



Emerging Market Debt Indicator

The fast view

Market overview

Despite the highly volatile geopolitical backdrop, EM fixed income assets delivered gains. A weaker US dollar supported local currency markets while high-yield hard currency debt outperformed.

Top-down positioning

Our top-down risk target remains overweight. We continue to have an overweight position in EM FX and in hard currency debt, and we have retained a neutral stance in local rates.

Africa

Falling inflation resulted in rate cuts in various markets. Positive macroeconomic dynamics continued in Egypt and Ghana and growth remained firm in Senegal, Kenya and Côte d'Ivoire.

Asia

A partial loosening of monetary policy supported China's local bond market. Political developments and concerns over the fiscal outlook weighed on Indonesian assets. Export strength continued to boost Taiwan's economy, while the country reached a trade agreement with the US.

Latin America

Bond prices in Venezuela were boosted by expectations of an eventual regime change following the US's removal of President Maduro. Most central banks across the region made dovish signals. Brazil's economy showed surprising strength. Higher copper prices boosted Chile's trade balance and the peso. Demand for new issuance from Colombia, Mexico and Ecuador was robust.

Central and Eastern Europe, Middle East, and South Africa

Fitch upgraded Turkey's outlook to positive, and the central bank continued to cut rates. South African local bonds benefitted from a combination of stronger-than-expected fiscal data and higher commodity prices. Stronger macro dynamics boosted Romania's hard currency bond market. Hungary bucked the broader regional trend with higher-than-expected inflation.

EM corporate debt highlights

A positive month for the asset class, with credit spread tightening among high-yield issuers boosting overall returns.

Market background

Emerging market (EM) fixed income began the year on a positive note, continuing the strong performance seen over 2025. Despite geopolitical uncertainty driving significant volatility across markets, all areas of the asset class delivered positive returns in January. The US dollar weakened over the month, boosting EM currencies, while risk appetite continued to help EM high-yield bond markets.

US Treasury yields ended the month higher across much of the curve, led by a combination of more stable labour market indicators, renewed tariff uncertainty and the nomination of Kevin Warsh as the next Chair of the Federal Reserve. Inflation remained steady at 2.7% and the Fed held policy rates steady in January, as expected. Although the Fed adopted a slightly hawkish tone by emphasising the firmer jobs data, Chair Powell noted that the scope for easing remains should inflation decline further.

The EM local debt market (JPMorgan GBI-EM GD) had a robust month, rising 2.2% in US dollar terms. Performance was driven by EM currencies, which benefitted from the weaker US dollar, particularly in Latin America, where the Brazilian real and Chilean peso were notable outperformers. The notable outlier was the Indian rupee, which weakened over the month. Local bond market moves also contributed to positive index returns, helped by Turkish rates, which benefitted from falling inflation.

The EM sovereign hard currency debt market (JPMorgan EMBI GD) rose 0.7% in January, driven solely by the high-yield market (1.5%), while the investment-grade market posted a negative return (-0.1%). The rise in US Treasury yields weighed on returns, although credit spread tightening in the high-yield market offset this. Meanwhile, spreads in the investment-grade market remained relatively unchanged. At the country level, Venezuela was the top performer in the index: markets reacted positively to the capture of President Maduro by US forces, given the potential for regime change and optimism that a bond restructuring process could finally begin.

Top-down views and outlook

Current top-down positioning

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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 maintained our overweight position in EM FX. 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.

Our top-down risk target in the EM local rates market remains neutral. While we retain a positive bottom-up view on some markets, the combination of a strong EM growth outlook and the end to most 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 2025 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

Headline inflation in **Egypt** was lower than expected at 12.3% year-on-year, with food price pressures remaining subdued, allowing the central bank to cut interest rates by 100 basis points (bps), which in turn helped local bond yields to fall. The primary surplus rose to 1.8% over July–December, signalling progress on fiscal consolidation relative to last year. FX reserves continued to grow, rising to US\$51.5bn and the banking sector's net foreign asset position reached record highs. Remittance inflows remained strong, while Suez Canal receipts increased, supporting the Egyptian pound.

Ghana made a key breakthrough after reaching an agreement with Afreximbank, removing the final major hurdle to completing the sovereign debt restructuring. Disinflation continued, with inflation falling to 3.8%, allowing the central bank to cut rates by a sizeable 250bps to 15.5%, while real (inflation-adjusted) rates remain elevated. On the fiscal side, the government made further progress in addressing energy sector arrears, while the budget deficit for January to November came in at just 1.4% of GDP, outperforming the target.

Senegal successfully tapped local currency funding channels and reiterated its commitment to honouring its debt obligations, with the finance minister commenting that the country does not intend to default. This alleviated investor concerns around near-term financing risks, supporting the country's hard currency bonds. Fiscal performance was boosted by record tax revenues, with a significant contribution from the fourth quarter, which authorities hope will strengthen Senegal's position ahead of IMF negotiations in 2026. Meanwhile, economic growth remained solid, with GDP expanding by 4.2% year-on-year in Q3.

Angola's central bank delivered a third consecutive rate cut, lowering the policy rate by 100bps to 17.5%. On the financing side, the authorities extended a US\$1bn loan with JPMorgan by three years and secured an additional US\$500mn in financing, helping to address near-term funding needs and support external liquidity.

Nigeria signalled a shift in its financing strategy, with the finance ministry indicating reduced reliance on Eurobond issuance in favour of more domestic funding. Inflation continued to moderate, falling to 15.2%. Separately, the government announced an economic pact with the UAE, including a large FDI commitment, although details remained limited at this stage.

In **Kenya**, Fitch affirmed the sovereign's rating at B- with a stable outlook, while Moody's upgraded its

rating to Caa1. However, fiscal pressures remain, with the government relying on US\$1bn equivalent in short-term local FX borrowing and revenues underperforming targets. Reports suggested that the authorities are considering a US\$1.5–2bn Eurobond issuance to address financing shortfalls. On the growth front, Q3 GDP expanded by a robust 4.9%.

Zambia received IMF approval for the sixth review of its Extended Credit Facility, although the programme was not extended. The Bank of Zambia raised the participation limit for non-residents in local bond auctions from 5% to 22%, which should increase demand for local assets. Economic growth moderated slightly to 3.6%, but the medium-term outlook remains constructive, supported by favourable copper prices. While copper production was impacted by heavy rains and power disruptions, the government reiterated its plans to reach annual output of 3mn tonnes by 2031.

Côte d'Ivoire continued to post solid growth, with Q3 GDP expanding by 7.3%. Following parliamentary elections in December, the government announced a cabinet reshuffle, although no meaningful changes to the direction of economic policy are expected.

Asia

China's GDP growth met expectations and achieved the 5% full-year target, supported by stronger-than-expected industrial production. However, domestic demand remains subdued, as evidenced by weaker retail sales, fixed asset investment and ongoing stress in the property sector. Another strong trade surplus for December pushed the full-year surplus close to US\$1.2trn, with exports to the US continuing to decline, while shipments to Southeast Asia and Africa increased. The People's Bank of China (PBoC) held the one- and five-year loan prime rates unchanged, but it lowered the re-lending rate, a structural monetary tool to boost credit growth. The PBoC also continued to set the daily renminbi fixing stronger, moving below the key level of 7 CNY/USD, indicating an acceptance of currency strengthening.

Local bonds in **India** weakened, despite a large liquidity injection of INR1trn, as gross and net borrowing targets for the coming fiscal year exceeded expectations. The newly announced budget is targeting a fiscal deficit of 4.3% in FY27, a slight improvement from the FY26 target of 4.4%. Inflation dynamics were more benign, with December CPI rising to 1.3% year-on-year, below expectations, with wholesale price pressures remaining weak. The rupee remained under pressure throughout the month, prompting the central bank to intervene.

Bank **Indonesia** held policy rates unchanged, as widely expected, and the rupiah initially edged slightly higher. However, markets were unsettled by a surprise announcement that President Prabowo had nominated his nephew as deputy central bank governor, triggering a sell-off across both bonds and the currency. Sentiment deteriorated further after a major investment bank reported that the government's fiscal deficit is likely to breach the 3% target.

The Bank of **Korea** kept rates on hold in a unanimous decision, but the tone was interpreted as hawkish, as a previously dovish board member voted for a hold, while the messaging focussed on FX weakness and elevated house prices. Korean rates sold off following the meeting. On the external front, President Trump threatened to raise tariffs as parliament has yet to ratify a deal agreed months ago.

The Bank of **Thailand** signalled its preference for a weaker currency and highlighted that there is room to cut the policy rate. Additional measures to restrict online gold trading were also announced. Inflation data was broadly benign, with December headline CPI in line with expectations, while core was slightly below expectations.

GDP data in the **Philippines** was significantly weaker than expected, with Q4 growth at 3% versus expectations of 3.7%, taking full-year growth to 4.4%, well below the original 5.5–6% target. The weakness was largely attributed to a corruption scandal linked to public investment projects, which led to a sharp drop in investment spending, particularly in construction, as well as subdued consumption. Inflation was higher than expected, at 1.8% year-on-year versus 1.4% expected, but still remains below the central bank's 2–4% target range.

Taiwan continued to benefit from strong external momentum, with exports rising sharply by 44%, well above expectations, and the trade balance remaining very strong. GDP estimates for 2025 also

outperformed expectations. In addition, a trade agreement was reached with the US, which included lower tariffs and increased Taiwanese investment in the US.

In **Malaysia**, the central bank kept the policy rate unchanged at 2.75% for a third consecutive meeting, in line with expectations, and maintained a balanced policy tone. Inflation edged higher than anticipated, with December's annual inflation at 1.6% against expectations of 1.4%, although it remained within the central bank's target range.

Latin America

Argentina continued to accumulate foreign exchange reserves, purchasing more than US\$1bn, which exceeded market expectations and boosted sentiment. Another positive development was the government meeting its January bond maturities, by borrowing through a US\$3bn repo transaction with banks. However, macro data was weaker, with economic activity contracting in November.

Assets in **Brazil** were supported by a dovish interpretation of the central bank's latest policy decision, with rates left on hold at 15% as expected but a clear signal that an easing cycle would begin as early as the next meeting. While policymakers reiterated that rates would remain restrictive, they acknowledged scope to cut given the very high level of real (inflation-adjusted) rates. Macro data surprised positively, with a stronger-than-expected trade surplus, alongside better current account data and inflation remaining within the central bank's target range. Election polls continued to show Lula da Silva as the frontrunner, although his lead has narrowed.

The central bank in **Chile** kept rates unchanged as expected, but forward guidance was slightly more dovish, opening the door to a possible final rate cut in March. Policymakers highlighted the disinflation trend, while revising their growth outlook higher on the back of strong copper prices. The trade surplus was a record high in December, largely supported by copper, which also helped the peso outperform. On the political front, President-elect Kast announced a new cabinet with a significant number of independent members as he seeks to advance a reform agenda.

In **Mexico**, the central bank signalled further room for rate cuts in its annual monetary policy report, reinforcing expectations of continued policy easing. The sovereign successfully issued US\$9bn across three US dollar-denominated tranches, supported by a strong order book, alongside a €5bn eurobond issuance. Domestically, the data picture was mixed, with weak employment and economic activity indicators, but more resilient retail sales. On the external front, USMCA trade deal negotiations were reported to be progressing constructively, providing some reassurance around trade relations.

Colombia returned to international markets with a new hard currency issuance that was scaled up to US\$5bn after attracting more than US\$20bn in demand, reflecting strong investor appetite. Inflation was lower over the month, but inflation expectations increased dramatically following the announcement of a 23.7% minimum wage hike, prompting policymakers to hike rates by 100bps to reign in price pressures. The peso was supported by a decree capping the share of pension fund assets that can be invested abroad at a lower level. Politically, polls continued to show a solid lead for the left-wing candidate ahead of party primaries in early March.

Inflation in **Peru** printed slightly above expectations but remained low at 1.5%. The central bank kept rates on hold as expected, maintaining a cautious stance amid the benign inflation backdrop. Politically, impeachment motions against the president resurfaced but are widely expected to be unsuccessful, particularly as the country approaches elections scheduled for April.

Ecuador marked its return to the Eurobond market for the first time since 2019 with a successful new issuance and carried out a liability management exercise, buying back portions of its 2030 and 2035 bonds and issuing US\$4bn, resulting in net issuance of around US\$1bn. Demand was strong, and the transaction was followed by a two-notch upgrade from Moody's, although the sovereign remains in high-yield territory at Caa1. Regional tensions also increased, with Ecuador announcing a 30% tariff on Colombian imports due to concerns over drug trafficking, prompting Colombia to retaliate by blocking electricity exports to Ecuador.

The central bank in **Uruguay** reacted to sustained currency strength by bringing forward its rate decision meeting to late January, delivering a larger-than-expected 100bps rate cut and explicitly signalling discomfort with the strength of the peso, indicating a willingness to intervene directly in the

FX market for the first time in several years. These actions were supported by a softer inflation print, with inflation easing below 4%.

In **Venezuela**, following the removal of President Maduro from office, Rodríguez was confirmed as interim president. The new administration moved quickly to meet key US demands, including steps to open up the oil sector, which led to the lifting of some US sanctions on Venezuelan oil following the passage of some legal reforms. These developments marked a notable change in the country's external engagement and improved the outlook for the energy sector. Venezuela's hard currency bonds rallied sharply over the month.

Paraguay's central bank cut rates by 25bps, as the very strong performance of the currency over the past year has helped bring inflation down.

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

In **South Africa**, the central bank kept the policy rate unchanged at 6.75% at its first meeting of the year. Although headline inflation printed at 3.6% in December and is expected to moderate further in the months ahead, Governor Lesetja Kganyago struck a slightly hawkish tone, and highlighted food inflation and electricity prices as key upside risks to the inflation outlook. There is still an increased likelihood of a rate cut in March and scope for a further reduction later in the year. Fiscal dynamics were supportive, with a positive budget balance surprise driven by stronger mining royalties and improved corporate profitability. Local bonds benefitted from a combination of stronger-than-expected fiscal data and higher commodity prices.

Turkey's central bank delivered a 100bps rate cut to 37%, although the cut was less than expected. Inflation continued to ease, printing at 30.9% year-on-year, which supported local bonds, albeit the February inflation print has led to a rise in yields post month end. Labour market conditions also improved, with unemployment falling to 7.8%. Domestic demand remains strong, with retail sales rising 14% year-on-year, although the current account deficit widened more than expected. Sentiment was helped by Fitch upgrading Turkey's outlook to positive while Moody's affirmed the outlook as stable.

Developments in **Ukraine** were mixed. Peace negotiations have shifted to a trilateral format (Ukraine, Russia, and the US), which is viewed as a positive signal, although discussions remain ongoing. Meanwhile, President Zelensky declared a state of emergency in response to the ongoing energy crisis. The central bank cut interest rates and signalled a greater tolerance for currency weakness. Credit fundamentals improved, with S&P raising Ukraine's sovereign rating to CCC+.

In **Kazakhstan**, the central bank kept policy rates unchanged at 18% as inflation has started to ease, coming in slightly below expectations in January after a sharp acceleration in the fourth quarter. Growth remains robust, with real GDP continuing to rise. **Uzbekistan's** central bank also held rates steady at 14%. Economic momentum remains solid, with GDP growing to 7.7% in 2025.

Turning to Central and Eastern Europe, headline inflation in **Czechia** printed below expectations in December, falling below the central bank's target and helping local bond yields to fall. While core inflation remains above target, recent central bank comments have signalled a potential resumption of rate cuts in 2026. Economic activity data has been mixed, but fiscal concerns have eased, with the 2026 budget coming in better than feared.

Positive fiscal developments continued in **Romania**, with the cash-based budget deficit better than expected. This was supportive of hard currency bonds. The central bank kept policy rates on hold at 6.5%, in line with expectations. CPI was broadly as forecast and although seasonally adjusted core inflation remains above target, it is showing signs of moderation.

Poland's central bank kept rates unchanged at 4%, although dovish communication helped local bond yields to move lower. While retail sales data were solid, they fell short of expectations, highlighting some moderation in domestic demand. Nevertheless, the macro-outlook remains constructive, with 2025 GDP growth accelerating to 3.6%, exceeding expectations.

Hungary stood out as an outlier within the region, with headline inflation being higher than expected, driven largely by services. In response, the central bank maintained a hawkish tone, talking down the likelihood of near-term rate cuts and ultimately keeping the policy rate on hold, citing weak growth dynamics.

EM corporate debt highlights

The EM corporate debt market (JP Morgan CEMBI BD) returned 0.7% over the month, with the high-yield market delivering strong returns and outperforming the investment-grade market. Both market segments benefitted from a tightening of credit spreads, particularly in lower-rated issuers. On a sector basis, real estate issuers drove returns, while industrial issuers were also among the top performers.

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