



# Emerging Market Debt Indicator

## The fast view

### Market overview

The asset class performed well, thanks to a combination of interest rate cuts (in EM and the US), stronger EM currencies, and improved appetite for risk.

### Top-down positioning

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

### Africa

Falling inflation and high real (inflation-adjusted) yields allowed some central banks to cut interest rates. A credit-rating upgrade moved Morocco's debt to investment-grade status, while Egypt continued to benefit from foreign investment inflows.

### Asia

Ongoing signs of a lacklustre economy prompted China's policymakers to inject funds into long-term projects aimed at boosting the digital economy and AI. AI-related exports continued to help Taiwan's economy. Elsewhere, Indonesia's central bank surprised the market with another rate cut.

### Latin America

Credit-rating upgrades in Costa Rica, Jamaica and the Bahamas pointed to improving fundamentals in the region. Renewed political risk in Argentina put pressure on the peso, prompting the central bank to intervene.

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

In South Africa, lower-than-expected inflation resulted in a strong bond rally. There was more debt issuance from the Gulf, and renewed talk of using proceeds from frozen Russian assets to support Ukraine led to a recovery in bond prices. Meanwhile, central banks across Central and Eastern Europe maintained a hawkish stance.

### EM corporate debt highlights

The asset class benefitted from credit-spread tightening and US Treasury yield falls, with investment-grade markets outperforming high yield.

## Market background

September was a positive month across the emerging market (EM) fixed-income asset class – rounding off a strong quarter and building on robust year-to-date performance.

In the US, weaker labour market data prompted the US Federal Reserve (Fed) to resume its rate-cutting cycle with a 25 basis point (bps) cut. The Fed also signalled that downside risks facing the labour market will be key in determining future rate decisions; as of quarter-end, the market was pricing in just under two further rate cuts this year.

EM local assets had a good month, with the JPMorgan GBI-EM rising 1.4% thanks to a combination of bond and currency-market gains. Top-performing countries in the index included South Africa, where falling inflation led to a significant drop in yields. Peru’s bond market also performed well, with a 25bps rate cut by the central bank helping here.

The EM hard currency market (JPMorgan EMBI) returned 1.8%, with both investment-grade and high-yield issuers contributing to returns. A combination of falling US Treasury yields and tighter credit spreads (reflecting improved investor sentiment) helped performance, with the rise in risk appetite helping African markets such as Côte d’Ivoire and Egypt to outperform.

### 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 a benign global growth outlook, easing trade-related concerns, and the backdrop of EM central banks still providing ample liquidity. A growing cohort of market participants is moving to short-dollar positioning, and the longer-term de-dollarisation trend continues to provide a structural tailwind for non-US dollar assets.

We maintain our overweight top-down risk target in the EM local rates market. Attractive real (inflation-adjusted) yields provide a cushion against inflation risks and central banks still have room to ease monetary policy, with currency stability helping in this regard.

We are modestly overweight in EM FX. While we expect that the structural trend of investment portfolios diversifying away from US assets will continue to underpin EM currencies over the medium term, recent stronger economic data out of the US (subsequent to the lacklustre data that prompted the Fed to cut rates) and heavier market positioning in EM FX keep us somewhat cautious.

We are overweight in EM hard currency debt, but we have reduced this slightly. 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 Fed's September decision to cut rates, investors are reassessing the US monetary policy outlook, with attention shifting to the pace and extent of further easing. Meanwhile, steepening 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. EM FX stability adds a further buffer, reinforcing EM economies' relative independence and supporting the asset class against global headwinds.

## Regional highlights

### Africa

In **Egypt**, the government has made strides in attracting more foreign investment, with a US\$7.5 billion investment package from Qatar progressing and a new US\$18 billion real estate deal signed with the UAE. In a further boost, remittances reached an all-time high of US\$3.8 billion in July. Annual inflation fell to 12%, while the policy rate remains tight at 22%, meaning real (inflation-adjusted) yields are still elevated. The government issued a US\$1.5 billion sukuk across both 3- and 7-year tenors; strong demand for this led to a rally in the long end of the curve.

In **Ghana**, inflation declined to 11.5%, which allowed the central bank to cut policy rates by 350bps to 21.5%. Reserves stand at US\$10.7 billion – equivalent to 4.5 months of import cover – supported by elevated gold and cocoa prices, while Q2 GDP growth was stronger than expected at 6.3%. The IMF team arrived at the end of the month to discuss the fifth programme review.

The 2026 budget was announced in **Zambia**, which aims to narrow the fiscal deficit to 2.1%, down from 4.6% in 2025. GDP growth printed at 5.2% year-on-year for Q2, with strong contributions from agriculture and mining. Trade data showed a surplus in August, largely due to increased copper exports. In addition, the IMF board approved a three-month programme extension through December 2025.

In **Angola**, foreign exchange reserves and oil production data remained stable. Sentiment was boosted by the World Bank's approval of a US\$750 million loan to support the 2025 budget. There has also been progress on the government's privatisation agenda, with the IPO of a 29% share of state-owned Banco de Fomento Angola (BFA).

**Nigeria's** economy delivered a positive surprise with Q2 GDP growth at 4.2%, underpinned by oil production continuing to rise. The central bank cut its policy rate by 50bps to 27%, as inflation eased to 20%. Additionally, the monetary policy committee reduced the cash reserve ratio for commercial banks from 50% to 45%, in a move that should support credit growth. Foreign exchange reserves are now at their highest levels since 2011, and the president confirmed that the 2025 revenue target has already been met, reducing the need for domestic borrowing.

**Morocco** was upgraded to investment grade (BBB-) by S&P, driven by improvements in fiscal metrics and robust non-agricultural growth. However, the upgrade was widely anticipated and did not trigger a significant market reaction. The country's fiscal deficit is expected to narrow from 3.1% this year to 2.1% next year, reinforcing the sovereign's improving credit profile.

**Senegal** underwent a government reshuffle, though key figures such as the finance and economy ministers have kept their posts. While investors await confirmation of a new IMF programme, the retention of experienced ministers is seen as a stabilising factor for policy direction.

### Asia

Economic data in **China** remained weak across most indicators, continuing the trend seen in the previous month. Credit growth softened as government borrowing slowed, while retail sales and

industrial output continued to weaken. Industrial profits rose 20% year-on-year, although this survey only covers large companies. Property investment and new home prices stayed subdued, and CPI was lower than expected. On the trade front, while exports disappointed relative to expectations, the trade surplus remains very large at around US\$800 billion. Given the ongoing weak data, the authorities announced RMB500 billion in new financing, which will support long-term projects in areas such as the digital economy and artificial intelligence (AI).

The Reserve Bank of **India** held rates steady as expected, while the government announced a reduction in long-dated bond issuance for the second half of the fiscal year. Domestic data releases were mixed: PMI indicators fell but remained comfortably above 50, CPI rose modestly to 2.1% but remains under control, and both industrial production and retail sales came in weaker than expected.

In **Indonesia**, the longstanding, fiscally prudent finance minister was replaced by a more growth-focused successor, who later announced an IDR200 trillion liquidity injection into the banking system with the government's excess funds placed with the central bank. Bank Indonesia (BI) surprised markets with another 25bps policy rate cut, boosting local bonds, and began reducing one-week reverse repos to encourage lending by domestic banks. Concerns about central bank independence amid a proposal that would give parliament powers to remove BI governors weighed on the rupiah.

**Thailand's** new prime minister, Anutin Charnvirakul, was sworn in and formed a new cabinet. Economic data was weaker, with inflation lower than expected and still in deflationary territory at -0.8% year-on-year. The trade balance also missed expectations due to softer exports in manufacturing and agriculture. Fitch revised the country's outlook to negative, further weighing on sentiment, but the baht found support from higher gold prices.

**South Korea's** trade balance came in stronger than expected, with a US\$6.5 billion surplus driven by weak imports and robust exports of semiconductors and electronics. GDP was in line with forecasts, while inflation was lower than expected at 1.7%. Negotiations with the US are ongoing over a potential US\$350 billion investment package, in an effort to help reduce tariffs on the country.

**Taiwan** reported continued strong export growth of 34% year-on-year, led by AI and technology sectors, resulting in a US\$17 billion trade surplus compared with US\$5 billion only a few months earlier.

**Malaysia's** industrial production exceeded expectations. From the end of September, the government is set to lower the subsidised price of petrol along with a quantity cap for individuals, but remove the subsidies for foreigners. Inflation was in line with forecasts, and the central bank left policy unchanged, as expected.

Investor sentiment in the **Philippines** was temporarily impacted by protests over corruption, weighing on hard currency bonds. Fiscal metrics remained stable even as the budget balance deteriorated marginally from the previous month.

**Pakistan** reported a 7.8% year-on-year increase in remittances in August. The central bank left rates unchanged, consistent with expectations. Pakistan participated in a broader rally across high-yield hard currency bond markets, with spreads tightening.

### Latin America

Political risks in **Argentina** intensified after President Milei's party performed poorly in a local election in the province of Buenos Aires, signalling waning popularity ahead of October's nationwide mid-term elections. Markets reacted negatively, pushing the peso weaker to the top end of its trading band and prompting an FX intervention from the central bank, which caused a fall in hard currency bond prices. However, sentiment later improved on signs of external support: negotiations with the US over a potential US\$20 billion FX swap line and bond purchases, alongside an acceleration of US\$4 billion from the World Bank, sparked a partial recovery in dollar-denominated bonds and the peso. In addition, the temporary suspension of taxes on agricultural exports boosted export sales, and the Treasury's large US dollar purchases meant reserves increased over the month overall.

**Brazil's** central bank held rates at 15% and struck a hawkish tone after inflation printed higher than expected and above the bank's upper tolerance band. This weighed on the local bond market. Economic momentum weakened across the board, with job creation falling short of expectations, manufacturing and services activity contracting. Q2 GDP growth slowed to 2.2% year-on-year, from 2.9% in Q1.

Similarly, **Chile's** central bank sounded hawkish as it kept rates on hold at 4.75%, citing persistent inflationary pressures, although the inflation print was lower than expected. Economic data painted a mixed picture: industrial production was weak due to an accident at a major copper mine, yet both employment and retail sales came in stronger than expected. On the political side, a less fiscally cautious presidential candidate is leading in early polls, though the centre-right is still expected to win in the run-off. Meanwhile, Fitch reaffirmed Chile's A- credit rating with a stable outlook.

Economic activity in **Colombia** looked strong with robust retail sales, industrial production and PMIs, however inflation accelerated to 5%. The debt management office continued its bond buyback programme, purchasing COP700 billion of the 2026 bonds (c.US\$180 million), and issued a new EUR4 billion bond. A proposed tax reform aiming to raise an additional 1.4% of GDP was introduced, though it is widely seen as unlikely to pass through Congress.

In **Mexico**, the central bank cut its policy rate by 25bps and signalled further easing ahead. To support state-owned company Pemex, the government issued EUR5 billion and US\$8 billion across several new bonds. The proceeds have been used to facilitate Pemex bond buybacks, which ultimately led to a two-notch credit rating upgrade of the quasi-sovereign entity from Moody's from B3 to B1. Despite resilient retail sales and strong PMIs, broader economic activity disappointed as Q2 GDP slowed to 2.2% year-on-year (from 2.9%).

**Peru's** central bank also cut its policy rate by 25bps to 4.25%, while signalling further easing is possible. While inflation was higher than expected, it was still a very low 1.1% year-on-year and remains below the 2% target. As a result, local bond yields continued to fall. However, towards the end of the month, the government unexpectedly approved a new pension fund withdrawal, which put upward pressure on yields.

In **Ecuador**, President Noboa lifted diesel subsidies to save approximately 0.5% of GDP, but this sparked widespread protests that escalated (although these have since faded). Separately, the Constitutional Court approved a referendum proposal to consider the establishment of a constituent assembly, adding to political uncertainty. The government also suspended an environmental license for a major mining project following water safety-related protests.

Elsewhere in the region, the **Dominican Republic's** central bank cut interest rates by 25bps to 5.50% in a bid to address some softness in economic activity. Inflation in **Uruguay** came in below expectations, continuing the disinflation trend; Fitch reaffirmed the country's investment-grade rating at BBB. Other recent rating actions highlighted improved credit profiles across the region: S&P upgraded the **Bahamas** to BB- on stronger fiscal and economic conditions; Moody's lifted **Costa Rica** to Ba2 with a stable outlook; and S&P raised **Jamaica's** credit rating from BB- to BB, assigning a positive outlook.

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

The political situation in **Turkey** remains turbulent, with judicial decisions on whether to remove the leader of the opposition party (CHP) postponed to late October. This initially weighed on market sentiment, leading to a sell-off in local bonds. Despite slightly higher-than-expected inflation data, the broader disinflationary trend continued, allowing the central bank to cut rates by 250bps, which was more than expected. This led bonds to rally overall, despite the political noise.

Local bonds in **South Africa** experienced a strong rally over the month. The yield curve bull flattened (long-dated yields fell more than short-dated yields), driven by a combination of falling future inflation expectations and a much lower-than-expected inflation print in September. Discussions around the potential introduction of fiscal rules by the Treasury to strengthen fiscal discipline contributed to investor optimism. The South African Reserve Bank (SARB) held rates steady at 7%, and reaffirmed its commitment to achieving the 3% inflation target.

Inflation in **Kazakhstan** was higher than expected, continuing to put pressure on the central bank to maintain its hawkish stance. While rates were kept on hold in the most recent decision, hikes appear increasingly likely if inflationary pressures persist. On the fiscal side, new budget details released towards the end of the month signalled a strong commitment by the government to long-term fiscal consolidation.

In **Ukraine**, there has been growing momentum behind proposals to use frozen Russian assets to help fund aid to Ukraine, a development that has helped hard currency bonds recover somewhat.

Additionally, comments from US President Trump at the UN signalled a pivot towards supporting Ukraine in reclaiming its full territory, further boosting investor confidence.

In the **Middle East**, a number of countries in the Gulf issued bonds, including **Saudi Arabia** and **Abu Dhabi**, with **Kuwait** also returning to the Eurobond market for the first time since 2017, attracting strong investor demand. Meanwhile, in **Lebanon**, bonds rallied amid growing optimism around a potential debt-restructuring deal and renewed hopes for an agreement with the IMF.

Turning to Central and Eastern Europe, **Czechia's** central bank kept rates on hold as expected, with comments from members of the monetary policy committee underscoring a hawkish stance. While a rate hike in the near term is unlikely, the central bank remains focused on inflation risks after nominal wage growth for Q2 was stronger than expected, and rising house prices also remain a concern. Growth continues to show resilience, with industrial production higher than expected for July.

In **Romania**, the government's second fiscal consolidation package, which was split into multiple bills, remains stalled in court with rulings postponed. The 2025 budget deficit was revised higher to 8.4%, although this was broadly anticipated by markets. Inflation was higher than expected but the central bank continues to look through this as it does not expect it to trigger second-round effects such as higher wages. On the ratings front, Moody's affirmed Romania's BBB- investment-grade rating but maintained a negative outlook.

The National Bank of **Poland** cut interest rates by 25bps, in line with expectations. However, policymakers remain cautious over committing to an easing cycle, while markets continue to price in further cuts. Inflation dynamics appear to be contained, with wage growth remaining relatively benign. Despite mixed economic data, Poland remains the strongest-performing economy in the region. Nevertheless, fiscal concerns are mounting. Fitch and Moody's both placed Poland's rating on a negative outlook due to a significantly worse-than-expected budget revision and the deteriorating fiscal deficit.

**Hungary's** central bank kept the policy rate unchanged at 6.5%, maintaining its hawkish tone. This continued to support inflows into the currency. While inflation was in line with expectations, the central bank remains concerned about the underlying pace of inflation, especially services inflation. Economic activity remains sluggish, with retail sales falling short of expectations. The government remains focused on maintaining Hungary's investment-grade credit rating, but risks are mounting ahead of the upcoming election, which could bring increased fiscal spending.

## EM corporate debt highlights

The EM corporate debt market (JPMorgan CEMBI BD) returned 1.0%, led by strong performance from the investment-grade market (1.1%), while the high-yield segment returned 0.8%. The fall in US Treasury yields drove performance, with credit spread tightening across both investment-grade and high-yield markets providing a boost.

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