



Emerging Market Debt Indicator

The fast view

Market overview

Improving prospects for US interest-rate cuts set a positive tone in markets, which proved relatively immune to US trade tariffs coming into force. Greater appetite for risk meant another strong month for high-yield debt markets, while local currency markets benefited from the US dollar turning weaker again.

Top-down positioning

We have increased our top-down risk target – we are now overweight in EM local rates and EMFX. Attractive real (inflation-adjusted) yields and expectations of further monetary policy easing in EM are supportive of rates, while the weaker path of the US dollar is positive for EM currencies.

Africa

Easing inflation led to rate cuts in various countries, including Egypt and Kenya, while improvements in commodity production provided a boost to several African economies. Fiscal data highlighted progress in Senegal.

Asia

In a noisy month in politics and geopolitics, Thailand's incumbent prime minister was removed from office, protests broke out in Indonesia, and India's trade-tariff burden rose further. A rating upgrade for India and robust economic data in other regional economies were among the positives.

Latin America

Several economies benefited from lower-than-expected inflation prints, including Argentina, Peru and Uruguay. Local bond markets performed particularly well across the region, led by Mexico and Uruguay, while currencies also strengthened.

Central and Eastern Europe, Middle East, and South Africa

Economic data was mixed across the region, with robust growth in Czechia, Poland and Turkey contrasting with softer data in Romania and Hungary. Elsewhere, a turnaround in manufacturing sector activity and rising mining production helped lift South African assets.

EM corporate debt highlights

Emerging market corporates rose 1.3% in August, with gains across the board. High-yield debt led the way, lifted by a tightening of credit spreads as risk appetite improved. The dovish tone of the US Federal Reserve, together with strong investor inflows into the asset class, also helped returns.

Market background

All areas of the emerging market (EM) fixed income asset class posted gains, thanks to a combination of US dollar weakness, lower US Treasury yields, and improved investor sentiment. The market reaction to US trade tariffs taking effect on 7 August was subdued overall.

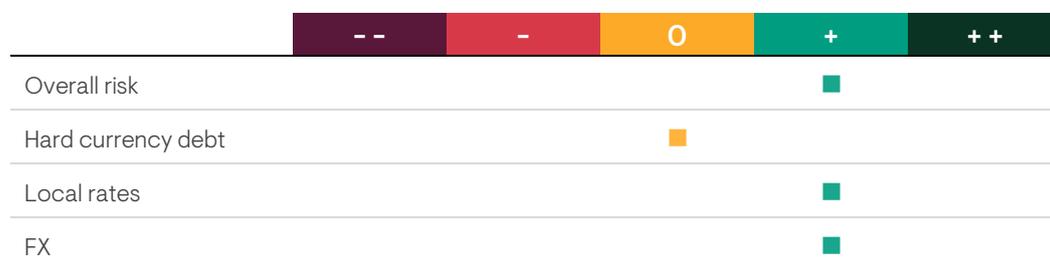
In the US, a combination of weaker labour-market data, dovish signals from the US Federal Reserve (Fed), and political machinations drove US Treasury market moves. Improving prospects for interest-rate cuts boosted short-dated government debt, while rising political and fiscal risks weighed on longer-dated bonds. The upshot was a notable steepening of the US yield curve.

The sovereign hard currency market (JPMorgan EMBI GD) delivered a positive return of 1.6%. High-yield markets outperformed again, thanks to improved appetite for risk. Meanwhile, investment-grade markets benefited from the fall in US Treasury yields, reflecting rising expectations of a rate cut by the Fed. Stronger investor sentiment meant riskier markets, such as Venezuela and Lebanon, were the top performers. In contrast, Argentina's debt market underperformed as allegations of government corruption stole the headlines.

It was a stronger month for the local currency debt market (JPMorgan GBI-EM GD), which gained 2.2% overall in US dollar terms – reflecting positive performance of currency and rates markets. In a reversal of the weakness seen in July, several Latin American currencies outperformed, with easing concerns over the fiscal outlook for Brazil also boosting government bonds there. In contrast, India's local currency bonds sold off as proposed tax cuts sparked fiscal concerns, and the rupee weakened as the implementation of hefty US tariffs continued to weigh on sentiment. Elsewhere, some African markets – including Egypt and Kenya – benefited from interest rate cuts.

Top-down views and outlook

Current top-down positioning



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We have increased the strategy's top-down risk to overweight from neutral. This reflects a more benign global growth outlook, easing trade-related concerns, and the ample liquidity still being provided by EM central banks. A growing cohort of market participants is moving to short-dollar positioning, and the longer-term de-dollarisation trend continues to provide a structural tailwind for non-US dollar assets.

We have moved from neutral to overweight in the EM local rates market. Attractive real (inflation-adjusted) yields provide a cushion against inflation risks, and central banks still have room to ease monetary policy, particularly in Brazil, Peru, and South Africa – with currency stability helping in this regard.

We are also overweight EM FX. The outlook is supported by the weaker path of the US dollar, rising risks to growth in developed market economies, and expectations of a more accommodative Fed (lower interest rates in the US and other developed market economies enhance the relative appeal of the already elevated yields on offer in EM currencies). In addition, the structural trend of investment portfolios diversifying away from US assets continues to underpin EM currencies.

Our top-down positioning in EM hard currency debt remains neutral. Here, supportive demand and supply dynamics are offset by less compelling valuations following the recent market rally.

Outlook

Global economic uncertainty remains elevated, with trade policy still a central focus for markets. Encouragingly, financial markets' overall volatility and sensitivity to tariff headlines have eased, as evidenced by the muted reaction to recent tariff announcements. A softer US payrolls report has introduced additional uncertainty around the timing of Fed rate cuts, while steepening developed-market bond yield curves reflect mounting fiscal concerns. In contrast, EM yield curves have remained broadly insulated from these moves, as central banks in various EM economies continue to cut rates in line with local inflation and growth dynamics. EM FX stability adds a further buffer, reinforcing EM economies' relative independence and supporting the asset class against global headwinds.

Regional highlights

Africa

The Central Bank of **Egypt** resumed its easing cycle with a 200 basis point (bps) rate cut, exceeding the 100bps expected. The decision followed lower-than-expected headline inflation, driven mainly by food prices, which leaves real (inflation-adjusted) interest rates at high levels. The central bank governor's term was extended for another year, providing some policy continuity as he **committed to continuing to build FX reserves** and maintaining a flexible, unified exchange rate. Remittance inflows remained robust, while progress on an investment package with Qatar supported Egypt's hard currency bonds.

In **Senegal**, the IMF concluded its mission and released a broadly constructive statement on the debt-misreporting case, also signalling that negotiations for a new programme have begun. The president confirmed a fiscal adjustment plan targeting a lower deficit of 3% by 2027, with 90% of financing to be sourced domestically. Fiscal data also highlighted progress, with just 37% of the deficit target used over the first half of 2025, underscoring ongoing consolidation efforts.

Kenya's central bank cut rates by 25bps to 9.5%, in line with expectations. Financing pressures eased with the approval of a World Bank loan, while S&P upgraded Kenya's rating to B, citing strong external rebalancing and manageable short-term debt. An IMF mission is due in September, possibly to discuss a potential new programme, though the scope remains unclear.

Zambia completed its IMF programme review, but its debt carrying capacity score was downgraded; long-dated hard currency bonds underperformed. In an attempt to boost market confidence on fiscal discipline, the government requested a 12-month extension of the programme to October 2026, which would cover the presidential election in August 2026. The central bank kept rates unchanged at 14.5%, with inflation remaining above the 6–8% target range. First Quantum began commissioning a US\$1.25 billion expansion of the Kansanshi mine, which is expected to add 250,000 tons of copper production.

Angola's oil production outlook has stabilised with a new well coming online. The budget deficit year-to-date narrowed to 0.6% of GDP, down from 1.1% last year, reflecting modest fiscal improvement. However, S&P affirmed the country's rating at B-, while highlighting the risks of rising deficits going forward.

Inflation in **Nigeria** has continued to ease gradually, although persistently high food prices are slowing the pace of disinflation. Oil production increased to 1.8 million barrels per day, boosting revenues.

Asia

China's economic data painted a mixed picture over the month. The services PMI came in stronger than expected at 52.6, while manufacturing improved slightly to 49.4 – remaining in contractionary territory. Exports outperformed expectations, driven by shipments to Thailand and Vietnam, though sales to the US remained weak. CPI inflation edged into positive territory, but credit data disappointed, highlighting subdued borrowing demand. In response, the authorities announced subsidies on personal

consumption loans, which is a step in the right direction if done on a larger scale. Retail sales, industrial production, and housing data were also weaker than expected, underscoring ongoing concerns about falling supply and demand as the government tries to tackle the overcapacity in the economy. Market performance reflected these dynamics: although the mixed macro data weighed on sentiment, China's equity market proved resilient, dragging bond yields higher as investors rotated into the riskier asset class. The renminbi was supported as the People's Bank of China (PBoC) set a stronger fixing against the US dollar.

In **India**, the rupee came under pressure after the US government introduced an additional 25% tariff on Russian oil imports, raising the total tariff burden on India to 50%. GDP data was mixed, with nominal growth slowing but lower inflation resulting in better-than-expected real GDP. The Reserve Bank of India kept rates on hold but sounded more hawkish than the market had expected. Meanwhile, Prime Minister Modi announced consumption tax reforms to help boost growth. While positive for inflation, it sparked some fiscal concerns, which weighed on the local bond market. In contrast, hard currency bonds benefited from an S&P credit rating upgrade, from BBB- to BBB.

Indonesia experienced political turbulence during the month. Protests erupted over a proposed housing allowance for MPs, prompting Bank Indonesia to intervene in currency markets before the policy was eventually scrapped. GDP growth of 5.1% in Q2 exceeded expectations of 4.8%, though the market reaction was muted. The central bank surprised markets with a 25bps rate cut to support growth and flagged scope for further easing, benefiting local bonds. Inflation data for August was lower than expected, while trade data beat expectations as exports outperformed.

Thailand's central bank cut its policy rate by 25bps to 1.5% as expected, prompting a modest rally in local bonds, although the deputy governor stressed limited room for further easing. Inflation readings were lower than expected, while growth was slightly better than forecast, supported by export frontloading. Political uncertainty intensified after the incumbent prime minister was removed from office and parliament was dissolved by the caretaker prime minister, a move later barred by the Privy Council in early September. Despite the noisy political backdrop, the Thai baht strengthened in August, supported by the softer US dollar and firmer gold prices.

South Korea's economy benefited from stronger-than-expected exports, particularly in the semiconductor and automotive sectors, which helped drive a record monthly current account surplus. Inflation also eased in line with expectations, and the Bank of Korea kept rates unchanged.

In the **Philippines**, the central bank cut rates as expected, but hawkish commentary post-decision suggested it was nearing the end of its easing cycle, prompting bond yields to rise. Inflation remained low and below the target range, while GDP growth was slightly better than expected. Investor demand was strong for the five-year retail bond issuance, which helped strengthen the peso.

Taiwan reported robust trade data, with exports surging above expectations at 42% year-on-year, and a July trade surplus of US\$14.3 billion. GDP growth of 8% was in line with expectations, while industrial production also came in strong. Despite these positive indicators, the Taiwan dollar underperformed, weighed down by equity outflows from the technology sector.

Malaysia posted slightly stronger economic data, with the final GDP print at 4.5% year-on-year, 0.1% higher than the preliminary estimate. Exports also showed resilience, rising 7% year-on-year.

Latin America

Argentina's political backdrop remained unsettled as President Milei's sister (who is the General Secretary) became embroiled in a corruption scandal. This has come at a time when Milei's popularity has been in decline ahead of October's mid-term elections and the Buenos Aires regional elections in September, both key gauges of support for Milei's macroeconomic adjustment programme. Asset prices came under pressure as a result. The IMF completed its first review, disbursing US\$2 billion as expected, while the announcement of a US\$15 billion FDI plan was another positive development. Inflation continued its downward trend, with July printing 1.9% month-on-month, the third consecutive sub-2% reading, despite FX weakness.

Brazil's economic backdrop softened, with the PMI remaining below 50, industrial output weakening, and job creation data disappointing. Retail sales and confidence indicators also fell. Meanwhile, fiscal

concerns eased, following a fall in President Lula's popularity. This, combined with the weaker macro data, helped drive local yields lower, and Brazilian local debt outperformed.

In **Chile**, dovish central bank minutes initially signalled scope for further easing, but higher-than-expected inflation has since complicated the policy path from here. The central bank also announced a gradual US\$18 billion FX reserve accumulation programme over three years, but this is small relative to the daily traded volumes.

The central bank in **Colombia** held rates steady against expectations for a cut, though the board was divided on the decision. The bank also revised its inflation forecasts higher. Government bond buybacks continued, with the purchase of long-dated dollar bonds supporting prices. Meanwhile, strong data and the bank's decision to keep rates on hold pushed local yields higher.

Mexico's central bank cut rates by 25bps, delivering a dovish statement that pointed to further easing as inflation continues to improve. Q2 current account data was weaker than expected, with a modest US\$200 million surplus versus expectations of US\$5 billion, reflecting weaker remittances and a wider services deficit. Pemex bonds benefited from government support for the state-owned company, while the Mexican peso performed well given US dollar weakness and the extension of trade negotiations.

Inflation fell back below 2% in **Peru**, which was much lower than expected and brings it within the target band. Despite this, the central bank kept rates on hold as expected. Local bonds performed strongly on the back of the softer inflation. Similarly, inflation in **Uruguay** was lower than expected and local bonds performed well, although here there was a further 25bps rate cut.

In the **Dominican Republic**, Moody's upgraded the sovereign rating to Ba2 (from Ba3) with a stable outlook. Inflation was lower than expected, while the central bank left rates unchanged at 5.75%. Market performance was mixed, with lower yields supported by the inflation print, but the peso came under pressure as the central bank injected liquidity.

El Salvador's congress passed a constitutional reform allowing indefinite presidential re-election. While markets were largely unresponsive, the move has raised concerns about governance.

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

In **Turkey**, inflation printed below expectations in July, reinforcing expectations that the central bank will cut rates at its next meeting in September. This helped local currency bond yields to fall. Growth remained resilient, with strong Q2 GDP data underscoring solid economic momentum.

Assets in **Ukraine** were buoyed earlier in the period by optimism around ceasefire progress, following US sanctions on India relating to Russian oil imports and the Trump-Putin summit. This led to a bond rally, although gains have since partially unwound as progress has stalled.

Assets in **South Africa** were broadly firmer in August, buoyed by the prospect of easing monetary policy in the US. Demand for higher-yielding local debt saw South Africa's 10-year government bond yield edge lower to around 9.6%. The rand was among the standout performers among EM currencies, with further support from increased appetite for domestic assets. Annual inflation reaccelerated slightly in July to 3.5%, in line with expectations, while core inflation rose to 3.0%. After nine months of contraction, manufacturing activity returned to expansionary territory, with the Absa PMI increasing to 50.8 in July. Mining production beat market expectations, rising by 2.4% in June from 0.3% in May. At the end of the month, the South African Reserve Bank (SARB) and the Treasury issued a joint statement confirming that they are unified on lowering the inflation target, providing some clarity for markets.

In the Middle East, bonds in **Lebanon** were supported by continued reform efforts and rising hopes of progress towards an IMF deal.

Turning to Central and Eastern Europe, **Czechia's** economy continues to perform well, with Q2 GDP revised higher and domestic consumption holding up strongly. Industrial output was also robust, reinforcing the positive growth momentum. Inflation remains broadly in line with expectations, with some signs of core inflation moderation. Nevertheless, the central bank maintained a hawkish stance, signalling that the current easing cycle has likely ended, although further cuts were not ruled out.

In **Romania**, the fiscal consolidation package adopted by the government in July had an immediate inflationary impact, primarily due to an increase in energy prices after these were liberalised. As a

result, the July CPI print was higher than expected and is forecast to remain elevated, potentially approaching 10% in the coming months as VAT hikes add further upward pressure. The central bank appears willing to look through this spike, as policymakers do not expect the rise in inflation to trigger higher wage demands, given the underlying weakness of the economy.

Poland has emerged as the strongest growth story in the region, with Q2 GDP confirming robust expansion. This was further supported by better-than-expected industrial output and retail sales. The latest inflation data post month-end came in below expectations, potentially creating room for the National Bank of Poland to cut rates. However, risks are accumulating on the fiscal front, as the government revised the budget deficits higher for 2025 and 2026, which may influence the central bank's policy stance.

Meanwhile, **Hungary** remains the weakest growth story, with industrial production revised down, while the end-consumer showing signs of improvement did not translate into stronger retail sales. Inflation was also higher than expected, and the central bank maintained a hawkish tone, keeping rates on hold. This helped boost the Hungarian forint, with strong demand for the carry trade. On the fiscal side, the government announced further measures ahead of the election in 2026.

In **Serbia**, anti-government protests in Belgrade have escalated. This is now weighing on market sentiment, with spreads widening in response to the heightened political risk.

EM corporate debt highlights

US Treasury market moves provided a boost to the EM corporate debt market (JPMorgan CEMBI BD), which returned 1.3%, with all sectors and regions adding positively to performance. Credit spreads continued to tighten in the high-yield part of the market over the month, benefiting from positive investor sentiment relating to Fed Chair Powell's dovish speech – with healthy inflows into the asset class also helping. While negative sovereign headlines caused Argentina's corporate debt market to underperform, sentiment improved in Colombia as the government continued its sovereign bond buyback programme.

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