INSIGHT

MONTHLY COMMENTARY

July Emerging Markets Debt Update

ANISHA GOODLY | SPENCER RODRIGUEZ

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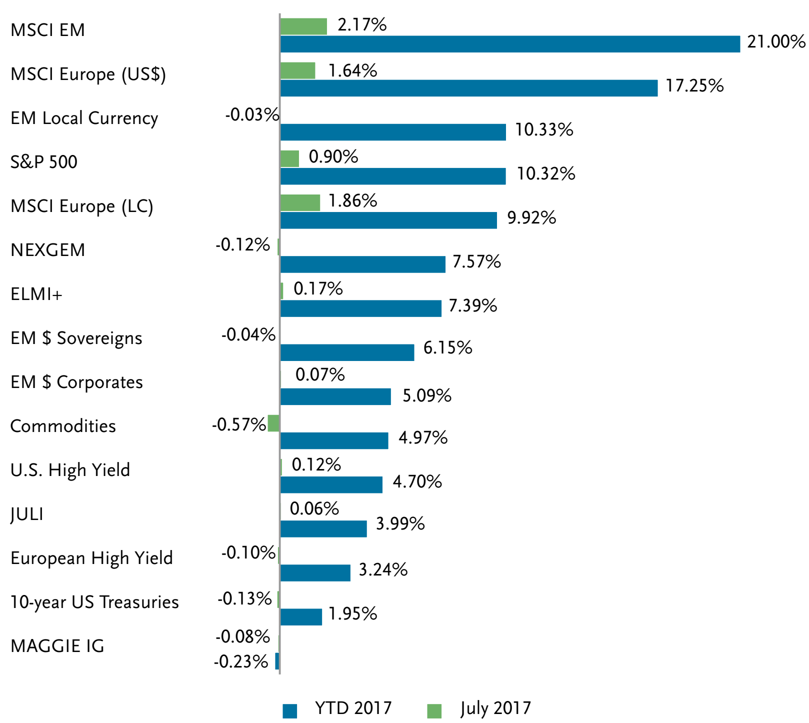
Emerging markets (EM) debt continued to post healthy returns in July, amid a broadly supportive and low volatility backdrop. Local currency debt outperformed, returning 2.07%, bringing year-to-date (YTD) returns to 12.75%. EM sovereign and corporate dollar-denominated debt performed largely in line with each other, returning 0.84% and 0.79%, respectively. That being said, sovereign debt has outperformed corporates this year, returning 7.08% versus 5.84% for the latter. The entire EM debt asset class continued to benefit from inflows across hard, local and blended currency funds, totaling $5.53 billion for the month and $47.4 billion this year. New issuance in July totaled $46.7 billion with the majority issued by corporates.

Total Returns Across Asset Classes



Source: Bloomberg; JP Morgan; Data as of July 31, 2017

Anisha A. Goodly
Managing Director
Emerging Markets Portfolio Specialist

Ms. Goodly is the Portfolio Specialist for the TCW Emerging Markets group, which includes the Emerging Markets Fixed Income, Emerging Markets Local Currency Income, and Worldwide Opportunities strategies. In this role, she serves as the primary liaison between TCW's Emerging Markets investment team and TCW's client relations and marketing professionals. Prior to joining TCW in 2013, Ms. Goodly spent eleven years at Morgan Stanley, most recently as one of the firm's top-producing EM Fixed Income salespersons. At Morgan Stanley, she also served as the Asia Credit Product Manager, marketing Asian credit products globally to the firm's largest institutional clients. In addition, she spent several years working as part of Morgan Stanley's Institutional Investor-ranked U.S. Credit Strategy research team. Ms. Goodly currently serves on the board of Consano. Ms. Goodly graduated with a BA in Economics from Stanford University.

Spencer Rodriguez
Emerging Markets Research Analyst

Mr. Rodriguez joined TCW's Emerging Markets Group in 2015,conducting research on sovereign and corporate fixed income securities. He works closely with the analyst and trading teams as well as the portfolio managers. Mr. Rodriguez holds an AB in History with a certificate in Finance from Princeton University. As a student he worked as a summer analyst for the Financial Institutions Group at Barclays Capital in New York. He also worked as a summer analyst for the Zurich Insurance Group in Tokyo, Japan.

TCW

Looking at the Individual Asset Classes:

Sovereign Dollar Debt

EM dollar sovereign debt maintained positive return momentum in July, as spreads tightened 6 bps to 304 bps. Since the beginning of the year, sovereign dollar spreads have tightened 38 bps and are approaching their three-year tights, a reflection of improving fundamentals and investor interest in the asset class.

Mexico and Brazil were the largest contributors to index performance in July. Mexico has been the leading contributor to index performance this year as political risks and concerns about NAFTA have abated. With its fiscal reform agenda back on track and growth improving, Brazil has recorded similarly strong numbers year to date (+9.5%), despite stumbling in May when interim-president Michel Temer became embroiled in corruption allegations. Venezuela was the largest detractor from performance during the month as extreme turmoil in the country's domestic politics has taken full focus.

Corporates

EM dollar corporate spreads tightened by 3 basis points in July. Similar to sovereigns, corporate spreads are approaching three-year tights.

Metals and mining led with a return of 2.01% in July, supported by a double digit rise in the price of iron ore as well as strong gains in both gold and copper prices. On the other hand, the diversified sector was the worst performing, returning 0.43% during the month. This tends to be a more defensive sector with higher average credit quality than other components of the index, and as such, underperformed higher beta sectors.

Local Currency Debt

General dollar weakness relative to EMFX continued in July, and the asset class benefitted from continued strong inflows. Brazil was the top performer for the month, retracing losses from the prior quarter as the political backdrop stabilized. Argentina was the bottom performer as polls showed former populist President Cristina Fernandez de Kirchner leading in a Senate race. However, we would note that Argentina has started to recover in August as the primary results came in better than expected for the ruling, market-friendly Cambiemos party.

New Issuance

EM sovereign issuance slowed in July, totaling just $3.14 billion, with the entirety from Asia investment grade. EM corporates, however, continued with the record pace seen through the first half of the year. EM corporate issuance exceeded $40 billion for the fourth time this year, and year-to-date issuance has now topped $290 billion. It's important to note that YTD net issuance for both sovereigns and corporates is less than half of total issuance. In addition, we expect a moderate slowdown in issuance in the second half of the year as supply tends be disproportionately larger in the first half.

July 2017 Issuance

	Gross Total	Investment Grade	High Yield	Net* Total
Sovereign	3.1	3.1	0.0	(7.9)
Corporate	43.6	29.6	14.0	19.3
Total	**46.7**	**32.7**	**14.0**	**11.4**

2017 YTD Issuance

	Gross Total	Investment Grade	High Yield	Net* Total
Sovereign	111.6	63.4	48.2	49.0
Corporate	292.8	162.8	130.0	137.5
Total	**404.4**	**226.2**	**178.2**	**186.5**

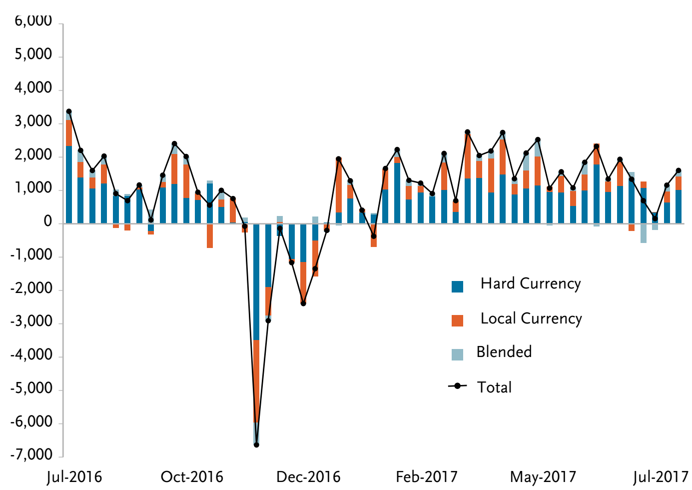
Source: Bank of America Merrill Lynch, JP Morgan, TCW Emerging Markets; Data as of July 31, 2017

*Net financing requirement assumes cashflows from amortizations, coupon payments, tenders and buybacks will be re-invested.

Flows

Strong inflows continued across hard, local and blended currency funds, totaling $6.94 billion for the month and $41.63 billion this year, making this the strongest start to a year on record. Inflows have been supportive of the asset class and have helped to absorb the bulk of new supply.

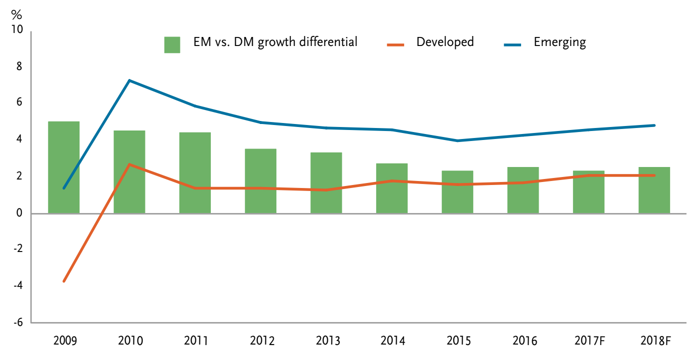
Weekly EM Dedicated Bond Fund Flows (USD Millions)



Source: EPFR Global, CIBC; Data as of July 31, 2017

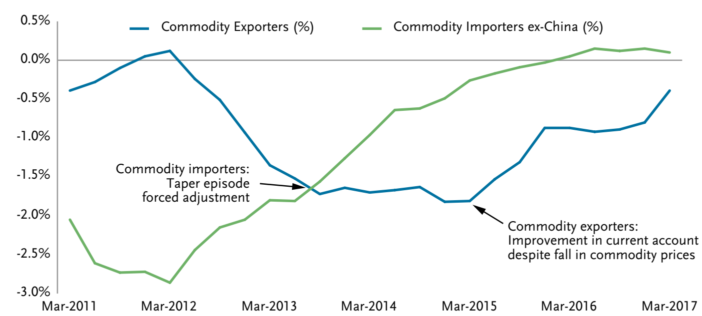
Additional Fundamental and Valuation Charts

Signs of an EM Growth Pickup with the EM/DM Growth Differential Widening



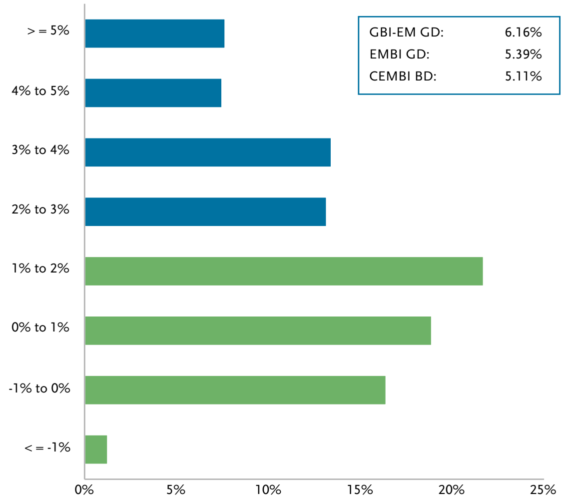
Source: TCW Emerging Markets Research; Data as of August 8, 2017

Current Account Balances Have Improved



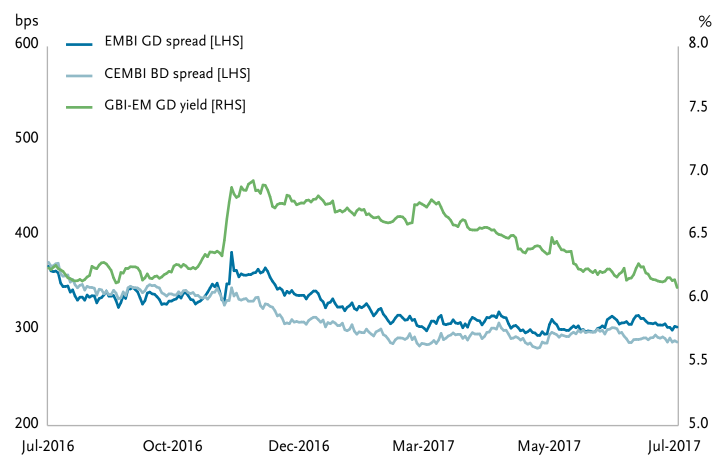
Source: Morgan Stanley; Data as of March 31, 2017

Nearly 60% of Global Fixed Income Yields 2% or Lower



Source: Standard Chartered; Data as of August 2, 2017

Emerging Markets Index Valuations



Source: Bloomberg, JP Morgan; Date as of July 31, 2017