



# Emerging Market Debt Indicator

## Key takeaways

### Market overview

Despite a turbulent month marked by geopolitical tension, elevated oil prices, and a stronger US dollar, EM fixed income proved resilient. US Treasury yields ultimately ended higher across the curve after a mid-month sell-off only partially reversed on hopes that the US-Iran conflict could de-escalate.

### Top-down positioning

Although our medium-term structural outlook on EM remains positive, we have trimmed our top-down risk positioning from overweight to neutral. This reflects a move to neutral on hard currency debt, while we continue to favour EM FX over local debt, partly funded through a short euro position.

### Africa

Credit rating upgrades for Ghana and Nigeria underscored improving fundamentals across the region, while political uncertainty grew in Senegal. Sovereign issuance in Angola and the Republic of the Congo highlighted resilient investor demand for frontier market debt.

### Asia

Policymakers in India and Indonesia took additional steps to stabilise their currencies. Export strength continued, as semiconductor demand remained robust, although domestic demand trends were more uneven.

### Latin America

Inflation remains a key challenge, despite growth and external balances improving. The policy picture is increasingly dispersed, with external accounts supported in Argentina, Brazil, Colombia, and Peru, while fiscal credibility, political risk and sticky services inflation continue to limit central bank flexibility.

### Central and Eastern Europe, Middle East, and South Africa

Political developments continued to drive market performance, particularly in Hungary, Romania and Turkey. Central banks maintained a cautious approach to monetary policy, as underlying inflationary pressures remain.

### EM corporate debt highlights

Tighter credit spreads helped performance of EM corporate debt.

## Market background

Emerging market (EM) fixed income remained resilient in May, despite the US-Iran conflict continuing to dominate headlines. Global bonds sold off mid-month, with US Treasury yields rising sharply amid growing inflationary concerns as oil prices remained elevated. However, by month end, growing optimism that the conflict could de-escalate led to oil prices falling and US Treasuries rallying, recovering some of their earlier losses. Despite this, yields were higher across the curve, while a stronger US dollar weighed on some EM currencies.

The local currency debt market (JPMorgan GBI-EM GD) gained 0.9% in US dollar terms over the month, with positive returns across local bond markets driving performance, while EM FX was broadly flat. South Africa was the top performing local debt market, with bonds outperforming after Moody's upgraded the country's outlook to positive. Meanwhile, the Indonesian rupiah remained under pressure due to its sensitivity to higher oil prices, coupled with selling pressure stemming from equity outflows.

The hard currency sovereign debt market (JPMorgan EMBI GD) rose 1.0% in May. Performance was driven by the high-yield segment, which gained 1.6%, while the investment-grade segment returned 0.4%. Spreads tightened, particularly in high-yield markets, as risk sentiment improved on expectations that the US-Iran conflict could de-escalate. Ukraine was the top performing market in the index, with comments that the war could be nearing an end supporting bond prices. Senegal, however, posted negative returns, with the domestic political backdrop weighing on sentiment.

### Top-down views and outlook

Current top-down positioning

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Overall risk			■		
Hard currency debt			■		
Local rates		■			
FX				■	

For illustrative purposes only. For further information on the investment process, please see the important information section.

### Outlook

Emerging market debt has demonstrated notable resilience this quarter-to-date. Despite persistent geopolitical uncertainty and elevated oil prices, risk assets have recovered meaningfully, and investor sentiment has improved, though rates markets remain under upward pressure globally as monetary policymakers' rhetoric has shifted to reflect higher inflation risks. The extended ceasefire in the Middle East, while still fragile, has provided an encouraging backdrop for the recovery, and we continue to expect a gradual easing of tensions over the medium term, though the lack of progress on peace negotiations is a risk to this thesis that we are monitoring closely.

Ongoing volatility in developed market (DM) bond markets – where a sharp bear steepening of yield curves reflects a compounding of fiscal and inflation concerns – continues to challenge their traditional safe-haven status, reinforcing the diversification case for EM debt.

While our medium-term structural view on EM remains constructive, we have reduced our top-down risk target from overweight to neutral. This has been driven by moving neutral hard currency debt and maintaining a preference for EMFX (partly funded by a short euro position) over local currency debt.

Inflation expectations are rising, largely reflecting elevated oil prices and risks of food price increases. Coupled with broadly resilient global growth, this has prompted us to reduce our top-down positioning in local currency debt. We retain a top-down overweight risk target on EM FX, given higher inflation expectations and the prospect of further rate hikes. In addition, diversification away from the US dollar

by global investors provides a supportive structural tailwind. However, the terms-of-trade of several countries have weakened, while market positioning in select carry trades is heavy, which leaves us more cautious towards certain markets.

In hard currency debt, we have moved to a neutral top-down stance, continuing to focus on selective high-carry and country-specific opportunities. Amid tight valuations, we are seeking out relative-value opportunities while remaining attentive to divergence between commodity exporters and more vulnerable oil-importing economies.

## Regional highlights

### Africa

**Egypt's** inflation rate fell to 14.9% year-on-year in April, easing by more than the market expected. However, inflation risks remain elevated, prompting the central bank to keep interest rates on hold at 19% amid the uncertain global backdrop. The fiscal deficit printed at 5.3% of GDP to end-April, showing a meaningful improvement on the prior year. The government committed to clear all arrears to international oil companies by mid-June, which should lead to renewed investment in the sector. On the external side, remittance inflows rose 25% year-on-year to US\$3.8 billion in February, providing additional support to the Egyptian pound, which appreciated towards the end of May as market sentiment improved over a potential US-Iran agreement. Against this positive backdrop, the PMI fell sharply to 46.6, reflecting weaker demand and higher energy costs.

**Ghana's** macroeconomic recovery continued to build momentum, with an improvement in the Q1 current account surplus and fiscal primary surplus to 2.6% of GDP and 1.1% of GDP, respectively. The Bank of Ghana paused its easing cycle amid inflation uncertainty, holding rates at 14% as expected; inflation edged up to 3.4% in April, driven by higher fuel prices, although this was lower-than-expected and remains below the central bank's target. The IMF concluded its visit, completing the final review of the Extended Credit Facility (ECF) programme. The government requested a new 36-month non-financing Policy Coordination Instrument (PCI), reinforcing expectations of continued policy discipline. Fitch upgraded Ghana's credit rating to B from B-, citing fiscal consolidation efforts and stronger growth.

The political backdrop in **Senegal** deteriorated sharply, with President Faye dismissing Prime Minister Sonko and dissolving the government amid growing tensions within the ruling Pastef party. Sonko was later elected as the parliamentary speaker, leaving his Pastef party with a legislative majority and creating significant uncertainty. On the macro side, inflation held at 1.4% year-on-year, while a budget update from the finance minister suggested revenues improved in April after a weak first quarter. However, reports that the country has fallen into arrears with Arab Bank for Economic Development in Africa (BADEA) highlighted the ongoing debt pressures facing the country, complicating the IMF programme negotiations, which remain ongoing, although an agreement does not appear imminent.

In **Zambia**, the central bank cut rates by 25bps to 13.25% as May's inflation print eased to 6.6% year-on-year, back within the 6–8% target band. External conditions remain resilient, with copper prices continuing to rise despite copper output falling in Q1. The government launched a partial buyback of its US\$1.63 billion Eurobond using African Development Bank funding, an important step in reducing near-term refinancing risk. The IMF concluded its visit and discussions with Zambia on advancing a successor ECF programme, though negotiations are expected to continue following the elections in August.

**Nigeria's** assets received a boost after S&P upgraded its credit rating from B- to B, recognising improved external conditions following the liberalisation of the exchange rate and higher oil output. However, inflationary pressures remain, with CPI rising to 15.7% year-on-year in April, driven by higher food and transport prices. Against this backdrop, the central bank kept rates on hold at 26.5%, in line with expectations, keeping real yields elevated. Meanwhile, Q1 GDP grew 3.9% year-on-year, slightly below expectations.

**Angola** remained a clear beneficiary of higher oil prices, due to its position as a net oil exporter, supporting continued asset performance. The central bank cut its policy rate to 17% as inflation eased to 11.6% in April. Growth was strong, with Q1 GDP growing 5.3% year-on-year, while the trade surplus

widened to 1.7% of GDP, supported by a rebound in oil-led exports. The Ministry of Finance issued US\$1.5 billion of bonds, attracting strong demand, while Fitch affirmed Angola's B- rating with a stable outlook.

Inflation in **Kenya** was higher than expected, rising to 6.7% year-on-year in May and approaching the upper end of the target band. Fiscal pressures remained, with the budget deficit increasing above target. Protests in Nairobi over fuel price hikes prompted the government to reduce diesel prices, adding complexity to the fiscal outlook.

Inflation in **Côte d'Ivoire** slowed to 1.4% year-on-year in April, although the government raised fuel prices in May to limit subsidies, signalling an attempt to balance low inflation with fiscal discipline. The IMF reached a staff-level agreement on the final programme review, which will unlock access to over US\$800 million once completed.

**The Republic of the Congo** successfully raised US\$850 million in international markets, attracting strong investor demand, and will use part of the proceeds to buy back bonds issued in November. Moody's responded by upgrading the country's outlook to positive, affirming the Caa2 rating given the recent issuance and the improved debt maturity profile.

In **Uganda**, the central bank held rates at 9.75%, with inflation well contained at 3.2% year-on-year in May. Activity indicators pointed to resilience, with the PMI continuing to rise above 50, indicating ongoing expansion.

### Asia

In **China**, the theme of strong exports and weak domestic demand continued, as seen in recent trade, inflation and credit data. Exports rose sharply in April, benefitting from strong demand for technology-related goods, while imports also rose, but broader activity indicators, including retail sales, fixed asset investment and industrial production, remained soft. Inflation data was higher than expected, driven by energy supply pressures, which lifted China out of deflation territory. The renminbi was supported by stronger trade data, while the central bank lowered the daily fixing rate, allowing the currency to appreciate. Meanwhile liquidity conditions remained ample. The People's Bank of China (PBOC) kept the one- and five-year loan prime rates unchanged, as expected, although the one-year Medium-Term Lending Facility (MLF) rate was lowered.

Policymakers in **India** increasingly focussed on stabilising the currency, which has remained under pressure. Measures included calls for citizens to limit gold purchases, alongside a sharp increase in import duties on precious metals. However, given the relatively inelastic nature of gold demand, the impact on the external balance and the rupee appeared limited, with the currency continuing to underperform. Inflation was lower than expected at 3.5%, while fuel prices were raised again following state elections, although the adjustments remained relatively small.

In **Thailand**, stronger growth data was offset by signs of softer household sentiment and renewed inflationary pressures. Q1 GDP surprised to the upside, expanding by 2.8% against expectations of 2.4%. Inflation was higher than expected, with a sharp monthly increase putting upward pressure on rates.

Bank **Indonesia** raised rates by 50bps to 5.25%, against expectations for 25bps, with this larger hike reflecting attempts to stabilise the rupiah, which has fallen to record lows. At the same time, the government announced a bond buyback programme to help support the local market. Inflation remained contained, with headline CPI lower than expected at 2.4% and core broadly similar. The external trade balance continued to weaken, with the surplus falling 43.9% in April, with a surge in imports offsetting the rise in exports.

Yields in **South Korea** rose after the central bank delivered a hawkish hold, with two of seven board members dissenting in favour of rate hikes and the policy-rate path (as shown by the dot plots) shifting notably higher. Bank of Korea also upgraded both the growth and inflation forecasts to 2.7% and 2.6% respectively. The macro backdrop remained supported by very strong trade data, with exports rising sharply on the back of semiconductor demand. However, the won saw sharp depreciation over the month, driven by large equity outflows.

Inflation in the **Philippines** rose sharply, with CPI accelerating to 7.2%, well above expectations, driven primarily by higher rice prices and transport costs. At the same time, Q1 GDP growth came in weaker

than expected at 2.8%. The trade balance also deteriorated as imports rose rapidly, largely due to higher energy-related imports. Fiscal data was more constructive, with revenues rising faster than expenditure through April and the budget balance improving. Political noise is increasing, with the House of Representatives voting to impeach the vice president, although passage through the Senate appears unlikely.

In **Malaysia**, the central bank kept rates unchanged, with communication slightly more hawkish but broadly in line with expectations. Trade data was notably strong, with exports, particularly from the electronics and mining sectors, significantly outperforming forecasts. Q1 GDP was revised modestly higher, while inflation remained in line with expectations. Political developments also came into focus, after the Johor state assembly was dissolved, paving the way for elections by August.

**Sri Lanka** assets benefitted from a more constructive external funding backdrop following approval of the US\$2.9 billion IMF programme, including an initial disbursement of US\$695 million. Meanwhile, the central bank unexpectedly raised rates by 100bps in an effort to counter currency weakness and inflationary pressures, highlighting efforts to restore macroeconomic stability.

### Latin America

**Argentina's** macroeconomic backdrop continued to improve, with Fitch upgrading the sovereign to B- with a stable outlook from CCC+, citing improved external and fiscal balances alongside progress on economic reforms. Inflation slowed to 2.6% month-on-month, helped by currency appreciation and lower food prices. The April trade surplus exceeded expectations at US\$2.7 billion, driven by record export growth of 33.6% year-on-year. Gross FX reserves rose to US\$48.2 billion in May, the highest since 2019, supported by US dollar purchases and higher deposits. However, net reserves declined unexpectedly to US\$3.4 billion, due to the repayment of April 2027 repo liabilities. Market access continued to improve, with the City of Buenos Aires issuing US\$500 million at the lowest yield under President Milei. The IMF approved the latest Extended Fund Facility review, unlocking a US\$1 billion disbursement, while the government unveiled its "Super RIGI" bill to incentivise investment in new industries.

**Brazil's** central bank minutes signalled a hawkish tone amid persistent inflationary pressures, with IPCA inflation rising to 4.6% year-on-year in May – just above the 1.5-4.5% target band – raising the likelihood of a pause in the easing cycle after June. The current account deficit was worse than expected, widening to US\$1.8 billion in April, as larger services and income deficits offset a stronger trade surplus. Politically, Flávio Bolsonaro lost ground in the polls, falling behind President Lula, following reports he negotiated funding for a film from Banco Master's Vorcaro, who is currently involved in a corruption scandal. Ahead of the election, Lula announced measures including a new household debt relief programme and a BRL11 billion anti-organised crime initiative, in an attempt to increase favourability.

In **Chile**, President Kast's omnibus bill was approved by the lower house of Congress, with corporate tax cuts and tax integration measures preserving his pro-investment agenda aimed at boosting growth. The bill will now move to the Senate, but further concessions are likely. On the data front, Q1 GDP disappointed, contracting 0.3% quarter-on-quarter despite resilient domestic demand, while April CPI rose to 1.3% month-on-month, the largest monthly increase in four years, driven primarily by fuel price rises. Meanwhile, fiscal risks remain in focus after the government raised its debt forecasts for 2026-2030.

Hard currency bonds in **Mexico** came under pressure after Moody's downgraded the sovereign's rating one notch to Baa3, while S&P revised its outlook to negative. These moves reflect concerns over weaker fiscal credibility, low growth, rigid welfare spending and continued support of the state-owned oil company Pemex. The central bank cut rates by 25bps to 6.5% in a split vote and notably signalled the end of the easing cycle. Q1 GDP contracted 0.6% quarter-on-quarter, modestly better than expected, but highlighting a weak start to the year. Inflation was better than expected, slowing to 4.5% year-on-year in April. The April trade balance posted a surplus of US\$4.5 billion, above the US\$0.5 billion expected, supported by a 32% rise in exports.

Inflation in **Colombia** rose above expectations in April, printing at 5.7% year-on-year, partly reflecting the minimum wage hike pass-through. By contrast, activity data was very strong, while Q1 GDP beat expectations, driven by consumption. The trade deficit narrowed sharply to US\$527 million in March

from US\$1.2 billion, supported by a 20% year-on-year rise in exports. Fiscal concerns linger, with debt issuance at historically elevated rates. The Council of State provisionally suspended the quorum rule requiring the finance minister's presence at central bank meetings, clearing the path for a more independent rate decision on 30 June, where a hike appears likely. In the first round of the elections, far-right candidate De la Espriella secured the majority of votes with 43.7%, entering the runoff as the frontrunner against Cepeda.

In **Peru**, the central bank held rates at 4.25% in line with expectations, after inflation rose above 4% year-on-year in April, exceeding the central bank's target range, driven by higher oil prices. Q1 GDP rose 3.5% year-on-year, supported by strong domestic demand. The external position remained robust, with the Q1 current account surplus widening to US\$4.4 billion, underpinned by favourable terms of trade. Politically, Roberto Sánchez has advanced to the second round of the presidential election against Keiko Fujimori, with polls showing Fujimori narrowly leading ahead of the 7 June runoff.

**Ecuador's** macroeconomic backdrop was supported by stronger reserves, which reached US\$13.3 billion, a 15% month-on-month increase boosted by gold. CPI rose 2.6% year-on-year in April, driven by housing and energy-related costs. The Ministry of Finance reopened its 2034 and 2039 bonds, raising US\$1 billion, with strong investor demand, though yields remain elevated, reflecting ongoing credit risk perceptions.

Inflation in the **Dominican Republic** accelerated to 5.1% year-on-year in April, above the central bank's 4% target, though it is expected to return within the target range by year-end. The trade deficit narrowed to US\$1.3 billion in April, as exports strengthened, supported by solid mining performance, while economic activity moderated to 3.8% year-on-year.

**Venezuela** has begun signalling a restructuring framework, covering both sovereign and state oil company PDVSA obligations, marking a significant step in addressing its defaulted debt.

### Central and Eastern Europe, the Middle East, and South Africa

Assets in **Hungary** benefitted from improving domestic fundamentals and a more constructive policy backdrop. The forint continued to strengthen, supported by positive post-election sentiment and progress in unlocking frozen EU funds. Inflation was lower than expected, while data pointed to a gradual recovery in economic activity. The National Bank of Hungary left rates unchanged at 6.25%, but communication was notably dovish, reflecting policymakers' preference to begin an easing cycle when conditions allow. However, the timing of any policy adjustment remains dependent on external developments, particularly energy prices, fiscal policy and broader geopolitical risks.

In **Czechia**, growth indicators remained robust, with industrial production, construction activity and retail sales all pointing to a healthy domestic economy. While headline inflation was broadly in line with expectations, the acceleration in core inflation reinforced concerns around underlying price pressures. Against this backdrop, the Czech National Bank signalled a willingness to tighten policy further if inflation dynamics were to deteriorate.

Policymakers in **Poland** have been more equivocal, while softer-than-expected inflation data at the end of the period has reduced the likelihood of near-term policy tightening. Economic growth slowed, with Q1 GDP falling to 3.5% year-on-year, while industrial activity, wage growth and retail sales all pointed to some moderation in domestic demand.

Political noise continued in **Romania**. Efforts to form a new government remained at an impasse, contributing to ongoing uncertainty around the policy outlook. Nevertheless, fiscal performance showed encouraging improvement, with the budget deficit tracking favourably relative to the previous year, helping support market sentiment and tighter hard currency spreads. Inflation remained elevated and continued to warrant a cautious approach from the central bank, which kept rates unchanged at 6.5%. However, economic data remained soft, with Q1 GDP contracting quarter-on-quarter.

In **South Africa**, Moody's revised the outlook to positive from stable while affirming its Ba2 rating, citing the improving fiscal outlook, which further boosted assets. Inflation rose to 4.0% year-on-year in April, driven by higher oil prices, prompting the central bank to raise the repo rate by 25bps to 7.0%. Accompanying policy guidance suggests that rates are likely to remain restrictive for the remainder of the year, with expectations pointing to at least one additional hike should inflation risks persist.

In **Turkey**, a court ruling annulled the outcome of the opposition party's 2023 congress and reinstated its previous leader, raising concerns around potential political unrest and renewed dollarisation. However, market reaction remained relatively contained. On the macroeconomic front, inflation was higher than expected in April, highlighting the persistence of domestic price pressures. There are some signs of the economy cooling, while the country's external position is challenged by the energy crisis, albeit the start of the tourism season should be supportive near-term. Reserves have also recovered somewhat, as foreign inflows have resumed.

In **Ukraine**, sentiment improved as Russia appeared to soften its stance towards the conflict, supporting the country's hard currency bonds during the period.

In **Kazakhstan**, signs that inflation may be approaching a peak supported expectations that price pressures could ease in the coming months. However, the tenge remained under pressure following the central bank's decision to scale back its foreign exchange interventions.

## EM corporate debt highlights

The EM corporate debt market (JPMorgan CEMBI BD) returned 0.4%, with both the high-yield and investment-grade markets adding to returns. Credit spreads were tighter across both segments, helping to drive performance. All regions saw positive returns, led by African markets.

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