



A Market That Has Quietly Repriced Itself

From Emerging Market Debt

The traditional architecture of global fixed income—developed-market (DM) government bonds as the primary risk anchor, DM credit as the core income engine, and emerging markets (EM) as tactical satellites—is being structurally reassessed.

Persistent fiscal deficits, rising debt burdens and political fragmentation across advanced economies are challenging the notion of a singular, unquestioned “safe asset.” Fiscal credibility is becoming more dispersed across regions.

In parallel, many EM sovereigns and corporates enter this phase with comparatively stronger balance sheets, orthodox policy frameworks and improving credit trajectories. Safety and income generation are increasingly multipolar.

Hard-currency EM corporates exemplify this shift. The asset class has grown into a USD 2.6 trillion market

comprising more than 700 issuers across 65 countries. Crucially, expansion has coincided with improving quality. Capital allocation is more disciplined, leverage metrics across both investment-grade (IG) and high-yield (HY) segments remain competitive relative to developed-market peers, and refinancing risk has been reduced through maturity extension and diversified funding sources.

Default dynamics have normalized: EM HY corporates recorded a second consecutive year of below-average default rates in 2025, reflecting strengthened balance-sheet discipline rather than cyclical relief.

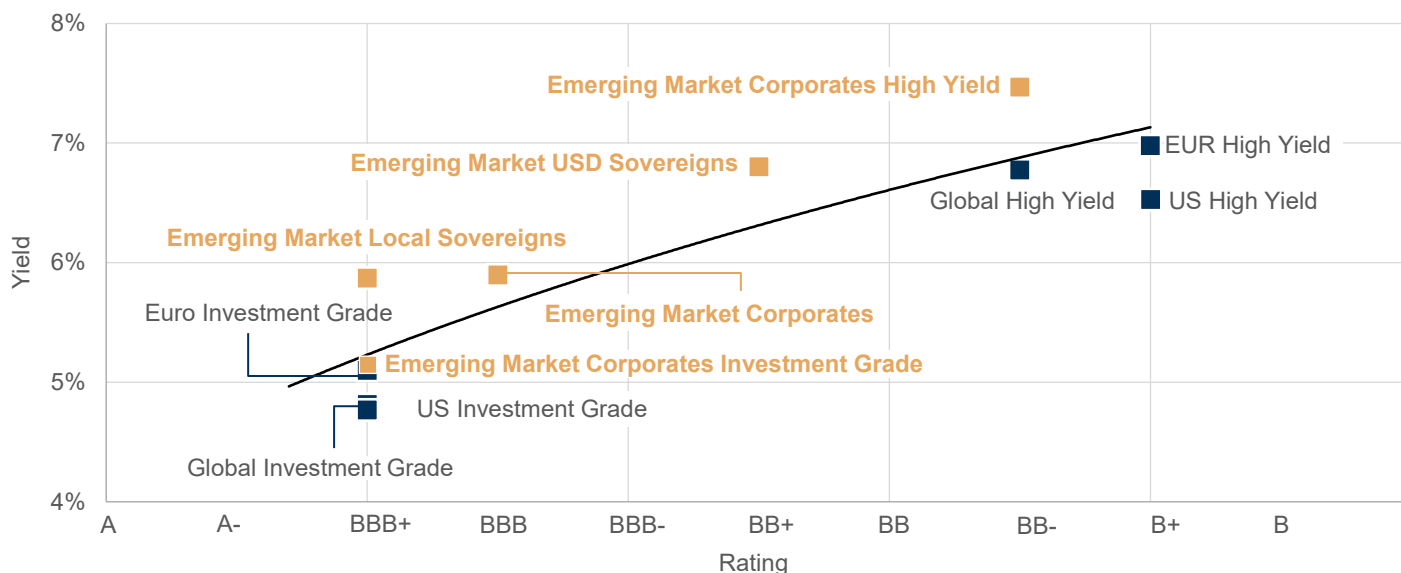
Yet spreads continue to embed a persistent geographic premium. Rating- and maturity-matched EM corporates typically offer incremental yield over DM equivalents, even where average credit quality has converged—or in parts of IG, surpassed—developed markets. Compensation increasingly reflects legacy perception rather than current fundamentals.



INVESTMENTS



Enhancing the global efficient frontier



Data as of December 31, 2025

Emerging Market Corporates = J.P. Morgan CEMBI Diversified Broad Index; Emerging Market Corporates High Yield = J.P. Morgan CEMBI Broad Diversified High Yield Index; Emerging Market Corporates Investment Grade = J.P. Morgan CEMBI Broad Diversified High Grade Index; Emerging Market Local Sovereigns = J.P. Morgan GBI-EM Global Diversified Index; Emerging Market USD Sovereigns = J.P. Morgan EMBI Global Diversified Index; EUR High Yield = ICE BofA Euro High Yield Index; Euro Investment Grade = ICE Bank of America Euro Investment Grade Index; Global Investment Grade = ICE Bank of America Global Investment Grade Index; Global Broad Markets Bonds = ICE BofA Global Broad Market Index; Global High Yield = ICE BofA Global High Yield Index; US Investment Grade = ICE Bank of America US Investment Grade Index; US High Yield = ICE BofA US High Yield Index;

Source: Bloomberg.

For institutional investors constructing globally diversified credit portfolios, the implications are increasingly tangible. Historical blending analysis shows that incorporating EM investment-grade corporates into global IG mandates has improved return per unit of volatility. Similar efficiency gains are observable within global high-yield allocations. In both segments, EM exposure has historically enhanced portfolio efficiency rather than simply increasing carry.

Beyond quantitative optimisation, EM debt broadens access to structural growth dynamics—energy transition financing, infrastructure expansion and digitalisation—often through issuers with strategic national relevance and globally diversified revenue streams.

As economic power and fiscal credibility become more widely distributed, global fixed income can no longer be defined solely by developed-market exposures. The credit opportunity set has structurally broadened.

For long-term institutional investors, emerging market debt—across both investment-grade and high-yield segments—represents a structural source of yield, diversification and improving credit quality. In a multipolar credit environment, a core allocation to EM is no longer tactical; it is a strategic reflection of the evolving global credit landscape.

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