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# DoubleLine: Developed market fiscal strain sparks pivot to EM local debt

**Citywire A rated head of global sovereign and emerging markets, Bill Campbell, dives into the convergence between DM and EM debt.**

BY OLIVIA BYBEL

Developed markets have lost their institutional credibility and the shift is serving as a multi-year catalyst for emerging market local currency bond investors, according to the Citywire A-rated head of global sovereign and emerging markets at DoubleLine Capital.

Bill Campbell said the structural immunities developed markets previously enjoyed have been knocked down one by one.

Historically, developed markets were 'largely immune' from a lot of the term premium bond investors have had to price into emerging markets, especially local fixed income, Campbell said. 'This was given their strong institutional strength, fiscal credibility, and the fact that inflation outturns were extremely low for multiple decades.'

However, he noted that following a combination of high government spending and shifting international politics, none of those immunities remain today.

Campbell manages two US domiciled funds for Double-Line: the $500m DoubleLine Emerging Markets Local Currency Bond Fund, and the $250m DoubleLine Global Bond Fund. The funds returned 24.7% and 7.8% over three years, respectively.

He also contributes to the firm's UCITS platform which includes the DoubleLine Global Core Plus Bond and DoubleLine Shiller Enhanced CAPE® (Luxembourg) Funds.

## The fiscal strain of new interventionism

Referring to the conflict in Iran, Campbell said geopolitical stress only accelerates a weakening dollar and forces a higher term premium into developed market curves.

'Some estimates show conflict costing upwards of $1bn (£785m) a day, plus the subsequent need to restockpile all the munitions that have been used. That adds a heavy fiscal cost,' he said.

This spending creates a medium-term tailwind for several emerging markets that remain structurally linked to the commodity supply chain.

'Specifically, we think Latin America is in an excellent position to benefit on a terms-of-trade basis once we get through the day-to-day headline volatility shocks,' Campbell added.

## Policy credibility and tracking error

Campbell said fiscal concerns are directly impacting central bank independence across developed economies, meaning historical emerging market sovereign risk analysis must now be applied to the West. Conversely, decades of working alongside international trade bodies have forced immense policy credibility and fiscal buffers into emerging markets.

This structural evolution is reshaping global capital allocations through a distinct multi-year mechanism:

Inflow cycle: Anemic historical flows are reversing into a long-term inflow cycle, creating a virtuous loop.

Capital deepening: Inflows lower domestic interest rates and increase credit availability, boosting consumption and investment.

Domestic asset growth: As local economies grow, wages and savings funnel into local pensions and insurance funds, structurally supporting local market architecture.

While a global recession remains a tail risk, Campbell noted that fixed income remains the cleanest vehicle to play this convergence, avoiding the tech-heavy biases found in emerging market equities.

'Emerging market equities tend to be a tech-heavy Asia trade,' he said. 'If you really want to capture the terms-of-trade dynamic and plug into global defense and infrastructure spending, fixed income is the place to do it. Furthermore, it acts as a true diversifier, whereas emerging market equity often just duplicates Nasdaq and Magnificent Seven risk.'

## Portfolio construction: Hiding in the belly

From an asset allocator standpoint, these shifting macro realities have shattered historical correlations, breaking the traditional defensive relationship between equities and long-duration bonds.

To navigate this, DoubleLine is actively favoring an allocation shift toward the 'belly of the yield curve', specifically targeting the three-to-seven-year points.

'We believe developed market central banks still have the capability to keep front-end interest rates anchored around their policy rates,' Campbell said. 'I do not think they are going to lose control of the front end of the curve, but they might not be able to control the back end. You can no longer just buy the longest-duration bonds and assume they will automatically offset equity losses during a market drawdown.'

## Avoiding overengineered funds

When selecting vehicles in a volatile asset class, Campbell stressed the importance of structural transparency over complex financial engineering, noting that his strategy rejects leverage, overlay strategies, and volatility harvesting.

'We provide exposure to the emerging market local currency market by purchasing cash ISIN or CUSIP bonds,' he said. 'Overlay strategies can do strange things where different layers cancel each other out, making it very difficult to decompose why a fund underperformed against the benchmark. For us, we do the hard work and provide a highly transparent, scalable strategy using cash bonds.'

This fundamental discipline notably kept the strategy entirely out of Russian assets prior to the invasion of Ukraine.

## The high-conviction play: South Africa

On a regional basis, South Africa stands out as one of the firm's highest-conviction structural turnaround stories. Despite historical domestic volatility, the country's fiscal metrics have continually surprised to the upside.

Campbell highlighted that the South African Reserve Bank's shift of its inflation target to a firm 3% anchor represents a tremendous gain, backed by an institutional caliber that represents a leading template across emerging markets. Crucially, the country possesses a domestic financial base that acts as an embedded defense mechanism.

'You have robust domestic banks and financial institutions that allocate a decent portion of capital to South African government bonds, which helps anchor the long end of the curve during global sell-offs,' he said.

The jurisdiction is also enjoying a powerful terms-of-trade tailwind via the commodity channel, as surging gold export volumes help structurally support the rand.

While structural bottlenecks and high unemployment remain key vulnerabilities to monitor, Campbell believed the risk premium factors that plague developed markets are on a contained, positive trajectory in South Africa.

'We believe there is still significant room to run, and it remains one of our favorite trades at the moment,' he concluded.

DoubleLine®

**FTSE World Government Bond Index (WGBI) –** This index measures the performance of fixed-rate, local currency, investment grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 30 years of history available. The WGBI provides a broad benchmark for the global sovereign fixed income market. Sub-indices are available in any combination of currency, maturity, or rating.

**J.P. Morgan Government Bond Index Emerging Markets Global Diversified (GBI-EM GD) –** This custom-weighted index tracks local currency bonds issued by emerging market governments, excluding China and India, and has a broader roster of countries than the base GBI-EM, which limits inclusion to countries that are readily accessible and where no impediments exist for foreign investors. You cannot invest directly in an index.

**CUSIP** – Refers to the Committee on Uniform Securities Identification Procedures. The CUSIP number is a unique nine-digit identification number assigned to all stocks and registered bonds in the United States and Canada, and it is used to create a concrete distinction among securities that are traded on public markets.

**Inflow cycle** – Bill Campbell is describing an increased inflow period in a cycle where previously inflows were anemic. This is being used descriptively rather than as a formal finance industry term.

**International Securities Identification Number (ISIN)** – A unique, 12-character alphanumeric code structured to globally identify specific financial instruments to facilitate cross-border trading and settlement.

**Magnificent 7** – Nickname for megacapitalization tech stocks (aka “Mag 7”): Alphabet Inc., Amazon.com Inc., Apple Inc., Meta Platforms Inc., Microsoft Corp., Nvidia Corp. and Tesla Inc. **Terms-of-trade** – Mr. Campbell is saying that when volatility wanes Latin America will be poised to benefit from trade policies based on those policies’ terms. This is being used contextually rather than as a formal finance industry term.

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**Investing involves risk. Principal loss is possible.**

Investments in debt securities typically decrease when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher rated securities. Investments in ABS and MBS include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. Investments in floating rate securities include additional risks that investors should be aware of such as credit risk, interest rate risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for investments in emerging markets. The Fund may use leverage which may cause the effect of an increase or decrease in the value of the portfolio securities to be magnified and the Fund to be more volatile than if leverage was not used. Derivatives involve special risks including correlation, counterparty, liquidity, operational, accounting and tax risks. These risks, in certain cases, may be greater than the risks presented by more traditional investments. Investing in emerging markets has more risk such as increased volatility, relatively unstable governments, social and legal systems that do not protect shareholders, economies based on only a few industries and securities markets that are substantially smaller, less liquid and more volatile with less government oversight than more developed countries.

DoubleLine Funds are distributed by Quasar Distributors, LLC.



**DoubleLine Global Bond Fund Quarterly Returns (%)**
December 17, 2015 through June 30, 2026

| | 3 Years | 5 Years | 10 Years | Since Inception (12-17-2015) |
|---|---|---|---|---|
| I Share | 3.11 | -2.16 | -0.89 | -0.22 |
| I2 Share | 3.01 | -2.26 | -1.02 | -0.34 |
| N Share | 2.82 | -2.40 | -1.14 | -0.47 |
| FTSE World Government Bond Index | 2.50 | -2.66 | -0.52 | 0.51 |

Gross Expense Ratio: I Share: 0.39%; I2 Share: 0.76%; N Share: 0.89%

**DoubleLine Emerging Markets Local Currency Bond Fund Quarterly Returns (%)**
June 30, 2019 through June 30, 2026

| | 1 Year | 3 Years | 5 Years | Since Inception (6-30-2019) |
|---|---|---|---|---|
| I Share | 9.64 | 7.34 | 3.29 | 2.14 |
| I2 Share | 9.31 | 7.16 | 3.15 | 2.01 |
| N Share | 9.21 | 7.04 | 3.01 | 1.87 |
| J.P. Morgan GBI-EM GD Index | 7.85 | 7.31 | 2.13 | 2.02 |

Gross Expense Ratio: I Share: 2.26%; I2 Share: 2.36%; N Share: 2.53%
Net Expense Ratio*: I Share: 0.91%; I2 Share: 0.98%; N Share: 1.16%
* The Adviser has contractually agreed to waive fees and reimburse expenses through August 1, 2026.

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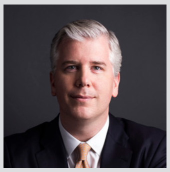


**Bill Campbell**
Portfolio Manager
Global Sovereign & Emerging Markets


Mr. Campbell joined DoubleLine in 2013. He oversees the firm's Global Sovereign & Emerging Markets team and serves as the lead Portfolio Manager for the firm's emerging markets and international strategies. He is a permanent member of the Fixed Income Asset Allocation Committee. Prior to DoubleLine, Mr. Campbell worked for Peridiem Global Investors as a Global Fixed Income Research Analyst and Portfolio Manager. Prior to that, he was with Nuveen Investment Management Co., first as a Quantitative Analyst in the Risk Management and Portfolio Construction Group then as a Vice President in the Taxable Fixed Income Group. Mr. Campbell also worked at John Hancock Financial as an Investment Analyst. He holds a B.S. in Business Economics and International Business, as well as a B.A. in English, from Pennsylvania State University. Mr. Campbell also holds an M.A. in Mathematics, with a focus on Mathematical Finance, from Boston University.

### About the Global Sovereign & Emerging Markets Team

The Global Sovereign & Emerging Markets team at DoubleLine manages $13 billion in assets in sovereign debt, including U.S. Treasuries and non-U.S. sovereign issues, and corporate fixed income securities by issuers domiciled in ex-U.S. developed and emerging markets. The team comprises 14 investment professionals, including portfolio managers, analysts and traders.

### About DoubleLine

DoubleLine Capital LP is an investment adviser registered under the Investment Advisers Act of 1940. DoubleLine's offices can be reached by telephone at (813) 791-7333 or by email at Info@DoubleLine.com. Media can reach DoubleLine by email at Media@DoubleLine.com.

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