



EM Sovereigns: selectivity in a high-yield world

From Emerging Market Debt

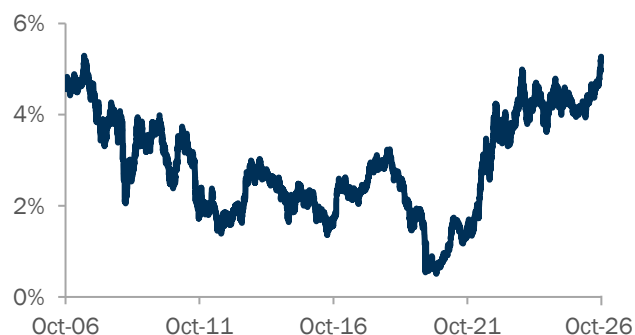
Global growth has remained remarkably resilient despite elevated geopolitical uncertainty, higher energy costs, and tighter financial conditions. Yet beneath the surface, the environment looks less benign than it did six months ago. Global bond yields continue to move higher, inflation risks are being rebuilt, and central banks are becoming increasingly cautious about potential increases in price pressures.

The most important shift has been in rates markets. Earlier in the summer, rising US yields were largely a term-

premium story. More recently, markets have been forced to reprice the path of policy itself. Investors are confronting a world where inflation proves more persistent, energy-related supply shocks remain unresolved, and central banks may need to keep policy restrictive for longer.

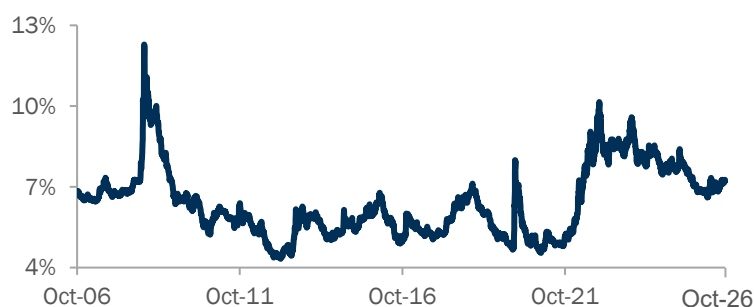
At the same time, the lesson from the summer is that markets have become remarkably resilient. Credit spreads have absorbed multiple shocks without experiencing sustained decompression. Even with spreads near historical tights, all-in yields remain significantly more attractive than those available during the pre-covid decade. Investors continue to step in on weakness, and that demand has prevented risk-off episodes from turning into broader dislocations.

US 10YR Treasury Yield, two decade high



Data as of June 26, 2026
Source: Bloomberg

EMBIG Yield To Maturity, % | Attractive vs yields prior to COVID's spike in inflation



Global growth is stronger than feared

Global growth has remained surprisingly resilient despite geopolitical tensions, higher energy prices and tighter financial conditions. However, the benefits have been unevenly distributed.

Asia continues to be the main beneficiary of the AI investment cycle, with Taiwan, South Korea and Singapore leveraging their positions in semiconductor and technology supply chains. Malaysia and Vietnam have also gained from manufacturing and data-center investment, helping offset higher energy costs.

By contrast, much of Latin America, Emerging Europe and frontier markets remain more exposed to food and energy inflation than to AI-driven growth. El Niño risks add to these vulnerabilities, particularly in economies where food has a large weight in consumer baskets.

Inflation dynamics are also becoming more fragmented. Parts of South Asia and Latin America continue to face pressure from higher food and energy prices, while Europe and Central and Eastern Europe (“CEE”) are contending with resilient growth, persistent core inflation and rising energy costs. As a result, the path back to inflation targets is becoming more challenging, reinforcing the likelihood that policy rates will remain restrictive for longer across much of the EM universe.

Central banks are turning more cautious

The most notable policy shift of recent months has been the increasingly hawkish tone across parts of the emerging-market universe. Inflation concerns, stronger growth than expected, and a more restrictive global backdrop have forced policymakers to reassess earlier assumptions about easing cycles. Markets now find themselves in an environment where fewer cuts are likely to be made and where some countries still face meaningful tightening risks. This does not necessarily imply a broad hiking cycle. Rather, it suggests that monetary policy is becoming increasingly country specific.

Countries with stronger policy credibility, lower inflation persistence, and healthier external positions should retain flexibility. Others may be forced to maintain tighter settings for longer, particularly if the Federal Reserve remains cautious or if the US dollar strengthens further.

The inflation story is becoming more complicated. While lower energy prices relative to peak levels have provided some relief, pressures are beginning to build elsewhere.

Food inflation risks remain elevated, particularly given the possibility of weather-related disruptions associated with El Niño. Higher transportation costs, fertilizer prices, and energy inputs continue to influence supply chains. In addition, stronger global investment demand linked to AI infrastructure is beginning to place upward pressure on industrial inputs and power markets.

This creates a difficult environment for policymakers. Many central banks entered the second half of the year expecting inflation to continue declining steadily. Instead, they are increasingly confronted with upside risks. Some may need to delay easing cycles, while others could ultimately face renewed tightening pressure if inflation expectations begin to move higher. The challenge is greatest for net energy importers.

Outlook

The broad spread-compression phase is becoming harder to sustain. Although spreads have recently widened, particularly in high-yield credits such as Argentina, Ecuador and Ukraine, they remain tight by historical standards across much of the EM sovereign universe. Carry should continue to provide support, but elevated global rates and demanding valuations leave limited room for policy errors or external shocks. Ecuador and Argentina remain attractive where commitment to IMF-backed adjustment and constructive external engagement can reinforce policy credibility, while commodity exposure offers some protection against inflation shocks. Angola and Nigeria also benefit from stronger terms of trade, with Nigeria’s improving policy direction creating scope for further credit reappraisal.

Selective opportunities remain among more idiosyncratic credits. Hungary offers scope for further spread compression on the back of political change that the longer-term prospect of euro adoption. Suriname’s restructuring progress and reform implementation underpin its recovery story, while improving macroeconomic stability in Côte d’Ivoire should sustain positive rating momentum. Romania continues to face fiscal, inflation and downgrade risks, but current valuations already incorporate substantial pessimism and could recover if policy adjustment proves sufficient. By contrast, frontier sovereigns with large external financing needs, weak fiscal positions or uncertain multilateral support remain particularly vulnerable to prolonged high global rates. With broad valuations still compressed, the most compelling opportunities are those where improving reform credibility and external buffers are not yet fully reflected in spreads.

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