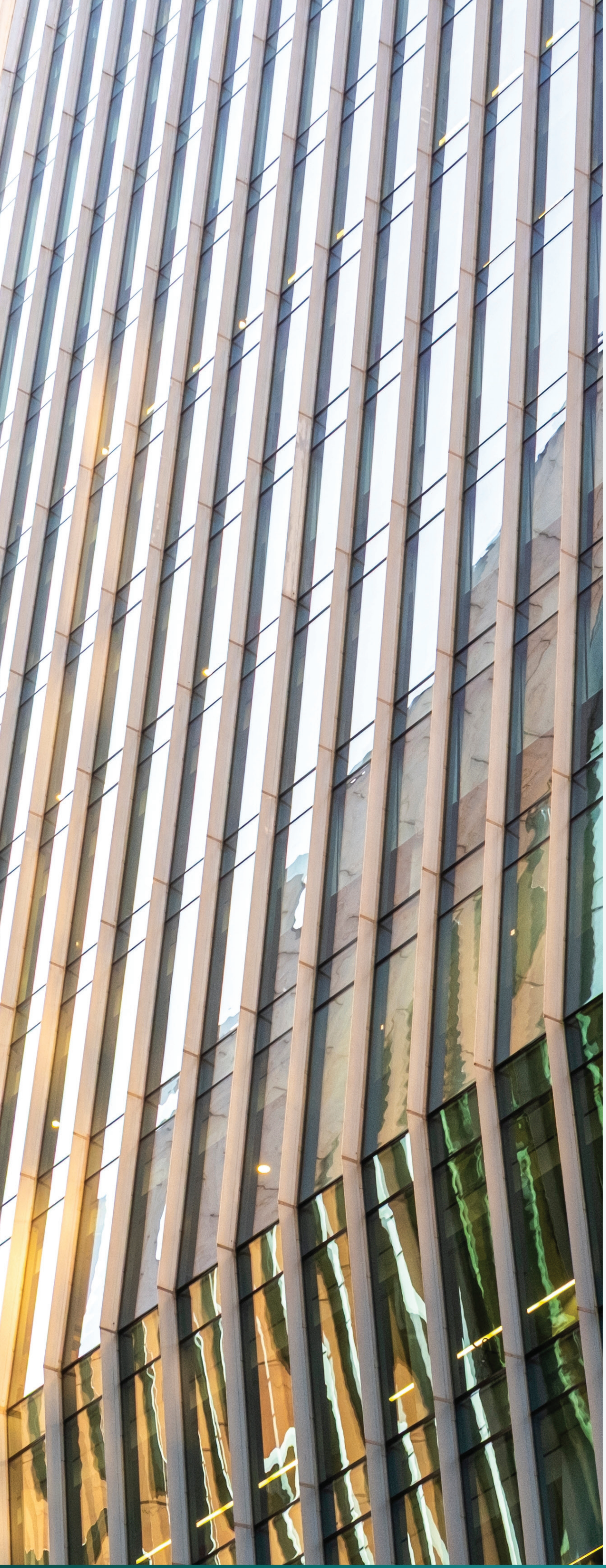

Q1 2026

FIXED INCOME

Emerging Markets Debt Review and Outlook

Emerging Markets Debt (EMD) began 2026 on a strong footing, extending the positive momentum seen through much of 2025, as supportive carry, stable fundamentals and constructive global risk sentiment underpinned performance early in the quarter. Strong inflows and a still-supportive global rates backdrop helped support EM assets through January and much of February. However, on February 28, the U.S. and Israeli airstrikes on Iran triggered a U-turn in risk markets. Rising geopolitical risks led to a reassessment of inflation dynamics and a meaningful repricing in U.S. rates, contributing to a broad reversal in investor risk appetite. U.S. rates moved sharply intra-quarter, with the 10-year Treasury yield ending the quarter (Q1) 15 basis points (bps) higher after a pronounced 49-bp peak-to-trough move, reflecting heightened sensitivity to the inflationary implications of higher energy prices and increased fiscal borrowing tied to the war.[i] The Federal Reserve left policy rates unchanged at its March meeting as policymakers were forced to take a cautious stance, given the battle between -term inflation shock or medium-term growth hindrance.

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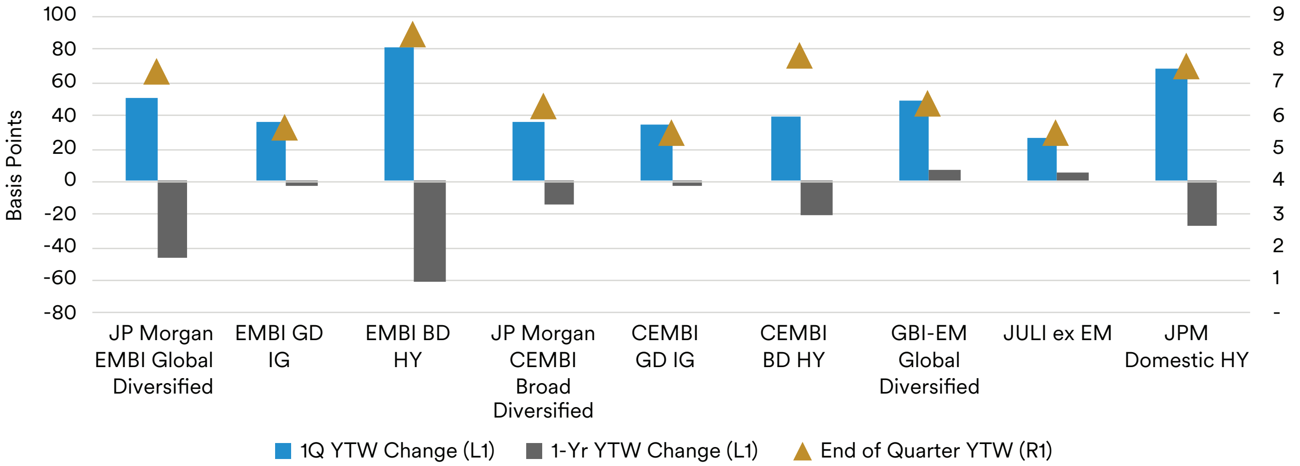
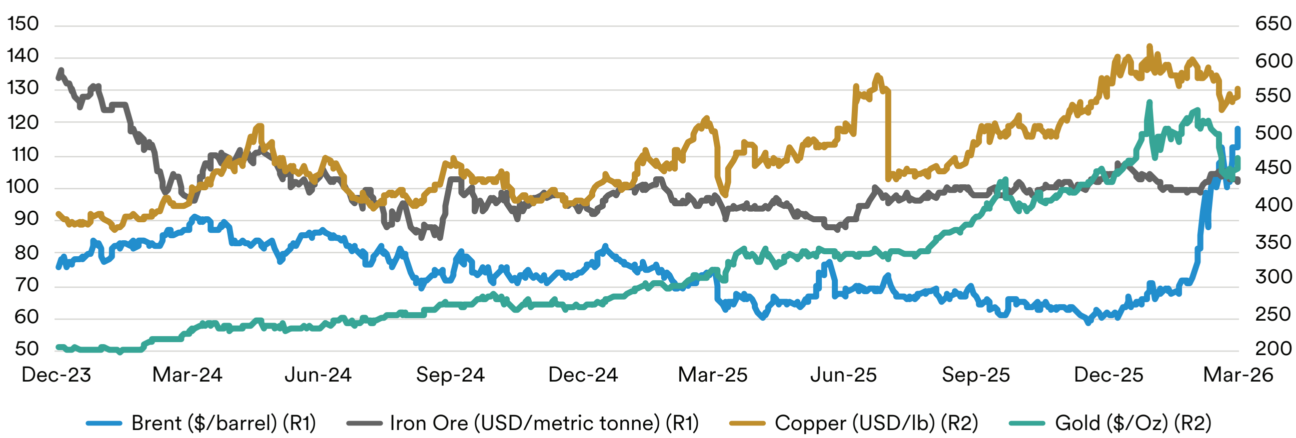
Figure 1 | Indexes Yield-to-Worst



Sources: JP Morgan, Bloomberg LP as of March 31, 2026.

Commodity markets were a central focus throughout the quarter. Uncertainty around access to the Strait of Hormuz resulted in a severe disruption to global energy supplies, pushing Brent crude prices sharply higher. Oil prices surged 63% in March to end the quarter at $118.35 per barrel, injecting a renewed inflationary impulse into global markets.[1] Gold reached record highs toward the end of January, driven by strong safe-haven demand amid equity market volatility and heightened geopolitical tensions, supported by robust inflows and expectations for lower real rates. Sentiment reversed sharply in March, with gold registering its worst monthly performance in over a decade. A key driver of the sell-off was increased gold selling by central banks, most notably Turkey and Russia. Rising U.S. yields reinforced the move, outweighing traditional safe-haven support and pulling gold, along with broader metals prices, lower into quarter-end.

Figure 2 | Commodities



Source: Bloomberg LP as of March 31, 2026.
**Gold values are adjusted by a factor of 10 for scaling purposes.*

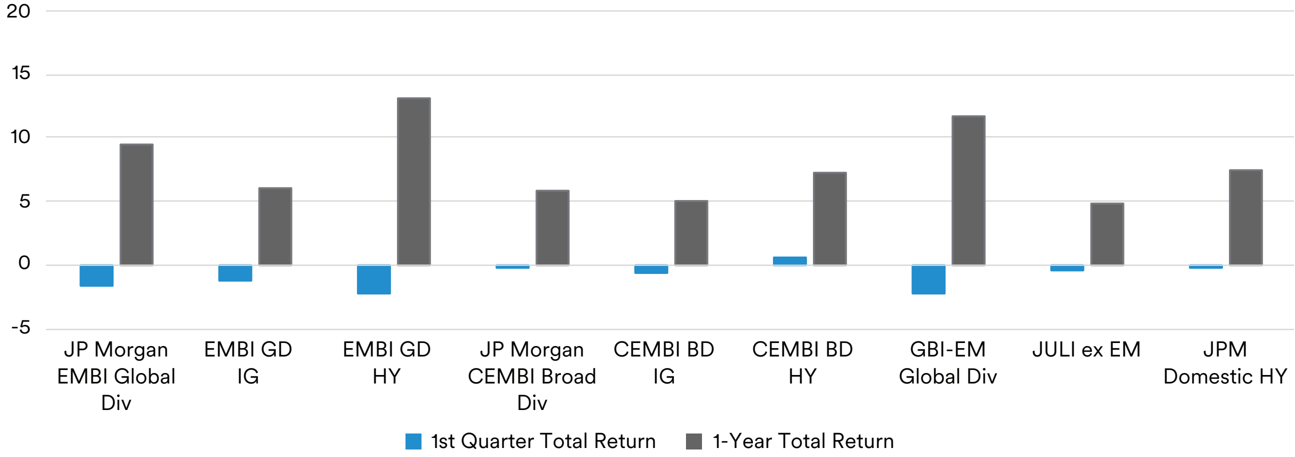
Against this backdrop, hard-currency EMD posted modestly negative returns for the quarter, with the EMBI Global Diversified Index returning -1.26%.[2] Performance dispersion increased notably, driven by differences in energy exposure, external buffers and fiscal flexibility. Latin America was the only EMBI region to post positive returns, benefiting from comparatively lower direct exposure to the conflict relative to other EM regions, though dispersion within the region remained pronounced. Venezuela was a standout outperformer following the formal resumption of diplomatic relations between the U.S. and Venezuelan governments, marking another significant step in a rapid political and economic transition supported by reform momentum and phased sanctions relief.

Persistently elevated oil and refined product prices emerged as the dominant macro risk across EM during the quarter. Net energy importers underperformed, as higher fuel costs intensified balance-of-payments pressures and raised inflation risks, constraining policy flexibility. Countries with limited buffers and high external exposure, including Egypt, Zambia, Ukraine and Bahrain, were among the weakest performers. In contrast, energy-exporting sovereigns generally held up better, with Gulf Cooperation Council (GCC) countries benefiting to varying degrees from existing sovereign wealth fund buffers. Qatar, Kuwait and the UAE were comparatively more insulated, while sovereigns with more limited buffers remained vulnerable in a prolonged conflict scenario. Beyond the region, the escalation of tensions also contributed to broader geopolitical uncertainty, with negative spillovers extending outside the Middle East.

EM corporate credit also faced a volatile environment during the quarter, though it proved relatively more resilient than sovereign markets. The CEMBI Broad Diversified Index returned -0.21% for the quarter, as solid performance in January and February was offset by weakness in March.[3] Sector dispersion was pronounced: Oil & Gas performed best, benefiting from elevated energy prices, while Industrials also held up well. In contrast, Transport underperformed as higher fuel costs compressed margins, and Real Estate issuers in the CEEMEA region were pressured by proximity to the conflict. Despite market volatility, high-yield EM corporates generated positive returns over the quarter, supported by carry and issuer-specific fundamentals, while investment-grade corporates were more negatively impacted by the sharp rise in U.S. rates.

Local-currency assets underperformed during Q1, with the GBI-EM Broad Diversified Index returning -2.25%, as local rates and FX proved highly sensitive to rising inflation risks, FX volatility and tighter financial conditions, particularly in energy-importing economies.[4] Higher oil prices strained external balances and reduced the scope for monetary easing, leading to pronounced rate and currency adjustments across several markets. Egypt, Turkey and South Africa were among the more notable underperformers, with currencies and rates pressured by worsening external positions and shifting investor positioning, while other energy-importing economies, including Thailand, Chile and Hungary, also faced pressure. In contrast, Brazil and Colombia were relative outperformers in local markets. Brazil benefited from higher oil production and exports, with improved terms of trade supporting the current account and fiscal revenues, though inflation risks could temper the pace of monetary easing. Colombia also performed well, supported by higher oil prices that improved trade balances and revenues, alongside a constructive shift in domestic political dynamics, following strong primary election results for the political right, which helped improve the balance of political risks despite ongoing inflation-related policy constraints.

Figure 3 | Indexes Total Returns (%)

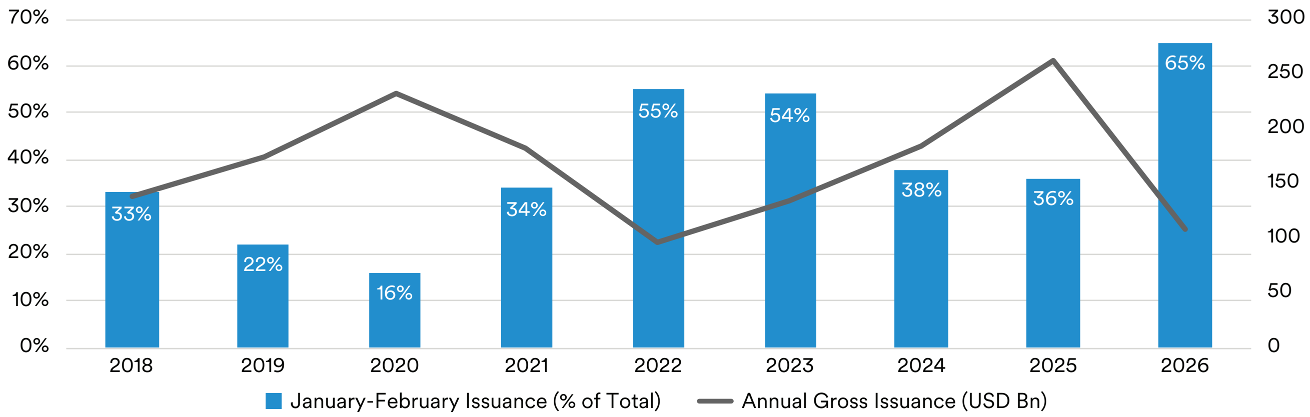


Sources: JP Morgan, Bloomberg LP as of March 31, 2026.

Relative to Developed Markets (DM), EM credit demonstrated greater resilience during the period of heightened volatility. EM high-yield corporates experienced less spread widening than U.S. high yield and delivered positive returns for the quarter, while U.S. high yield posted losses. On the sovereign side, EM high yield broadly tracked U.S. high-yield performance, while EM investment-grade sovereigns underperformed, reflecting a combination of market weakness and duration sensitivity amid rising rates. As a result, EM versus DM spread differentials did not move materially despite elevated geopolitical noise, though dislocations created selective opportunities within specific EM regions and credits.

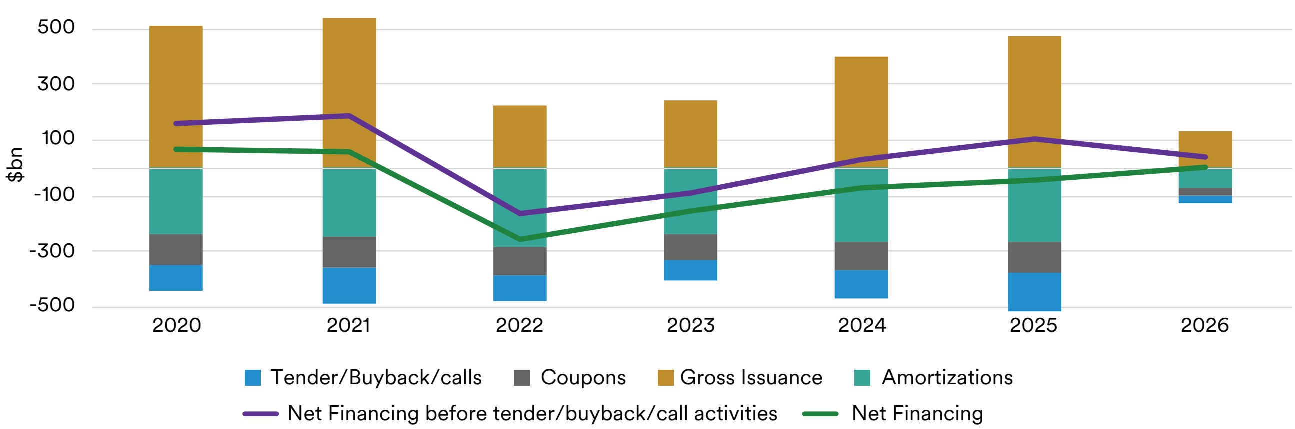
Primary market activity shifted sharply over the quarter, with issuance heavily front-loaded, as sovereign and corporate issuers took advantage of favorable conditions in January and February. As the Middle East conflict escalated, issuance slowed materially in March, sidelining many issuers and limiting access to lower-quality borrowers. Year-to-date (YTD) gross sovereign issuance reached $109 billion, reflecting a continued trend toward front-loading that has characterized EM supply since 2022, leaving many sovereigns in a stronger funding position than during prior periods of geopolitical stress. EM corporate issuance totaled $135 billion YTD, with net financing turning negative in March as markets largely closed, though first-quarter supply remained elevated due to strong early issuance, particularly in the Middle East and Africa. Investment-grade borrowers dominated issuance, accounting for 73% of corporate supply, underscoring both issuer and investor preference for higher-quality credits amid elevated uncertainty and volatile market conditions.[5]

Figure 4 | Sovereign Net Issuance January – February 2026



LHS: Jan-Feb net issuance (as % of total year net issuance). RHS: Annual gross issuance (USD bn).
Source: JP Morgan as of April 1, 2026.

Figure 5 | Corporate Net Issuance



Source: JP Morgan as of March 31, 2026.

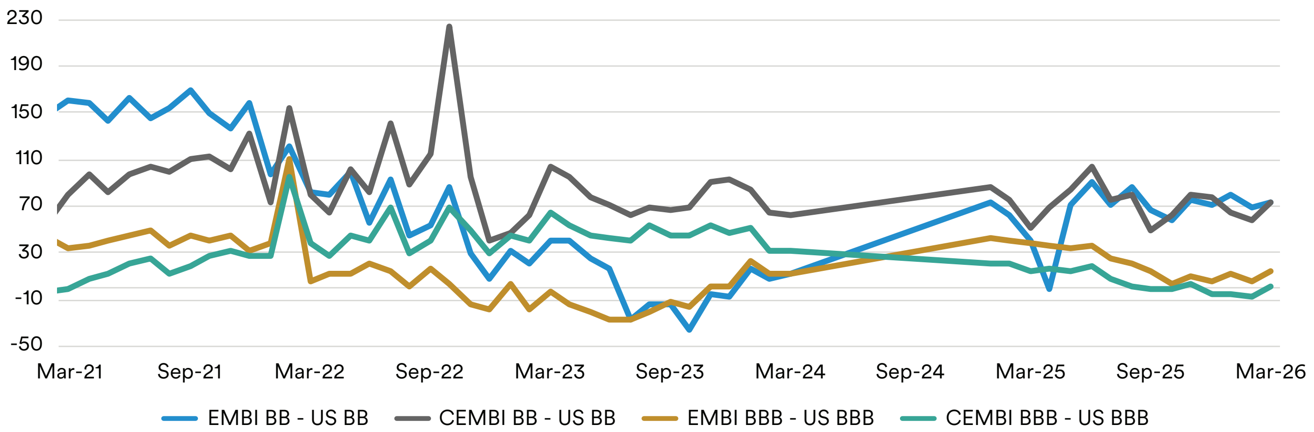
Market Outlook

Emerging Markets enter the second quarter of 2026 amid an increasingly complex macro and geopolitical backdrop. While EM assets have thus far demonstrated notable resilience following the escalation of the conflict in the Middle East, the sharp rise in oil prices has reintroduced concerns around inflation dynamics, the potential implications for Federal Reserve policy, and the broader outlook for Developed Market growth and rates. The duration and ultimate severity of the conflict remain uncertain, reinforcing our focus on longer-term fundamentals rather than short-term relative value dynamics, which may continue to shift rapidly as events unfold. In this environment, local markets have borne the brunt of volatility and are likely to remain the most sensitive until clearer geopolitical and macro visibility emerges. New issuance has slowed materially as both issuers and investors navigate elevated uncertainty. Against this backdrop, trade and tariff policy has faded into the background, overshadowed by more immediate geopolitical risks and their macroeconomic transmission channels.

Despite this uncertainty, EM fundamentals remain generally well positioned. Fiscal discipline, improved monetary frameworks and proactive engagement with multilateral institutions continue to underpin macro stability across much of the EM universe. Based on our sovereign analysis, the majority of EM countries continue to exhibit stable or improving fundamentals, with the potential for additional Rising Stars over the next several years, supported by positive fiscal and policy momentum. Political risk has remained relatively contained, with a favorable skew to election outcomes over the past three years. Looking ahead, elections in Brazil, Colombia, Peru and Hungary will be important to monitor and may serve as catalysts for incremental policy improvements, while also introducing bouts of near-term volatility around election cycles. Commodity dynamics remain supportive for many EM exporters, particularly in energy and metals, where higher prices provide either a direct macro tailwind or limited pass-through to inflation and external balances in select countries.

From a market and valuation perspective, EM continues to offer meaningful income and diversification benefits relative to Developed Markets. While recent EM performance has made market technicals more balanced, the asset class remains structurally underowned, following several years of allocator underweights driven by perceived complexity and volatility. As DM economies contend with weaker growth, rising fiscal pressures and less policy flexibility, many EM countries enter this period with stronger balance sheets and improved policy credibility. A potential continuation of U.S. dollar weakness over the medium term would further support flows into local currency strategies and more flexible hard-currency mandates, reinforcing EM's role as a differentiated source of income and return drivers within global portfolios.

Figure 6 | EM vs. DM Yield Advantage (bps)

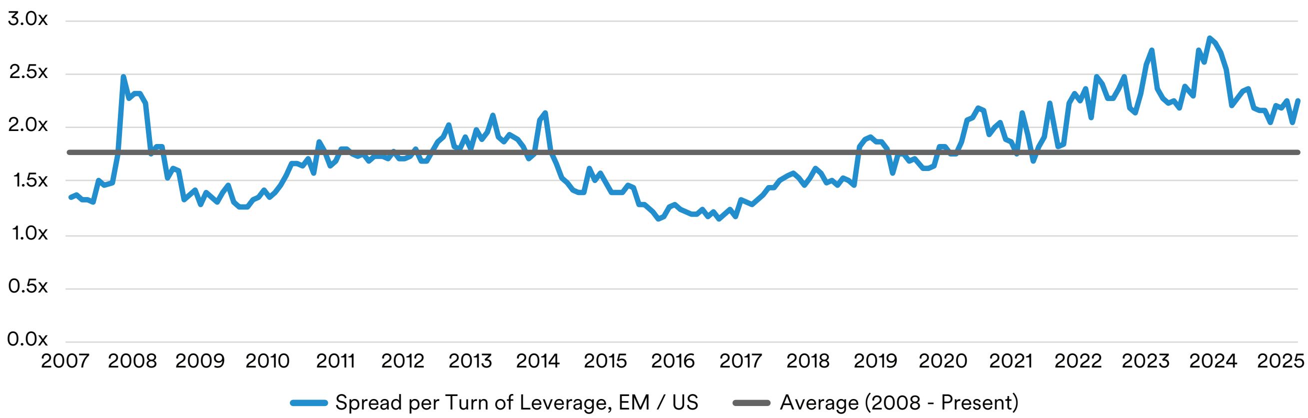


Sources: JP Morgan, Bloomberg LP as of March 31, 2026.

Within this environment, heightened geopolitical uncertainty has reinforced the importance of portfolio flexibility and disciplined risk management. While geopolitical shocks can drive short-term volatility, they have historically also created attractive entry points across EM assets. We remain focused on maintaining adequate liquidity and dry powder to capitalize on opportunities that may arise during periods of market dislocation, while remaining selective in position sizing. We maintain a constructive view on U.S. dollar-denominated sovereign debt across the rating spectrum, balancing higher-quality investment-grade exposures with selective high-yield opportunities. The current environment favors sovereigns where elevated energy prices either provide a macro tailwind or have limited adverse implications for inflation and external balances. Within high yield, our focus remains on BB-rated sovereigns with improving debt sustainability and manageable refinancing profiles, while regionally we continue to favor Latin America, given relatively favorable fundamentals and more contained spillovers from Middle East dynamics.

Corporate fundamentals across EM remain solid, supported by disciplined liability management and stable leverage profiles. While EBITDA is likely to normalize from recent peaks, leverage increases should remain modest and manageable given strong starting balance sheets. Margin pressures related to tariffs or input costs warrant monitoring, but free cash flow generation should remain supportive as capital expenditures remain focused on maintenance rather than expansion. Valuations remain compelling, with spread-per-turn of leverage still meaningfully higher than comparable U.S. credit. We favor metals exporters, domestically focused issuers with demonstrated resilience through volatility and selective opportunities in utilities and technology, media and telecommunications. Our overweight to Latin American corporates is maintained, particularly in less cyclical names and those benefiting from nearshoring and deeper supply-chain integration.

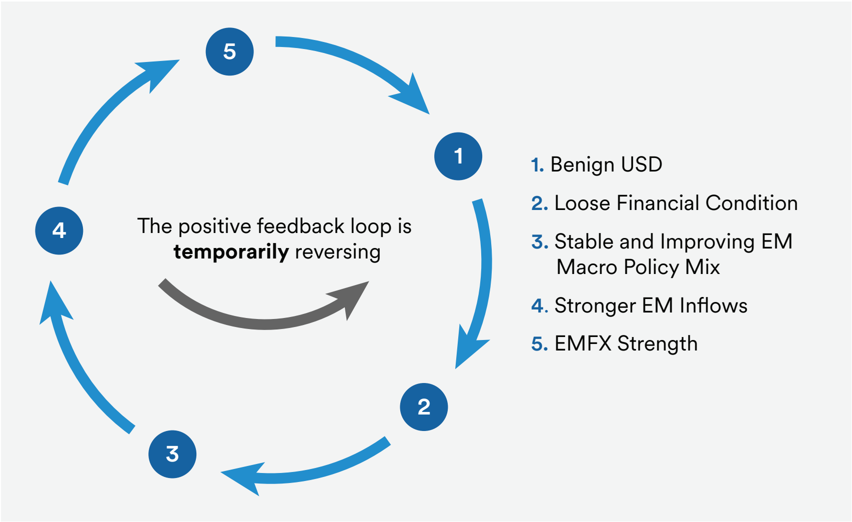
Figure 7 | Spread-per-Turn of Leverage EM/U.S. for Corporate Credit



Source: BofA Research. Fundamentals data as of June 30, 2025, spreads data as of March 31, 2026.

The onset of the conflict in Iran has temporarily upended our previous expectation of a weakening U.S. dollar. The closure of the Strait of Hormuz has injected a pronounced war premium into energy markets, driving Brent crude above $100 per barrel and triggering a flight-to-quality that reversed the dollar's earlier weakness, particularly against energy-importing countries. While near-term risks remain elevated due to tangible operational disruptions and potential second-order inflation effects, we view this dollar rebound as a tactical shift rather than a permanent structural break. Historical precedents suggest that markets often absorb geopolitical shocks relatively quickly once the triggering event subsides. As energy flows normalize, we expect investment behavior to revert toward our core themes of a marginally weaker U.S. dollar, allowing compelling EM real-rate stories in markets such as Brazil, Colombia and South Africa to reassert themselves. Against this backdrop, local currency debt remains attractive over the medium term, particularly in markets with credible inflation-targeting frameworks and elevated real yields, notwithstanding higher near-term volatility.

Figure 8 | Supportive EM Cycle



Source: MIM as of March 31, 2026.

Endnotes

[1] Bloomberg LP

[2] JP Morgan

[3] JP Morgan

[4] JP Morgan

[5] Information in this paragraph sourced from JP Morgan

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