August 2026

Emerging Market Debt Indicator

Key takeaways

Market overview

EM fixed income posted positive returns in August, supported by a broader risk-on tone despite volatile US Treasury yields.

Top-down positioning

We remain overweight overall risk, favouring EM FX over hard and local currency debt.

Africa

Disinflation continued across the region, while election outcomes in Zambia and the reappointment of Egypt's central bank governor signalled policy continuity. Senegal secured a new IMF programme despite a Moody's downgrade.

Asia

Inflation was lower than expected thanks to reduced fuel costs, while exports stayed well supported by the AI theme. Central bank policy diverged, with rates hiked in Korea and the Philippines, but kept on hold in India and Indonesia.

Latin America

External accounts strengthened across the region, with Chile's current account moving into surplus for the first time since 2010 and Mexico posting a large quarterly surplus. Argentina returned to fiscal surplus and central bank reforms passed through the lower house.

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

Political developments remained a key theme, with Romania missing out on EU funding after failing to pass the public-sector wage reform. Hungary cut rates further, while Poland's central bank turned more cautious on inflation pressure. S&P upgraded Kazakhstan's credit rating despite oil-export disruption.

EM corporate debt highlights

Credit spreads tightened, as risk appetite improved, supporting positive returns across the asset class.

Market background

The emerging market (EM) fixed income asset classes posted positive returns in August, helped by a broader risk-on tone, despite volatile developed market sovereign bond yields.

US Treasury yields initially experienced a bear steepening earlier in the month, with the long-end reaching multi-year highs mid-month as concerns over the fiscal deficit and the Treasury's subsequent policy response, combined with inflation risks tied to a delayed reopening of the Strait of Hormuz spooked investors. The bond buyback announcement weighed on the US dollar as well, which weakened for a second consecutive month. Towards the end of August, Fed Chair Warsh struck a hawkish tone in his speech at Jackson Hole, which caused the front end to rise and drove a bear flattening of the yield curve. EMs were largely insulated from these moves, with growth, whilst moderating, remaining resilient and inflation prints continued to surprise positively.

The local currency market (JPMorgan GBI-EM GD) gained 0.9% in US dollar terms, led by EM FX, while local rates also contributed positively. The weaker US dollar, combined with some country specific events, created a supportive backdrop for EMFX. Indonesia was a standout performer, with the currency benefitting from the central bank refocusing on domestic growth, and a broad rally in the bonds after being heavily sold down on institutional stability concerns. Turkish local bonds rallied as markets expected the central bank's signalled return to a 37% policy rate at its September meeting, down from the current 40% funding rate. Risk-sensitive currencies performed well as risk appetite improved, with the South African rand and Mexican peso performing well.

The hard currency sovereign debt market (JPMorgan EMBI GD) posted a 0.9% return in August, as spreads tightened across both the high-yield and investment-grade segments. At the country level, Venezuela was the top performer over the month, rallying after a historic oil deal was reached with the US, estimated to generate over US$200bn in tax revenue.

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.

Outlook

Emerging market debt has demonstrated notable resilience against a volatile backdrop so far in 2026. Risk assets have continued to recover, and investor sentiment has improved, supported by resilient, though moderating growth, a more balanced Fed liquidity backdrop and broadly benign EM inflation. Geopolitical tensions in the Middle East remain unresolved and elevated oil prices are the key risk to the market backdrop, alongside the durability of the geopolitical risk premium in refined product markets. In addition, rising global bond supply and fiscal issuance-driven pressure on the long end presents another headwind for markets.

Meanwhile, ongoing volatility in developed market (DM) bond markets – particularly in the US where Treasury market intervention, rising inflation, and hawkish Fed messaging are putting pressure on yield curves – continues to challenge their traditional safe-haven status, reinforcing the diversification case for EM debt.

Our structural view on EM remains constructive, and we retain an overweight top-down risk target. Our EM FX target remains overweight, supported by a broadening of global growth surprises, improving risk appetite and better global liquidity. EM FX remains underpinned by relatively high real rates, with technicals supportive as positioning is very light, while performance is increasingly being driven by fundamentals. We continue to fund this long position largely from the US dollar, as market positioning is now more supportive for the euro and yen.

We remain neutral in EM local currency debt as compelling real yields are counterbalanced by positive growth surprises. That said, we are not expecting the rate cutting cycles priced by markets to fully come through. We continue to prefer country-specific opportunities where the risk/reward trade-off is attractive.

In hard currency debt, we retain a neutral position. Rising global bond supply, combined with the Fed's ongoing balance sheet reduction and continued uncertainty over its rate path, is pushing term premium higher on the US Treasury curve, creating a technical headwind for the asset class. That said, EM spreads have been remarkably resilient so far over 2026. We continue to favour selective high-carry and country-specific opportunities, while remaining mindful of divergence in terms-of-trade performance between commodity exporters and oil importers.

Regional highlights

Africa

In Egypt, the central bank left policy rates unchanged, as expected, as inflation is significantly above target. CPI rose 14.9% year-on-year in July, driven by base effects and food inflation, though this was lower than expected. The external picture remained robust, with net reserves reaching a record US$56.3 billion by end-July and remittances rising 17% year-on-year in June. On the fiscal side, the Ministry of Finance estimates gross financing needs to remain elevated in FY26/27, at 51% of GDP, with domestic sources projected to cover the majority. Meanwhile, in a signal of policy continuity, the central bank governor was reappointed for a further year.

Post month-end, Senegal reached a Staff-Level Agreement (SLA) with the IMF on a new three-year Extended Credit Facility (ECF) worth US$2.2 billion. Following Moody's downgrade of Senegal's credit rating to Caa2 from Caa1 on rising default risk, the finance ministry announced a debt treatment plan, though details remain unclear. Other external support was also announced during the month, including the approval of US$35 million from the African Development Bank (AfDB) for public finance management and EUR518 million in new financing from the World Bank. Separately, the government raised fuel prices to curb rising subsidies as global oil prices surged.

Economic data in Nigeria continued to improve. Inflation slowed for the second consecutive month, printing below expectations at 15.4%, while Q2 GDP grew 4.4% year-on-year, slightly above expectations. The government approved a new US$4.5 billion oil-backed financing arrangement, refinancing US$1.5 billion outstanding under a 2023 facility and unlocking an additional US$3 billion in fresh liquidity, with proceeds to strengthen external reserves and support infrastructure spending. The president also introduced tax incentives for deepwater oil projects, intended to encourage exploration and new oil volumes. As a result of stronger external buffers and solid economic growth, Moody's upgraded the outlook to positive and affirmed the B3 rating.

Angola recorded a 16th consecutive month of disinflation, with CPI slowing to 9.3% year-on-year in July. Industrial production accelerated to 66.7% year-on-year in June, driven by manufacturing, while FX reserves were also slightly higher. Underlying fiscal pressures remained, with the H1 2026 adjusted deficit widening to AOA2.22 trillion from AOA1.43 trillion a year earlier. S&P affirmed the B- rating with a stable outlook, pointing to vulnerability to oil prices and weaker fiscal performance.

Inflation in Ghana slowed to 4.6% year-on-year in July, driven by lower food inflation. The government is reportedly negotiating five new oil agreements to attract investment into the upstream sector, drawing international interest.

Zambia's incumbent president was re-elected for a second term with over 60% of the vote, with policy continuity expected across debt restructuring, economic stabilisation and restoring investor confidence. CPI eased to 6.2% year-on-year in August, while the trade surplus narrowed as copper volumes fell.

The Central Bank of Kenya kept its policy rate unchanged at 8.75%, maintaining a cautious stance as inflation remains within the target. CPI was broadly unchanged from July, printing at 6.6% year-on-year in August.

In Uganda, the central bank held rates at 9.75%. Inflation printed at 4.1% year-on-year in August, driven by higher food prices, with core inflation also rising marginally. Gross foreign reserves grew to US$6.7 billion at the end of June, though the trade deficit widened to US$598 million in June on stronger imports.

Asia

Inflation prints across Asia generally surprised to the downside at the headline level, largely reflecting the pass-through of lower fuel prices, although core measures proved firmer. The AI-theme remained highly supportive for Asian exports.

Inflation data in China was soft over the month, with CPI at 0.5% year-on-year and PPI at 3.5%, driven principally by weak consumer demand. Economic activity data was also weaker than expected: both retail sales and industrial production came in below expectations, housing data was weak, and PMIs were similarly soft. Credit data was particularly poor, with new loans contracting at their largest pace on record. Trade data, however, was in line with expectations and delivered a large surplus of US$112bn, and the broader theme of technology investment and exports driving growth remained intact.

The Reserve Bank of India held rates, striking a dovish tone and ruling out further near-term hikes; local currency bonds outperformed on the news. Two weeks later, however, published meeting minutes struck a more hawkish tone than expected, framing the debate as when – not whether – the central bank would hike, and local bonds subsequently underperformed, with yields rising over the period overall. Reserves rose US$50bn since the end of June, and the Foreign Currency Non-Resident deposit programme was terminated early on strong inflows of approximately US$127bn. Q2 GDP beat expectations at 7.8% year-on-year, with Q1 also revised higher.

In Indonesia, the central bank governor resigned unexpectedly, citing personal reasons, amid reported tension with the administration over not cooperating closely enough with the government's economic policy goals. The deputy governor was promoted and has since indicated that SRBI yields (short-term bonds issued by the central bank) will be cut from here. At the new governor's first meeting, the central bank left the policy rate on hold as expected at 5.75%. The reduction in SRBI yields has helped attract inflows into the bond market, while the budget plan for 2027 helped ease concerns of the fiscal deficit overshooting the 3% limit. Trade data improved, returning to a modest surplus, and Q2 GDP beat expectations at 5.3% year-on-year.

The Bank of Korea hiked rates by 25bps, accompanied by a large upgrade to both its growth and core inflation forecasts. The median dot plot pointed to one further hike over the next six months, and no member allocated three hikes across their three dots – read by some investors as a dovish signal. June balance of payments data showed a US$50bn current account surplus for the month, equivalent to 32% of GDP (6.5% of GDP a year earlier), though sizeable equity outflows offset this. The easing of outflows combined with sustained current account strength supported the currency through July and August. The trade surplus increased to US$34.7bn, driven by semiconductor exports.

The central bank in the Philippines hiked by 25bps as expected, taking the policy rate to 5%, paired with hawkish commentary prioritising inflation risk. The bank significantly raised its inflation forecast while suggesting it had little appetite to hike further, leaving the messaging mixed. August inflation came in around expectations at just over 6%. Q2 GDP was weaker than expected at 2.3% year-on-year. The government revised its 2026 borrowing plan, reducing local bond issuance while increasing T-bill and programme loan issuance; the 2027 gross borrowing plan showed a 20% increase, reflecting higher maturities. Moody's affirmed the Philippines at Baa2 with a stable outlook.

In Thailand, CPI was weaker than expected in July at 2%, although ticked up to 2.5% in August on firming oil prices. Q2 GDP was stronger than expected at 1.9% year-on-year, although consumption slowed. The central bank left rates on hold as anticipated, with a slightly dovish tone, projecting 2026-27 headline CPI below prior expectations and describing growth as weak and uneven. Trade data was somewhat better, with imports lower and exports higher.

State elections in Malaysia were held in Negeri Sembilan, delivering large wins for the BN-PN partnership, keeping general election timing firmly on people's radars and any potential fiscal slippage. Industrial production for June was slightly softer than expected at 6.5% versus 7.2%, and CPI for July came in below expectations at 1.8%. Trade data was strong, with growth of nearly 40% and both exports and imports above expectations. Q2 GDP growth was revised higher to 6.0% year-on-year.

Latin America

In Argentina, inflation rose above expectations to 2.1% month-on-month in July, bringing three consecutive months of disinflation to an end. However, it remains close to historical lows, with annual inflation at 33.8% year-on-year. The broader macroeconomic backdrop was more constructive: the government returned to a fiscal surplus in July, the trade surplus widened to 3.5% of GDP as exports rose and imports fell, and net FX reserves recovered to US$5.8 billion after being in negative territory in June. The lower house passed the central bank's charter reform, which now moves to the Senate. The reform makes preserving the currency's value the central bank's sole mandate and bans public-sector financing – a change the IMF has been pushing for – and is viewed positively by markets.

In Brazil, the central bank cut its policy rate by 25bps to 14% as expected, though comments from the meeting flagged that while tight monetary policy has cooled economic activity, demand-driven inflation pressures remain. Inflation slowed to 4.2% year-on-year in August, below consensus and within the central bank's target range. Q2 GDP growth slowed to 0.5% quarter-on-quarter, as weaker private consumption was only partly offset by higher government spending and stronger external trade. Job creation data was also weak, at roughly half the consensus expectation. The primary balance improved to a surplus of BRL10.8 billion, from a BRL47.9 billion deficit in June, though underlying fiscal concerns remain. Politically, polls show President Lula's lead over Flávio Bolsonaro narrowing ahead of the election.

Economic data in Chile was mixed: Q2 GDP fell 0.2% year-on-year on a sharp drop in copper output, weaker exports and softening consumption, while retail sales growth came in below expectations and industrial production contracted by 5.1% year-on-year. Inflation remained subdued, easing to 3.5% year-on-year, while the fiscal deficit narrowed as revenues rose. Notably, the 12-month rolling current account moved into surplus for the first time since 2010, driven by strong copper export prices. On the policy front, President Kast's omnibus bill was approved by Congress, aiming to revive growth through key economic reforms.

In Colombia, President Abelardo de la Espriella was inaugurated. The Ministry of Finance presented a recast 2027 budget, pointing to a much wider fiscal gap of 9.4% of GDP in 2026, as debt service costs rise and weaker activity is expected after the earthquake, with damages estimated at COP30 trillion. The central bank raised its 2026 inflation forecast to 6.9% from 6.4%, citing El Niño risks and the lingering pass-through from the minimum wage hike, even as CPI slowed to 6.0% year-on-year in July, below consensus. Q2 GDP grew strongly at 3.5% year-on-year, driven by government spending, while both industrial production and retail sales beat expectations. Meanwhile, the trade deficit widened to US$2.2 billion, driven by imports as the peso remained strong.

In Mexico, the central bank held rates at 6.5% unanimously, as expected, with the governor noting that the current policy level is "correct". Consumer confidence fell for a 19th consecutive month, retail sales contracted month-on-month in June and Q2 GDP came in slightly below expectations at 2.1% year-on-year. Positively, industrial output exceeded expectations on the back of strong construction and mining activity. Meanwhile, the current account swung to a US$8.9 billion surplus in Q2 from a US$18 billion deficit in Q1, driven by the seasonal narrowing of the income deficit and a strong trade surplus, helped by AI-related tech exports.

In Peru, Lima CPI rose above consensus to 4.1% year-on-year in July, remaining above the target range. Despite this, the central bank held rates at 4.25% at its August meeting, as expected, viewing the recent acceleration in inflation as transitory. Economic activity was slightly weaker than expected in June, while the Q2 current account surplus was strong at almost 3% of GDP.

Ecuador was upgraded by S&P to B with a stable outlook, on improving fiscal consolidation. In the Dominican Republic, the central bank kept rates on hold at 5.25%, reflecting inflationary pressure and stronger economic activity. Venezuela announced a historic 25-year oil deal with the US, giving the US control of 65 billion barrels of oil. The deal should attract US$100 billion of investment and generate US$209 billion in tax revenues.

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

The central bank in Czechia left rates unchanged at 3.75%, in line with expectations, though communication was more dovish than anticipated. Activity data was broadly strong: the PMI came in well above expectations at 54.1, and industrial production for June was robust at 4.0% year-on-year. Retail sales were softer than expected but still grew a healthy 3.6% year-on-year. Inflation for July was in line with expectations at 1.7% year-on-year. Attention is turning to the 2027 wage round, with sizeable minimum- and public-sector wage increases under discussion. The Ministry of Finance updated its forecasts, with GDP growth now expected at 1.9% in 2026, reflecting the Middle East conflict and higher energy prices, while the inflation projection was downgraded to 2.2% for 2026, largely due to lower-than-expected food prices.

In Poland, August's flash inflation reading surprised to the upside at 3.4% in August (against 3.1% expected). Wage growth beat expectations, rising 6.8% year-on-year, and producer prices likewise surprised to the upside. The activity picture was more mixed: the PMI was weaker than expected, industrial production was in line, construction activity came in below expectations, and retail sales surprised to the downside at 3.9% year-on-year in July. A central bank member struck a dovish tone, attributing the resulting CPI pressure to fuel prices and expecting the pressure to ease once government measures take effect in September. Poland avoided a downgrade from Fitch, leaving the sovereign at A- with a negative outlook, though the report was negative in tone.

Inflation in Hungary came in below expectations at 1.2% year-on-year. The central bank cut rates by 25bps to 5.5%, as expected, but the guidance was vague and avoided any pledge on further easing, with the central bank indicating the rate path would only be revisited following September's inflation report. This cautious tone limited downside pressure on the currency, with the reaction in local bonds similarly muted. Wage growth came in at 7% year-on-year, below the 9% expected.

In Romania, Moody's affirmed the country's Baa3 credit rating with a negative outlook, noting that fiscal consolidation has progressed well, but political fragmentation and rising interest costs are ongoing concerns. The central bank held rates at 6.5%, as expected, at its August meeting. Inflation came in higher than expected at 8.2% versus 8.0%. The political picture remains challenging: the four former coalition parties failed to reach any consensus on the unitary wage bill, forgoing US$770mn of EU funding. This ultimately drove some weakness in hard currency bonds. Meanwhile, talks on the coalition and government formation have resumed.

In South Africa, headline inflation eased to 4.3% year-on-year in July (from 5.0% in June), below expectations, but remained above the South African Reserve Bank's 3% target. Most of July's disinflation reflected slower fuel prices, while core inflation edged up slightly to 4.2% from 4.1%. Against this backdrop, yields fell slightly over the month. The rand strengthened through most of August, as broad US dollar weakness and rising gold prices (a tailwind for a major gold-producing economy) supported the currency, before Kevin Warsh's hawkish Jackson Hole remarks introduced some late-month volatility.

In Turkey, the central bank resumed its one-week repo auctions at 37%, a modest dovish surprise as the market had expected the move at the 10 September policy meeting; overnight rates should now fall from 40% towards the policy rate, and the yield curve bull steepened in response. In its third inflation report of the year, the central bank raised its 2026 year-end inflation forecast to 28% from 26%. The latest inflation print was slightly better than expected at 1.8% month-on-month, taking annual inflation to 31.7%, with core inflation falling below 30%. Q2 GDP surprised to the downside at 2.3% year-on-year against expectations of 2.5%, while the current account deficit printed much better than expected.

Following the political turmoil in Ukraine in June, when President Zelensky reshuffled the government and replaced the prime minister and cabinet (including the popular defence minister), parliament has confirmed Yevhen Khmara as the new defence minister. Andriy Sybiha remains in place as foreign minister, providing continuity.

S&P upgraded Kazakhstan's credit rating to BBB with a stable outlook. CPI inflation slowed to 10.2% year-on-year in July, while oil exports remained disrupted following drone strikes, with volumes still routed via alternative channels.

EM corporate debt highlights

The EM corporate debt market (JPMorgan CEMBI BD) returned 0.6% in August. Similar to the sovereign market, both investment-grade and high-yield segments gained as spreads tightened on the broader risk-on tone. All sectors and regions delivered positive returns, with real estate and oil and gas the standout sectors. The primary market was fairly active over August, with US$26bn representing a new record for the month. This was dominated by investment-grade issuance, driven by robust activity in Asia financials (US$19bn).

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