



Emerging Market Debt: The missing piece in global credit

Rising fiscal pressure and heightened bond-market volatility are prompting allocators to reassess fixed income portfolios. Increasingly, global diversification is viewed as a way to enhance resilience. Against this backdrop, Emerging Market (EM) Debt warrants greater attention and a larger role in portfolios.

The fast view

- **Yield advantage:** EM Debt provides a meaningful yield premium relative to US High Yield.
- **Strong fundamentals:** Fiscal discipline and proactive monetary policy are typical features of today's EM Debt investment universe, providing solid macroeconomic foundations.
- **A deep and diversified market:** Over two decades, EM Debt has evolved into an \$8+ trillion market – spanning oil exporters in the Gulf, technology leaders in Asia, and resource-rich economies in Latin America.
- **Compelling entry point:** EM Debt currently offers attractive valuations in terms of credit spreads and real yields, creating a compelling opportunity to enter the asset class.
- **Portfolio construction benefits:** EM Debt enhances portfolio diversification and can serve as a global complement to US credit exposure, without sacrificing returns.

Defining the EM Debt opportunity set

	Hard Currency Sovereign	Hard Currency Corporate	Local Currency Sovereign
Definition	Debt issued by EM governments and companies that are 100% state-owned. Denominated in US dollars (or, e.g., euros).	Debt issued by companies based in EM economies, usually denominated in US dollars (or, e.g., euros).	Debt issued by EM governments that is denominated in the domestic currency of the issuer.
Index*	JP Morgan EMBI Global Diversified	JP Morgan CEMBI Broad Diversified	JP Morgan GBI-EM Global Diversified
Number of markets	69	67	19
Index market cap.	US\$1.3 trillion	US\$1.2 trillion	US\$6 trillion
Average credit rating	BB+	BBB-	BBB+

Source: Ninety One, JP Morgan EMBI Monitor, as of 31 August 2025. *The indices shown are those that are most commonly adopted as a primary benchmark by investment managers.

1. Yield advantage

EM Debt has attracted increasing attention in recent months, particularly the EM Hard Currency Debt market, where higher yields and global diversification are available for a similar credit quality.

The chart below illustrates that the EM Hard Currency market (50% of which is investment grade) offers a yield pick-up of c.50bps relative to the US High-Yield market. A more like-for-like comparison – focusing only on the high-yield part of the EM Debt market – reveals an even more pronounced yield pick-up (c.250bps).

EM Debt offers a yield pick-up over US High-Yield Debt



Source: Bloomberg, JPMorgan, BofA, Ninety One, as of 31 August 2025. The chart focuses on the EM Hard Currency Debt market.

2. Strong fundamentals

The asset class has evolved and strengthened. Today, it is underpinned by robust governance dynamics. Despite lingering misperceptions, many EM policymakers have demonstrated greater fiscal discipline and earlier monetary policy action than their developed market peers. As a result, EM economies appear increasingly robust across a variety of metrics: debt to GDP stands at 81% (vs. 124% in the US), and the current account balance is at 0.3% surplus vs. the 3.1% deficit in the US¹.

In addition to clear evidence of fiscal prudence among EM policymakers, EM monetary policy has also been disciplined. Drawing lessons from past inflation cycles, EM policymakers were among the first to respond to rising prices post-COVID-19 – a pattern that helped rein in inflation, stabilize real yields, and support local currency assets.

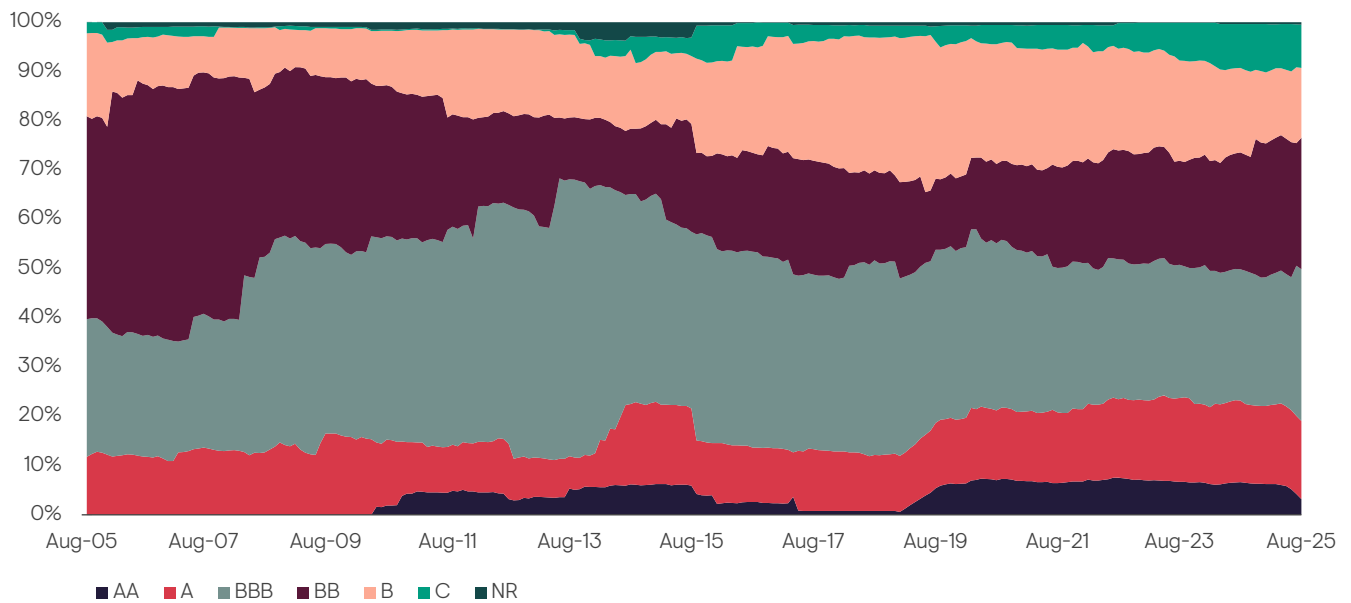
¹ Source: IMF October 2024 WEO, JPMorgan benchmarks, Ninety One calculations. EM covers 19 emerging markets in the JPMorgan GBI-EM. Where applicable, data is weighted by GDP.

3. A deep and diversified market

EM Debt has evolved over the past two decades into a significant and diversified segment of the global fixed income market. The flagship EM Hard Currency Debt index has become a truly global investment universe. The inclusion of predominantly investment-grade Gulf Cooperation Council countries has lifted the Middle East's share to around 16%, while fast-growing frontier markets now account for roughly 28%.

The EM Local Currency Debt market has also matured, spanning technology-driven economies, global manufacturing hubs, and commodity exporters. Credit quality has strengthened here as well, and a growing cohort of frontier markets offer active investors additional yield potential.

The EM Debt market offers robust credit quality

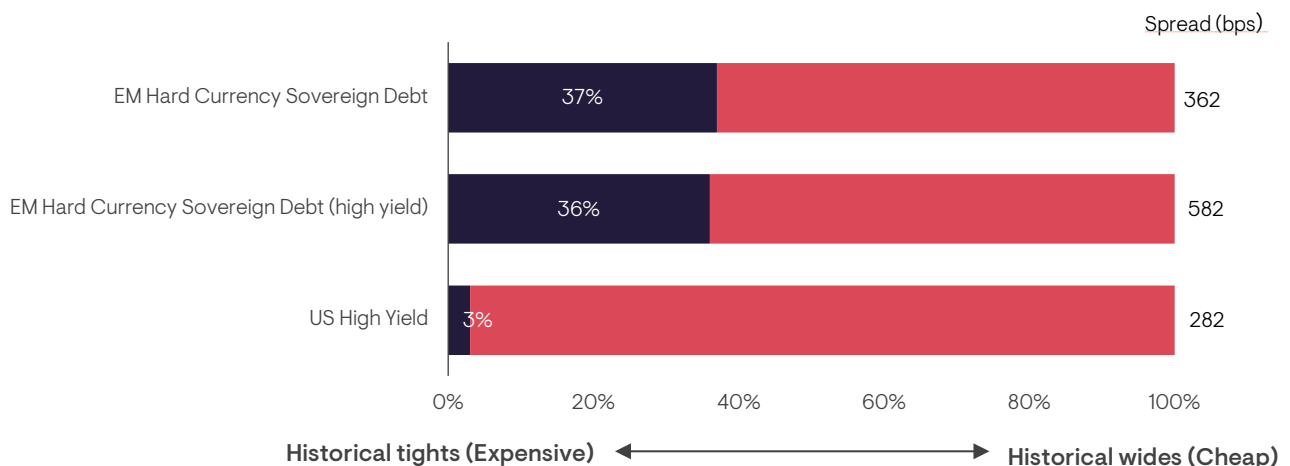


Source: JPMorgan EMBI, as of 31 August 2025. NR = not rated.

4. Compelling entry point

Beyond the long-term structural rationale for the asset class, current valuations and spreads further highlight the near-term opportunity, offering an attractive entry point for investors. Spreads in the EM Hard Currency Debt market are notably wider relative to their 10-year history than those in the US High-Yield market, where spreads are near their tightest levels. This suggests greater potential for credit spread compression compared with developed market credit.

EM Debt valuations remain compelling



Source: Bloomberg, JPMorgan, Ninety One Calculations, 31 August 2025.

5. Portfolio construction benefits

Each part of the EM Debt asset class has something distinct to offer investors as each is driven by specific economic forces. Investors who opt for a single, blended portfolio (e.g., comprising 50% EM Local Currency Debt, 25% EM Hard Currency Sovereign Debt and 25% EM Corporate Debt) can seek to better navigate the full EM cycle – benefiting from the divergent dynamics across the asset class while also capturing bottom-up selection opportunities across and within markets.

Asset class	Drivers
Local Currency Bonds (FX hedged)	Rate market moves: inflation, monetary policy, growth, fiscal policy
EMFX	Balance of payments, monetary policy, interest rate differentials
Hard Currency Bonds	Credit spread moves: growth, external balances, balance of payments, fiscal policy

Source: Ninety One.

Portfolio construction considerations for US investors

- From US HY → Increasing diversification without sacrificing yield
- From Leveraged Loans → Global diversification, similar yields with improving fundamentals
- From Core Plus FI → Yield booster with differentiated return drivers

In conclusion

EM Debt has evolved and strengthened – it deserves a place in global credit portfolios. Today, the asset class offers a useful yield pick-up, robust credit quality, and diversification benefits. Underpinned by disciplined fiscal and monetary frameworks, EM Debt stands on firmer footing than in previous cycles, and current valuations make the entry point attractive.

Further reading

Deliberating EM debt series | June 2025



Investing for a world of change

Reframing fixed income: the old rules are no longer fixed



Peter Kent
Co-Head of Emerging Market Fixed Income

Bond markets are in a new regime – ‘safe havens’ are no longer acting as such, and investors can no longer expect asset classes to behave as they have done historically. As a result, asset allocation approaches need a reboot, and portfolio diversification has never been such a virtue.

The new market regime

One thing that’s clear from the recent market turmoil is that asset classes are not behaving as they should. Traditional ‘safe haven’ debt markets have entered a new (higher) volatility regime, while supposedly ‘risky’ areas of the market have shown surprising resilience. The once distinct line between developed market (DM) and emerging market (EM) assets appears to have blurred. This, together with other macroeconomic and geopolitical shifts, has profound implications for asset allocators.

Unexpected behaviour in bond markets – a blurring of lines

Back in 2022, we began alerting investors to an apparent regime shift in bond markets. Recent market events suggest this is more than a fleeting move – a fundamental shift appears well underway.

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Deliberating EM debt series | August 2025



Investing for a world of change

Right place, right time: EM local currency debt today



Christine Reed
Portfolio Manager



Balwinda Heckett
Portfolio Specialist

With global portfolios in flux, EM local currency debt deserves a second look. A decade-long structural evolution has reshaped the market and enhanced its investment appeal.

Back on the radar – a renewed focus on EM local currency debt

Today, asset allocators are looking more closely at some of their underweight allocations, with asset classes like emerging market (EM) local currency debt back in the spotlight as a result.

A shift in asset-class behaviour is a key factor behind this renewed focus. Heightened volatility in developed market (DM) assets highlights a trend we have noted since 2022: traditional ‘safe haven’ debt markets have entered a new (higher) volatility regime, while supposedly ‘risky’ areas of the market – notably emerging market EM debt – have shown surprising resilience. In addition, financial markets are digesting the implications of a new era for US fiscal risks and the potential new cycle for the US dollar.

Few would dispute that EM local currency debt has been out of investor favour in recent years, not least given the lacklustre performance of the past decade or so, with the extended US dollar rally eroding returns. But the dollar is may be turning, and with real (inflation-adjusted) yields in the EM debt market today at historically elevated levels, even a modest dollar decline could offer meaningful upside to the EM local currency debt asset class.

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Emerging market (inc. China): These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems.

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