March 31, 2025

FIXED INCOME

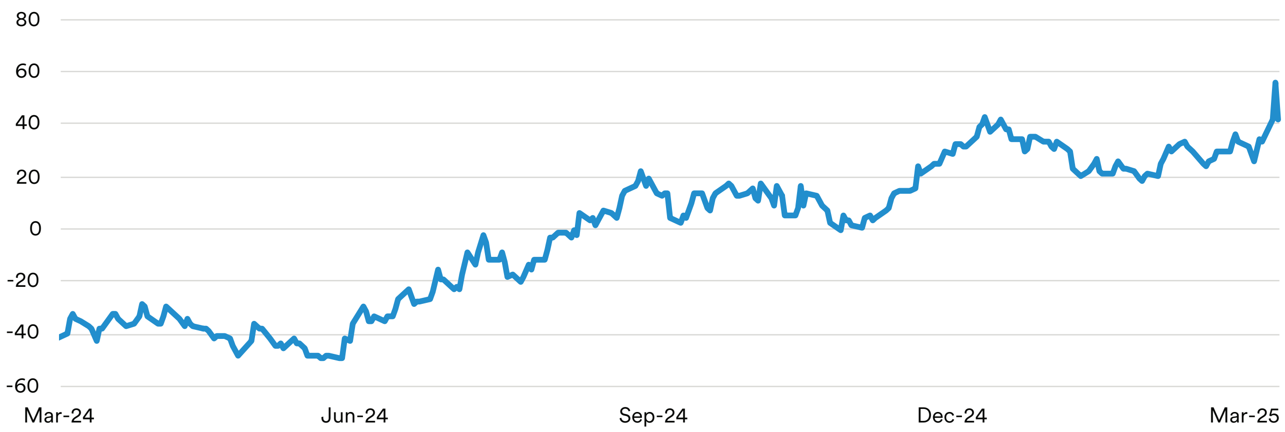
Emerging Markets Market Review and Outlook

Market Review

U.S. politics dominated the first quarter (Q1), with the impact on global growth and Emerging Markets (EM) uncertain. The first half of the quarter was spent digesting the new Trump administration's policies and their approach to foreign governments. We witnessed the first taste of Trump's interactions with other countries early on when Colombia refused to allow deportation flights from the U.S. to land in the country. Shortly thereafter, specific tariffs on Mexico and Canada were threatened and later delayed as both countries showed a willingness to work with Trump on border security. The second half of the quarter was spent bracing for potential geopolitical escalations, with no clarity to the impact on global markets. As markets witnessed significant headline oscillation, investors abstained from committing strongly to risk assets.

MetLife Investment Management

Figure 1 | U.S. 2yr vs. 10yr Yields



Sources: Bloomberg LP as of April 9th, 2025

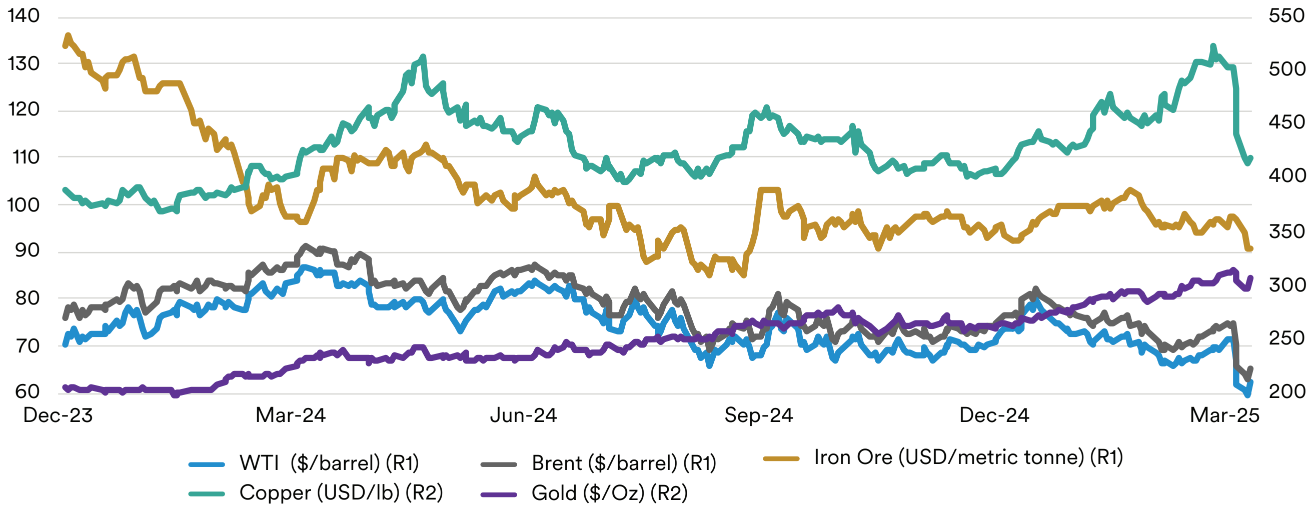
Markets came into the year anticipating a Trump administration that had campaigned on better trade terms for the U.S., cutting government waste and fraud, tax cuts and deregulation. What the market was likely not prepared for was the speed and sequencing. This has directly impacted fixed income markets including EM through trade policy, global rates, FX, and commodity prices. Investors are finding it difficult to position, as Trump's strategy has thus far been very sporadic, leaving investors confused as to what his next move will be and which agenda item it will focus on.

Markets ended Q1 awaiting the uncertainty around the April 2nd "Liberation Day" tariff announcements. Initial tariff announcements sent shock waves across global markets, with EM largely in focus. The tariffs were more widespread than initially anticipated, causing reconsideration of recession risks and subsequently a repricing of credit. Over the first eight trading days of April, we have witnessed extreme market volatility.

Fears of inflationary policies caused a brief spike in treasuries in January (peaking at 4.79%), but rates then stabilized with Fed commentary. The administration unexpectedly continued the policy of issuing more short term versus long term debt, coupled with efforts to talk-down 10-year interest rates. This resulted in a notable rally in U.S. treasury yields, with the 10-year yield falling 36 basis points during Q1. The decline in rates supported credit markets by lowering borrowing costs in an environment where growth projections are uncertain. Since April 2nd, we have seen the curve twist and shift in multiple directions driven by an unwind in the basis trade and to a lesser extent foreigners selling Treasuries.[1]

Commodities have been stuck in the middle of the recent crossfire. The combination of tariff announcements, global growth/recession concerns, and OPEC production hikes put pressure on oil and metals. Brent remained largely rangebound during the quarter, ending at $74.74/barrel.[2] Since quarter-end we have seen oil drop back to February 2021 levels as OPEC+ increased production to punish those that were not adhering to agreed upon production along with global slowdown fears. Copper prices were supported during the quarter, as investors bought excess amounts prior to the anticipated tariff announcements, but subsequently reversed momentum following the official announcements. Gold reached its all-time high, driven by a confluence of factors given its "safe haven" status, including geopolitical tensions, central bank purchases, and market volatility.

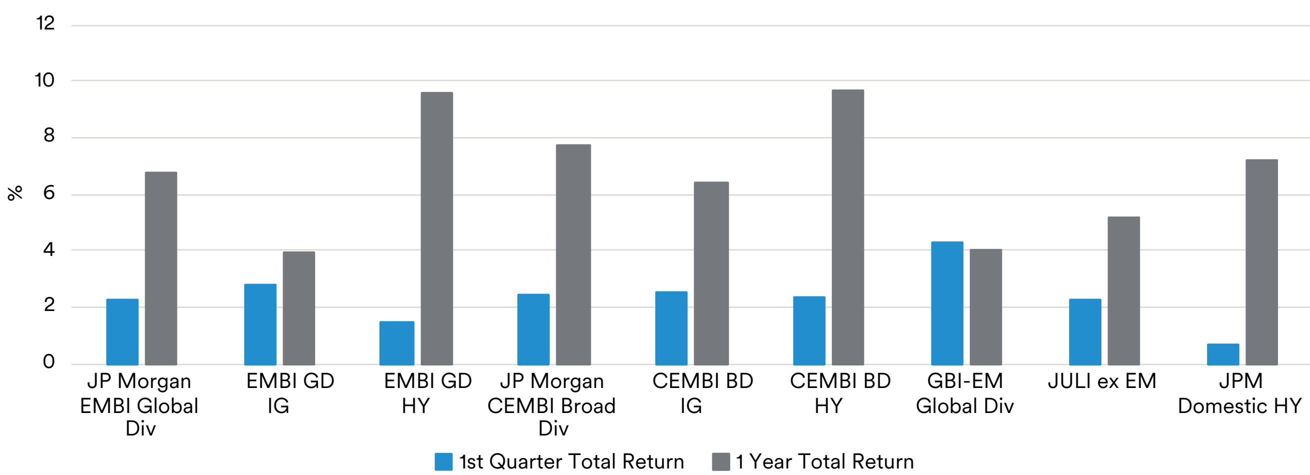
Figure 2 | Commodities



Sources: Bloomberg LP as of April 9th, 2025

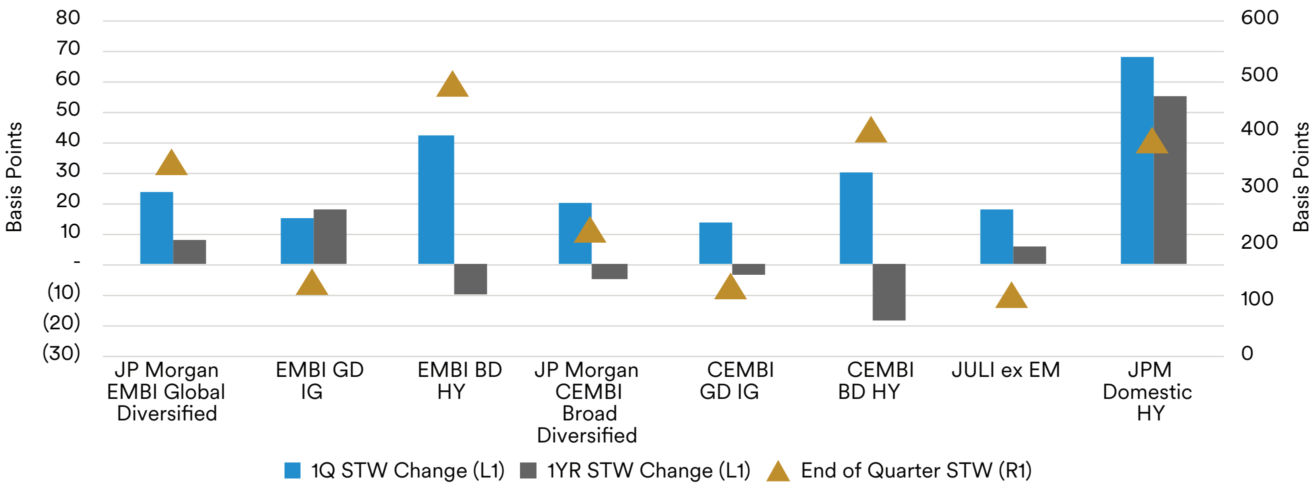
Despite headline volatility, EM credit saw positive performance in the quarter. Ongoing disinflation, stable fundamentals, and light net supply created a constructive backdrop for EM assets. The convergence of the rate rally and investors rotating up-in-quality into quarter end drove investment grade sovereigns to be the top performing hard currency subsector. Corporates across the spectrum posted strong returns, with BB and BBBs leading the strength given cautious risk appetite, while still providing investors attractive yield opportunities. Local currency outperformed hard currency assets, benefiting from local rate compression and FX appreciation as the dollar weakened.

Figure 3 | Indices Total Returns (%)



Sources: Bloomberg LP, JP Morgan as of March 31, 2025

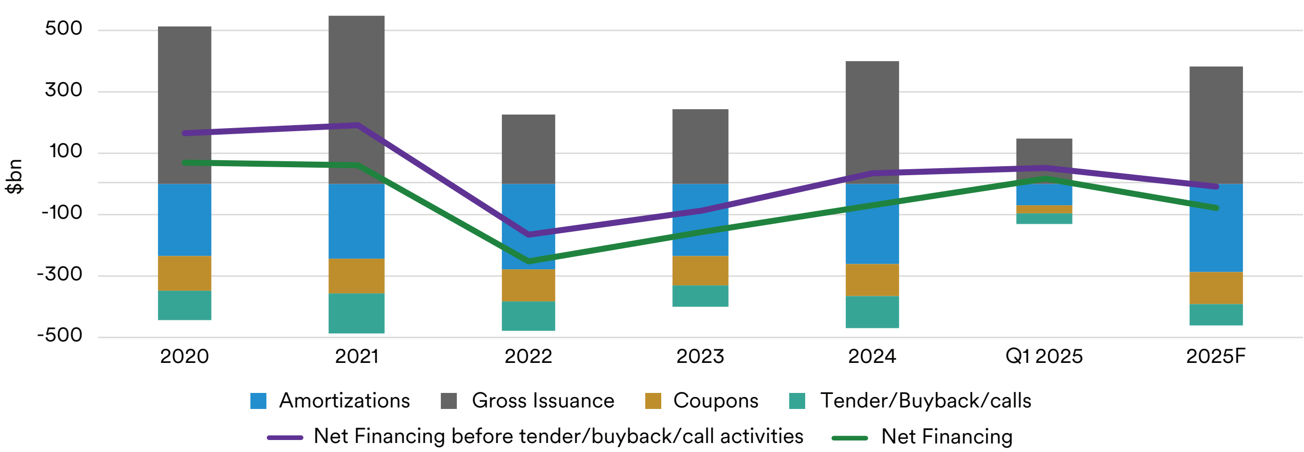
Figure 4 | Indices Spread to Worst



Sources: Bloomberg LP, JP Morgan as of March 31, 2025

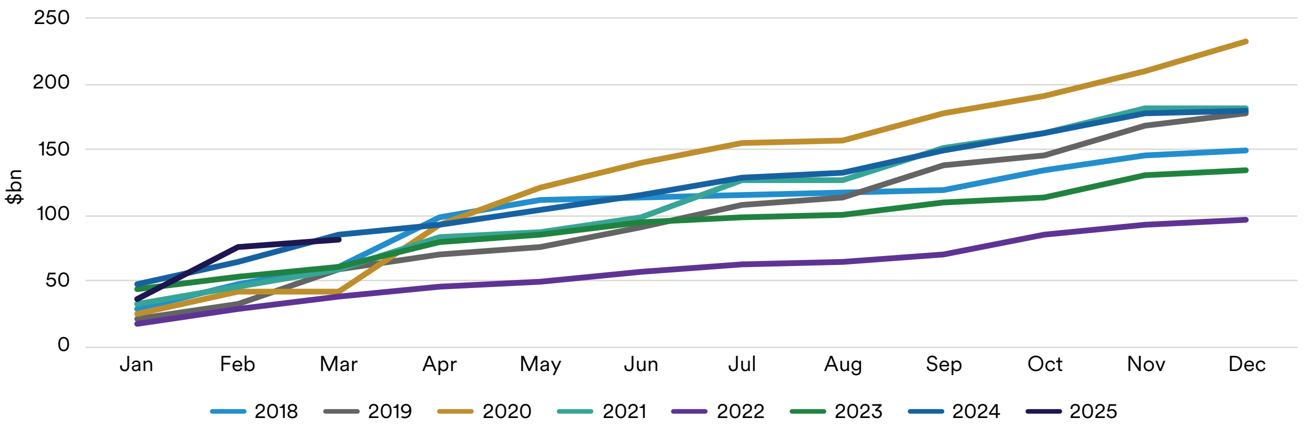
EM kicked off the year with robust gross primary supply, while net issuance remained low as borrowing was more refinancing focused versus expansionary. Issuers were able to put aside uncertain market conditions in January and February to issue, and while March issuance slowed, sovereigns were still able to record a record Q1. The mere $13 billion of sovereign issuance in March was enough to push Q1 issuance to the record level of $89.1 billion. However, unlike previous years, long dated issuance was fairly non-existent, and some traditional dollar issuers came through the euro market instead, with almost 25% of year-to-date (YTD) issuance in EUR. The corporate space saw consistently strong issuance throughout the quarter. March issuance of $50 billion brought YTD supply to $150 billion, an amount 25% above the five-year average, and the largest Q1 ex-China issuance on record. Given the robust issuance from CEEMEA and Asia ex. China, YTD net financing remained positive at +$14 billion. Despite flows being relatively muted within EM, crossover investors have been heavily involved given relative valuations of EM versus Developed Markets.[3]

Figure 5 | EM Corporate Issuance



Source: JP Morgan as of March 31, 2025

Figure 6 | Cumulative Gross Sovereign Issuance



Source: JP Morgan as of March 31, 2025

Outlook

We believe the dominant thesis will be the rapidly changing policy framework coming from the U.S., most immediately around foreign policy issues like trade and geopolitical positioning, while simultaneously shifting to a more fiscally conservative domestic policy focus. This combined effect of increased global uncertainty and adapting to a changing global landscape will likely prompt a variety of policy responses across countries, ranging from more aggressive central bank easing to increased and previously unanticipated fiscal stimulus support. Additionally, it remains uncertain whether these countries will appease the U.S. by lowering tariff rates to reduce the newly imposed ones or retaliate, potentially worsening risk sentiment.

This trade shock has caused the outlook on the Federal Reserve's (Fed) policy stance to become increasingly murky. The Fed's dual mandate will most certainly create a challenge if the economy evolves the way most market participants believe, lower growth with higher prices. While the Fed has been striving to maintain economic balance and support through a gradual pace of rate cuts, the tariff announcements introduce a stagflationary challenge wherein they must choose one side of their mandate versus the other. Given their biases in the past, it seems reasonable to believe that their willingness to cut rates and provide market support may likely win out over their concern for a one-off price shock.

The primary flashpoint in EM is the escalating trade tensions with China. The country's more assertive retaliation means that it will need to step up policy support faster/sooner, providing support for domestic demand and partially offsetting external headwinds. The key question is what will the authorities do to support growth, and how far will they take retaliation against the latest U.S. tariff increases? Beyond China, the strength of the U.S. dollar remains in question for the EM world; how does the rest of the world look at U.S. investments in a world where U.S. exceptionalism and hegemonic leadership is more inwardly focused, and the assumption of a U.S. security guarantee is in question? Despite these challenges, we remain confident in the fundamentals of Emerging Markets to once again weather the storm. We are also hopeful that the new U.S. administration will pursue mutually beneficial agreements with foreign governments to minimize the market disruptions. While the current environment remains choppy, the current market provides opportunities to invest in credits where prices have dislocated from longer term positive fundamental views.

Figure 7 | Bull/Bear Macro Scenarios – Impact on EMD

Positive Macro Drivers ⓘ↑	Macro Driver	Negative Macro Drivers ↓
Stable Rates With Positive Growth	**Global Rates**	Higher and Increased Rate Volatility
Inflation Converges to Central Bank Targets	**Global Inflation**	Inflation Remains Sticky
Coordinated Soft Landing	**Global Growth**	Recession / Hard Landing
Conflicts in Ukraine and Middle East Move Towards Negotiated Settlement	**Geopolitical Conflict**	Failed or Lack of Ceasefire Agreements
Government Delivers More Stimulus Than Currently Priced Into Market	**China Growth**	China Growth Remains Weak
Early Tactical Implementation of Trade Policies	**Trade Protectionism**	Larger or Drawn-Out Trade Negotiations

Source: MIM as of March 31, 2025

Figure 8 | EM Is No Stranger to Shocks

Historically Strong Performance Through the Cycle, Particularly in IG EM

Annualized Excess Return

		Investment Grade			High Yield		
Period	Theme	US Corp	EM Sov	EM Corp	US HY	EM Sov	EM Corp
1Q 2002 - 1Q 2025	**ENTIRE PERIOD EX-RUSSIA**	**1.07%**	**2.90%**	**2.73%**	**3.67%**	**6.06%**	**6.11%**
1Q 2002 – 1Q 2025	**ENTIRE PERIOD WITH RUSSIA**	**1.07%**	**2.41%**	**2.27%**	**3.67%**	**4.95%**	**4.78%**
1Q 2002 - 2Q 2007	Global Melt-up	0.89%	4.27%	4.11%	4.95%	11.32%	9.47%
3Q 2007 - 2Q 2013	DM Crises	0.29%	1.76%	1.49%	2.87%	2.30%	3.92%
3Q 2013 - 2Q 2016	Taper and Energy Downturn	0.73%	2.03%	1.57%	1.24%	3.06%	4.45%
3Q 2016 - 4Q 2019	Reflation, Populism, Trade War	3.02%	3.52%	3.02%	6.45%	5.32%	3.07%
1Q 2020 - 4Q 2024	Covid Pandemic & Recovery (ongoing) ex-Russia	1.23%	1.80%	1.95%	3.15%	4.59%	3.28%
1Q 2020 - 4Q 2024	Covid Pandemic & Recovery (ongoing) with Russia	1.23%	0.34%	0.81%	3.15%	2.07%	1.01%

Annualized Return/Standard Deviation

		Investment Grade			High Yield		
Period	Theme	US Corp	EM Sov	EM Corp	US HY	EM Sov	EM Corp
1Q 2002 – 1Q 2025	**ENTIRE PERIOD EX-RUSSIA**	**0.18**	**0.40**	**0.38**	**0.32**	**0.44**	**0.42**
1Q 2002 - 1Q 2025	**ENTIRE PERIOD WITH RUSSIA**	**0.18**	**0.32**	**0.31**	**0.32**	**0.36**	**0.33**
1Q 2002 - 2Q 2007	Global Melt-up	0.36	1.30	1.10	0.56	0.99	0.77
3Q 2007 - 2Q 2013	DM Crises	0.03	0.16	0.12	0.16	0.13	0.17
3Q 2013 - 2Q 2016	Taper and Energy Downturn	1.35	1.66	1.25	1.05	1.99	1.46
3Q 2016 - 4Q 2019	Reflation, Populism, Trade War	1.10	1.90	1.66	1.81	2.14	2.70
1Q 2020 - 1Q 2025	Covid Pandemic & Recovery (ongoing) ex-Russia	0.16	0.20	0.31	0.29	0.26	0.28
1Q 2020 - 1Q 2025	Covid Pandemic & Recovery (ongoing) with Russia	0.16	0.04	0.12	0.29	0.12	0.14

Excess return is the annualized quarterly spread return component of each index, calculated as index total return reduced by the duration neutral Treasury return.

The indices represented are as follows: U.S. Corp = Bloomberg U.S. Corporate IG Index; EM IG Sov = JP Morgan EMBI Global Diversified; EM IG Corp = JP Morgan CEMBI Broad Diversified; U.S. HY = Bloomberg U.S. Corporate HY Index; EM HY Sov = JP Morgan EMBI Global Diversified; and EM HY Corp = JP Morgan CEMBI Broad Diversified.

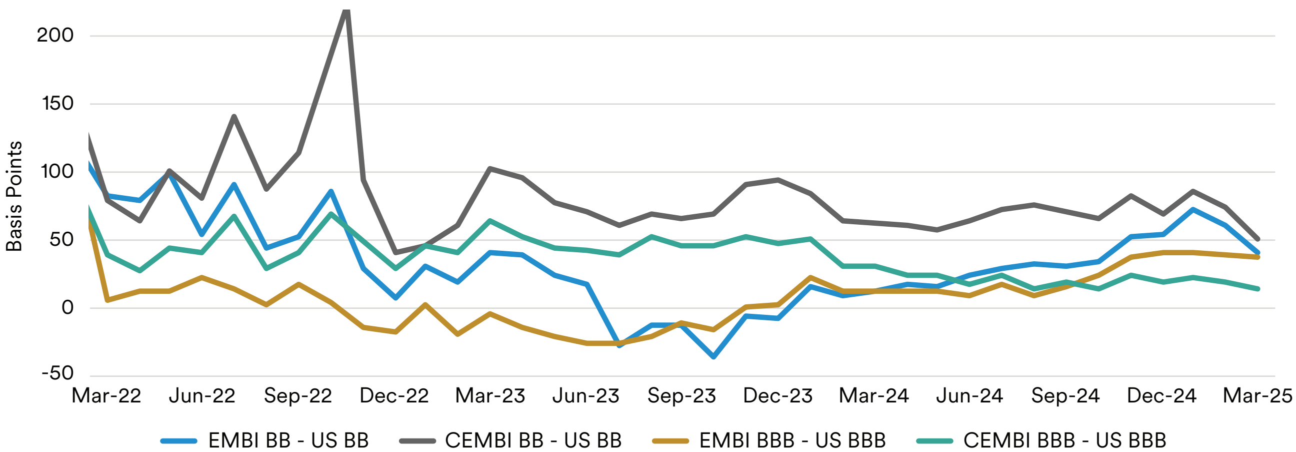
Ex-Russia data is included due to the country being removed from the index at a price of 0 during Q1 2022, skewing index returns for that time period.

Sources: MIM, Bloomberg LP, JP Morgan as of March 31, 2025

Given the recent volatility in global markets due to tariff announcements, we have slightly increased our preference for higher quality investments while maintaining our existing geographic bias. The team remains committed to actively positioning portfolios into assets that we think make sense or even rotating risk within an individual ticker that we think offers better upside along with dollar price protection. We believe that there will be some opportunities in the coming weeks to add to high conviction ideas or even enter new positions due to both uncertainty and market technicals. Nonetheless, we are being very diligent in how we take risk and like our higher conviction BB sovereigns such as Ivory Coast where the commodity exposure is not focused on oil.

We have also rotated small exposure out of the Middle Eastern long end into more defensive names like Poland at similar spread levels. We like the middle of the quality stack where we see very attractive yields under the assumption that markets will remain volatile in the short term.

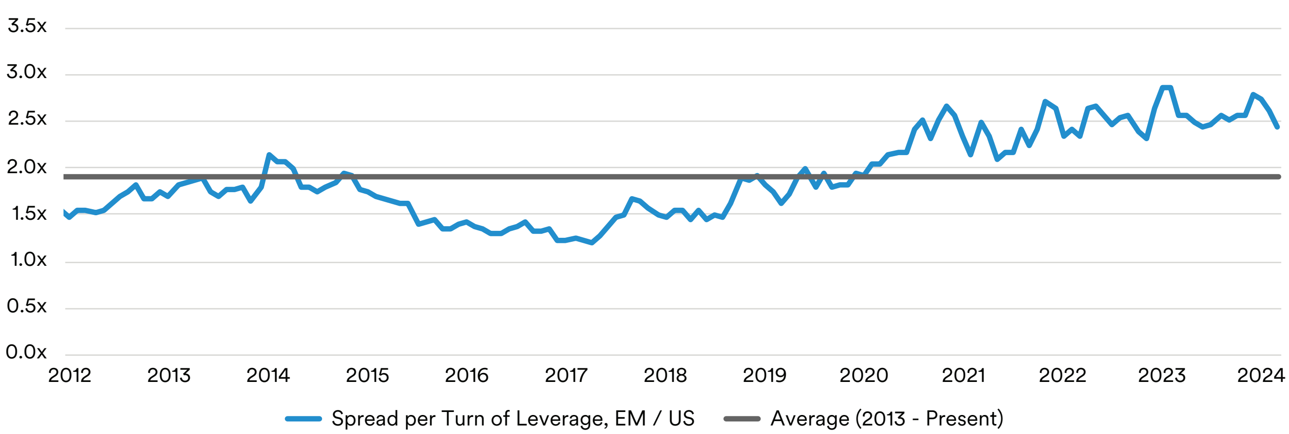
Figure 9 | EM vs DM Yield Advantage (bps)



Sources: Bloomberg LP, JP Morgan as of March 31, 2025

Our preferences within corporates have remained largely consistent. We continue to see opportunities in BB and BBB corporates, in sectors that generate hard currency revenues or have effective FX liability management. Even with EM corporate spreads remaining more resilient than DM credit YTD, the spread per turn of leverage remains over double, 46 bps/x for U.S. credits versus 104 bps/x for Global EM.[4] Given the Trump administration's latest policy announcements, in the near term we are looking for opportunities in companies located in countries where the sovereign is willing to negotiate tariff terms with the U.S., or in companies that are less reliant on exporting to the U.S. In the utility space, we see value in assets with consistent cashflows that have strong structures, especially within Latin America. Infrastructure projects in the Middle East are enticing, where we can get a pickup of ~75bps over comparable DM credits.

Figure 10 | Spread per Turn of Leverage EM / U.S. for Corporate Credit

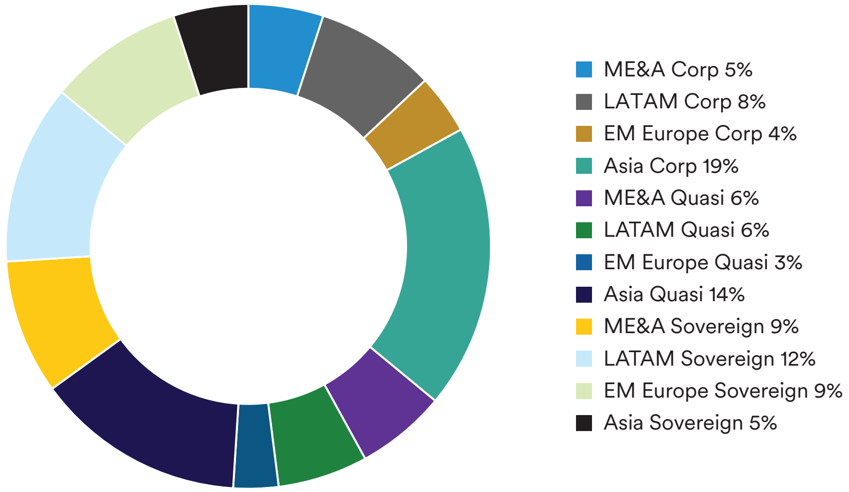


Source: BofA Global Research. Fundamental Data as of December 31, 2024. Spreads data as of February 28, 2025

There is tremendous uncertainty everywhere and local assets are certainly not immune, but there is room for optimism in the space. We have to evaluate these assets through the lens of a rapidly evolving and uncertain new global trade order. Using the past performance as a guide for what has driven dollar valuations over the previous several years, it appears very likely that the U.S., with more constrained fiscal and potentially higher inflation, will have lower growth and lower real rates, therefore challenging the dollar's longstanding outperformance. However, the dollar will remain a safe haven asset during times of stress. While very high real yields in Latin America are appealing, the uncertain growth outlook warrants a cautious stance; however, as volatility subsides and outlooks become clearer, we would look to increase exposure to this region. In Europe where we are seeing stimulus from Germany as well as additional monetary stimulus from the ECB, we believe assets in Czech Republic and Poland make the most sense. For the time being, we remain constructive on Turkey given their vigilant commitment to disinflation. Asia is the most challenging region to navigate, and we remain significantly underweight given relative valuations and their significantly higher trade barriers.

In the world of ambiguity we are faced with today, diversification is crucial to portfolios. The EM asset class become a mature, large portion of the overall bond market. The hard currency segment has remained steady at around $4 trillion since 2021, which is comparable in size to the combined European Investment Grade (IG) and High Yield (HY) market and half the size of the U.S. IG market. It has gained recognition as more investors have explored it over the years. Within EM, credit is relatively evenly distributed across regions, with Asia and CEEMEA accounting for 37% and Latin America the remaining 26%. Asia holds the largest share on the corporate/quasi-sovereign side (~50%), while CEEMEA represents over half of the sovereign mix.[5] Across these regions, many sovereigns exhibit stable or improving fundamentals, continue to receive support from official creditors, and have largely stable ratings trajectories. Corporates within these countries show resilient fundamentals and maintain investor confidence. This regional diversification, combined with supportive technicals and fundamentals, offers potential opportunities for investors amid volatility.

Figure 11 | EM Credit Bonds Outstanding – Regional Breakdown



Source: JP Morgan as of March 31, 2025

Endnotes

1 Information in this paragraph sourced from Bloomberg LP

2 Bloomberg LP

3 Information in this paragraph sourced from JP Morgan

4 BofA Global Research as of February 28, 2025

5 Information in this paragraph sourced from JP Morgan

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