



Emerging Market Debt Indicator

The fast view

Market overview

March saw heightened volatility as conflict in the Middle East triggered a risk-off shift, putting pressure on EM assets.

Top-down positioning

We maintained the Strategy's risk target at neutral due to weaker global growth and elevated oil price risks.

Africa

Higher oil prices supported oil exporters such as Angola, while weighing on importers including Egypt. Growth remained firm across several markets, but weaker fiscal dynamics (Kenya) and transparency concerns (Senegal) dented sentiment towards those markets.

Asia

The region's dependence on oil transiting through the Middle East weighed on bond markets and prompted varied policy responses across the region. Export strength persisted in China, Korea and Taiwan, while currencies were under pressure in India and Thailand.

Latin America

Several central banks (Brazil, Mexico, Uruguay) began or continued monetary easing cycles, despite inflation rising in some markets. Political developments remained key to market sentiment, particularly in Chile, Colombia and Mexico.

Central and Eastern Europe, Middle East, and South Africa

In response to geopolitical shocks and higher oil prices, monetary policy has turned more cautious, particularly in CEE. Many governments are using fiscal measures to cushion against higher energy costs. Bonds in South Africa and Turkey weakened due to the deteriorating risk sentiment.

EM corporate debt highlights

The rise in US Treasury yields was the dominant driver of negative returns in the EM corporate debt market, with credit spreads proving relatively resilient to the broader risk-off shift in markets.

Market background

After starting the year on a strong note, March was marked by significant volatility after war in the Middle East drove a risk-off move across financial markets. As a result, emerging market (EM) fixed income came under pressure.

Rising inflation forecasts from oil market disruption caused expectations of interest rate cuts to reverse, pushing up global bond yields. US Treasury yields rose across the curve, while the US Federal Reserve adopted a more hawkish tone and revised up its inflation projections. Meanwhile, the US dollar rallied as investors flocked to the safe-haven asset, with EM currencies coming under pressure.

The EM local currency debt market (JPMorgan GBI-EM GD) fell by 5.5% over the month in US dollar terms. EM currencies came under pressure from the stronger US dollar and higher oil prices – net oil-importers and risk-sensitive currencies were most affected. Local bond markets also posted a negative return, especially Turkey and South Africa, as increased geopolitical risk led to foreign investor outflows.

The EM sovereign hard currency debt market (JPMorgan EMBI GD) fell 3.3%. Both the high-yield and investment-grade segments lost ground from both the sharp rise in US Treasury yields and as credit spreads widened amid weaker risk sentiment.

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.

Outlook

After a strong start to the year, with positive data supporting risk assets through January and February, the escalation in Iran materially shifted the investment backdrop. The surge in oil prices – the largest quarterly jump since the Gulf War – triggered a significant cross-asset sell off, a sharp repricing of rate expectations, and growing concerns around the prospect of stagflation (slow growth and higher inflation). Inflation expectations surged, the chances of rate cuts from the Federal Reserve were almost entirely priced out, and markets moved to price in hikes from the European Central Bank. Although since the end of the month the US and Iran have agreed to a two-week ceasefire brokered by Pakistan – news that triggered a sharp fall in oil prices and a broad risk-on rally – oil prices remain well above pre-war levels.

Our structural view on EM remains constructive, but we have maintained the Strategy's top-down risk target at neutral, reflecting the deterioration in the global growth outlook and the risks posed by persistently higher oil prices.

EM assets continue to trade at an attractive valuation discount to developed markets (DMs), and the asset class has shown relative resilience through the sell off. Ongoing volatility in DM bonds, with yield curves steepening sharply as fiscal and inflation concerns compound, continues to challenge their traditional safe-haven status and reinforces the diversification case for EM debt.

Our base case expectation remains one of gradual de-escalation in the Middle East and financial market normalisation. The ceasefire represents an encouraging, if fragile, step in that direction, and we expect investors with a longer horizon to find compelling entry points emerging from volatility-induced mispricing of risk in markets. For now, given the inherent fragility of the ceasefire agreement and the two-week window for negotiations, we maintain a neutral target in hard currency, local currency and EMFX. In hard currency, we continue to focus on selective high-carry and country-specific opportunities, including commodity exporters that stand to benefit from the oil price environment, while remaining cautious on more vulnerable oil-importing credits where terms-of-trade and fiscal positions have deteriorated. In local currency debt, we have shifted our exposure shorter on the curve as we believe the market is overpricing the number of hikes from central banks. EM FX remains supported by relatively high real (inflation-adjusted) rates. However, the terms-of-trade of most countries have weakened, which leaves us more cautious. Against this, we think the US dollar's recent appreciation may have run its course given relative interest rate differentials to Europe, and the continued preference by international investors to diversify away from the dollar.

Regional highlights

Africa

Asset prices in **Egypt** weakened over the month, reflecting a broader risk-off environment, the country's proximity to the Iran war, and higher oil prices, which are a headwind given its net oil import position. Inflation rose to 13.4% in February, above expectations, driven primarily by food prices, while a 16% fuel price increase was announced, leaving investors focussed on increasing upside risks to inflation and contemplating a shallower cutting cycle. External buffers remain robust, with remittances rising by 21% year-on-year and net foreign assets reaching a record high of US\$29.5 billion. The government reiterated its ambitious US\$6 billion privatisation target for the year, signalling reform intent, and raised additional external financing by increasing the size of its 2033 Eurobond through a private placement.

Ghana returned to local bond markets for the first time since its debt restructuring, at yields of around 12% for a 7-year issuance. Macroeconomic indicators were broadly supportive, with Q4 GDP growth accelerating to 5.8% year-on-year, and FX reserves rising to US\$14.5 billion. The debt-to-GDP ratio came in at 45.3%, significantly below expectations. Meanwhile, the country's terms of trade remain broadly balanced, as Ghana exports crude oil and gold, and imports refined products.

Bond prices in **Senegal** came under pressure despite the successful repayment of a Eurobond maturity – global risk aversion combined with news of undisclosed borrowing of approximately €650 million via total return swaps in 2025 weighed on sentiment. This was compounded by a downgrade of the local currency rating to CCC+ by S&P, alongside a shift in the outlook to negative across all ratings. Nevertheless, the government continued to be able to issue within the local market, supported by solid demand. Q4 GDP growth remained strong at 3.1% quarter-on-quarter.

Nigeria's macroeconomic backdrop remained supportive. Central bank FX reserves rose by 7% month-on-month to US\$49.5 billion, approaching their highest level in over a decade and providing a cushion against potential outflows. Inflation moderated to 15.1%, while the authorities continued to advance FX liberalisation reforms, including easing repatriation requirements for oil companies. Nigeria also signed a US\$1.3 billion investment agreement with the Africa Finance Corporation to develop an aluminium refinery.

Bond prices in **Angola** were supported over the month by higher global oil prices, reflecting its position as a net oil exporter. The sovereign accessed international capital markets via a US\$2.5 billion Eurobond issuance and announced buybacks of its 2028 bonds, further supporting sentiment. Economic activity strengthened, with real GDP growth reaching 5.8% year-on-year in Q4.

Assets in **Kenya** came under pressure after the government's supplementary budget widened the fiscal deficit to 5.3% of GDP. This, alongside limited progress towards an IMF programme as indicated in the latest mission statement, and Kenya's large import fuel needs weighed on investor sentiment. However, remittance inflows remained supportive, providing some external stability.

Uganda's inflation eased to 2.9%, driven by lower food prices, but central bank guidance pointed to a potential rise towards 5% next year if oil prices remain elevated. Growth remained strong, with Q4 GDP expanding by 8.5% year-on-year, highlighting solid domestic economic activity.

Zambia made further progress on its debt restructuring, reaching agreements with the UK and Italy to restructure external obligations, including maturity extensions and principal haircuts. An IMF mission also concluded during the month, with the authorities signalling their intention to secure a new Extended Credit Facility programme.

Asia

Asian economies have been particularly impacted by the conflict in the Middle East, given that over half of the region's oil imports transit the Strait of Hormuz, prompting a range of fiscal policy responses from governments across the region.

China's latest government work report set an annual GDP growth target of 4.5–5%, the first time it has been below 5% since the early 1990s, although this was broadly expected. The government is also maintaining a fiscal deficit of 4% of GDP, while leaning more heavily on quasi-fiscal support, with increased reliance on bond issuance from policy banks. Economic data was encouraging: PMIs rose sharply to 55.4, industrial production and exports remained strong, but retail sales continued to lag, highlighting continuing themes of export-led growth and a weak consumer backdrop. Trade performance remained robust, with a year-to-date surplus of US\$213 billion. Inflation was also higher-than-expected, and the GDP deflator is expected to return to positive territory during Q2.

India is exposed to higher energy prices given its reliance on Middle Eastern oil imports, although the US decision to allow resumed purchases of Russian oil has provided some relief, albeit at higher prices. With the rupee under ongoing pressure, the Reserve Bank of India (RBI) responded by tightening conditions for offshore shorting of the currency, though the rupee still weakened over the month. The RBI also announced INR1 trillion of open market operations to support domestic liquidity. Inflation edged higher, with CPI at 3.2% year-on-year in February, while the trade balance weakened, with exports falling and imports rising, resulting in a wider-than-expected deficit of US\$27 billion.

Thailand has been among the most vulnerable economies in the region to rising oil prices, reflected in continued weakness in the baht, with limited central bank intervention. A significant trade deficit in February, relative to expectations of a modest surplus, further weighed on the currency. Meanwhile, inflation remained negative, printing at -0.9% year-on-year. Political uncertainty has also resurfaced, with the court accepting a petition to review ballot secrecy.

Inflation in **Indonesia** has picked up to 4.8% year-on-year, largely driven by base effects. Bank Indonesia kept policy rates unchanged at 4.75%, while allowing market rates to adjust higher through SRBI auctions, and intervening in FX markets to support the currency. While Indonesia is a net commodity exporter, its oil import requirement is a vulnerability – terms of trade have remained relatively resilient, but there are concerns that the 3% fiscal deficit ceiling could be breached if oil prices remain elevated. Investor sentiment was impacted by Fitch revising the outlook to negative, although the credit rating was affirmed at BBB. Against this backdrop, bond markets came under pressure.

The **Philippines** is facing increasing pressure linked to its status as a net oil importer, with the government declaring a national energy emergency amid critically low fuel reserves. Local rates had a volatile month, with yields spiking after the central bank signalled it would hike rates if oil remained above US\$100 for a sustained period. At a subsequent impromptu meeting aimed at calming markets, the central bank left rates unchanged but revised inflation forecasts higher. The market's focus is now on inflation expectations and the impact of sustained elevated oil prices.

The technology sector in **South Korea** continues to support the economy, highlighted by robust trade data, with exports surging by 29% in February and preliminary data for March pointing to further acceleration. Growth moderated but still exceeded expectations at 1.6% year-on-year, while inflation remains contained at 2%. The Bank of Korea has taken steps to support the bond market through KRW3 trillion in buybacks, while the nomination of a new central bank governor with a more hawkish stance signals a continued focus on inflation.

Although **Taiwan's** trade balance remains solid, it printed below expectations at US\$12.7 billion in

February, although export growth was strong at 20% year-on-year. Industrial production for February was better than expected, highlighting continued strength in technology-related industries. Inflation in **Malaysia** eased to 1.4% year-on-year in February and industrial production was slightly better than expected. The central bank kept its policy rate unchanged at 2.75%, in line with expectations.

Latin America

Inflation in **Argentina** remained elevated, with headline CPI and core CPI above expectations, at 2.9% and 3.1% month-on-month respectively. Q4 GDP was slightly below expectations, but expanded on a quarter-on-quarter basis, while mining activity grew 5.4% year-on-year, supported by oil production. The government demonstrated continued fiscal discipline, with February's fiscal surplus at 0.1%. Economy Minister Caputo reiterated that the government does not intend to return to international bond markets, instead relying on alternative financing sources, such as local issuance of US dollar-denominated bonds.

In **Brazil**, the central bank began its rate-cutting cycle, delivering a 25bps cut to 14.75%. While in line with consensus, the market had scaled back expectations from 50bps amid increased uncertainty around the Iran war. The decision to cut rates reflects very high real (inflation-adjusted) rates and a moderation in growth, with GDP printing slightly below expectations. Inflation dynamics were mixed, with IPCA (Brazil's official inflation measure) rising above forecasts to 0.7% month-on-month in February, but easing to 3.8% year-on-year, driven by higher transport and education prices. Economic activity indicators improved, with industrial production and retail sales exceeding expectations in January. Politically, polls showed Flávio Bolsonaro slightly ahead of President Lula in an election run-off.

In **Chile**, inflation eased to 2.4% year-on-year in February and the central bank held rates at 4.5%, as expected, but struck a more hawkish tone, highlighting risks from higher oil prices and the pass-through to inflation. Economic activity contracted by 0.1% year-on-year, driven by agriculture, manufacturing, and mining. Retail sales and industrial production also weakened. On the political front, President Kast took office, electing Congress from right-wing parties. The new finance minister announced a sharp increase in fuel prices, bypassing the smoothing mechanism, which is expected to add around 1.4% to inflation, pushing local bond yields higher. Spending cuts of around US\$4 billion were also announced, alongside a National Reconstruction reform package to support those affected by wildfires.

Inflation in **Mexico** for the first half of March rose above expectations to 4.6% year-on-year, remaining above the central bank's 3% target. Despite this, Banxico cut interest rates by 25bps to 6.75% in a split vote and signalled the possibility of further easing, contingent on global factors. Economic activity declined 1% month-on-month, while industrial production disappointed relative to expectations, although retail sales remained robust. Politically, President Sheinbaum's proposed electoral reform was initially rejected, though a revised and more limited version was later approved by the Senate. Meanwhile, sentiment was supported by USMCA negotiations with the US.

Economic activity in **Colombia** continued to soften, while inflation moderated more than expected to 5.3% year-on-year, although core inflation edged higher due to the impact of the minimum wage hike. Political developments were in focus, with a strong turnout for the centre-right at the primary elections, where Valencia emerged as the winner. Polls showed Valencia broadly level with left-wing candidate Cepeda going into the second round, which was received positively by markets. Meanwhile, Congress remains divided following the congressional election, implying that whoever wins the presidency will need to build a majority.

Peru's inflation rose to 2.2%, above expectations of 1.7%, largely driven by food prices following heavy rainfall across the country. Economic activity expanded by 3.5%, in line with expectations. Against this backdrop, the central bank kept rates unchanged at 4.25%. Ahead of the upcoming elections, candidates focussed campaigning on public security and anti-crime measures, though no clear frontrunner has emerged.

Inflation in **Ecuador** rose to 2.6%, driven primarily by higher utility costs, while growth remained robust, with Q4 GDP expanding by 5%. In the **Dominican Republic**, economic activity strengthened to 3.5% year-on-year, supported by domestic demand, while inflation eased to 4.7%. **Uruguay's** central bank delivered a larger-than-expected 75bps rate cut, following the 100bps cut at the end of January,

reflecting a strong preference to counter further currency strength. Meanwhile, in **Paraguay** the central bank held its policy rate at 5.5%, due to stable inflation. Political developments in **Venezuela** saw interim president Rodríguez replace the long-standing defence minister, signalling a move towards the removal of the Maduro regime's old guards.

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

In **South Africa**, the central bank kept rates unchanged at 6.75%, as expected, reflecting ongoing geopolitical uncertainty. Inflation eased to 3% year-on-year in February, slightly below market expectations, but reaching the South African Reserve Bank's target. Economic activity was broadly positive, with retail sales rising by 4.2% year-on-year in January and Q4 GDP expanding by 0.4%, driven by services, while manufacturing remained weak. The current account moved into surplus in Q4, supported by an improved trade balance. Despite the positive data, domestic South African assets came under significant pressure in March, reflecting sensitivity to global risk sentiment.

Inflation in **Turkey** accelerated to 31.5% year-on-year, in line with expectations, although core inflation moderated slightly. The central bank kept its policy rate at 37%, in line with expectations, but raised the effective rate to 40% since the start of the conflict in the Middle East. External reserves have dropped significantly due to capital outflows and central bank intervention to support the currency. Economic growth remained strong, with GDP expanding by 3.4% year-on-year in Q4, supported by resilient domestic demand. Risks to energy supply from the war were highlighted after an attack on an Iranian gas field, supplying 15% of Turkey's gas needs.

Ukraine secured financial support, with the IMF approving a new US\$8.1 billion Extended Fund Facility programme and disbursing an initial US\$1.5 billion tranche. However, external financing risks persist as the proposed €90 billion loan from the EU remains blocked.

Kazakhstan's inflation continued to moderate, broadly in line with expectations, while the central bank kept rates on hold at 18%. Meanwhile, inflation in **Uzbekistan** rose to 7.3% year-on-year in February, driven by strong domestic demand, seasonal pressures, and increasing energy prices. In response, the central bank maintained its policy rate at 14%.

Developments in the **Middle East** remain dominated by the conflict in Iran, with oil prices continuing to spike as the Strait of Hormuz remains effectively closed at the time of writing, while geopolitical uncertainty is elevated given the risks of a more protracted conflict. For further information on this, please see our [website](#).

Turning to Central and Eastern Europe, policymakers are increasingly responding to higher energy prices amid heightened geopolitical uncertainty. Monetary policy discussions have turned more cautious, while on the fiscal side, measures are being implemented to protect consumers from higher fuel costs.

Inflation in **Czechia** eased to 1.4% year-on-year in February, driven by lower food prices, although core inflation remained elevated. The central bank held rates steady at 3.5% in a unanimous decision, signalling that current policy rates are sufficient and that rate hikes are unlikely. Economic activity showed resilience, with retail sales surprising to the upside at 5% year-on-year, while the trade surplus of CZK19.3 billion fell short of expectations.

Poland's central bank delivered a 25bps rate cut, as expected, although the tone was cautious, signalling that further easing is unlikely given geopolitical risks. Inflation printed at 2.1% year-on-year in February, while GDP strengthened to 4% year-on-year in Q4, supported by domestic demand. Current account data surprised with a surplus due to weaker imports, against expectations of a deficit. The government announced VAT and excise tax cuts on fuel to cushion against higher energy costs. On the ratings side, Fitch and Moody's affirmed Poland's credit ratings but retained negative outlooks, citing risks from rising debt.

Hungary's inflation was lower than expected at 1.4% year-on-year, continuing its moderating trend. The central bank left rates unchanged at 6.25%, adopting a cautious stance and revising the inflation forecast upward and growth outlook down. The government reintroduced caps on retail fuel prices to shield consumers, while the current account surplus narrowed significantly. Political developments were also in focus ahead of the election, which took place post month-end, with the opposition's Tisza party, led by Péter Magyar, defeating incumbent Prime Minister Viktor Orbán in a landslide victory. Market participants have welcomed the result, given the expectation of a more constructive

relationship with the EU and the potential release of previously frozen EU funds.

Romania's economic data remained weak, with retail sales contracting by 6.5% year-on-year and industrial sales declining sharply by 16% month-on-month in January. Positively, annual inflation continued to ease to 9.3% in February. The 2026 budget was approved, targeting a deficit of 6.2% of GDP as expected and continuing fiscal consolidation. Moody's affirmed Romania's Baa3 rating and maintained the negative outlook, highlighting economic resilience but emphasising concerns over rising debt levels and political risks to fiscal consolidation.

EM corporate debt highlights

The EM corporate debt market (JP Morgan CEMBI BD) fell by 1.8% over the month, with both the investment-grade and high-yield segments detracting from returns. The main driver of moves was the rise in US Treasury yields. Credit spreads were resilient and largely unchanged until the latter half of the month, when they widened somewhat amid the weaker risk sentiment.

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