



Emerging Market Debt Indicator

The fast view

Market overview

A better month for the US dollar held back local currency markets, but an improvement in risk appetite boosted hard currency debt – particularly high-yield markets.

Africa

Several countries secured further support under their IMF programmes, with Côte d'Ivoire and Nigeria earning praise for their progress on structural reforms. Strong tourism revenues boosted Egypt's economy and currency.

Asia

China's authorities signalled their intention to fix the economic imbalances that have been driving deflationary pressure. Threats of tougher-than-expected tariffs weighed on sentiment towards India, but tech exports continue to boost some of the region's economies.

Latin America

Various central banks in the region cut interest rates. Trade tariffs came into effect, but key exemptions softened their impact. Rating-upgrade activity included Argentina (Moody's - two notches) and Pemex (Fitch) after the Mexican government announced plans to support the state-owned oil company.

Central and Eastern Europe, Middle East, and South Africa

Moody's upgraded Turkey's rating to BB-, and improving inflation dynamics led to a 300bps rate cut in the country. The South African Reserve Bank also cut rates and bonds rallied following the announcement it would focus on the lower range of its inflation target. Rating upgrades for Oman and Azerbaijan led to their inclusion in investment-grade indices.

EM corporate debt highlights

Credit spreads tightened across the EM corporate debt market, boosting performance and outweighing the negative impact of the slight rise in US Treasury yields.



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Market background

Performance across the emerging market (EM) fixed income asset class was mixed in July. The US dollar strengthened meaningfully, resulting in a weaker month for EM currencies. In contrast, EM sovereign and corporate hard currency debt benefited from improved sentiment, with an easing of trade concerns helping credit spreads to tighten across these markets.

US Treasury yields rose, reflecting stronger data on the health of the US economy and hawkish comments from the US Federal Reserve. As a result, the market dialled back its expectations of rate cuts over the rest of 2025.

The local currency debt market (JPMorgan GBI-EM GD) declined by 0.8% in US dollar terms, with the negative impact of the stronger US dollar outweighing positive performance (+0.8%) of the local rates market. Latin American currencies, including the Chilean peso and Brazilian real, were notable weak spots, while Uruguay's local debt market rallied after an unexpected rate cut.

The sovereign hard currency market (JPMorgan EMBI GD) delivered a positive return of 1.3%. Credit spreads tightened meaningfully over the month, particularly in high-yield markets, thanks to the improved sentiment towards risk assets. Africa's high-yield markets had a strong month, with Senegal's hard currency debt rallying back after progress on the misreporting debt case. Credit spreads also tightened in the investment-grade market, although the rise in US Treasury yields dampened total returns there.

Top-down views and outlook

Current top-down positioning

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Overall risk			■		
Hard currency debt			■		
Local rates			■		
FX			■		

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From a top-down perspective, we recently reduced our overall risk stance to neutral from overweight, given the resumption of uncertainty around trade-tariff policy, and in reflection of more crowded positioning in the asset class. That said, factors that support the outlook for the asset class include a balanced growth outlook, resilient EM economic fundamentals, and the longer-term theme of investors reducing their US dollar exposure in favour of more globally diverse portfolios.

We remain neutrally positioned in EM rates; while real (inflation-adjusted) yields remain attractive, heavier asset class positioning makes it more vulnerable to swings in sentiment. We are positioned to benefit from expected further rate cuts in Brazil, Peru and South Africa, while remaining cautious on Hungary and Czechia – given lingering inflation risks. Regarding EM FX, we reduced top-down risk to neutral as short-term positioning among the global investor community supports a more conservative stance after the strong returns seen year to date. We are still positioned to take advantage of high-income 'carry' currencies such as the Brazilian real, Kazakhstan tenge and the Argentinian peso. In EM hard currency debt, we remain constructive given the more balanced global growth outlook since April; we favour markets with supportive fundamentals and high yields to cushion against potential volatility. However, to reduce top-down credit risk, we have added protection to the fund (via CDX contracts on US high yield).

Outlook

Global economic uncertainty remains elevated, with trade policy still in the spotlight and a key area of focus for markets. That said, overall volatility and market sensitivity to tariff-related headlines has continued to decline. While the implementation of tariffs across global markets still poses risks to US inflation and could weigh on global growth, markets have digested recent developments with relative calm. In particular, the market reaction was relatively muted when Trump announced updated plans regarding reciprocal tariffs.

The recent soft US payrolls report may have implications for the timing of rate cuts by the Fed this year, adding another layer of uncertainty to the global policy outlook. At the same time, concerns remain around public deficits and financing – evidenced by the steepness of developed market bond yield curves (yields on longer-dated debt have risen). However, EM yield curves have remained broadly immune to these global shifts. EM central banks in major markets such as South Africa, Mexico, India and Indonesia have been able to cut rates – highlighting EM economies' independence from developed markets. Monetary policy decisions in EM are increasingly tailored to local inflation dynamics and growth needs, and EM FX stability is providing a supportive backdrop for EM central banks to continue in their rate-cutting cycles. All of this is helpful for the asset class in the context of mounting global economic uncertainty.

Regional highlights

Africa

Egypt's central bank surprised markets by keeping interest rates on hold, defying expectations of a 100bps cut, despite a drop in inflation to 14.9%. This cautious stance supported flows into the Egyptian pound given the attractive income, or 'carry', on offer. The pound also benefited from an improved current account balance and strong tourism revenues. Egypt is seeking to diversify its funding sources through planned Panda and Samurai green bond issuances (bonds issued in Chinese renminbi and Japanese yen, respectively) while looking to scale back its Eurobond issuance. Investment sentiment was further boosted by reports of a potential US\$4 billion investment from Qatar, and similar interest from Kuwait.

Ghana continued to make strides under its IMF programme, passing the fourth review and unlocking a US\$370 million disbursement. The central bank cut its policy rate by 300bps to 28%, as the ongoing strength of the cedi has eased inflation. Fiscal performance was also strong, with the budget deficit reaching just 1.1% in the first half of 2025. The government remains committed to reducing the full-year deficit. External accounts remained solid, supported by reserves of US\$11 billion, with authorities exploring a hedging programme to protect their gold reserves.

The IMF commended **Nigeria's** progress on key structural reforms, notably the unification of FX markets and the removal of fuel subsidies. Inflation eased slightly to 22.2% in June, as expected. Revised GDP figures revealed a significant 30% upward adjustment to real growth for 2024, which improved debt-to-GDP metrics. Additionally, strong fiscal performance was highlighted by tax revenues in the first half of 2025 exceeding half of the full-year targets.

Senegal's hard currency bonds staged a partial rebound, supported by a relatively constructive tone from the IMF regarding the government's previously undisclosed debt. In addition, the authorities are pursuing a domestic recovery plan focused on reducing the fiscal deficit to 3% by 2027 through subsidy reform and a cutback in tax exemptions, alongside a greater reliance on domestic financing. However, S&P downgraded the sovereign from B to B- with a negative outlook, citing rising debt and financing needs. The next IMF mission is scheduled in August, with hopes building around a potential programme.

Kenya faced persistent political unrest throughout July, with anti-government protests escalating into violent clashes. Despite the turmoil, economic activity remained resilient, as evidenced by robust flash

GDP indicators. From a credit perspective, sentiment improved marginally: Moody's affirmed Kenya's rating and upgraded its outlook to positive, while Fitch maintained its B- rating.

Assets in **Zambia** performed well, with the kwacha supported by seasonal US dollar inflows and continued strength in copper production. Zambia passed the IMF's fifth review of its Extended Credit Facility, unlocking a US\$184 million disbursement. The cabinet also approved a 12-month extension to the IMF programme, underscoring its commitment to ongoing reforms. Fiscal performance remained strong, with the January–April deficit at just 0.6% of GDP, putting the government on track to meet its 3% target.

In **Angola**, the government delayed plans to issue Eurobonds, citing reduced investor confidence stemming from market volatility and falling oil prices. Instead, it is turning to cheaper domestic financing options. Angola is actively working to reduce its reliance on resource-backed loans from China, which is expected to fall by approximately US\$2 billion by year-end. Despite recent protests triggered by fuel subsidy removals and associated price increases, the oil production outlook has stabilised, with some improvement due to new wells coming online.

In **Côte d'Ivoire**, President Ouattara confirmed his intention to run in the upcoming October elections, where he is widely expected to win. The IMF completed its fourth review of the country's programme, disbursing US\$750 million and highlighting continued strong growth and structural reform progress. The government remains on track to meet its fiscal deficit target, reinforcing the deleveraging trajectory. In a bid to diversify its investor base, Côte d'Ivoire also issued a ¥50 billion (c.US\$340 million) Samurai bond, tapping into Japanese capital markets.

Asia

In **China**, the July Politburo meeting, which is significant in setting the tone for economic policy for the second half of the year, was held at the end of the month. With real GDP growth surpassing the official target at 5.3% year-on-year for the first half of 2025, the government has signalled that it is focussed on dealing with more structural issues such as overcapacity and raising the consumption share of GDP, rather than planning any notable stimulus measures. With nominal GDP growth printing below 4% in the last quarter, we believe this focus among policymakers makes sense, and we will be watching closely to see how effective recent and future policies are in correcting the significant economic imbalances, which have intensified over recent years. Despite a slight depreciation against the US dollar, the renminbi outperformed regional peers, supported by stable CNY fixings and improved US–China relations. In local debt markets, expectations around policymakers' concerted efforts to deal with the economic imbalances that are behind persistent deflationary pressures helped to push yields slightly higher over the month.

India faced negative tariff-related headlines. While many Asian countries faced 15–20% tariffs, President Trump threatened India with a 25% tariff, alongside an undefined penalty for India's procurement of Russian oil and defence equipment. This came as a surprise to markets given the ongoing negotiations with India and the US. However, with this due to take effect towards the end of August, there is some time for negotiations, which could result in a rollback of these additional tariffs. On the inflation front, food prices continued to fall, while core inflation remained steady around the target. Since month-end, the central bank kept rates on hold as largely anticipated, acknowledging the uncertainty of potential tariffs.

The Bank of **Korea** maintained its policy rate, but the accompanying statement was less hawkish than expected. GDP growth beat expectations, driven by strong export demand and healthy consumer spending, and the tech sector remains a key pillar of strength. The Korean won weakened against the US dollar amid broad dollar strength, but remains a strong performer over 2025.

The **Taiwan** dollar weakened over the period, primarily due to substantial dividend repatriation as well as a stronger US dollar. However, the currency has still performed very well over the year. Although Taiwan was initially assigned a higher-than-expected 20% tariff compared to South Korea and Japan's 15%, around two-thirds of its exports are exempt.

The IMF approved **Sri Lanka's** fourth programme review, releasing a US\$350 million disbursement, with the next tranche expected by October. Rates were left unchanged at 7.75%, in line with expectations. Sri Lankan hard currency bonds outperformed, aided by the broad strength in high-yield markets over the month.

Local bonds in **Thailand** performed well following the appointment of a new, more dovish central bank governor and lower inflation figures. The ceasefire with Cambodia was welcomed, but had minimal market impact.

Malaysia's central bank delivered a 25bps rate cut, characterised as pre-emptive rather than the beginning of a full easing cycle. Although trade tensions persist – with Malaysia subject to 19% tariffs – Q2 GDP was better than expected, helped by frontloaded exports.

Singapore's GDP figures outperformed expectations, supported by robust export growth. CPI inflation came in softer at 0.8% year-on-year, and at its latest meeting, the Monetary Authority of Singapore left monetary policy unchanged but struck a slightly more hawkish tone than expected by some market participants, revising up its growth forecasts.

Bank **Indonesia** delivered an unexpected rate cut, which was well received by the market and helped rates rally, while demand in recent bond auctions remained strong.

Latin America

In **Argentina**, an increase in liquidity caused by an adjustment to the monetary policy framework triggered a sell-off in the currency. In addition, seasonal flows from the agriculture sector have turned less supportive for the peso. Inflation came in below expectations, printing at 1.6% month-on-month, and fiscal accounts remained in surplus in June. Congress passed expansive fiscal measures amounting to nearly 2% of GDP, though President Milei has since vetoed them. The IMF reached a Staff-Level Agreement on the first review, granting the country a waiver for falling short of the foreign exchange reserves accumulation target and paving the way for a US\$2 billion disbursement. In addition, Moody's upgraded Argentina's rating by two notches to Caa1 from Caa3.

Brazil received confirmation of the 50% tariffs threatened by the US, but this included 700 exemptions, notably covering Brazil's primary exports. The Brazilian real rallied following this, though the currency still finished the month weaker, primarily due to broader US dollar strength. The central bank kept the benchmark interest rate at 15%, maintaining a broadly hawkish tone. Economic data signalled some softening, with weaker retail sales. Brazilian local bonds came under pressure, partly due to the tariff announcement, but also given concerns around the fiscal outlook in light of incumbent President Lula's rising popularity.

Chile saw its trade data weaken, largely due to a drop in exports. However, the impact of the newly imposed 50% copper tariffs by the US was limited, as refined copper – which accounts for the vast majority of Chile's copper exports – was excluded, and only 12% of Chilean copper exports are sent to the US. The central bank cut rates by 25bps to 4.75% and indicated further easing in rates in the coming quarters was likely. This weighed on the Chilean peso given the reduction in carry, with global tariff concerns also impacting the currency. Politically, the unexpected victory of the Communist Party candidate in the left-wing primary election points to a polarised backdrop ahead of the November elections.

In **Mexico**, the announcement of US tariffs increasing to 30%, excluding USMCA-covered goods, had a limited market impact as most Mexican exports are protected under the agreement. The government established a US\$12 billion Special Purpose Vehicle (SPV) to support state-owned oil company Pemex's short-term bank loans, prompting a rally in Pemex's bonds. Following this, Fitch upgraded Pemex's rating.

Further to the credit rating downgrades seen in the previous month, concerns intensified around fiscal dynamics in **Colombia**. The 2026 budget forecasts an increase in spending, which would further widen the primary deficit – a move that appears inconsistent with the medium-term fiscal framework published in June. In addition, the trade deficit widened due to increased imports. Despite this, the country's bond markets performed well, partly due to a change in issuance strategy, with the government buying back long-end bonds. In other news, industrial production and retail sales figures showed robust year-on-year growth, and inflation came in below expectations but remains above the central bank's target. These trends prompted the central bank to cautiously keep rates on hold at 9.25%, against expectations for a cut.

Elsewhere, **Peru's** central bank kept its policy rate unchanged at 4.5%, aligning with expectations, while economic activity data improved, pointing to resilience in domestic demand. In **Ecuador**, the government announced new fiscal consolidation measures, and the country's hard currency bonds

outperformed on the back of IMF Board approval for an additional US\$1 billion in funding. In **El Salvador**, a state-owned utility issued sovereign-guaranteed bonds, making them eligible for inclusion in the JPMorgan EMBI index. An IMF Article IV review confirmed strong recent performance, though fiscal conditions have deteriorated since the review was conducted. **Guatemala** successfully issued a US\$1.5 billion bond, which attracted strong demand, reflecting solid investor appetite. The central bank in **Uruguay** unexpectedly cut its policy rate by 25bps to 9%, reversing a previous hike from April. In **Costa Rica**, the central bank resumed its easing cycle, cutting the policy rate from 4.0% to 3.75%.

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

Turkey saw better-than-expected inflation for the third consecutive month, with year-on-year CPI printing at 35%, and seasonally adjusted monthly inflation at its lowest in two years. The central bank delivered a larger-than-expected 300bps rate cut, but local bonds struggled due to increased bond issuance, which offset the dovish surprise. Moody's upgraded Turkey to BB-, aligning its sovereign rating with the other two major agencies, boosting Turkish credit somewhat.

The **South African Reserve Bank (SARB)** cut rates by 25bps as expected, and Governor Kganyago issued a surprise announcement, noting that the central bank would effectively target a 3% inflation rate. Despite the SARB and National Treasury having previously engaged on the matter, the timing of the announcement appeared to have caught the Treasury off guard. Finance Minister Godongwana later released a statement challenging the validity of the change, noting that such adjustments cannot be made without Treasury's approval. The local bond market responded positively to this news despite the contention. The National Assembly approved a key bill in the budget after all parties within the GNU voted in favour of it. The vote came in the wake of President Ramaphosa dismissing higher education minister Nkabane, after the DA threatened to withdraw its support if the presidency failed to address allegations of corruption linked to several political heads. Turning to economic indicators, CPI saw a slight improvement and platinum group metal (PGM) prices are supporting terms of trade. Growth data remains rather mixed.

Ukraine saw continued military support, with NATO preparing to deliver missiles and technological support, as well as President Trump pledging to supply additional weapons and warning secondary sanctions on Russian oil importers if a ceasefire is not reached within 50 days. Hard currency bond returns were broadly flat over the month but began to rally into month end.

In the Middle East, **Oman's** debt benefited from strong demand relating to its inclusion in investment-grade indices after it received its second credit rating upgrade to investment grade. **Azerbaijan** also received its second upgrade to investment grade by Moody's. In **Kazakhstan**, the Finance Ministry revealed that the 2026 budget assumes a lower exchange rate, prompting locals to sell the currency. This, combined with seasonally negative flows, contributed to currency pressure.

Turning to Central and Eastern Europe, in **Czechia**, hawkish comments from central bank members indicated that the easing cycle may be over. Inflation printed at 2.9% year-on-year, and despite lower-than-expected producer price inflation, core inflation remains sticky, reinforcing the central bank's more cautious policy stance. Local bond yields rose after markets priced out the prospect of further rate cuts. Despite lower-than-expected Q2 GDP, growth remains relatively healthy compared to regional peers.

The central bank in **Hungary** held rates steady at 6.5%, maintaining a tight monetary policy stance despite weak growth signals, particularly in industrial production. Q2 GDP pointed to stagnation, prompting a downward revision of growth assumptions by the government. Although inflation appears to be easing, highlighted by softer wage growth, distortions from price caps on food and supermarket goods complicate the assessment of underlying price pressures. The government announced a modest housing support package for state workers, which is seen as a signal for more fiscal developments ahead of the upcoming election in 2026, prompting a rise in local bond yields.

The **Polish** central bank cut its policy rate by 25bps to 5%, against expectations and prior guidance. The bank justified the decision given falling inflation, but by the end of the month, inflation data was higher than expected. Broader economic activity remains soft, with growth indicators across industry and retail pointing to continued weakness.

Romania's government announced its three-part fiscal consolidation plan. The plan, if all voted through, is expected to improve fiscal metrics to meet EU deficit targets. S&P responded with an off-

cycle rating review, affirming Romania's BBB- rating with a negative outlook (a positive for markets as it avoided a downgrade to high yield). Romania's hard currency bonds performed well as a result. Eurobond issuance is now complete for the year, and tighter spreads are reducing interest costs. The central bank kept rates on hold at 6.5%, as inflation is expected to rise above 8% due to some of the new fiscal measures, suggesting the central bank will keep rates on hold into next year.

The National Bank of **Serbia** held its policy rate steady at 5.75%, amid relative macroeconomic stability. Fitch affirmed the country's BB+ credit rating with a stable outlook. **Bulgaria** received confirmation of its accession to the Eurozone in January 2026, supporting its credit rating trajectory.

EM corporate debt highlights

The EM corporate debt market (JP Morgan CEMBI BD) gained 0.9%, with both high-yield and investment-grade market segments making a positive contribution. Credit spreads tightened across the market, boosting performance, despite the modest rise in US Treasury yields. All sectors added to performance, with oil and gas issuers driving returns following the recovery in oil prices.

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