



Emerging Market Debt Indicator

The fast view

Market overview

The emerging market fixed income asset class continued to show resilience over November, with all segments on track to deliver a solid year of performance.

Top-down positioning

We have increased our top-down risk target to a larger overweight. We closed our underweight in EM FX to neutral, and continue to hold overweight positions in both EM rates and hard currency debt.

Africa

Credit rating momentum in the region was generally positive: Ghana and Zambia saw upgrades, Angola and Côte d'Ivoire were affirmed, and Nigeria's outlook improved, but Senegal was downgraded to CCC by S&P. Additionally, monetary policy easing took place in Ghana, Angola and Zambia.

Asia

While expectations for rate cuts grew in India, Indonesia and the Philippines, Korea's central bank turned more hawkish and its counterpart in Indonesia signalled concern over currency weakness. External balances were broadly strong across the region, with many countries – including China, Indonesia and Korea – reporting sizeable surpluses.

Latin America

Argentina returned to international markets with corporate and municipal bond issuance, with sovereign issuance expected next year. Ecuador's hard currency bonds rallied following a credit rating upgrade by Fitch. Inflation eased across Brazil, Chile and Mexico, but was higher than expected in Colombia.

Central and Eastern Europe, Middle East, and South Africa

Local currency bonds in South Africa rallied after the government's Medium Term Budget Policy Statement was received positively by the market. Central banks across Central and Eastern Europe were mostly hawkish, signalling caution amid inflationary pressures.

EM corporate debt highlights

Investment-grade corporate debt markets outperformed their high-yield counterparts, driven by the fall in US Treasury yields.

Market background

The longest US government shutdown in history ended in November, and its impact on the bond market was significant. The prolonged disruption – lasting 43 days – constrained the flow of economic data, resulting in a sharp swing in market expectations around a December Federal Reserve (Fed) rate cut. In the first half of the month, hawkish Fed minutes and better US economic activity data meant the market was pricing in a low (25%) probability of a rate cut, but this rebounded to around 80% by month-end following dovish comments from some Fed members. US Treasury yields fell further upon reports that Kevin Hassett – previously a supporter of additional rate cuts – had emerged as a leading contender for the next Fed chair. A bull steepening of the Treasury yield curve ensued, as dovish expectations meant shorter-dated yields declined more meaningfully than longer maturities.

It was a particularly strong month for the local currency debt market (JPMorgan GBI-EM GD), which gained 1.3% in US dollar terms. Performance was driven by emerging market (EM) currencies benefitting from a weaker US dollar, particularly in Latin America, with the Colombian peso and Dominican peso among the top performers. Local bonds also added to returns, with South African rates rallying after the government’s budget was well received by the market.

The sovereign hard currency debt market (JPMorgan EMBI GD) posted gains of 0.4%, driven by the high-yield segment (0.8%), while investment-grade returns were flat. Both investment-grade and high-yield markets benefitted from falling US Treasury yields, although in investment-grade the effect was muted by spread widening caused by increased US corporate issuance. From a regional perspective, African markets outperformed, while in Latin America, Ecuador’s bonds rallied following a credit rating upgrade by Fitch to B-.

Top-down views and outlook

Current top-down positioning

	--	-	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.

The Strategy’s top-down risk target has increased to a larger overweight. Our positive view reflects the improving global growth outlook, our expectation of continued flows into the asset class, and the backdrop of EM central banks still providing ample liquidity.

We maintain an overweight risk target in the EM local rates market. We remain positive on the asset class from a bottom-up perspective, while attractive real (inflation-adjusted) yields continue to provide a cushion against inflation risks, and central banks still have room to ease monetary policy.

We have closed our underweight in EM FX to a neutral position. While we note that EM FX performance has been strong year-to-date, the positive economic growth in EM – as well as encouraging external account positions – should be supportive for EM currencies.

We retain our overweight in EM hard currency debt. While further credit-spread tightening may be constrained (given strong year-to-date performance), the combination of an improved growth outlook, signs of positive inflows into the asset class, and light market positioning in hard-currency assets all contribute to our positive view.

Outlook

After such a strong year for EM debt, we expect continued flows into the asset class as we approach year-end, supported by robust macroeconomic foundations and renewed investor interest. EM economies continue to show greater strength and maturity, reflected in rating upgrades and resilience to global shocks, while developed market bonds have struggled to offer the safe-haven qualities investors once relied on. A softer US dollar and an improving inflation backdrop across much of EM further brightens the outlook.

Global growth remains resilient, even as softer US labour data adds some near-term uncertainty. Steep developed-market yield curves underscore fiscal pressures, while EM curves have stayed comparatively stable, and several central banks continue to cut rates in line with domestic conditions. Although recent US data has modestly lifted the dollar and tempered expectations for Fed easing, soft labour market data still points to coming rate cuts. Against this backdrop, EM local markets are well-positioned: stronger global demand supports trade, monetary policy independence allows central banks to remain proactive, and high real (inflation-adjusted) yields continue to offer attractive carry. With improving fundamentals and opportunities across both sovereign and corporate issuers, from reforming economies to fast-growing regions like the Middle East and Asia, the outlook for EM assets remains decidedly constructive, even amid short-term fluctuations in the US dollar.

Regional highlights

Africa

Egypt's Q3 GDP surprised to the upside at 5.1%, supported by non-oil manufacturing and a resilient tourism sector, while inflation rose modestly to 12.5% year-on-year, largely reflecting the recent fuel price adjustments. The central bank left interest rates unchanged against expectations of a rate cut; however, the market impact was limited. Foreign investment flows continued, helped by Eni's announcement of a five-year investment plan in the oil and gas sector worth US\$8 billion. Meanwhile, shipping company Maersk signalled a gradual return to using the Suez Canal; a recovery in canal traffic to pre-2023 crisis levels would provide a further boost to the external accounts.

Senegal's hard currency bonds weakened over November. Despite the prime minister's reiteration that the government does not intend to default, the market interpreted some of his comments as suggesting that the IMF had been advising Senegal to enter a debt restructuring. This was followed by S&P downgrading the sovereign rating to CCC+ from B-, citing delays in reaching an agreement with the IMF. However, the fiscal trajectory showed signs of improvement, with the budget deficit on track to meet the 2025 target of 8.4% of GDP, an improvement from 12.5% in 2024. The newly approved 2026 budget aims for a further narrowing to 5.4% of GDP.

In **Ghana**, the monetary policy stance was eased as inflation continued to decline, with the central bank cutting the policy rate by 350 basis points (bps) to 18%. Despite the large cut, real rates remain elevated at roughly 10%. S&P upgraded the sovereign rating to B-, reflecting progress on fiscal consolidation and an improving balance-of-payments outlook.

In **Angola**, parliament approved the 2026 budget, targeting a deficit of 2.8% of GDP, based on an oil price assumption of US\$61 per barrel and a projected GDP growth rate of 4.2%. The African Export-Import Bank has announced a US\$1.3 billion loan for a new fertiliser plant, which is expected to begin production in 2027. The central bank cut rates by 50bps to 19.5%, consistent with the ongoing disinflation trend, as year-on-year inflation eased to 17.4%. Credit ratings remained stable, with Fitch affirming Angola at B-.

The Central Bank of **Nigeria** held the policy rate at 27%, but it widened the interest-rate corridor (encouraging banks to lend more), signalling a more accommodative approach. Inflation showed signs of improvement, with the latest print moving lower. Sentiment was further supported by S&P's decision to revise Nigeria's sovereign rating outlook to positive.

Weaker-than-expected fiscal revenue in **Kenya** contributed to a wider fiscal deficit, prompting the World Bank to withhold a scheduled loan disbursement and call for stronger efforts to narrow the budget gap. At the same time, the current account position deteriorated sharply, with the deficit doubling year-on-year.

In **Zambia**, the central bank cut interest rates by 25bps to 14.25% - its first rate reduction in over four years - signalling confidence in the disinflation trend. Engagement with the IMF continued following a November visit, although the review's conclusion remains pending. However, there were positive moves from ratings agencies: Fitch upgraded the sovereign to B from B-, and S&P raised the rating to CCC+, reflecting progress in post-restructuring stabilisation.

S&P affirmed **Côte d'Ivoire's** rating at BB with a stable outlook. The economy continued to expand, with GDP growth accelerating, and the IMF Executive Board approved the fifth programme review in early December.

Asia

Economic data from **China** in October indicated continued weakness across several key indicators: retail sales, industrial production, and fixed asset investment all fell short of expectations, as domestic demand remained weak. While inflation was better than expected, this improvement was primarily attributed to seasonal effects surrounding Golden Week and gold prices, leaving the broader inflation picture subdued. Trade performance also disappointed, with both exports and imports declining, though the trade surplus remains substantial at US\$90 billion. Positive sentiment emerged from a call between Presidents Trump and Xi. However, the People's Bank of China's liquidity injection via bond purchases fell short of market expectations. In the rates market, yields moved higher, and the curve bear flattened, while the renminbi strengthened against the US dollar and the trade-weighted basket of currencies.

Inflation in **India** was notably subdued, with CPI rising just 0.25% year-on-year versus an expected 0.4%, largely driven by falling food prices. On the external front, the trade deficit hit a record US\$41 billion in October, significantly wider than the US\$30 billion consensus, influenced in part by increased gold imports ahead of Diwali and weak exports. Amid this backdrop, comments from the central bank governor suggested there could be room to ease policy rates, although the subsequent release of strong third quarter GDP poured some cold water on expectations of a potential rate cut in December.

Bank **Indonesia** held its policy rate steady at 4.75% as expected, citing pressure on the currency, though it signalled an ongoing easing bias. Economic data surprised to the upside, with Q3 GDP growth slightly above consensus at 5.0% year-on-year, driven by strong exports. The current account surplus was particularly notable at US\$4 billion, twice the market forecast, supported by a robust trade balance. Inflation edged higher in October but remained within the central bank's target range.

The Bank of **Korea** kept rates on hold at 2.5%, but adopted a more hawkish tone by withdrawing prior guidance on a possible rate cut, prompting a sell-off in local bonds. The central bank also upgraded its growth forecasts for both this year and next, leading the market to reprice for potential rate hikes. Despite an improvement in the current account surplus and strong export data, the Korean won depreciated due to equity outflows and weakened investor sentiment over the government's limited response to FX weakness.

GDP growth in **Thailand** disappointed at 1.2% year-on-year in Q3, while the October CPI print showed a further move into deflation territory; bond yields fell as a result. Trade data was particularly weak, with a large deficit driven by high gold imports. The central bank governor noted plans to tighten reporting requirements for domestic gold transactions, reflecting concerns over the lack of transparency in current trading.

Taiwan's external sector performance looked very strong, with exports surging 50% year-on-year and the trade balance doubling expectations, driven mainly by demand for semiconductors. Industrial production remained robust, particularly in semiconductor-related sectors. Despite this, the Taiwan dollar continued to weaken, pressured by equity outflows. The country also signed an agreement with the US to increase transparency around its foreign exchange interventions through quarterly reporting, and to intervene only to stabilise the currency, and not for competitive advantage.

Malaysia's economy expanded by 5.2% year-on-year in Q3, driven by investment activity and stable consumer spending. The external sector remained healthy: exports were up 16% (double the expected increase), while imports rose by 11%, resulting in a higher trade surplus. Bank Negara left interest rates unchanged at 2.75%, as expected. Inflation continued to ease, falling to 1.3% year-on-year.

The **Philippines** posted a strong balance of payments surplus in October, up sharply from the prior month, mainly due to inflows from multilateral loans. However, GDP growth disappointed at 4% year-on-year versus a 5.2% consensus, reflecting broad-based weakness in government spending, consumption, and investment, partially offset by stronger net exports. The yield curve bull steepened in response to the soft GDP data, and the central bank governor suggested a rate cut is under consideration for December.

Latin America

Economic indicators in **Argentina** showed resilience despite the volatility induced by recent political events; inflation continued to ease year-on-year, with limited pass-through from the weaker peso, while economic activity grew more than expected. The fiscal balance recorded another surplus, rising to 1.5% of GDP. The central bank continued its post-election monetary easing, cutting reserve requirements again. External support continued, with a US trade agreement finalised that included improved access for beef exports, and discussions around a potential US\$4 billion loan from private banks. Meanwhile, provinces and corporates tapped international markets, including a US\$600 million issuance by the City of Buenos Aires.

The Central Bank of **Brazil** held its policy rate at 15%, but the minutes of the meeting indicated a slightly less hawkish tone. Inflation was lower than expected, prompting markets to increase their rate cut expectations for next year, boosting local bond prices. Growth softened marginally, with activity data falling more than expected, while retail sales came in below forecasts. Meanwhile, trade data was stronger, despite weaker exports to the US due to tariffs. Tariff negotiations with the US led to the removal of an additional 40% tariff on certain agricultural products.

In **Chile**, the political landscape shifted after the first round of the presidential elections, where left-wing candidate Jeannette Jara performed worse than expected, and the far-right candidate José Antonio Kast emerged as the favourite to win the second round. Although this was seen as a positive outcome for markets, there was limited reaction. On the macro front, inflation eased to 3.4% year-on-year in October, which was much lower than expected. The trade surplus expanded, supported by strong copper exports, while Q3 GDP came in slightly below expectations.

The central bank in **Mexico** continued its easing cycle, reducing the policy rate by 25bps to 7.25%. Inflation moderated to 3.6% year-on-year in October, and growth data was softer – industrial production fell over the month, driven by a sharp decline in construction activity. The IMF renewed Mexico's Flexible Credit Line, although the facility was downsized to US\$24 billion from US\$35 billion. Meanwhile, protests erupted over President Sheinbaum's handling of security issues, while ongoing farmer strikes demanded higher prices for their goods.

In **Colombia**, the central bank indicated that a rate hike next year is becoming more likely, driven by concerns over the weak fiscal situation, rising inflation expectations and the upcoming minimum wage hike decision. Headline inflation was higher than expected at 5.5% in October, with core inflation also rising. Economic activity was robust, with retail sales and industrial production both exceeding expectations. Meanwhile, the government continued its debt management operations, buying back US\$4 billion of high-coupon bonds and issuing EUR2 billion of lower-coupon bonds.

Ecuador faced a political setback after President Noboa's referendum proposals were unexpectedly rejected – this led to an initial short-lived sell-off in bonds, but assets rallied back following a credit rating upgrade by Fitch, from CCC to B-.

In **Peru**, economic activity data beat expectations, and export growth was particularly robust, rising 23% year-on-year. Additionally, the central bank left rates unchanged at 4.25%, as expected.

Inflation in **Uruguay** continued the disinflation trend, with the central bank delivering a 25bps cut to bring the policy rate down to 8%, in line with market expectations.

In **Venezuela**, there was progress regarding a potential regime change, with signals that President Maduro may step down peacefully and enter exile. In addition, the US State Department announced

plans to designate the "Cartel of the Suns" as a terrorist organisation. This increased pressure on the government resulted in a continued rally in Venezuelan bonds.

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

Inflation in **Turkey** showed a modest improvement, easing to 32.9%, although the underlying pace of inflation remains sticky, with the IMF's latest mission highlighting the need to bring inflation down. Economic activity data presented a mixed picture, with Q3 GDP growth slowing but remaining above expectations, driven largely by resilient private consumption. Retail sales were also stronger, while industrial production disappointed. Meanwhile, the political backdrop remains challenging, with the government continuing to pressure opposition groups.

In **South Africa**, the Medium-Term Budget Policy Statement, in which the government revised its revenue upward, reduced its debt issuance forecast, and officially adopted a new inflation target of 3%, replacing the previous 3–6% band, was well received by markets. Local bond yields fell meaningfully as a result. The reforms were accompanied by a credit rating upgrade from S&P to BB and a reinforcement of their positive outlook for the country. On the macroeconomic front, inflation remained contained, with headline CPI inflation lower than expected at 3.6% year-on-year. The central bank cut its key policy rate by 25bps, marking the resumption of its easing cycle.

In **Ukraine**, renewed efforts to advance a peace plan gained traction, boosting investor sentiment; Ukrainian assets rallied as a result. In addition, the IMF reached a Staff-Level Agreement (SLA) on a new four-year Extended Fund Facility while increasing pressure on the EU to release frozen Russian assets to finance Ukraine.

Annual inflation in **Kazakhstan** moderated slightly, with the recent print easing to 12.6%. However, as inflation pressures remain elevated, the central bank opted to keep its policy rate on hold at 18%. The Kazakh tenge appreciated significantly over the month.

In the **Middle East**, Lebanon's rising political uncertainty and an uptick in Israeli cross-border attacks have led investors to expect a delay to the reform agenda, weighing on hard currency bond prices. In Israel, the central bank cut interest rates, although communication was hawkish. S&P upgraded Kuwait's rating to AA- with a stable outlook, reflecting improvements to fiscal policy. Conversely, Bahrain was downgraded to B, also with a stable outlook, amid ongoing concerns around its fiscal deficit.

Turning to Central and Eastern Europe, headline inflation in **Czechia** rose to 2.5%, which was above expectations, driven by higher food prices. As a result, the central bank kept rates on hold at 3.5%, while maintaining a hawkish stance. Growth data was stronger, with the Q3 GDP revision slightly above the estimate. Industrial production rose, exceeding expectations, although retail sales growth slowed. Against this backdrop, Czech local bonds weakened. Politically, a new coalition agreement has been signed between the ANO, SPD, and Motorist parties, with the new cabinet now announced.

Inflation in **Romania** remains elevated at 9.8% year-on-year. The central bank left rates unchanged at 6.5%, as expected, with the governor ruling out cuts until the middle of next year. The government's budget revision showed improvement, and markets expect further fiscal consolidation measures to be incorporated into the 2026 budget. However, the ongoing fiscal tightening is beginning to filter through into weaker growth data.

In **Poland**, the central bank cut rates by 25bps to 4.25%, in line with consensus, while revising inflation projections down to 3% for next year and adjusting growth higher. Governor Glapiński maintained a dovish tone and did not rule out additional cuts. The flash inflation print in November came in below expectations, while wage growth was also below forecasts. Growth data was broadly stronger, with industrial production, construction output, and retail sales all showing resilience. S&P affirmed the country's rating at A- with a stable outlook, in reflection of the strong growth outlook.

Inflation in **Hungary** was lower than expected at 4.3% in year-on-year terms. The central bank kept rates unchanged at 6.5%, maintaining a hawkish tone as underlying inflation pressures remain, particularly in services. This helped the forint to strengthen. Growth data was mixed, with retail sales weaker than expected, while industrial production and the recent PMI print both exceeded expectations. Ahead of the elections in April, fiscal policy has turned more expansionary, with the government extending the interest rate freeze on mortgages by six months and raising deficit targets

to 5% of GDP for both 2025 and 2026. Additionally, Prime Minister Orbán secured an exemption from the US sanctions on Russian oil and gas imports.

EM corporate debt highlights

The EM corporate debt market (JP Morgan CEMBI BD) saw a modest gain of 0.2%, with investment-grade markets outperforming high yield. Both markets were aided by the decline in US Treasury yields, but a widening of credit spreads – particularly in the high-yield segment – dampened returns. On a sector basis, real estate returns were negative, primarily driven by China, where bond prices continue to be under pressure as physical property sales remain weak.

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