



Emerging Market Debt Indicator

The fast view

Market overview

The US Federal Reserve delivered its third 25bps rate cut of the year, but yields rose across most of the US Treasury curve. The EM local debt market performed well, rounding off a very strong year for the asset class.

Top-down positioning

Our top-down risk target remains overweight. We now have an overweight position in EM FX, retain our overweight in EM hard currency debt, but have moved to a neutral stance in local rates.

Africa

Zambia and Côte d'Ivoire gained credit rating upgrades. The latter saw a successful review of its IMF programme in December, while formal approval for Egypt and Zambia is expected in the coming weeks.

Asia

China recorded a record trade surplus, although domestic consumption remained soft. 'Goldilocks' macro conditions continue in India, but the central bank had to intervene in the FX market. Inflation remains benign in the region, but a hawkish shift from the central bank in the Philippines weighed on its bond market while boosting the peso.

Latin America

Argentina announced further FX market reforms and earned a rating upgrade. A second rating agency upgraded Paraguay to investment grade. The IMF approved Ecuador's fourth review. Politics boosted Chilean assets but weighed on sentiment towards Brazil, and Mexico bucked the falling-inflation trend.

Central and Eastern Europe, Middle East, and South Africa

Turkey saw a fall in inflation and positive fiscal dynamics. South Africa's macroeconomic data remained encouraging and demand for the country's debt remains strong. Falling inflation helped Czechia's rate market, and Hungary's central bank surprised the market with a dovish shift.

EM corporate debt highlights

The EM corporate debt market ended the year positively, rounding off a strong 2025.

Market background

December was another positive month for the EM debt asset class, rounding off a strong 2025.

In the US, the Federal Reserve (Fed) delivered its third 25bps rate cut of the year, but yields rose across most of the US Treasury market. The driver of this was stronger-than-expected economic data, which prompted market participants to moderate their rate-cut expectations. By the end of December, market pricing suggests that two further rate cuts are expected by the end of 2026.

The EM local currency debt market (JPMorgan GBI-EM GD) rose 1.5% over the month in US dollar terms, ending the year 19.3% higher – almost two percentage points more than the S&P 500. On the rates side, South Africa and Turkey led the index in December – lower-than-expected inflation data boosted both markets. In the FX market, the Chilean peso, South African rand and Thai baht were the standout performers.

The hard currency market (JPMorgan EMBI BD) rose 0.7% in December, bringing the annual return to 14.3%. The high-yield segment drove performance (1.4%) while investment-grade returns were flat (0.0%). Spreads tightened in both segments in reflection of the ongoing improvement in appetite for risk. Continuing the trend seen throughout the year, African markets were top performers in the index.

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 at 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 have added an overweight in EM FX from a neutral position. The encouraging growth outlook for EM economies, together with robust external account positions, should support EM currencies. In addition, diversification away from the US dollar by global investors provides a supportive structural tailwind.

We have moved to a neutral top-down risk target in the EM local rates market. While we retain a positive bottom-up view on some markets, the combination of a strong EM growth outlook and the potential end to some rate-cutting cycles may dampen returns. That said, inflation dynamics remain relatively benign in EM economies, thanks to credible monetary policy frameworks built over recent years.

We retain our top-down overweight in EM hard currency debt. While further credit spread compression may be limited following strong performance seen over 2025, an improved growth outlook and signs of renewed inflows into an under-owned asset class continue to support the investment case.

Outlook

After a strong year for emerging market (EM) debt market returns, we expect flows into the asset class to continue, supported by solid fundamental foundations and rising investor interest. The macroeconomic backdrop remains favourable, with global growth resilient and US interest rates likely to fall further.

2025 marked a turning point for EM debt, as improved market resilience, credit rating upgrades and a growing recognition of its diversification benefits brought the asset class onto more allocators' radars. At the same time, ongoing volatility in developed market (DM) bonds has challenged their traditional safe-haven status, with steeper yield curves highlighting mounting fiscal concerns. We expect these dynamics to persist, helping EM debt move closer to the mainstream.

Short-term US dollar fluctuations and bouts of volatility linked to geopolitical risks are likely to remain features of the investment backdrop. However, alpha opportunities persist – from reform-driven economies to structurally fast-growing regions such as the Middle East and Asia. Investors with a long-term horizon can seek to harness volatility-induced mispricing.

Regional highlights

Africa

GDP growth in **Egypt** accelerated to 5.1% over Q3, supported by robust activity in non-oil manufacturing and a continued recovery in tourism. The IMF reached a Staff-Level Agreement (SLA) on the combined fifth and sixth reviews of the US\$8 billion Extended Fund Facility (EFF), paving the way for a US\$3.8 billion disbursement in January, pending approval by the board. Suez Canal revenues are gradually improving and are expected to normalise going forward. Inflation eased slightly to 12.3% in November, down from the previous month, allowing the central bank to cut interest rates by 100bps in December.

Senegal passed its 2026 budget to parliament, targeting a fiscal deficit of 5.4%. The Q3 fiscal report confirmed continued progress on fiscal consolidation, with the country seemingly on track to meet its 2025 targets. However, GDP growth slowed markedly to 4.2% year-on-year in Q3. Concerns lingered about debt sustainability and delays in IMF engagement, as well as Senegal's ability to access regional markets amid restricted access to international markets. However, confidence improved significantly by month end after local currency issuance exceeded expectations. The government's plan to diversify funding sources by issuing diaspora bonds (retail bonds for Senegalese living abroad) was another positive sign, but hard currency bond prices ended the month lower.

Macroeconomic indicators continued to improve in **Ghana**, with headline inflation declining to 6.3% year-on-year, reflecting prior currency appreciation and tight monetary policy, while GDP growth printed at 5.5%. Meanwhile, the IMF completed its fifth programme review and disbursed US\$385 million.

In **Angola**, the government approved the 2026 budget, which maintains a commitment to fiscal consolidation through reduced expenditure, including the removal of fuel subsidies. There was a deterioration in the current account surplus. Inflationary pressures moderated, with CPI easing to 16.6% year-on-year.

Nigeria's Q3 GDP expanded 4% year-on-year, slightly below Q2 but still a robust print. Inflation continued to ease, printing at 14.5%, down from 24.5% at the start of the year. The Senate approved the medium-term expenditure framework, which targets a 4.3% budget deficit for 2026.

The Central Bank of **Kenya** reduced its policy rate by 25bps to 9%, while inflation remained stable at 4.5% year-on-year. Meanwhile, the government finalised a debt-for-food swap with the US, which involves replacing high-cost existing debt with cheaper financing to improve food infrastructure, offering both fiscal and developmental benefits.

Zambia reached an SLA with the IMF on the final review of its Extended Credit Facility (ECF), unlocking

a US\$190 million disbursement. Positive sentiment was further supported by Fitch's upgrade of the country's rating to B-. The 2026 budget, which targets a 2.1% fiscal deficit, was passed. Higher copper production in October, alongside stronger global copper prices, added to the improving macroeconomic narrative.

Côte d'Ivoire passed its IMF review as anticipated, reinforcing the country's improving macroeconomic trajectory. Inflation has now declined to 0%, while S&P's upgrade of the country's sovereign rating to BB came as a positive surprise, bolstering investor confidence. In addition, parliamentary elections at month-end saw a further strengthening of the presidential majority.

Asia

China recorded a trade surplus of US\$112 billion in November, taking the year-to-November surplus to US\$1 trillion, driven by stronger-than-expected exports and weaker imports, underlining the economy's reliance on external demand while domestic consumption continues to lag. The People's Bank of China (PBoC) set a stronger daily fixing for the renminbi, signalling that it is comfortable with the currency gradually appreciating. This came against a backdrop of growing pressure from trading partners to strengthen the currency, given the large trade surplus and concerns about competitiveness. Inflation data was mixed, with headline CPI rising to 0.7% year-on-year, supported by higher vegetable prices and gold, while PPI remained in deflation. Meanwhile, activity data disappointed, with industrial production slightly below expectations, while retail sales were notably weaker at 1.3% year-on-year. Property prices remain under pressure, reinforcing softer growth concerns. Against this backdrop, short-dated local bonds rallied, as markets priced in further monetary easing.

In India, the central bank cut policy rates by 25bps to 5.25%, in line with expectations, as the economy continues to display 'Goldilocks' characteristics of low inflation and strong growth. The trade deficit narrowed as imports moderated, particularly gold and silver, and exports to the US improved. Despite supportive macro fundamentals, the rupee weakened to record lows on balance-of-payments pressure, prompting intervention from the central bank to stabilise the currency.

Bank Indonesia left rates unchanged at 4.75%, as expected, citing exchange-rate stability as a key driver, while raising the 2026 GDP growth forecast to 5.3%. Inflation eased to 2.7% year-on-year in November, in line with expectations. Economic activity indicators remained supportive, with strong PMI data as government support measures filtered through, while retail sales growth increased to 4.3% year-on-year in October. However, trade data disappointed, with exports declining.

South Korea's trade balance exceeded expectations, driven by very strong exports led by the semiconductor sector, while imports were slightly softer. Data was mixed, as CPI remained stable at 2.4% year-on-year in November, while industrial production missed expectations, dragged down by weakness in non-technology sectors. The 2026 budget was passed, confirming the government's expansionary fiscal stance. The government remains concerned about currency weakness, asking the National Pension Service to hedge part of its offshore exposure and introducing temporary tax incentives to encourage repatriation of retail investments.

Taiwan's central bank held rates unchanged at 2%, as expected, while revising up its 2026 growth forecast to 3.7% from 2.7% on the back of booming export growth. Exports far surpassed expectations again in November, with robust capital imports signalling export strength is likely to continue in the months ahead. While these developments are positive for the currency, the authorities adjusted regulations for life insurance companies' FX accounting, which enables them to run smaller FX hedge ratios and therefore led to downward pressure on the currency.

Thailand's central bank cut rates by 25bps as expected, amid weaker growth dynamics and a stronger currency. Local bonds rallied following the unanimous decision, and the governor maintained a dovish tone, signalling scope for further easing to support growth. Inflation was slightly stronger but still in deflationary territory, contracting by 0.5% year-on-year in November. Politically, tensions with Cambodia remain elevated.

In the Philippines, the weaker economic growth outlook prompted the central bank to cut rates by 25bps to 4.5%, although the decision was hawkish, with guidance suggesting the easing cycle may be nearing its end. This pivot surprised markets, with the peso outperforming as a result while local bonds sold off. The budget deficit narrowed sharply, falling 26% year-on-year in November, due to reduced expenditure. PMI data remain weak, with fraud cases weighing on investment.

Latin America

Argentina returned to the sovereign US dollar bond market for the first time since 2020, however the bond was issued under local law, raising US\$1 billion at a yield of 9.3%. The new Congress took office and advanced with President Milei's ambitious reform agenda, including presentation of the labour reform, alongside the approval of the 2026 budget – the first under the new administration. Policy credibility was further bolstered by announced changes to the FX and monetary framework, including adjusting the currency bands in line with inflation and introducing a new FX reserve accumulation programme. On the macro side, Q3 GDP growth came in slightly below expectations but still expanded quarter-on-quarter, while November delivered a fiscal surplus. Argentina was upgraded by S&P to CCC+ from CCC, reflecting economic improvements.

Brazil's central bank kept rates on hold at 15%, with the minutes showing a slightly less hawkish tone, highlighting progress on disinflation due to restrictive policy and signs of the labour market softening. Inflation printed slightly below expectations, while economic activity was a negative surprise, even as unemployment fell to a record low of 5.4%. Congress approved the budget, which is broadly in line with previously set fiscal targets. However, political developments weighed on markets, with local bonds selling off after former President Jair Bolsonaro announced his son, Flávio Bolsonaro, as his successor for the 2026 presidential race. Investors viewed this as increasing the likelihood that incumbent President Lula, who is more fiscally liberal, will be re-elected.

In **Chile**, far-right candidate José Antonio Kast won the presidential election in a landslide victory, as expected by markets. He adopted a more moderate tone in his first speech, pledging a government of unity with a focus on security and pro-growth tax cuts. The peso strengthened, supported by higher copper prices, as well as the election result. The central bank cut rates by 25bps to 4.5%, bringing the policy rate into its neutral range, with no guidance on further easing. Economic data was mixed, with strong retail sales while industrial production was weak.

In **Mexico**, inflation was higher than expected, and markets subsequently repriced rate cut expectations, which weighed on local bond prices. The central bank delivered a 25bps rate cut later in the month but signalled a slower pace of easing ahead. President Sheinbaum's announced another large minimum wage increase of 13% for 2026, adding to medium-term inflation concerns. Economic activity remained resilient, with industrial production for October above expectations. On the trade front, the Senate approved tariffs on selected Asian countries without existing trade agreements, reflecting Mexico's efforts to align more closely with US trade policy.

Colombia's central bank kept rates on hold at 9.25% in a split vote, despite a lower-than-expected inflation print in November. However, the government announcement of a 23% minimum wage increase for 2026 far exceeded expectations, which raised concerns around inflationary and fiscal pressures, triggering a sell-off in local bonds. Congress rejected President Petro's proposed tax reform, an outcome that was widely anticipated, though the 2026 budget assumes revenues from the reform. Fitch downgraded the country's rating to BB from BB+ due to fiscal slippage and a weaker outlook, despite the Finance Ministry completing a US\$6 billion private placement with PIMCO.

In **Ecuador**, the IMF approved the fourth review under its programme, unlocking a US\$600 million disbursement. Hard currency bonds strengthened as a result. Sentiment was further supported by a new investment agreement with the UAE, reinforcing confidence in the reform agenda.

The disinflation trend continued in **Peru**, with inflation printing below the 2% target, while the central bank kept rates on hold, as expected. **Uruguay's** central bank delivered a larger-than-expected 50bps rate cut, taking the policy rate to 7.5%, as inflation declined to just over 4% year-on-year. **Paraguay** also saw inflation ease to 3%, below expectations, supported by the strong currency. S&P upgraded the sovereign's rating to BBB-, making it the second rating agency to grant investment-grade status.

In **Honduras**, after weeks of delay, the closely contested presidential election was won by the Trump-backed candidate Nasry Asfura. While the situation remains peaceful, there is a residual risk that the result may be disputed.

Venezuela saw significant political developments after year-end as President Maduro was captured by US forces and removed from office. Markets reacted positively to the increased likelihood of regime

change, fuelling optimism that a bond restructuring process could finally begin.

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

Local bonds in **Turkey** benefitted from a meaningful rally; yields declined as inflation was less-than-expected month-on-month (0.9%) for November. The annual rate eased to 31.1%, although this is still above the central bank's 2025 29% upper target. In addition, confirmation that central bank demand for Turkish government bonds will amount to around 5% of gross issuance in 2026 provided further technical support to the local bonds. The central bank delivered a 150bps rate cut, although this was largely priced in by markets. Activity data was mixed, with industrial production contracting on a month-on-month basis, while retail sales remained robust. Fiscal dynamics were also supportive, with budget data showing a surplus in November.

South African assets were supported by a generally constructive macro backdrop, with Q3 GDP surprising to the upside at 2.1% year-on-year, versus expectations of 1.8%. Near-term indicators also remained resilient across the manufacturing, mining and retail sectors. Inflation data was marginally better than anticipated, with headline inflation at 3.5% year-on-year versus 3.6% expected, while core inflation printed in line at 3.2%. On the external funding side, South Africa successfully issued a dual-tranche hard currency bond, including a long-end maturity, which was well subscribed, highlighting continued robust investor appetite.

Ukraine remained in focus as European partners reached a financing agreement to support the country, although this stopped short of directly linking funding to Russia's frozen assets. Diplomatic efforts toward peace continued, but attention increasingly centred on Ukraine's alignment with the US. Markets in **Kazakhstan** were supported by an improving inflation narrative, with price pressures easing. Broader economic indicators continued to point to robust activity, while the Kazakh tenge recovered losses incurred earlier in the month. In **Uzbekistan**, inflation also continued to moderate, while the central bank kept the policy rate on hold at 14% for now.

Turning to Central and Eastern Europe (CEE), local bonds in **Czechia** rallied over the month, supported by an improving inflation outlook underpinned by falling energy prices. While still with a hawkish bias, the central bank has acknowledged this shift, aligning with recent data that showed inflation easing more than expected to 2.1% year-on-year, below the 2.5% consensus. Economic indicators painted a mixed picture: industrial production in October modestly exceeded expectations, the trade surplus was stronger than forecast, and retail sales met expectations.

Hungary's central bank kept rates at 6.5%, in line with expectations, but surprised markets by pivoting to a notably dovish stance, lowering its inflation forecast from 3.8% to 3.2% and revising its growth projection down by 0.4%. In addition, forward guidance shifted to a more data-dependent, meeting-by-meeting approach, signalling openness to further cuts if warranted. Inflation was marginally lower than expected at 3.8%, but underlying risks remain, and November fiscal data disappointed, raising doubts about the government meeting its 5% deficit target. On the ratings front, Moody's held Hungary at Baa2 with a negative outlook, offering some relief amid fears of a downgrade, while Fitch revised its outlook from stable to negative as anticipated.

Romania's economic landscape continues to face headwinds, primarily driven by the ongoing implementation of fiscal adjustments. While the ruling coalition has succeeded in pushing through necessary legislative measures, political tensions remain elevated. On the economic front, weakness in domestic demand is evident, with retail sales declining by 4% year-on-year. These dynamics reflect the near-term costs of fiscal consolidation, which are weighing on overall activity. At the same time, the welcomed fiscal discipline continues to show encouraging signs in terms of monthly budget performance.

Inflation in **Poland** continued to print below expectations, decelerating to 2.4% year-on-year, alongside softer-than-expected wage growth. The central bank responded with a further 25bps rate cut, bringing the policy rate down to 4%, although guidance from monetary policy committee members remains mixed. While inflation trends provide room for easing, risks to Poland's credit profile are emerging, as S&P noted that the sovereign's 'A' rating could come under pressure in the absence of a growth recovery or progress on fiscal correction.

EM corporate debt highlights

The EM corporate debt market (JP Morgan CEMBI BD) rose 0.5% in December, returning 8.7% for the year. The high-yield segment drove returns over the month (0.9%), but the investment-grade segment also delivered positive returns (0.2%). Both markets were boosted by credit spreads tightening, more prominently in the former, while the rise in US Treasury yields dampened returns.

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