February 2025

Emerging Market Debt Indicator

The fast view

Market Overview

With US Treasury yields falling sharply and geopolitical developments dominating headlines, financial markets remained volatile. Despite this, emerging market (EM) assets remained resilient.

Africa

Kenya's central bank cut interest rates as inflation eased, and the issuance of a new Eurobond was well received by investors. In contrast, inflation accelerated in Zambia, prompting a rate rise. Ghana's new administration reaffirmed its commitment to spending cuts and the IMF programme.

Asia

The People's Bank of China maintained stability in the renminbi while allowing bond yields to adjust higher. India's central bank intervened to stabilise the rupee. Central banks in Indonesia and the Philippines kept interest rates unchanged, defying market expectations of rate cuts.

Latin America

Under a cloud of tariff-related uncertainty, Mexico's central bank cut rates and revised down the growth forecast. In contrast, Chile's central bank signalled a hawkish shift amid rising inflation expectations. A surprise outcome in the first round of Ecuador's presidential election weighed on bond prices there.

Central and Eastern Europe, Middle East, and South Africa

Heightened geopolitical uncertainty meant a volatile month for Ukrainian bonds and weighed on some Middle Eastern bond markets. Turkish bonds sold off on inflation-related uncertainty. Inflation was also higher than expected across the CEE region.

EM corporate debt highlights

Another month of positive returns across both the investment-grade and high-yield parts of the market despite a slight widening of credit spreads.

Werner Gey van Pittius
Co-Head of Fixed Income

Market background

US Treasury yields fell significantly in February, with the 10-year yield ending the month at 4.2% after spiking to above 4.6% earlier in the month. Conflicting forces driving this volatility included a weakening of market sentiment and mixed macroeconomic signals: US inflation (CPI) data exceeded expectations, and inflation forecasts rose, but weaker-than-expected services PMI data indicated a contraction in economic activity. US trade tariff uncertainty continued, with tariffs imposed on China, Mexico and Canada in early March. Federal Reserve Chair Powell suggested that tariffs could increase inflation, dampening expectations of rate cuts; as of the end of February, the market was pricing in c.70bps of cuts by December 2025.

Against a volatile global backdrop, the emerging market (EM) fixed income asset class delivered positive returns in February.

The local currency debt market (JP Morgan GBI-EM) gained 0.7%, driven by bonds – EM currencies were broadly flat on the month. Latin American markets were among the top performers, with Mexico's bonds benefiting from further dovish comments from the country's central bank. In contrast, Turkey's local bonds underperformed as a higher-than-expected inflation print added uncertainty around the central bank's rate-cutting cycle.

Hard currency sovereign markets performed well, with the JP Morgan EMBI posting a 1.6% gain. This was led by investment-grade bonds (2.3%), which benefited from the fall in US Treasury yields. The high-yield part of the market gained 0.9%, boosted by a rally in some more distressed markets, such as Lebanon, which is moving closer to an IMF deal. Underperforming markets included Ecuador, which sold off meaningfully after the opposition candidate performed much better than expected in the first round of the country's presidential elections.

Top-down views and outlook

Top-down positioning at the end of February 2025

	- -	-	0	+	+ +
Overall risk				■	
Hard currency debt				■	
Local rates			■		
FX				■	

For illustrative purposes only. For further information on the investment process, please see the important information section.

From a top-down risk perspective, we retain an overweight risk target. We remain positive on the overall outlook for the asset class and continue to express our bottom-up investment views through active relative-value positioning across this increasingly diverse opportunity set.

While the Trump administration's policies may pose risks to the global inflation outlook, we remain constructive on the longer-term outlook for EM rates markets: a broad softening of inflation across EM economies means that real (inflation-adjusted) yields remain attractive, which is a key driver of long-term asset class returns. Across parts of EM, recent central bank rhetoric suggests a focus on addressing risks to economic growth. The overall trajectory of US monetary policy gives us increased confidence that EM central banks will be able to continue cutting rates. We maintain a modest overweight in EM FX, supported by positioning and valuations.

In EM hard currency, our top-down target remains slightly overweight, with exposure leaning towards the higher-yielding portion of the market. Here, we remain constructive on markets that are supported by positive country-specific dynamics and sufficiently high yields to cushion against potential

volatility. In addition, we have recently added to higher quality duration risk through the new bond supply in the first quarter to take advantage of improved valuations in investment-grade issuers.

Outlook

Attractive yields and proactive monetary policies are supportive for the emerging market (EM) debt asset class. However, global economic uncertainties - particularly related to US policy direction, trade tariff dynamics – in addition to volatility in global financial markets - call for measured optimism from investors.

The reaction of EM assets to rising US Treasury yields and a stronger US dollar since the US election has been relatively modest. US Treasuries sold off in the weeks following Trump's election win, based on expected policy changes and associated fears that the US deficit could rise, and inflation could return. However, since the start of the year, US Treasuries have rallied back, with the market continuing to price in rate cuts this year.

Against this backdrop, the performance of EM assets reflects several factors: resilient global growth and robust fundamentals in EM economies; light market positioning; and central banks focussing on risks to the growth outlook rather than inflation fears. That said, uncertainty remains around US policy and its potential impact on EM economies; short-term market volatility is likely to continue and could present investment opportunities.

We maintain a positive view on the medium-term outlook for EM debt asset class returns. EM resilience is being supported by strong domestic reform agendas, especially in frontier markets where overall funding needs are manageable, and yields remain attractive.

Regional highlights

Africa

Remittance inflows were strong in **Egypt**, growing 100% year on year following changes in the FX regime, and supporting external balances. Moody's maintained its Caa1 rating with a positive outlook, reflecting cautious optimism. The central bank held policy rates steady at 27.25% despite inflation easing to 24%, signalling a conservative stance to anchor expectations. However, recent hard currency bond issuance weighed on market sentiment, with geopolitical uncertainty surrounding US policy on Gaza adding to investor caution.

The Central Bank of **Kenya** (CBK) cut interest rates by 50bps to 10.75% as inflation eased to 3.3%. The government successfully issued a new Eurobond, which was well received by investors, further supported by a US$1.5 billion credit line from the UAE – providing a more diversified funding base. The country's local bonds benefited from low inflation and rising reserves, while expectations for a newly funded IMF programme added further tailwinds.

In **Ghana**, the new administration continued discussions with the IMF, focusing on fiscal consolidation and programme progress. The market is closely watching the upcoming budget announcement on 11 March and the IMF mission in April. Local bonds performed strongly as the government reaffirmed its commitment to spending cuts and the IMF programme, while hard currency bonds have also seen strong year-to-date performance.

The new government in **Senegal** revealed that there was undeclared spending under the previous government, raising fiscal concerns. The administration is working with the IMF on a fiscal consolidation plan, aiming to prevent a downgrade to CCC later in the year. Moody's downgraded Senegal's rating to B3 with a negative outlook, but the country has so far avoided a CCC classification.

Inflation was rebased in **Nigeria**, falling from 34% to 24%, while the central bank has opted to maintain its policy stance. Continued foreign portfolio inflows have supported the naira, while rising oil production has further strengthened external balances. Real rates have turned positive, suggesting the current monetary policy environment is tight – this helped sentiment towards the country's local currency bonds.

In **Zambia**, inflation accelerated to 16.8%, driven primarily by food prices. In response, the central bank raised rates by 50bps to 14.5%, continuing its tightening cycle. The market focus remains on inflation dynamics and potential further rate hikes.

The government in **Angola** is considering a 25% public sector wage increase to avert strikes. Meanwhile, authorities are pursuing external financing, planning Eurobond issuance of between US$1.5 billion and US$3 billion, and are in talks with BBVA for a US$1 billion loan, following a similar arrangement with JP Morgan. These measures aim to stabilise funding, especially as the government is reducing its reliance on Chinese loans.

Asia

Funding conditions in **China** remained tight over February, as the People's Bank of China (PBoC) aimed to keep the renminbi stable and allowed bond yields to re-adjust higher after the sharp fall in yields over Q4 2024. The PBoC's hawkish tilt tempered expectations of a reserve requirement ratio (RRR) cut, with the 7-day repo rate rising above 2%. Weaker sentiment towards the country's bonds contrasted with rising optimism around China's equity market, which performed well, led by a surge in the tech sector following strong earnings and large capex announcements from Alibaba. The Chinese renminbi remained stable, however, the US tariff deadline of 4 March loomed over markets in February (20% tariffs were implemented in early March, with a muted market reaction). Key to watch will be the National People's Congress meetings in March, where authorities may announce growth stimulus measures to combat potential tariffs.

The Reserve Bank of **India** (RBI) took aggressive measures to stabilise the rupee, and offset this liquidity drain with open market operations. Local bonds outperformed following a rate cut from the central bank, while the rupee was under pressure from an increasing short selling activity. GDP data for Q4 2024 met expectations, with an upward revision to Q3 figures.

The Bank of **Korea** delivered a widely anticipated 25bps rate cut in a unanimous vote. Consumer confidence rebounded following political instability late last year. Early export data for February showed a sharp rebound, though base effects from the Lunar New Year and a front loading of exports ahead of potential tariffs distorted the figures. Semiconductor exports remained soft for a second consecutive month despite overall export strength.

Bank **Indonesia** unexpectedly held rates steady, countering market expectations for a cut. This led to a bear flattening of the yield curve on the day. The rupiah performed well given the central bank's intervention, with US dollar weakness also playing a role.

In the **Philippines**, the central bank surprised markets by holding the key policy rate steady amid global uncertainties and despite expectations for a cut. The decision was driven more by external risks than domestic factors. The bank did, however, cut the reserve requirement ratio. Meanwhile, the balance of payments saw a significant decline due to external debt payments.

Taiwan's preliminary Q4 GDP growth came in at 2.9%, well above expectations of 1.8%, bringing full-year 2024 growth to 4.6%. AI-driven export demand remained strong, continuing to support economic momentum.

In **Singapore**, base effects and the rebasing of CPI to 2024 resulted in core inflation falling to 0.8% year-on-year. GDP growth for Q4 was revised higher, while industrial production met expectations. The Singapore dollar benefited from market participants reversing short positions following a less dovish-than-expected central bank statement in late January.

Q4 GDP data in **Malaysia** outperformed expectations, with inflation remaining stable. Unconfirmed reports of exporters repatriating US dollars to Malaysia boosted the ringgit.

Trade data in **Thailand** showed stronger-than-expected exports and imports, though imports were larger, leading to a weaker trade balance. The Bank of Thailand cut rates to support growth despite signalling a high bar for further easing. Meanwhile, PMI data moved into expansionary territory, exceeding 50.

Latin America

In **Argentina**, President Milei faced his first major political setback following the collapse of cryptocurrency LIBRE after his tweets about the currency. This was compounded by payments made

to his sister related to the matter. However, these issues appear to be fading and are unlikely to have a lasting impact on his political standing. Elsewhere, relations with the US remain positive, and on the economic front, activity continues to improve, and January saw a US$1 billion rise in reserves.

Economic indicators were weak in **Brazil**, with retail sales, services data, and PMIs all coming in below expectations, reflecting the impact of tighter financial conditions. The Ministry of Finance announced emergency credit for agriculture, raising concerns in the market about meeting the fiscal deficit target. Political developments added further headwinds, as President Lula is losing popularity, and the market reacted negatively to his appointment of a new congressional leader due to her opposition to spending cuts and the central bank's tight stance.

In **Mexico**, the US tariff situation remained uncertain for much of the month, with deadlines shifting multiple times (a 25% tariff was imposed on Mexico on 4 March). Inflation rose slightly but remained contained. The central bank cut rates by 50bps, reflecting a dovish stance amid a softer economic outlook. Q4 GDP data pointed to 1.5% growth for 2024, while February PMIs were soft. The central bank's quarterly report halved the 2025 growth forecast, and dovish commentary continued, leading to a large drop in yields.

Chile's central bank minutes reflected a hawkish pivot as inflation expectations rose, with policymakers even considering a rate hike later in the year. January retail sales rose strongly, driven by Argentinian consumers crossing the border to take advantage of the Argentine peso's relative strength.

GDP growth in **Peru** was 3.3% for 2024, and the Q4 current account surplus was 3% of GDP, driven by a robust trade balance. The central bank held rates steady, citing improved domestic activity and external uncertainties.

Colombia's central bank held rates steady at the end of January, contrary to expectations of a cut. Political instability remains a concern, with President Petro facing cabinet infighting that resulted in forced resignations, exposing fragilities in the Petro government. Fiscal challenges persist, with the 2024 deficit widening to 6.8% of GDP, significantly missing targets. Authorities defended compliance with fiscal rules, with much of the revenue shortfall justified on one-off factors.

The first round of **Ecuador's** presidential election delivered a major surprise, with the opposition candidate performing significantly better than expected. Markets had priced in a high probability of a Noboa victory in the first round, but the results led to a technical tie at 44%, setting the stage for a second-round runoff in April. Markets viewed this outcome as a negative surprise, with the country's hard currency bonds weakening meaningfully over the month.

The rally in US Treasuries supported hard currency bonds in **Panama**, while spreads tightened as discussions on social security reform continued, albeit at a slow pace.

Paraguay successfully issued US dollar and local currency bonds, with the dollar-denominated issuance seeing particularly strong investor demand. As expected, the IMF approved a new programme for **El Salvador**, which was already largely priced into markets. **Dominican Republic's** latest bond issuance performed well, reflecting solid demand. Fitch upgraded **Guatemala's** outlook to positive, signalling improved credit fundamentals.

Central and Eastern Europe, Middle East, and South Africa

Inflation was higher than expected in **Turkey**, prompting a sell-off in the country's local bonds. The higher-than-expected inflation print adds uncertainty around the disinflationary trajectory, but it is unlikely to stop the central bank from cutting. Despite inflationary pressures, growth indicators remain resilient. Meanwhile, political tensions persisted, with the ruling AKP party adopting an increasingly repressive stance toward opposition figures and business leaders. This weighed on domestic assets, with the Turkish lira coming under renewed pressure due to the ongoing dollarisation trend.

Inflation in **South Africa** met expectations, though growth indicators softened somewhat. The key fiscal development was the government's decision to delay the budget by a month (to 16 March), as policymakers struggled to reach an agreement on a proposed 2% VAT hike. The delay injects a degree of uncertainty into the outlook, with markets awaiting further clarity on fiscal policy.

In **Ukraine**, markets started to price in a higher probability of a ceasefire over February, although some of this has unwound in early March, given the news that the US has pulled its military aid. A newly

agreed mineral deal with the US was broadly received as a positive development for Ukrainian assets, however, the series of events in early March has created more uncertainty.

In the **Middle East**, the tentative ceasefire in Gaza remains in place at the time of writing. However, uncertainty over Gaza's future has exerted pressure on the credit spreads of neighbouring countries, notably Egypt and Jordan. In Lebanon, the distressed bond yields have continued to fall, supported by incremental positive news flow suggesting progress toward an IMF deal in the coming months. Within the investment-grade (IG) space, Qatar and Kuwait are set to exit the JP Morgan EMBI indices given three consecutive years above the "cost of living" threshold for index inclusion.

Turning to Central and Eastern Europe (CEE), inflation was consistently higher than expected across the region in January, driven largely by food and energy prices. In **Hungary**, there was a particularly concerning rise in the pace of service prices. The increase in regional inflation put pressure on local bonds early in the month, with central banks remaining fairly hawkish, especially in Hungary. The **Czech** National Bank was the only central bank continuing with its rate-cutting cycle, reducing rates by 25 basis points in early February and signalling the potential for further cuts.

Economic data in CEE continued to show weakness in the industrial sector, while consumer data improved, with retail sales exceeding expectations in **Poland** and in **Czechia**. In **Romania**, the start of the fiscal year in 2025 was rocky, marked by further fiscal slippage. In addition, the populist presidential candidate, who performed better than expected in last year's elections, is facing criminal charges, causing tensions between Romania and the US.

EM corporate debt highlights

The EM corporate debt market had a positive month, with the JP Morgan CEMBI climbing 1.5%. Both the investment-grade and high-yield parts of the market delivered positive returns (1.7% and 1.4%, respectively), with the rally in US Treasury yields a significant driving factor – offsetting a slight widening of credit spreads. All sectors posted positive returns, led by real estate and metals & mining. From a country perspective, Ukraine's bond market was the top performer as market participants priced an increased likelihood of a ceasefire.

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Australia

Level 28 Suite 3
Chifley Tower
2 Chifley Square
Sydney, NSW 2000
Telephone: +61 2 9160 8400
australia@ninetyone.com

Hong Kong

Suites 1201 – 1206, 12/F,
One Pacific Place
88 Queensway, Admiralty
Telephone: +852 2861 6888
hongkong@ninetyone.com

South Africa

36 Hans Strijdom Avenue
Foreshore
Cape Town, 8001
Telephone: +27 (0)21 901 1000
enquiries@ninetyone.com

United States

65 E 55th St, 30th Floor
New York, 10022
US Toll Free: +1 800 434 5623
usa@ninetyone.com

Botswana

Plot 64289, First floor,
Tlokweng Road, Fairgrounds
Gaborone
PO Box 49
Botswana
Telephone: +267 318 0112
botswanaclientservice@ninetyone.com

Luxembourg

2-4, Avenue Marie-Thérèse
L-2132 Luxembourg
Telephone: +352 28 12 77 20
enquiries@ninetyone.com

Sweden

Västra Trädgårdsgatan 15,
111 53, Stockholm
Telephone: +46 709 550 449

Channel Islands

PO Box 250, St Peter Port
Guernsey, GY1 3QH
Telephone: +44 (0)1481 710 404
enquiries@ninetyone.com

Namibia

Am Weinberg Estate
Winterhoek Building
1st Floor, West Office
13 Jan Jonker Avenue
Windhoek
Telephone: +264 (61) 389 500
namibia@ninetyone.com

Switzerland

Dufourstrasse 49
8008 Zürich
Telephone: +41 44 262 00 44
enquiries@ninetyone.com

Germany

Bockenheimer Landstraße 23
60325 Frankfurt am Main
Telephone: +49 (0)69 7158 5900
deutschland@ninetyone.com

Singapore

138 Market Street
CapitaGreen #27-02
Singapore 048946
Telephone: +65 6653 5550
singapore@ninetyone.com

United Kingdom

55 Gresham Street
London, EC2V 7EL
Telephone: +44 (0)20 3938 1900
enquiries@ninetyone.com

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