March 2025

Emerging Market Debt Indicator

The fast view

Market Overview

Most emerging market (EM) currencies strengthened against a weaker US dollar, boosting the EM local currency bond market. In contrast, weaker investor sentiment weighed on the hard currency debt market, with credit spreads widening in high-yield markets.

Africa

Egypt secured a US$1.2 billion disbursement from the IMF, reinforcing investor confidence. In contrast, sentiment weakened towards Kenya after the suspension of the ninth review of the country's ongoing IMF programme. New issuance from Côte d'Ivoire was well received.

Asia

Benign inflation dynamics continued in the region. In India, CPI inflation was lower than expected and trade data outperformed expectations. China's authorities announced a 10-point economic plan to reach the 5% annual growth target.

Latin America

Inflation remained high in Brazil, prompting a hawkish central-bank response. Argentina's government confirmed it is seeking a new US$20 billion programme from the IMF, with negotiations reportedly at an advanced stage. Rising copper prices led to an upward revision of Chile's growth forecast.

Central and Eastern Europe, Middle East, and South Africa

Turkish assets sold off following the arrest of a key opposition figure. The rise in German bund yields weighed on some bond markets in Central & Eastern Europe. Elsewhere, S&P upgraded Saudi Arabia's credit rating to A+ with a stable outlook, reflecting progress on economic transformation.

EM corporate debt highlights

The EM corporate debt market held steady over the month. Investment-grade issuers outperformed high-yield, with spreads widening more in the latter given trade tariff uncertainty and a weaker US growth outlook.

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Market background

March was another volatile month for financial markets, resulting in a mixed performance among emerging market fixed income and currency markets.

US Treasury yields ended the month slightly lower across parts of the yield curve, with uncertainty around the US economic outlook counteracting the upward pressure on yields from a rise in inflation expectations. Moves were more pronounced in European bond markets, where yields rose significantly in response to a shift in fiscal dynamics – namely, rising defence spending. The rise in bond yields was most prominent in Germany as the government loosened its fiscal rules.

Turning to emerging markets (EM), the local currency debt market (JP Morgan GBI-EM) gained 1.5% in March, with EM currency moves driving this. The strong rally in the Euro helped Central and Eastern European currencies to perform well, while the Brazilian real was boosted by the hawkish central bank. In contrast, following the government's crackdown on key political opponents, there was a meaningful sell-off in Turkish local assets.

The EM hard currency sovereign debt index (JP Morgan EMBI) returned -0.8%, with investment-grade markets (-0.2%) outperforming high yield (-1.3%). Assets in Lebanon and Ukraine were volatile, while presidential election uncertainty weighed on asset prices in Ecuador. The EM corporate debt market (JP Morgan CEMBI) delivered a flat total return of 0.1%. The investment-grade market outperformed; a widening of credit spreads weighed on total returns in the high-yield market.

Top-down views and outlook

Top-down positioning at the end of March 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 remain modestly overweight. We are overweight EM rates, reflecting the supportive inflation backdrop and growing expectations of rate cuts in EM economies. We're selectively adding duration in local currency markets, particularly in Central Europe and Latin America. We have reduced our small EMFX overweight to neutral. While EM monetary policy remains tight relative to inflation, recent FX strength and reduced positioning in the US dollar have moderated return expectations. Our stance on EM hard currency debt has shifted to neutral. We've trimmed exposure to high-yield issuers but remain constructive on countries with supportive fundamentals and high carry to buffer volatility.

Outlook

Global economic uncertainty remains elevated amid escalating trade tensions. President Trump's reintroduction of sweeping tariffs has reignited market volatility, yet emerging markets (EMs) have demonstrated notable resilience. The fading "US exceptionalism" narrative, US dollar weakness, and falling US Treasury yields seen year to date are supporting EM asset performance.

While trade tariffs may introduce short-term pressure on US inflation, markets are shifting their focus from immediate inflation concerns to the potential drag on US growth and medium-term US recession risks, which we believe will ultimately push the Federal Reserve towards a more cautious (accommodative) monetary policy stance. Meanwhile, a combination of capital outflows from US

assets, the weakening US dollar, and lower commodity prices (especially oil) are acting as deflationary forces for EM economies, giving EM central banks greater flexibility to pivot toward growth-supportive policies. Even before these recent dynamics took hold, EM economies were in a good place from a monetary-policy-outlook perspective: many EM central banks delayed their rate-cutting cycles through 2024, leaving yields at attractive levels, and softening inflation across many EM economies has also supported real (inflation-adjusted) yields, which remain a key driver of long-term returns for EM local rates market. All of this is helpful for the asset class in the context of mounting global economic uncertainty.

Regional highlights

Africa

In **Egypt,** the cabinet approved the 2025 budget, which targets a primary surplus of 4% of GDP. Inflation has decelerated sharply, with the year-on-year figure falling to 12.8%. This helped local bond yields to fall, and the high real (inflation-adjusted) interest rate boosted the pound. Furthermore, Egypt secured a US$1.2 billion disbursement from the IMF, reinforcing investor confidence. The government has confirmed that fuel subsidies will be removed by the end of 2025. While this supports fiscal consolidation efforts, the inflationary impact will depend on the trajectory of global oil prices and the currency.

Market sentiment weakened towards **Kenya** after the government and the IMF mutually agreed to suspend the ninth review of the ongoing programme. Kenya's hard currency bonds sold off, and the government has formally requested a new programme. Meanwhile, the government secured a bridge loan to pay arrears owed to road contractors, but this is insufficient to cover all upcoming repayments. Resultant plans to issue a new bond highlight the country's fiscal financing challenges as it approaches the end of the fiscal year in June; fiscal consolidation is now expected to proceed at a slower pace than previously envisaged.

In **Ghana**, fiscal performance deteriorated in 2024, with the overall deficit widening to 7.9% of GDP, which was significantly worse than expected. This marks a notable reversal of the fiscal gains made in 2022 and underscores the challenges of maintaining discipline in an election year. On the monetary policy front, the new central bank governor surprised the market by hiking rates by 100bps towards the end of March, bringing the policy rate to 28%. The decision was driven by a desire to firmly anchor inflation.

Progress towards a new IMF programme continued in **Senegal**, with confirmation that the IMF has conducted its mission relating to the case of debt misreporting. Resolving this issue is a prerequisite for negotiations around a new programme. Officials remain optimistic about securing an IMF deal by June, but fiscal metrics remain under pressure, with the 2024 deficit recorded at 11.7% of GDP and debt reaching 105% of GDP.

Zambia reported strong macroeconomic momentum, with copper production up 12% year-on-year in 2024 and GDP growth accelerating. Inflation fell to 16.5%, a two-year low, supporting expectations of further economic stabilisation.

In **Angola**, the central bank held rates steady at 19.5%, which was in line with expectations. A 50% increase in diesel prices was announced as part of efforts to reduce fuel subsidies – a move considered important for advancing fiscal consolidation.

Côte d'Ivoire tapped the international market with a successful dual issuance strategy: US dollar bond issuance attracted a book size of US$4.1 billion, of which US$1.75 billion was placed; and local currency bond issuance (aimed at international investors) was well received. The **Nigerian** naira came under renewed pressure after a rally in local bonds triggered some profit-taking by investors.

Asia

China maintained its 2025 GDP growth target of 'around 5%', with plans to raise the fiscal deficit ratio from 3% in 2024 to 4% in 2025. Authorities' economic plan prioritises domestic demand with a focus on consumption to offset tariff-related challenges to exports. While the policy rhetoric signals strong intentions, concrete measures have yet to materialise, and the market continues to await further clarity. Inflation remains subdued, highlighting the underlying weakness in domestic demand. In this context, local bond yields fell slightly as interbank funding costs declined. The People's Bank of China (PBoC) has been injecting liquidity into the banking system, and the added combination of a weaker US dollar and lower US Treasury yields helped Chinese yields to fall. The renminbi underperformed a basket of global currencies but held steady against the US dollar, reflecting the impact of stable fixings by the PBoC.

In **India**, CPI inflation was lower than expected at 3.6% year-on-year, below the Reserve Bank of India's (RBI) 4% target, while trade data outperformed expectations, boosting the rupee. The central bank's more relaxed stance on currency volatility under the new governor added to the positive tone. Indian government bonds outperformed as the RBI injected US$21 billion of liquidity into the system, and with no new government bond issuance during the month, rates rallied further.

Economic growth in **South Korea** remains sluggish outside of tech-led exports, which have been strong thanks to a flurry of activity ahead of potential trade tariffs in addition to the structural tailwinds of global AI adoption. The government is facing hurdles in passing a supplementary fiscal budget, prompting the central bank to cut rates to support growth. The won weakened against the US dollar, with central bank minutes revealing concerns about the implications of further rate easing on the currency. Despite the weak growth, markets are only pricing in one rate cut. Politically, the outlook remains fluid, with attention focused on the imminent decision in the impeachment case against President Yoon.

Bank **Indonesia** left rates on hold, consistent with expectations, as the rupiah remains at relatively weak levels. The central bank remains focused on stabilising the currency, with little forward guidance provided at the recent meeting. The market's attention has shifted to fiscal matters amid reports around a potential resignation – or forced resignation – of the finance minister. Fiscal performance year-to-date has been rather weak, and the president has emphasised the need for stronger growth.

The Bank of **Thailand** struck a dovish tone, which supported the local bond market. Growth data remained weak, and inflation was soft – both headline and core inflation are now within the central bank's target range. Weaker imports and a ramp-up in exports ahead of potential trade tariffs contributed to a stronger-than-expected trade balance.

Elsewhere, **Taiwan's** central bank held rates steady, as expected; export orders exceeded expectations, underscoring resilience in external demand. Trade data was solid in **Singapore**, albeit slightly below expectations. CPI came in lower than expected, while industrial production data was significantly weaker. The central bank in **Malaysia** held the policy rate unchanged at 3%, which was in line with expectations, while inflation remained subdued at 1.5%.

Latin America

Argentina confirmed it is seeking a new US$20 billion program from the IMF, with negotiations reportedly at an advanced stage after the finance minister confirmed that the disbursements would be front-loaded. Despite persistent inflation pressures, the overall inflation print for February was seen as manageable, and the trade balance remains in a strong surplus. However, the socio-political environment remains fragile, as pension-related protests escalated into violent clashes, resulting in over 100 arrests.

In **Brazil**, the central bank (BCB) delivered a hawkish message, hiking rates by 100bps to 14.25% and signalling more tightening, albeit at a slower pace. The BCB minutes reinforced this stance, citing high wage adjustments. Inflation remains elevated, registering the highest February level in over two decades, with the annual rate above 5%. Proposed income tax cuts and a recently passed budget that, in parts, bypasses the fiscal rules raised concerns over fiscal discipline. Brazilian local bonds came under pressure from these developments.

Chile's central bank held rates steady at 5%, citing above-target inflation. This was in line with market expectations. Encouragingly, Q4 GDP was better than expected, driven primarily by domestic demand. Rising copper prices have provided tailwinds for the Chilean peso and contributed to a revised growth forecast for 2025.

In **Mexico**, the central bank delivered a broadly dovish message and cut rates by 50bps. Soft economic data supported this decision – economic activity declined in January, and mid-month inflation was lower than expected. The Mexican peso faced some mild pressure from concerns over potential US tariffs on the auto industry, though the recovery in broader Latin American currencies helped cushion the impact.

The central bank in **Peru** held its policy rate steady at 4.75%, as expected. The Peruvian sol benefited from seasonal corporate tax payments and stronger copper, gold, and silver prices. Positive terms of trade and stronger-than-expected economic activity data further supported sentiment. Politically, attention remains on next year's election and a potential pension fund withdrawal, although the latter remains uncertain.

Colombia saw a surprise cabinet shake-up, with the finance minister stepping down after just three months over disagreements on the implementation of spending cuts. The new minister has pledged to respect debt commitments, but refrained from mentioning anything on expenditure cuts. Fitch revised the country's outlook to negative, although the BB+ rating was unchanged. Inflation was higher than expected, driven by a sharp rise in gas prices in February. However, economic activity beat expectations, bolstered by strong industrial production and retail sales. President Petro floated the idea of a referendum on health and labour reforms, though the measure still needs congressional approval, which is not seen as likely to happen.

In **Panama**, progress continued around reopening the country's key mine, with the government allowing the sale of the onsite copper concentrate. Social reforms advanced with the passing of a bill in Congress, although the lack of an increase in the retirement age disappointed markets.

Ecuador faced a setback as a planned investment in one of the country's major oil fields was scrapped. Political attention is now turning to the second round of the presidential election on 13 April, following an inconclusive first debate.

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

Czech local bonds came under pressure from rising German bund yields following the recent fiscal package in Germany. Although inflation remains within the central bank's target range, the Czech National Bank (CNB) has adopted a more hawkish tone. Policymakers are focused on persistent inflation risks, which led them to hold rates steady in March. Additionally, in alignment with Germany, the Czech government is boosting defence spending. However, this is expected to have only a modest impact on fiscal dynamics.

In **Poland**, persistently soft outcomes across economic indicators such as growth, labour markets, and inflation pushed several members of the central bank's Monetary Policy Council toward a more dovish stance. However, central bank governor Adam Glapiński remains reluctant to make near-term rate cuts.

Hungarian local bonds yields came under pressure from higher-than-expected inflation, compounded by a general rise in bund yields. The acceleration in inflation, partly driven by the weaker forint and above-forecast services sector repricing, has led to a hawkish shift by the central bank. This has dampened demand for Hungarian debt, prompting the government to introduce new regulations aimed at encouraging domestic asset managers and investors to support the local bond market.

In **Romania**, political developments dominated headlines, with the constitutional court ruling that a populist presidential candidate is ineligible to run in May's elections. Although this introduces some uncertainty in the near term, the decision potentially increases the likelihood of a more pragmatic leadership outcome.

Assets in **Turkey** experienced a sharp sell-off following the arrest of Istanbul Mayor Ekrem İmamoğlu, a key opposition figure who was named as the Republican People's Party's (CHP's) presidential candidate. The timing of the arrest caught both the market and observers off guard, leading to widespread criticism and significant market volatility. Although general elections are not scheduled until 2028, speculation has resurfaced around early elections; local consensus is that elections are

most likely taking place in 2027. Despite the recent turmoil, we expect political tensions will ease gradually and the broader economic backdrop to remain supportive in the near term.

Hard currency bonds in **Ukraine** continued to weaken, reflecting fading hopes for a near-term ceasefire. While negotiations persist, progress remains sluggish; as a result, Ukrainian assets remain highly volatile.

In **South Africa,** the government has revised its fiscal plans, now targeting a budget deficit of 4.4% of GDP for 2025/26. The proposed VAT increase was scaled back to a more gradual 1% rise over two years - 0.5% in 2025 and 2026 - compared to the 2% initially suggested. These revisions have introduced additional uncertainty over whether the Democratic Alliance will support the budget, raising the risk of tensions within the Government of National Unity. On the monetary policy front, inflation has remained relatively subdued, and the South African Reserve Bank (SARB) has adopted a more dovish tone, holding rates steady in recent communications.

Saudi Arabia's credit rating was upgraded one notch by S&P to A+ with a stable outlook, reflecting the progress on transforming the domestic economy and becoming less reliant on oil. In the broader **Middle East** region, oil markets faced pressure following OPEC's decision to proceed with a production increase in April. However, geopolitical developments – including renewed military operations in Gaza and US airstrikes on Houthi rebels – contributed to a rebound in oil prices.

EM corporate debt highlights

The EM corporate debt market (JP Morgan CEMBI BD) held steady over the month, with a total return of 0.1%. Investment-grade issuers (0.2%) outperformed high-yield (-0.1%), with spreads widening more in the latter given tariff uncertainty and a weaker US growth outlook. Bonds in Turkey and Argentina were at the bottom of the index, with the former coming under pressure from the domestic political events over the month.

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