

## Timely insights from portfolio managers and industry experts on key financial, economic and political issues.

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### Emerging Markets Debt

## The Island of "Misfit Investments"

*In keeping with a three-year-old tradition, this reprise of our holiday blog helps illustrate the philosophy that drives the global search for value for our clients.*

**Boston** - The holiday season is often a joyous time filled with family, friends and traditions. A long-standing tradition in my family is watching the 1964 classic TV special, "Rudolph the Red-Nosed Reindeer." My favorite scene is when Rudolph lands on the Island of Misfit Toys and encounters King Moonracer. As Rudolph learns: "Every night King Moonracer searches the entire earth, and when he finds a misfit toy - one that no little girl or boy loves - he brings it here to live on his island, till someone wants it." While something is wrong with each of the toys, there is also something precious.

The holiday season is also a time of reflection. I often think that the Eaton Vance Global Income team and King Moonracer share a common philosophy. Every day we search the entire Earth looking for unloved investment opportunities - the "misfits" that most investors shun. But just as King Moonracer strives to find something precious in cast-off toys, our team works hard to look past damaged reputations to find investment opportunities that we believe offer excessive risk premiums.

Frequently, these unloved investments have their roots in negative historical perceptions that have little or no relevance today. Emerging-markets countries are especially susceptible to such outmoded and/or unfounded views. We want to share some of these "misfit investments" with you.

On behalf of myself and my colleagues on the Global Income team, we wish you happy holidays and the best for the new year.

### Uzbekistan

**Perception:** A highly centralized economy with an insular foreign policy and slowing reform momentum. A country that is too small, far away and exotic for many investors, and viewed as dysfunctional by others.

**Reality:** Newly elected President Mirziyoyev has acknowledged the need to replace the legacy Soviet-style centrally planned economy with a substantial reform program aiming to create new sustainable drivers of growth. Since 2016, Mirziyoyev and his cabinet managed to enact currency liberalization and tax reform, while maintaining fiscal conservatism and high levels of foreign reserves. In 2020, despite the pandemic, there were additional reforms to the banking sector and privatization of state-owned enterprises. Fiscal prudence was maintained despite COVID expenditures, with a big focus on returning to balanced central budgets.

### Egypt



**Michael A. Cirami, CFA**  
Director of Global Income  
Eaton Vance  
Management

When Rudolph the Red-Nosed Reindeer landed on the "Island of Misfit Toys," he found a king who saw something precious in unloved playthings. The search for "misfit investments" in emerging markets is less magical, but no less relevant.

Perception: A country bogged down with reform fatigue and minimal expectations for progress.

Reality: Possible signals of "second-wave" reforms include reducing the state role in the economy, through privatization of state- and military-owned enterprises and reducing structural impediments to private sector investment. Egypt passed the pandemic "stress test" with flying colors. The diversified nature of the economy, along with targeted COVID-19 restrictions, has meant that Egypt is the only Middle East country expected to grow this year, at 3.5% or more. Fiscal prudence was maintained, disinflation has been impressive and portfolio inflows have mostly recovered.

### **Romania**

Perception: A country with widespread corruption and poor governance, where past government populist fiscal policy has resulted in the risk of a rating downgrade.

Reality: Romania has implemented one of the most successful anti-corruption drives in Eastern Europe, which is likely to be further advanced by an expected new center-right governing coalition. Parties in the anticipated coalition have expressed an encouraging commitment to fiscal consolidation and better economic policy-making, which will help to unlock the country's growth potential. If this pro-reform coalition forms a government, Romania could see improved fiscal and external balances and retain its investment-grade rating.

### **Cote D'Ivoire**

Perception: A country still badly damaged by a cycle of violent elections that led to civil wars, including two this century. This has fostered heightened uncertainty in an election year.

Reality: The country has escaped its perpetual cycle of violence. Painful memories of the civil wars and economic devastation have left Ivoirians unwilling to take up arms for leaders about whom they do not feel strongly. Recent elections were largely peaceful and political adversaries appear ready for reconciliation. Cote D'Ivoire has a diversified economy that should help growth continue, despite COVID. A strong history of pro-business reforms under President Ouattara during his past two terms suggest that similar market-friendly policies will continue during his third term.

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