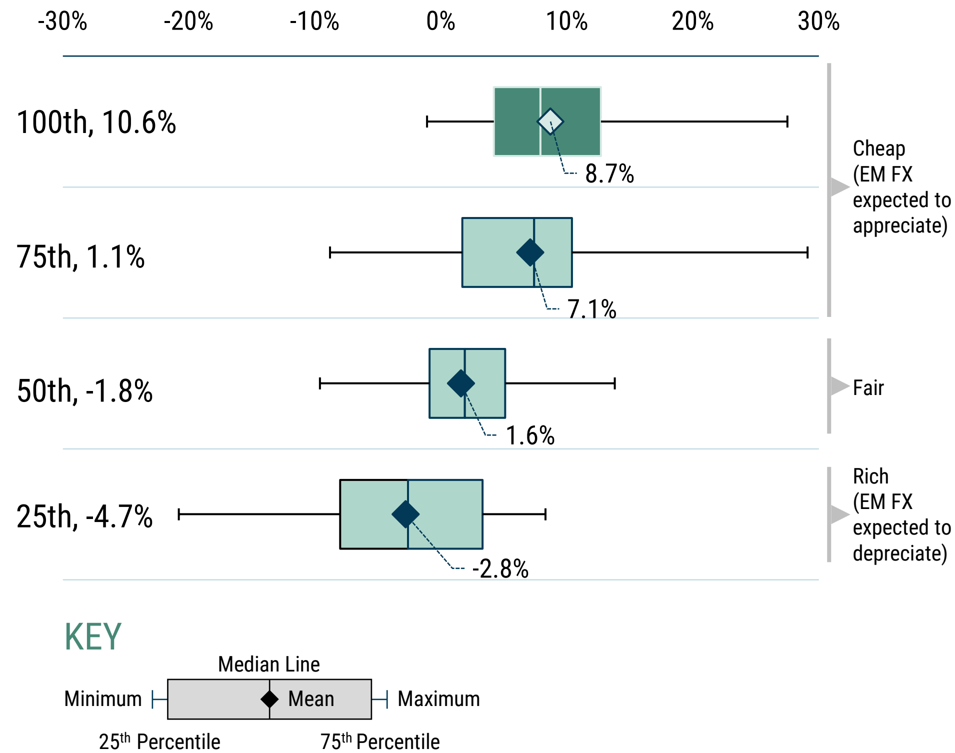
* EMBIG-D Excess Spread is the difference between the EMBIG-D Spread (spread duration weighted) and the expected credit losses.

LOCAL CURRENCIES

GBI-EMGD EXPECTED 6-MONTH ANNUALIZED SPOT RETURN



GBI-EMGD EXPECTED SPOT RETURN PERCENTILES AND EX-POST TOTAL FX RETURN



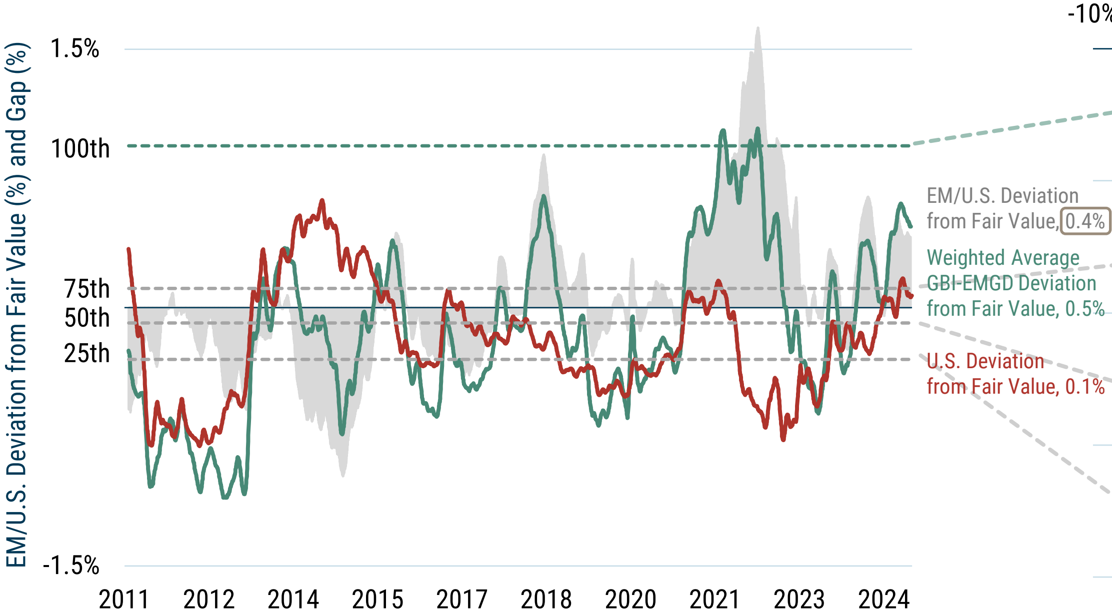
1Q ASSESSMENT

- At 1.7%, the expected spot return lands in our most attractive fourth quartile, where the mean subsequent GBI-EMGD weighted 6-month spot returns have been 8.7% (with a 25th and 75th percentile range of 4.2% to 12.7%). For reference, the corresponding figures for the third quartile are +7.1% mean return with an inter-quartile range of 1.7% to +10.4%. Since 2001, it has been rare for EMFX to be this attractive outside of crises, consistent with our broad view that the U.S. dollar is still rich and EMFX is very attractive.

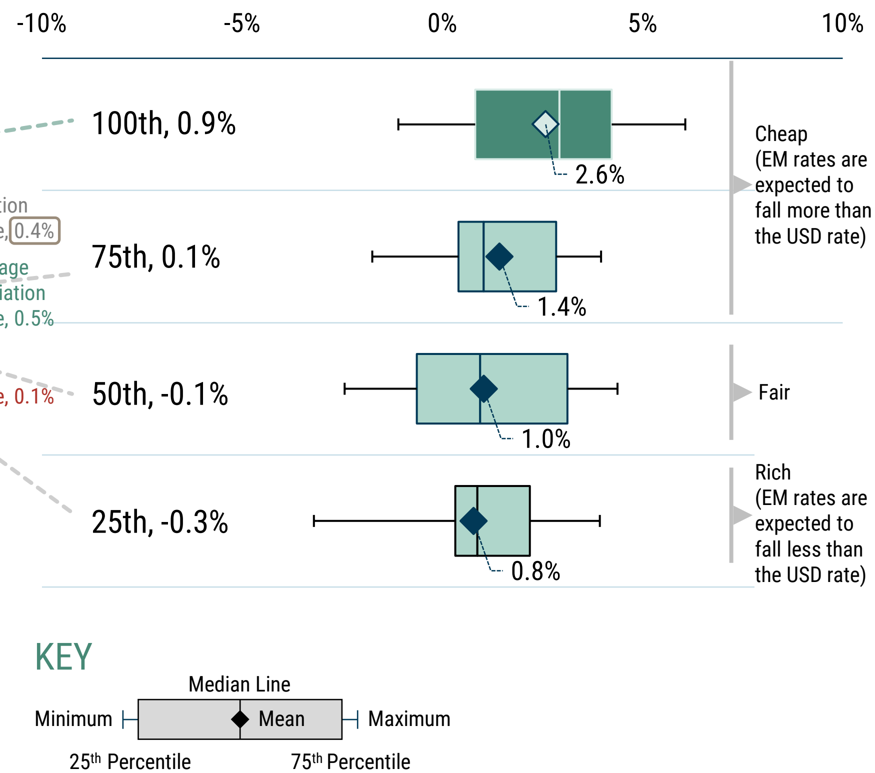
As of 3/31/25 | Source: J.P. Morgan, GMO

LOCAL INTEREST RATES

DEVIATIONS FROM FAIR VALUE LEVEL/PREDICTED RETURN DIFFERENTIAL



EM/U.S. FAIR VALUE GAP PERCENTILES AND THREE-YEAR ANNUALIZED RETURNS DIFFERENTIAL



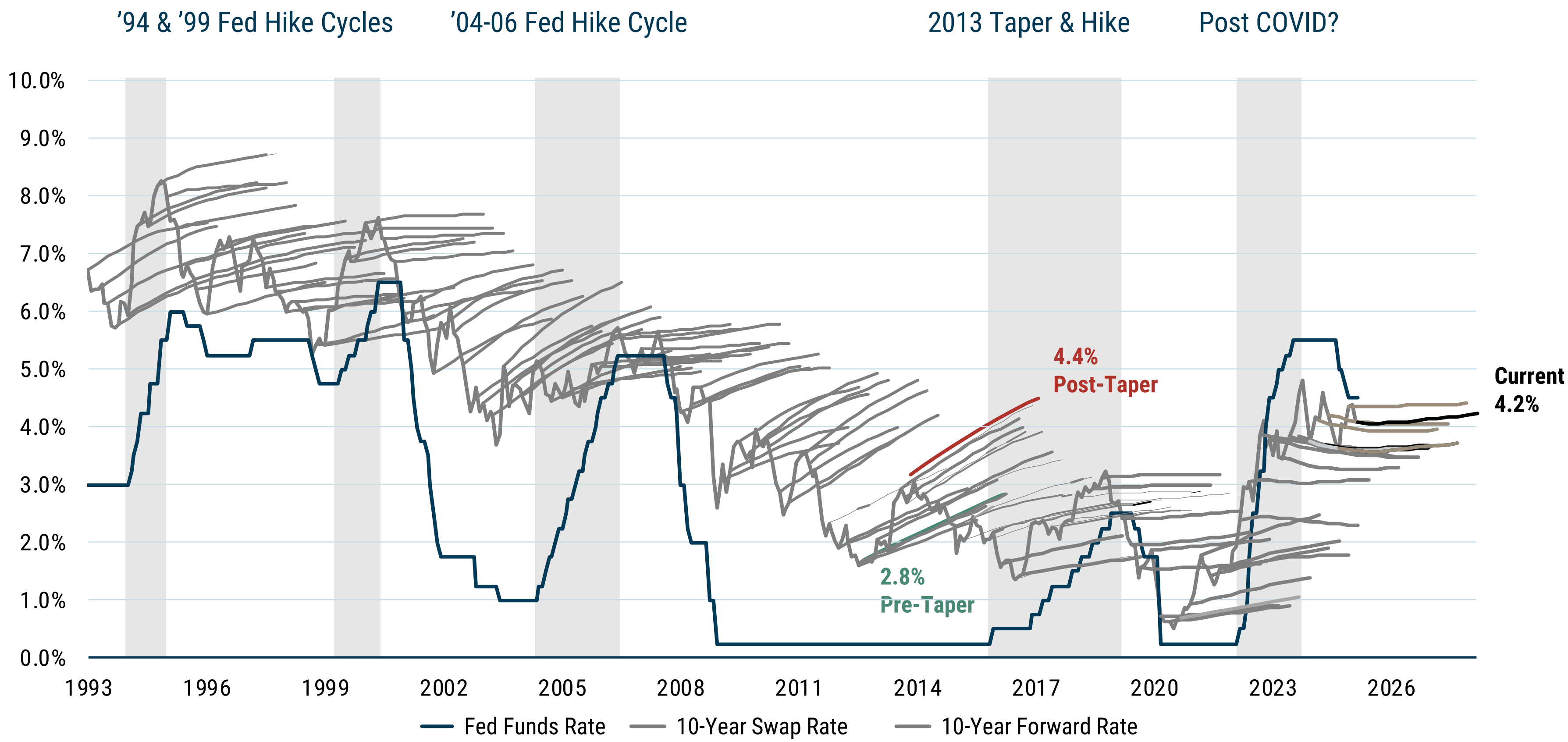
1Q ASSESSMENT

- The gap between EM local rates and U.S. interest rates ended at 0.4%. This is in our most attractive fourth quartile, where mean EM/U.S. return differentials have, on average, been 2.6% with an inter-quartile range of 0.8% to 4.2%. For reference, the corresponding figures for the third quartile are 1.4% mean return and an inter-quartile range of 0.4% to 2.8%.

As of 3/31/25 | Source: J.P. Morgan, GMO

U.S. DOLLAR INTEREST RATE HISTORY

USD 10-YEAR SWAP RATES AND FORWARDS



1Q REVIEW

- The USD curve is positively sloped with the 3-year forward 10-year rate ending at 4.2% and the spot 10-year rate ending at 4.1%. This level remains comfortably above the Fed's 2% inflation target. We note that following the 2013 rise in U.S. rates stemming from the anticipated tapering of Fed quantitative easing, this forward pricing topped out at 4.4%.

As of 3/31/25 | Source: Bloomberg, GMO

Projections as of each date, including those that are beyond 2015, are future prices as determined by the market and are not a GMO projection.

OUTLOOK: 1-YEAR TOTAL RETURN SCENARIOS

HARD CURRENCY DEBT
EMBIG-D (SOVEREIGN SPREADS/USD RATE)

EMBIG-D Spread* (14 bp Increments) by USD Yield Associated With EMBIG-D (17 bp Increments)

	EMBIG-D Spread*	3.7%	3.9%	4.0%	4.2%	4.4%	4.5%	4.7%
Spreads rich/inclined to rise	3.3%	7.6%	6.5%	5.4%	4.3%	3.2%	2.1%	1.1%
	3.2%	8.5%	7.4%	6.3%	5.3%	4.2%	3.1%	2.0%
	3.0%	9.5%	8.4%	7.3%	6.2%	5.1%	4.0%	2.9%
Spreads fair	2.9%	10.4%	9.3%	8.2%	7.1%	6.0%	4.9%	3.8%
	2.7%	11.3%	10.2%	9.1%	8.0%	6.9%	5.8%	4.7%
Spreads cheap/inclined to fall	2.6%	12.2%	11.1%	10.0%	8.9%	7.8%	6.7%	5.6%
	2.5%	13.1%	12.0%	10.9%	9.8%	8.8%	7.7%	6.6%

USD Yield Associated With EMBIG-D (17 bp Increments)

USD Rates cheap/inclined to fall | USD Rates fair | USD Rates rich/inclined to rise

LOCAL CURRENCY DEBT
GBI-EMGD (FX/LOCAL RATES)

GBI-EMGD FX (0.8%) Higher = Depreciation by GBI-EMGD Yield (10 bp Increments)

GBI-EMGD FX	6.0%	6.1%	6.2%	6.3%	6.4%	6.5%	6.6%	
1.60	5.4%	4.9%	4.3%	3.8%	3.3%	2.7%	2.2%	EM FX rich/inclined to depreciate
1.59	6.3%	5.7%	5.2%	4.6%	4.1%	3.5%	3.0%	
1.58	7.1%	6.6%	6.0%	5.5%	4.9%	4.4%	3.8%	
1.56	7.9%	7.4%	6.8%	6.3%	5.8%	5.2%	4.7%	EM FX fair
1.55	8.8%	8.2%	7.7%	7.1%	6.6%	6.0%	5.5%	
1.54	9.6%	9.1%	8.5%	8.0%	7.4%	6.9%	6.3%	EM FX cheap/inclined to appreciate
1.52	10.4%	9.9%	9.4%	8.8%	8.3%	7.7%	7.2%	

GBI-EMGD Yield (10 bp Increments)

EM Local Rates cheap/inclined to fall | EM Local Rates fair | EM Local Rates rich/inclined to rise

HARD CURRENCY

- Our valuation-based assessment is neutral+ for both credit spreads and USD interest rates. Neutral+ implies the middle scenario is the most probable.

LOCAL CURRENCY

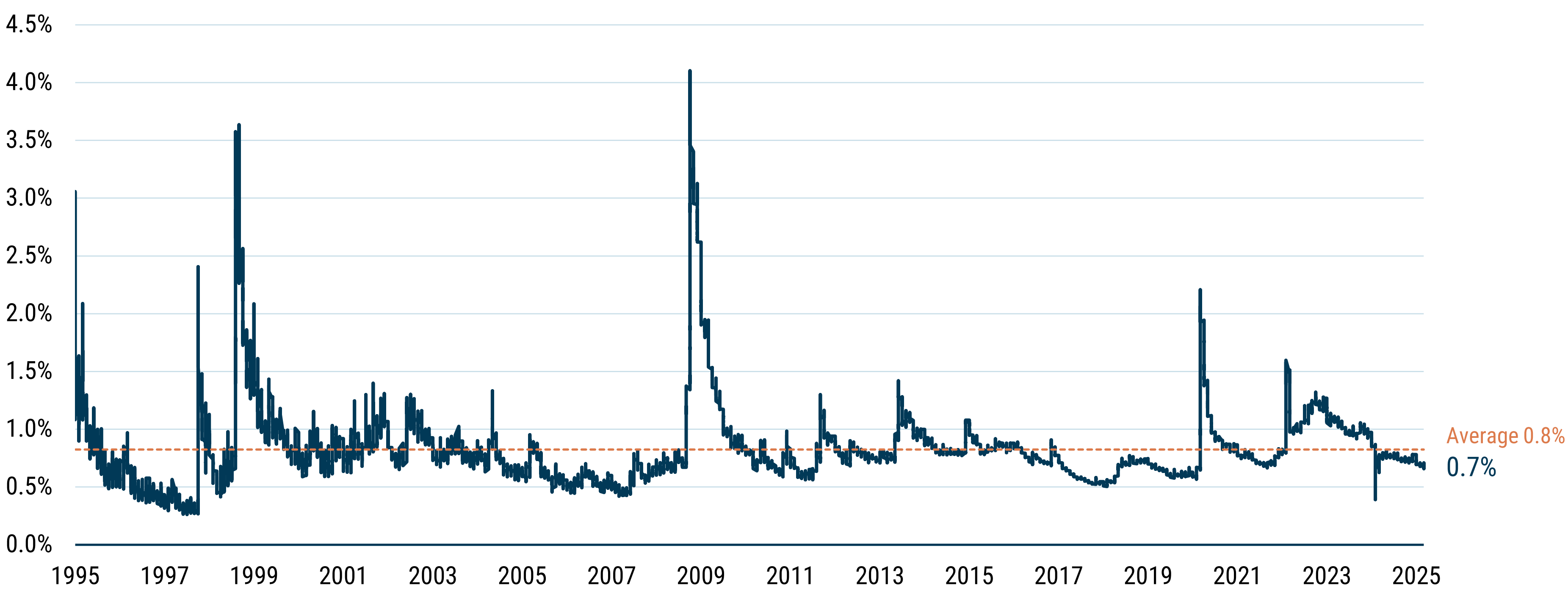
- Given our very favorable assessment for both EMFX and EM rates, we believe scenarios associated with the lower left-hand quadrant are more likely.

As of 3/31/25 | Source: GMO calculations based on data from J.P. Morgan
* EMBIG-D Spread (Spread Duration Weighted)
We show duration-adjusted EMBIG-D yield as outlined on slide 2.

ADDITIONAL INFORMATION

LIQUIDITY

EMBIG-D BID-ASK SPREAD (% OF PRICE)



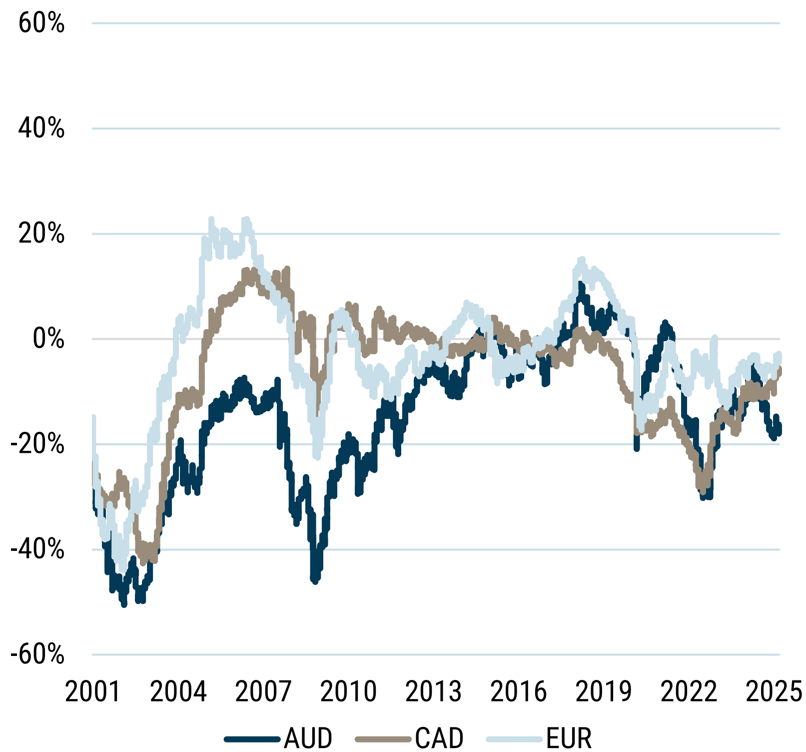
1Q ASSESSEMENT

- Transaction costs measured by the EMBIG-D bid/ask settled at the long-term historical average, although post quarter end it again underwent some tariff-related widening.

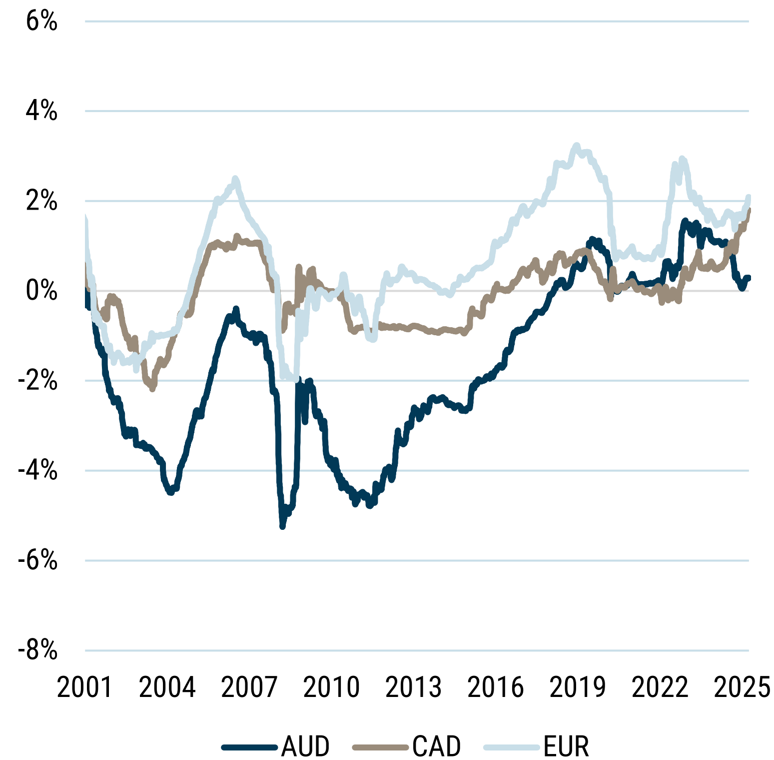
As of 3/31/25 | Source: J.P. Morgan, GMO

INVESTING FROM A NON-USD PERSPECTIVE

USD-RELATIVE CURRENCY VALUATION



HEDGING COSTS

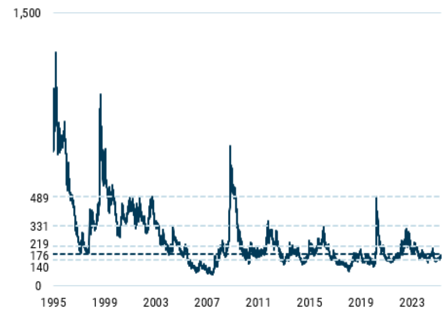


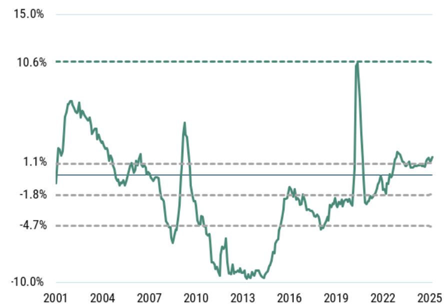
1Q ASSESSEMENT

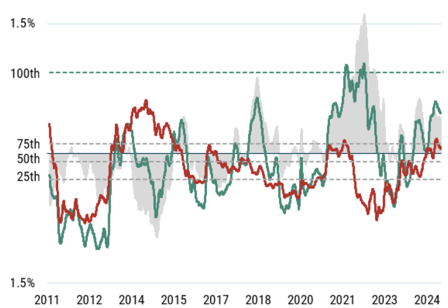
- EUR, CAD, and AUD remained at the lower end of neutral relative to the U.S. dollar in valuation terms
- Hedging costs of USD assets to AUD and EUR are trending down, whereas the hedging costs to CAD are elevated relative to history

As of 3/31/25 | Source: GMO

OVERVIEW OF METRICS







EMBIG-D Excess Spread

The EMBIG-D Excess Spread is the difference between the EMBIG-D Spread (spread duration weighted) and the measure of estimate credit losses that uses the weighted-average credit rating of the benchmark, along with historical sovereign credit transition data, and an assumption about recovery values given default. We estimate the percentile range of the excess spread and consider values in the top three quintiles as "cheap," values in the first quintile as "rich," and values in the second quintile as "fair."

GBI-EMGD Expected Spot Return

The FX valuation model analyzes trends in macroeconomic fundamentals such as balance of payments composition and flows, valuation of the currency, and the economic cycle. It uses regression analysis to produce an estimate of total expected FX returns for each country in the benchmark. These are then combined into a single value of a total expected FX return using a market cap weighted average of currencies in the benchmark. Next, we deduct the weighted carry (interest-rate differential) from the estimated weighted value of total FX expected return to get to an expected EM FX spot return for GBI-EMGD. Finally, we estimate the percentile range based on the back-test of the overall model to assess whether EM currencies are cheap, rich, or fairly valued. A value that falls into the top two quartiles potentially indicates "cheap" currencies, while a value landing in the first quartile potentially indicates "rich" currencies. We consider valuations in the second quartile to be "fairly valued" as levels in that quartile have historically been associated with a more neutral mean ex-post total FX return.

Interest Rate Deviations from Fair Value

We consider the deviations of current 5-year yields from their fair value to gauge the relative attractiveness of EM against the U.S. In this regard, we believe that the best time to buy local debt is when EM deviation from fair value is positive and higher than the U.S. deviation from its fair value. We estimate the percentile range of the fair value gap between EM and U.S. deviation from fair value and consider values in the top two quartiles as "cheap," values in the first quartile as "rich," and values in the second quartile as "fair."

As of 3/31/25 | Source: Bloomberg, J.P. Morgan, GMO
A full technical appendix is available from your GMO representative.

OVERVIEW OF METRICS

EMBIG-D Spread* (14 bp Increments) \ USD Yield Associated With EMBIG-D (17 bp Increments)	3.7%	3.9%	4.0%	4.2%	4.4%	4.5%	4.7%
3.3%	7.6%	6.5%	5.4%	4.3%	3.2%	2.1%	1.1%
3.2%	8.5%	7.4%	6.3%	5.3%	4.2%	3.1%	2.0%
3.0%	9.5%	8.4%	7.3%	6.2%	5.1%	4.0%	2.9%
2.9%	10.4%	9.3%	8.2%	7.1%	6.0%	4.9%	3.8%
2.7%	11.3%	10.2%	9.1%	8.0%	6.9%	5.8%	4.7%
2.6%	12.2%	11.1%	10.0%	8.9%	7.8%	6.7%	5.6%
2.5%	13.1%	12.0%	10.9%	9.8%	8.8%	7.7%	6.6%

1-Year Total Return Scenarios: Hard Currency Debt

For hard currency debt, we vary the level of the EMBIG-D spread (spread-duration weighted) in the north/south dimension, and we vary the level of the USD 10-year rate in the left/right dimension. The amount by which these levels vary is calibrated to include +/-1 standard deviation around the quarter-end level (based on trailing three years of data). The expected return in the center of the table is the EMBIG-D duration-adjusted starting yield.

GBI-EMGD FX (0.8%) Higher = Depreciation \ GBI-EMGD Yield (10 bp Increments)	6.0%	6.1%	6.2%	6.3%	6.4%	6.5%	6.6%
1.60	5.4%	4.9%	4.3%	3.8%	3.3%	2.7%	2.2%
1.59	6.3%	5.7%	5.2%	4.6%	4.1%	3.5%	3.0%
1.58	7.1%	6.6%	6.0%	5.5%	4.9%	4.4%	3.8%
1.56	7.9%	7.4%	6.8%	6.3%	5.8%	5.2%	4.7%
1.55	8.8%	8.2%	7.7%	7.1%	6.6%	6.0%	5.5%
1.54	9.6%	9.1%	8.5%	8.0%	7.4%	6.9%	6.3%
1.52	10.4%	9.9%	9.4%	8.8%	8.3%	7.7%	7.2%

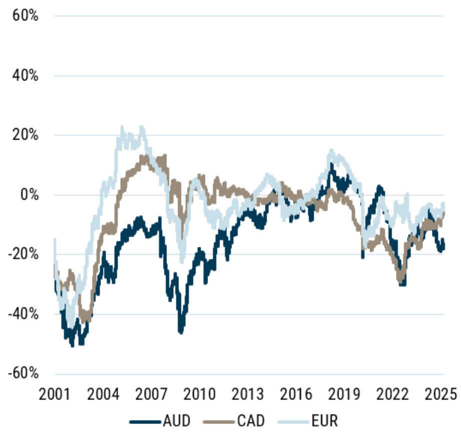
1-Year Total Return Scenarios: Local Currency Debt

For local currency debt, we compute a currency spot index for GBI-EMGD and then vary it in the north/south dimension and we vary the level of the GBI-EMGD yield in the left/right dimension. The amount by which these levels vary is calibrated to include +/-1 standard deviation around the quarter-end level (based on trailing three years of data). The expected return in the center of the table is the GBI-EMGD starting yield.

As of 3/31/25 | Source: Bloomberg, J.P. Morgan, GMO

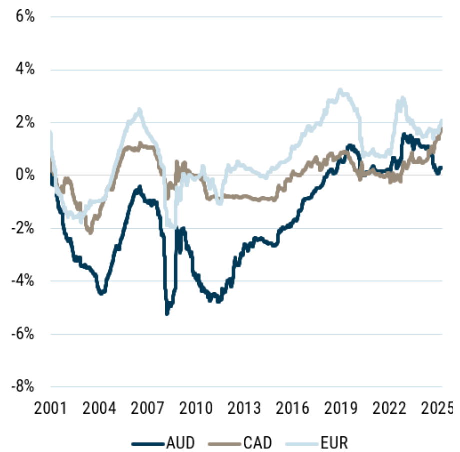
The total return scenarios are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. The total returns scenarios do not represent the past or future performance of any GMO fund or strategy. They are subject to change at any time based on market and other conditions. Actual results may differ materially from these scenarios. A full technical appendix is available from your GMO representative.

OVERVIEW OF METRICS



USD-Relative Currency Valuation

This chart shows the historical currency valuation of the USD relative to the EUR, CAD, and AUD since 2001. The value above the +/- 20% neutral range could indicate overvalued currencies, while the value below the neutral range could indicate undervalued currencies.



Hedging Costs

In this chart, we show the annual roll yield difference when hedging USD to AUD, CAD, and EUR base currencies since 2001.

As of 3/31/25 | Source: Bloomberg, J.P. Morgan, GMO

A full technical appendix is available from your GMO representative.

DISCLAIMER

Disclaimer: The views expressed are the views and understanding of the Emerging Country Debt team through the period ending April 2025 and are subject to change at any time based on market and other conditions. While all reasonable effort has been taken to ensure accuracy, no representation or warranty for accuracy is provided nor should be assumed. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.