



# Emerging Market Debt Indicator

## The fast view

### Market overview

The emerging market fixed income asset class continued its strong performance in October, as robust risk appetite remained supportive.

### Top-down positioning

Our top-down risk target remains overweight. We have increased slightly our overweight in EM local rates, we are modestly underweight in EM FX, and remain overweight in EM hard currency debt.

### Africa

Inflation continues to fall across much of Africa, prompting Kenya and Egypt's central banks to cut interest rates. Positive credit-rating action across the region included Moody's upgrading Ghana's debt to Caa1 and S&P raising Egypt's rating to B. However, Moody's downgraded Senegal to CCC, despite positive signs around the country's IMF programme negotiations.

### Asia

Trade negotiations with the US took place across Asia, with varying degrees of agreements reached with China, South Korea, Thailand, Vietnam and Malaysia. Exports were stronger than expected across the region, alleviating concerns that the recent boost was a temporary phenomenon. In addition, Pakistan and Sri Lanka both made progress with their IMF programmes.

### Latin America

Developments in Argentina dominated headlines, as President Milei's party secured enough seats in the midterm elections to continue with its fiscal reform agenda. As a result, domestic assets rallied. Elsewhere, central banks in Chile and Colombia remained cautious given persistent inflation, while S&P upgraded Costa Rica's rating to BB.

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

In South Africa, bond yields continued to fall, while inflation remained contained. The political situation in Turkey remains a concern for investors despite a positive development for the opposition party. Across Central and Eastern Europe, inflation was better than expected.

### EM corporate debt highlights

The EM corporate debt market had a positive month, despite spreads widening in the lower-rated segments of the market.

## Market background

Continuing with the strong year-to-date theme, October was another positive month for the emerging market (EM) fixed income asset class. A healthy appetite for risk boosted EM bond markets, with US Treasury market moves also helping.

In the US, a combination of ongoing uncertainty relating to the government shutdown and hopes of further easing from the US Federal Reserve (Fed) supported the Treasury market. Towards the end of the month, the Fed cut its benchmark rate by 25bps, citing concerns about weak job growth. However, Powell's statement that further easing in December was not a "foregone conclusion" caused Treasury yields to rise again, as the market dialled back its expectations of a December rate cut. For October overall, the US Treasury yield curve flattened, as shorter-dated yields underperformed the longer end.

Turning to EMs, the sovereign hard currency debt market delivered a 2.1% return. Credit spreads tightened – especially in the high-yield segment – and the decline in US Treasury yields also contributed to returns. Argentina was the top performer in the index – the country's bonds rallied sharply after President Milei's party performed better than expected in the national midterm elections, clearing the path for further economic reforms.

The local currency debt market gained 0.5% in US dollar terms, despite the US dollar strengthening against EM currencies – particularly in Central and Eastern Europe – reflecting a weaker euro. Bonds in South Africa and Indonesia performed well, while strong copper prices remained supportive for the Chilean peso and the Peruvian sol.

### 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 remains overweight. Our positive view reflects an 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 have increased our overweight top-down risk target in the EM local rates market. 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 moved to a slight underweight position in EM FX following strong year-to-date performance and in reflection of recent resilience in US economic data. Over the short term, the outlook for EM FX is unclear as the ongoing US government shutdown has left markets lacking direction. However, the longer-term supportive theme of diversification away from US assets remains intact.

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 a better-than-feared economic 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

Global economic uncertainty remains elevated, with trade policy still a central focus for market participants. Encouragingly, volatility and sensitivity to tariff headlines have continued to ease in financial markets, as evidenced by the muted reaction to recent tariff announcements.

Following the US Federal Reserve's decision to cut rates, investors are reassessing the US monetary policy outlook, with the market's attention focussing to the pace and extent of further easing from here. Meanwhile, steep yield curves reflect mounting fiscal concerns in developed markets. 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.

## Regional highlights

### Africa

Falling inflation in **Egypt** led the central bank to cut interest rates by 100 basis points (bps). Growth data was also robust, with GDP rising by 4.4% year-on-year. As a result of the strong growth and improved macroeconomic stability, Egypt was upgraded by S&P to B from B-. Foreign direct investment from the Gulf is ongoing, boosting confidence in the country's external financing position, with a large deal with Qatar confirmed in early November. However, the IMF has emphasised the need to accelerate privatisation efforts to meet key programme conditions. Remittance inflows also remain strong, supporting both the current account and the currency.

Inflation in **Ghana** continued to fall and is now at 9.5% year-on-year. The country has reached a staff-level agreement (SLA) with the IMF on its fifth programme review, which, once finalised, will unlock a US\$385 million disbursement. In parallel, Moody's upgraded the country's credit rating to Caa1 with a stable outlook, reflecting improved fiscal and external dynamics. The elevated value of gold, of which Ghana is a major producer, continues to support the currency.

**Angola** made a successful return to the eurobond market with well-received 5- and 10-year issuances. Inflation has eased to 18.2%, the lowest level since October 2023, amid continued fiscal consolidation efforts.

In **Nigeria**, falling inflation (currently at 18%) boosted expectations of a rate cut in November. The country's balance of payments improved in the second quarter, with another rise in foreign reserves; this helped to lift confidence in the naira. The country was recently removed from the Financial Action Task Force's (FATF) grey list, which is a positive development for financial-sector credibility.

**Kenya's** central bank cut interest rates by 25bps to 9.25%, amid slowing inflation of 4.6% year-on-year. Q2 GDP growth was strong, at 5%. The sovereign issued US\$1.5 billion in 7- and 12-year bonds while repurchasing bonds maturing in 2028, resulting in a net issuance of US\$500 million. Despite these positive developments, discussions with the IMF around a new programme remained inconclusive, but the market's reaction was muted.

**Senegal's** bond market experienced heightened volatility following Moody's credit rating downgrade to CCC. Despite this, discussions with the IMF surrounding the previous debt misreporting issue have made progress, with both parties working toward agreeing on a new programme before the end of the year.

**Côte d'Ivoire's** presidential election occurred with minimal unrest, in which the incumbent won 89% of the vote, boosting the hard currency bonds. At the same time, positive statements from the IMF following its fifth programme review reinforced investor confidence in the country's macroeconomic outlook.

### Asia

**China's** economic data delivered a mixed picture – real (inflation-adjusted) GDP marginally exceeded expectations at 4.8% year-on-year, driven by strong production and robust export growth, but nominal growth remained weak as excess capacity continues to weigh on inflation. Credit data also

pointed to underlying softness in domestic demand, with household loan growth slowing. Meanwhile, the government outlined the guidelines for its 15<sup>th</sup> Five-Year Plan, with priorities including industrial policy and tech self-sufficiency. On the geopolitical front, trade tensions resumed between China and the US, with the US threatening 100% additional tariffs after China tightened its controls on rare earth exports. However, President Trump and President Xi Jinping agreed to roll back some of the recent escalatory measures during a meeting in South Korea at the end of the month, boosting investor sentiment and helping the currency.

Inflation in **India** moderated to 1.5%, helped by weaker food prices over the month. In addition, the lower-than-expected state borrowing plan eased pressure on longer-dated bond yields. Trade data indicated a large deficit of US\$32 billion; although this was partly driven by a seasonal increase in gold and silver imports, while exports to the US also decreased by US\$2 billion due to the recent tariff increase. Trade negotiations with the US are ongoing, with continued uncertainty about whether India will reduce its reliance on Russian oil imports and whether the US will subsequently lower its tariffs.

Bank **Indonesia** surprised markets by holding the policy rate at 4.75%, against expectations of a 25bps cut, but maintained a dovish tone. The central bank is focused on maintaining the stability of the rupiah after reserves dropped by US\$2 billion. Inflation rose to 2.7% year-on-year in September; however, local bond yields fell as the finance minister made a large liquidity injection to support the economy. Meanwhile, the trade surplus widened to US\$5.5 billion, driven by a decline in imports.

**South Korea** reported better-than-expected GDP growth of 1.7%, driven by strong industrial production and a larger current account surplus on the back of robust tech-led exports. The Bank of Korea maintained its policy rate at 2.5% amid ongoing concerns about financial stability. The trade deal with the US was finalised earlier than expected, with the US reducing tariffs to 15%. In return for the reduced tariffs, South Korea will invest US\$150 billion in US shipbuilding, as well as a US\$200 billion cash investment into the US over the next decade. The cash investment is limited to US\$20 billion per year, which has eased investor concerns over adverse impacts on the won.

**Thailand's** economic outlook remained fragile, with inflation falling more than expected to -0.27%. The central bank held rates at 1.5% despite expectations of a cut, given the already low rates. The central bank also downgraded its growth forecast to 1.6%. Nonetheless, export growth expanded 19% year-on-year, with the trade balance exceeding expectations as a result. On the geopolitical front, the US negotiated a peace deal between Thailand and Cambodia.

In the **Philippines**, the central bank cut rates by 25bps against expectations of a hold. The governor struck a dovish tone, suggesting the terminal policy rate should fall closer to 4% from the previous 5% target; local bonds rallied as a result. Despite inflation rising to 1.7% in September, it remains below the central bank's 2-4% target. Meanwhile, the trade deficit was in line with forecasts, with overall trade data coming in stronger than expected.

**Malaysia's** government announced its budget, aiming to reduce the fiscal deficit from 3.8% of GDP this year to 3.5% in 2026. Q3 GDP data was stronger than expected. A new trade deal was also agreed with the US, which further helped sentiment.

Exports in **Taiwan** remained strong, with orders increasing 5% month-on-month, supported by both the tech and non-tech sectors.

**Pakistan** reached an SLA with the IMF on the second review of its Extended Fund Facility (EFF) as well as the first review of its Resilience and Sustainability Facility (RSF), paving the way for a US\$1.2 billion disbursement.

**Sri Lanka** also made progress with the IMF, reaching an SLA on the fifth review of its programme.

### Latin America

In **Argentina**, President Milei's party rebounded strongly in the national midterm elections, securing 41% of the vote, following a poor performance in a local Buenos Aires election in September. This result provided the government with sufficient seats in the lower house to continue advancing fiscal reform initiatives. Market sentiment improved significantly in response – domestic assets rallied sharply and bond prices recovered to levels above those seen before the September sell-off. The peso initially appreciated, but later weakened somewhat as the Treasury resumed US dollar purchases ahead of a

bond maturity (overall, the peso ended the month stronger versus the US dollar). Additionally, the country received external support through a US\$20 billion swap line from the US.

Economic indicators in **Brazil** signalled a slowdown in activity and growth data, while inflation was lower than expected, leading to a fall in bond yields. However, the central bank struck a moderately hawkish tone at its most recent meeting. Brazil posted a better-than-expected trade surplus of approximately US\$3 billion in September, driven by strong exports to China, which offset a decline in exports to the US. Trade policy discussions remain ongoing, with both President Trump and President Lula expressing intentions to revisit tariff frameworks.

In **Chile**, the central bank held rates steady at 4.75%, maintaining cautious forward guidance. Inflation remains above the 3% target, with core inflation at 4%. S&P reaffirmed the country's sovereign rating at 'A' with a stable outlook. Politically, the lead-up to the presidential elections has seen right-leaning candidates gain traction in the polls, despite strong initial support for the Communist Party candidate during the primaries.

Inflation in **Colombia** remained high, printing above expectations at 5%. Consequently, the central bank left its policy rate unchanged at 9.25%, maintaining a hawkish tone. Political tensions with the US escalated significantly following the imposition of sanctions on President Petro and some of his family members.

While annual inflation rose to 3.8% in **Mexico**, the recent central bank meeting minutes indicate an expectation of further monetary easing going forward. Future inflation will be key to watch as the impact of a VAT increase on domestically consumed goods will start to put upward pressure on prices over the coming months. Additionally, import tariffs on Chinese goods are set to take effect from January.

In **Peru**, the central bank held rates steady at 4.25% as the disinflation trend continues. Politically, President Boluarte was impeached, and José Jerí assumed the presidency to complete the remainder of Pedro Castillo's original five-year term. Markets remained largely unmoved by the development, likely due to the proximity of upcoming elections.

Given well-contained inflation in **Uruguay**, the central bank delivered a dovish surprise and cut interest rates by 50bps, more than the 25bps expected.

S&P upgraded **Costa Rica's** sovereign rating to BB from BB-, maintaining a stable outlook. The central bank kept rates on hold during the period.

In **Venezuela**, hard currency bonds rallied sharply over the period. This was driven by a noticeable increase in US military activity, primarily targeting narcotics trafficking. The escalation has raised the perceived chance of a broader intervention, which could enhance the likelihood of regime change.

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

In **Turkey**, political tension decreased incrementally after a court dismissed the case seeking to remove the leader of the opposition party (CHP) and annul the 2023 congress. However, the government continued to crack down on the opposition. On the macro side, inflation was higher than expected at 33.3%, raising concerns that it may not meet central bank projections for the end of 2025; as a result, local bond yields rose. Following this, the central bank slowed the rate of monetary policy easing, cutting rates by 100bps (the previous cut was 250bps). Both industrial production and retail sales data weakened, highlighting a softening of economic data. Meanwhile, S&P affirmed Turkey's BB- rating with a stable outlook.

In **South Africa**, inflation printed broadly in line with expectations at 3.4% year-on-year in September, although core inflation edged slightly higher, driven by housing costs. Growth data was broadly weaker with lower mining and gold production, retail sales, and manufacturing output. However, fiscal performance improved as the budget balance strengthened following solid revenue growth. Other positive developments included the removal of South Africa from the FATF grey list, as well as progress towards the renewal of the African Growth and Opportunity Act (AGOA), a trade deal with the US. Local bonds performed well over the month, with the terms of trade also remaining supportive for the rand.

In **Ukraine**, geopolitical risks remain elevated following a meeting between President Zelensky and President Trump, during which Trump refused to provide Tomahawk missiles and urged Zelensky to

consider conceding territory. Sentiment was further dampened when the EU postponed its decision to use frozen Russian assets to aid Ukraine. However, the recent US sanctions imposed on Russian oil companies boosted sentiment as this is considered likely to put pressure on the Russian economy.

**Kazakhstan's** economy showed signs of overheating, with inflation exceeding expectations and currency weakness adding inflationary pressures. As a result, the central bank hiked interest rates by 150bps during the month to 18%.

In **Saudi Arabia**, the government revised its budget forecast at the start of the month, with a significant increase in the fiscal deficit for the current year, while indicating that smaller deficits are expected in upcoming years.

Turning to Central and Eastern Europe, in **Czechia**, the populist ANO party won the recent election but failed to secure an outright majority. As a result, the minority government formation is underway with the far-right Freedom and Direct Democracy (SPD) and the Motorist parties. The new coalition's main fiscal initiative focuses on reducing electricity prices, which could have a disinflationary effect, although the central bank remains primarily focused on core inflation. Inflation was better than expected, printing at 2.3%. Meanwhile, the central bank's deputy governor struck a hawkish tone, indicating that interest rates will likely remain stable until the end of the year, amid ongoing concerns about wage pressures.

In **Romania**, the government continues to face challenges in implementing reforms due to judicial decisions. However, political commitment to fiscal consolidation and improved liquidity conditions helped the country's local bonds, and the EU remains supportive. Inflation remained elevated but was better than expected at 9.9% year-on-year in September. The central bank maintained its policy rate as expected at 6.5%. However, a weak industrial production print signalled a further softening of economic momentum.

**Poland's** central bank surprised markets somewhat with a 25bps rate cut to 4.5%, against split expectations of a hold or a cut. The decision was motivated by an improved inflation outcome and outlook, which helped the country's local bonds. Comments from Monetary Policy Council (MPC) members suggested there may still be room for another rate cut later this year, though terminal rate expectations appear somewhat stretched. Inflation data was better than expected, largely driven by lower food and fuel prices, while wage growth was also lower than anticipated. Economic activity remains resilient, with industrial production and retail sales both stronger than expected.

In **Hungary**, communication between the government and the central bank has become increasingly divided, with government officials now advocating for lower interest rates. The central bank has maintained its hawkish tone, defending its decision to keep the policy rate on hold at 6.5%. Inflation was in line with expectations at 4.3%, though the economy remains weak with industrial production falling and lower GDP growth expected.

## EM corporate debt highlights

The EM corporate debt market (JP Morgan CEMBI BD) gained 0.6%, boosted by the fall in US Treasury yields. Although credit spreads remained broadly unchanged overall, some company specific developments caused concern among the lower-rated parts of the market, where spreads widened. Argentina was the best performing corporate debt market thanks to positive headlines at the sovereign level.

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## Emerging Market Debt Indicator

### Australia

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

### Botswana

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

### Channel Islands

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

### Germany

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

### Hong Kong

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

### Luxembourg

2-4, Avenue Marie-Thérèse  
L-2132 Luxembourg  
Telephone: +352 28 12 77 20  
[enquiries@ninetyone.com](mailto: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](mailto:namibia@ninetyone.com)

### Singapore

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

### South Africa

36 Hans Strijdom Avenue  
Foreshore  
Cape Town, 8001  
Telephone: +27 (0)21 9011000  
[enquiries@ninetyone.com](mailto:enquiries@ninetyone.com)

### Sweden

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

### Switzerland

Dufourstrasse 49  
8008 Zürich  
Telephone: +41 44 262 00 44  
[enquiries@ninetyone.com](mailto:enquiries@ninetyone.com)

### United Kingdom

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

### United States

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

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