RBC Global Asset Management

Emerging market weekly update

Performance for the week ending 31 January 2025

Summary

Equity markets had mixed week, with the S&P 500 down 1%, while the Euro Stoxx 50 and emerging-market (EM) equities gained 1.3% and 0.3%, respectively. The US rates curve bull-flattened, with 2-year yields 7 basis points (bps) lower and 10-year yields 9bps lower. US 10-year real yields were 9bps lower, at 2.11%.

In EM credit markets, corporate and sovereign spreads were 4bps tighter and unchanged respectively, while total returns were up 0.4% in corporates and 0.5% in sovereigns. In EM corporates, outperformance came from the real estate and industrial sectors, while the metals and mining sector lagged. In the sovereign space, Venezuela and El Salvador outperformed, while Egypt and Colombia lagged due to issuance concerns.

In EM local markets, total returns were down 0.7% on the week, with foreign exchange (FX) the key driver of underperformance. In the FX space, euro-linked currencies in Central and Eastern Europe underperformed. In higher-beta Latin American currencies, performance was mixed, with the Brazilian real making gains and the Mexican peso suffering as tariff headlines hit the tapes. In the rates space, Romania outperformed, but Colombia underperformed on the back of renewed fiscal concerns.

Market highlights

- In Mexico, President Sheinbaum and lawmakers from her party proposed a bill to eliminate certain disclosure requirements as well as legal and operational details pertaining to a state-owned energy company. The bill would also amend the company's purpose which would be stated as "to guarantee Mexico's energy self-sufficiency and energy security", with profitability no longer a primary objective.
- Also in Mexico, the Trump tariff agenda caught investors off guard when a 25% blanket tariff was threatened across all Mexican exports. This sent the peso into a tailspin before a last-minute deal was ultimately agreed to avert tariffs by one month, with President Sheinbaum promising a robust border response to help stem the flow of fentanyl and migrants into the US.

Market outlook

Markets were buffeted by numerous headlines over the last couple of weeks, with President Trump living up to his predictably unpredictable negotiating strategy. So far, the consensus thinking that tariffs against China were more likely to be real while they would be more of a bargaining tool to extract concessions from others seems to be correct. Colombia, Mexico and Canada have all been in Trump's tariff crosshairs and all have escaped by yielding and offering concessions that were in line with his policy agenda. Looking ahead, we can expect more of the same and this will bring volatility to markets. However, over time investors do become more used to dealing with these events and as they become more desensitised, it typically mutes the market impact. Key to focus on away from the tariff agenda will be the pace of progress around the deregulation agenda and any further signs of fiscal restraint, as these would be the two more positive aspects of Trump's agenda, in our view. Finally, geopolitics remains in focus with plenty of headlines around the Middle East and Iran and signs that talks around Russia and Ukraine may begin in the near future.

EM fixed-income markets have traded reasonably well when considering the uncertainties described above. Credit markets remain well anchored by a positive technical backdrop and solid fundamentals, while local markets have been more susceptible to tariff headlines. However, given that the only real tariffs so far are those that have been levied against China, we have seen EM FX sell-offs fade, leaving EM local markets as one of the outperformers on a year-to-date basis, not something most people were expecting at the turn of the year. Looking ahead, we expect that investors

®/ TM Trademark(s) of Royal Bank of Canada. Used under licence. © RBC Global Asset Management Inc. 2025

will remain in wait-and-see mode until the full extent of the Trump policy agenda becomes clear.

Appendix: Index review – weekly market snapshot as at 31/01/2025

	Total return			Spread / yield change (bps)				
	Weekly	MTD	YTD	Weekly	MTD	YTD	Spread (bps)	Yield (%)
Hard Currency Sovereign	0.52%	0.00%	1.44%	0	0	-9	316	7.74
Hard Currency Corporate	0.35%	0.00%	0.80%	4	0	3	239	6.87
Local Currency Sovereign	-0.73%	0.00%	2.05%	0	0	-6		6.33

Source: Bloomberg, JPMorgan

®/ TM Trademark(s) of Royal Bank of Canada. Used under licence. © RBC Global Asset Management Inc. 2025

This document was prepared by RBC GAM-UK, authorised and regulated by the UK Financial Conduct Authority (FCA), registered with the US Securities and Exchange Commission (SEC) and a member of the National Futures Association (NFA) as authorised by the US Commodity Futures Trading Commission (CFTC).

In the United States, this document is provided by RBC GAM-US, a federally registered investment adviser. The entities noted above are collectively referred to as "RBC BlueBay" within this document. The registrations and memberships noted should not be interpreted as an endorsement or approval of RBC BlueBay by the respective licensing or registering authorities.

With respect to the investment performance presented, **past performance is not indicative of future performance**. Actual account performance may or will vary from the performance shown because of differences in market conditions; client-imposed investment restrictions; the time of client investments and withdrawals; tax considerations; economies of scale; portfolio turnover; the number, type, availability, and diversity of securities that can be purchased at a given time; differences in the underlying currency of the assets in the account, and other factors. Client assets managed using these strategies in separate accounts or different vehicles may be subject to restrictions, fees or expenses that are materially different than those found in the non-US funds.

This document is confidential and, without RBC BlueBay's consent, may not be (i) copied, photocopied or duplicated in any form by any means or (ii) distributed to any person that is not an employee, officer, director or authorized agent of the recipient.

Information herein is believed to be reliable but RBC BlueBay does not warrant its completeness or accuracy. This document contains information collected from independent third-party sources. For purposes of providing these materials to you, neither RBC BlueBay nor any of its affiliates, subsidiaries, directors, officers, or employees, has independently verified the accuracy or completeness of the third-party information contained herein.

The information contained herein does not constitute investment, tax, accounting or legal advice. Recipients are strongly advised to make an independent review with their own advisors and reach their own conclusions regarding the investment merits and risks, legal, credit, tax and accounting aspects of all transactions. Any risk management processes discussed refer to efforts to monitor and manage risk but should not be confused with and do not imply no or low risk. No chart, graph, or other figure provided should be used to determine which strategies to implement or which securities to buy or sell.

Copyright 2025 © RBC BlueBay. RBC GAM Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management Inc. (RBC GAM Inc.), RBC Global Asset Management (U.S.) Inc. (RBC GAM-US), RBC Global Asset Management (UK) Limited (RBC GAM-UK), RBC Global Asset Management (Asia) Limited (RBC GAM-Asia) and RBC Indigo Asset Management Inc. (RBC Indigo), which are separate, but affiliated subsidiaries of RBC. ® / Registered trademark(s) of Royal Bank of Canada and BlueBay Asset Management (Services) Ltd. Used under licence. RBC Global Asset Management (UK) Limited, registered office 100 Bishopsgate, London EC2N 4AA, registered in England and Wales number 03647343. All rights reserved.

®/ ™ Trademark(s) of Royal Bank of Canada. Used under licence. © RBC Global Asset Management Inc. 2025