

FIXED INCOME

Emerging Markets Debt Review and Outlook

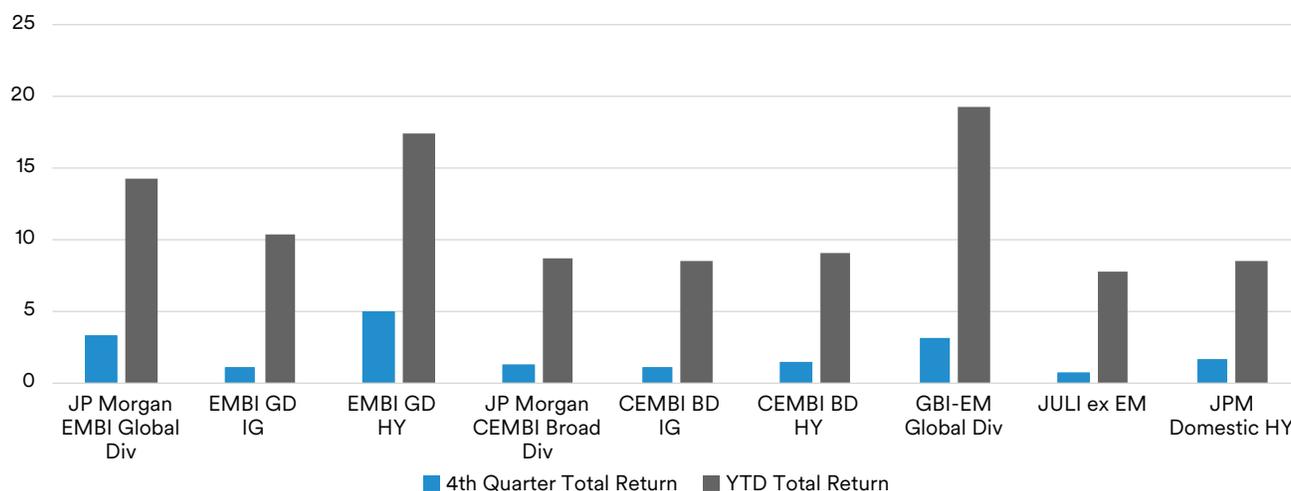
Market Review

Emerging markets debt (EMD) delivered strong performance during the fourth quarter (Q4) of 2025, supported by a favorable global macroeconomic backdrop, easing U.S. monetary conditions and renewed investor demand for higher-yielding fixed income assets. Declining global interest rates, U.S. dollar weakness and supportive commodity dynamics were specifically beneficial for EM assets, supporting robust total returns across both hard and local currency spaces.

The macro environment became increasingly supportive over the course of the quarter as inflation continued to moderate across major economies. However, the quarter was also marked by a U.S. government shutdown, which delayed the release of key economic data. This disruption made it more challenging for the Fed to assess the underlying economic trajectory and the appropriate path for monetary policy. By December, U.S. economic data pointed to moderated inflation yet slowing job growth amid a strong rebound in 4Q GDP growth, allowing the Fed to maintain a more accommodative policy stance and reinforcing expectations for additional rate cuts. These dynamics contributed to periods of lower U.S. Treasury yields intra-quarter and lower real rates, easing external financing pressures for EM borrowers. The associated weakening of the U.S. dollar further improved financial conditions for EM economies by improving balance-of-payments dynamics and enhancing the relative attractiveness of higher-yielding EM assets.

Against this backdrop, EMD generated attractive returns. Hard currency sovereign bonds benefited from spread compression as investor confidence improved. Within this segment, Africa was a notable outperformer, delivering strong relative performance, as investors embraced elevated carry, and improving sentiment toward select high-yield (HY) issuers. Countries such as Zambia, Angola and Nigeria benefited from expectations of credit stabilization. Local currency debt also performed well, supported by high real yields, easing inflation trends across many emerging economies and appreciation of EM currencies against a weaker U.S. dollar. Top performers included Argentina, South Africa, Chile and Turkey. EM corporate debt delivered solid results as well. As fundamentals remained stable, leverage levels were largely contained, and strong demand for yield supported tighter credit spreads. Metals & Mining and Oil & Gas were the strongest sectors, aided by stable metals prices and steady yield demand, which helped offset the impact of softer energy prices during the quarter.¹

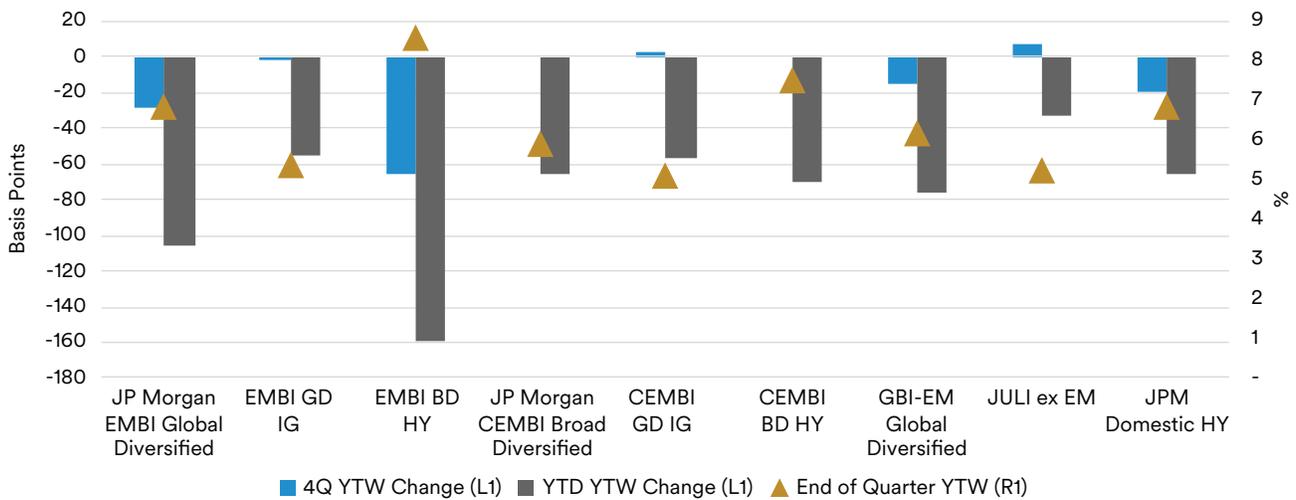
Figure 1 | Indices Total Returns (%)



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

Relative to Developed Markets (DM), EM outperformed most core fixed income segments during the quarter. The comparatively low yield profile of DM investment-grade (IG) bonds constrained their total return potential. In contrast, EMD combined elevated carry and spread compression produced higher total returns. Similar to DM rates, high-yielding EM FX significantly outperformed lower-yielding local markets, providing meaningful contribution to overall EM performance during the quarter.

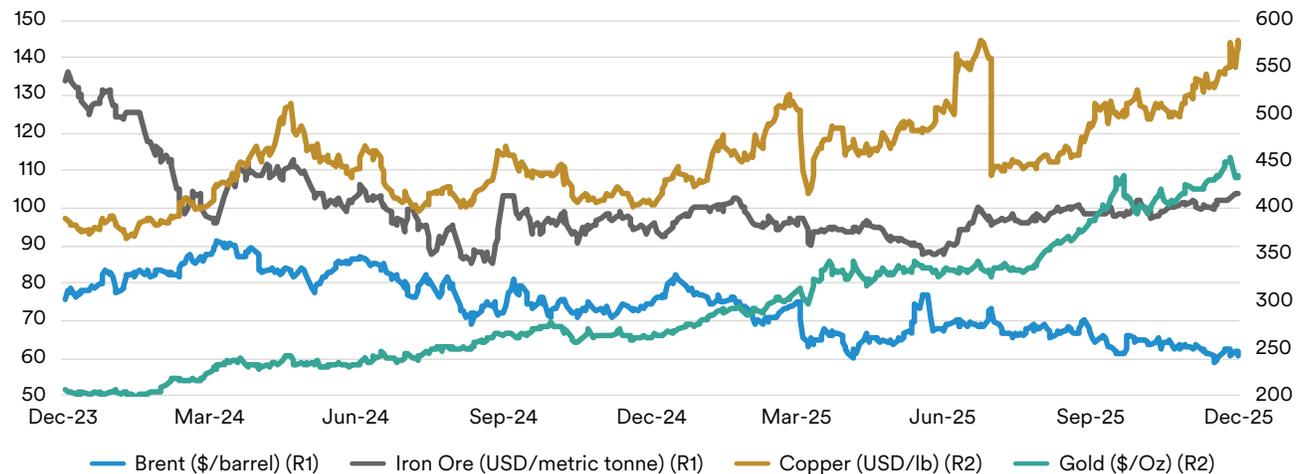
Figure 2 | Indices Yield-to-Worst



Sources: JP Morgan, Bloomberg LP as of December 31, 2025.

Commodity markets provided an additional source of support during the quarter for many EM economies through improving terms of trade. Prices for industrial metals such as copper and iron ore, along with select agricultural products, remained relatively firm, supporting commodity-exporting countries through improved fiscal revenues and stronger trade balances. In contrast, crude oil faced earlier declines and now sits at more neutral levels, offering less directional support than other commodity segments. These dynamics supported sovereign credit profiles and foreign exchange reserves across parts of EM. At the same time, U.S. dollar weakness helped ease imported inflation pressures for commodity-importing countries, giving central banks greater flexibility to maintain or accelerate easing cycles without undermining price stability.

Figure 3 | Commodities

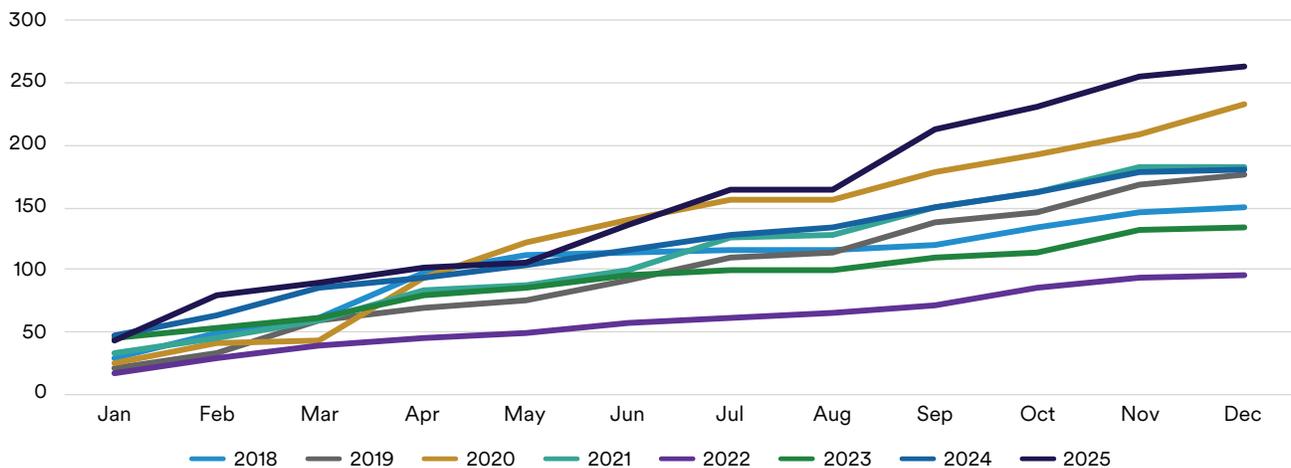


Source: Bloomberg LP as of December 31, 2025. Gold values are adjusted by a factor of 10 for scaling purposes.

Country-specific developments continued to drive performance dispersion across EM in Q4, with political shifts, fiscal dynamics and geopolitical signals shaping market sentiment across regions. In Latin America, Argentina’s legislative election outcomes reinforced support for President Milei’s pro-market agenda, bolstering confidence in medium-term fiscal consolidation and structural reform. Peru’s presidential impeachment added to an already fragile political backdrop, amid rising public-security concerns, shifting legislative support and the country’s ongoing cycle of political transitions. President Trump’s support for a single candidate in the Honduras election underscored the U.S. influence, adding a layer of external political involvement. Meanwhile, in Colombia, the government’s liability-management operations influenced market technicals and sovereign performance, while markets continued to scrutinize fiscal and reform trajectories. Globally, the Xi/Trump de-escalation meeting helped ease concerns around great-power tensions, lending support to risk appetite. In Turkey, the dismissal of the CHP court case reduced near-term political uncertainty and contributed to a more constructive market tone. Ivory Coast’s incumbent securing a fourth term reinforced policy continuity even as regional dispersion persisted; Senegal was a notable laggard after the disclosure of higher-than-expected public debt levels raised concerns about fiscal transparency and sustainability, prompting rating downgrades and renewed volatility.

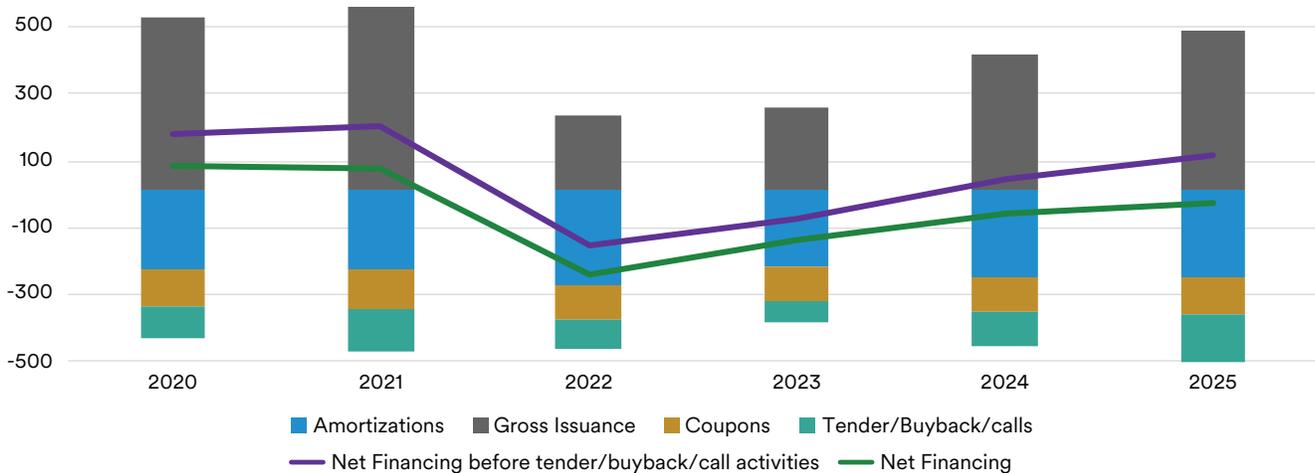
Primary market activity in EM remained constructive during the fourth quarter of 2025, helping to close out a year of record issuance. October’s busy calendar pushed year-to-date sovereign supply past the previous 2020 record. Total sovereign issuance for 2025 was \$259 billion by year-end, over 70% of which came from IG issuers. Corporate issuance was also robust, with annual supply totaling \$473 billion, the highest since 2021. Ex-China issuance amounted to \$404 billion for the year, setting a record. Despite high gross issuance, net financing for corporates remained negative (-\$41 billion) due to liability management and heavy cash flows, though ex-China net issuance was positive. Corporates, led by IG names, took advantage of improved funding conditions to strengthen balance sheets, while HY issuance stayed selective. Importantly, demand generally exceeded supply, providing a supportive technical backdrop that contributed to spread compression and reinforced performance across both sovereign and corporate segments of EMD.²

Figure 4 | Cumulative Gross Sovereign Issuance (\$bn)



Source: JP Morgan as of December 31, 2025.

Figure 5 | Corporate Net Issuance (\$bn)



Source: JP Morgan as of December 31, 2025.



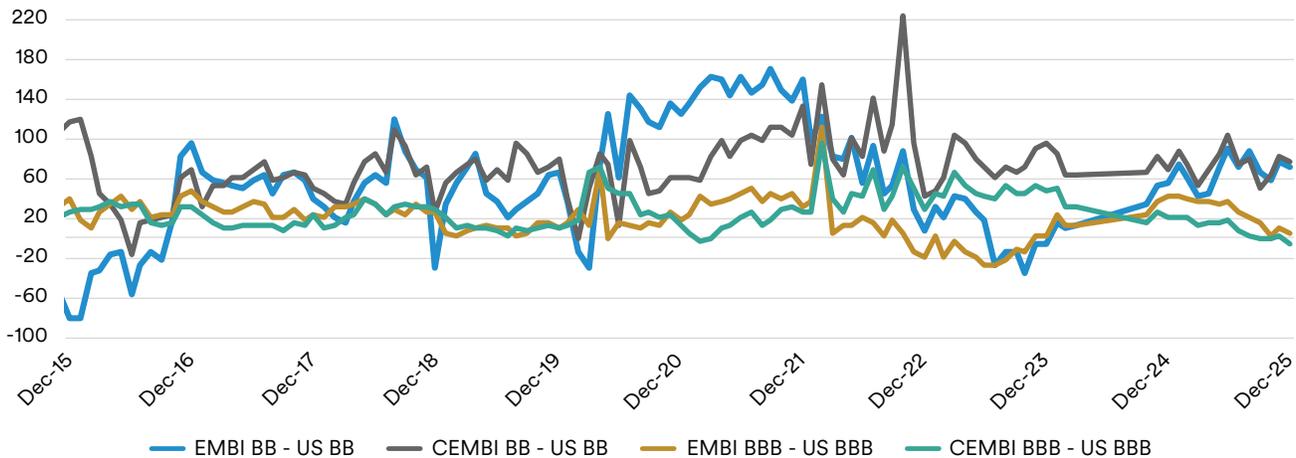
Outlook and Strategy

Emerging markets enter 2026 with strong momentum following an exceptional 2025, yet the landscape is increasingly complex. One of the main factors we are continuing to monitor is whether U.S. growth remains relatively strong. Subsequently, how will the Fed direct its policy while juggling the mandates of inflation, jobs and growth to keep the economy balanced. These factors will play into investor risk appetite and could have significant influence on whether the U.S. dollar continues to weaken or reverse and strengthen relative to other economies. The Trump administration has reshaped global geopolitical dynamics using tariffs as the primary tool to gain leverage to alter the trade landscape in a direction the current administration believes is in the long-term best interest of the United States. The degree to which these policy shifts impact growth in the U.S. and globally will have important implications for the flow of capital, and there remains considerable uncertainty as to the efficacy of this large-scale policy shift. The enhancement of unilateral trade relations, strengthening commodity prices and ongoing structural reforms within EM economies can further enhance EMD's relative appeal during these periods.

Looking ahead, EM continues to offer compelling relative value versus DM. The yield advantage of EM over DM remains meaningful, particularly in HY sovereigns and local markets with credible inflation-targeting frameworks. As DM economies confront weaker fundamentals, stagnating growth and increasing fiscal pressures, many EM economies are entering 2026 with stronger balance sheets, improved

policy credibility and ongoing structural reform momentum. EM also remains a source of diversification for global portfolios, offering higher income, varied return drivers and exposure to currencies and credit cycles not tightly linked to DM performance. As global monetary conditions ease, we expect the search for yield to persist, supporting selective inflows into countries and sectors benefiting from reforms, structural tailwinds and idiosyncratic catalysts.

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



Source: JP Morgan, Bloomberg LP as of December 31, 2025.

Market technicals within EM remain resilient; however, given 2025 outperformance relative to DM, there is less attractiveness to cross-over investors. The new issue market remains open across the full rating spectrum with the highest-quality issuers not being forced to pay concessions thus far. However, as large DM deals have offered premiums, there may be a need for new issue concessions in EM to resume in the coming months to entice buyers to reinvest within EM. EMD has been generally underowned by investors in recent years, as asset allocators have maintained an underweight due to the asset class's underlying complexities. Given this, along with favorable fundamentals, we continue to see incremental demand for select credits that offer value relative to similar sector DM companies.

EM fundamentals remain strong and, in many cases, superior to DM peers. Fiscal discipline, improved monetary frameworks and proactive engagement with multilateral institutions (e.g., IMF programs in Africa and the Middle East) underpin stability. Latin America benefits from nearshoring and supply chain integration, while Asia's macro frameworks and accommodative policies support steady growth. Political transitions and elections in countries like Argentina, Venezuela, Colombia, Brazil, Hungary and Peru will be critical in shaping fiscal and reform trajectories. Commodity exporters, especially in metals and energy, are well positioned amid ongoing global supply and demand shifts.

We maintain a constructive view on USD sovereign debt across the rating spectrum, balancing high yield opportunities with resilient IG names. Our focus remains on lower-rated BB credits offering yields near 7%, particularly those with limited energy exposure. Zambia, Egypt and Ivory Coast are core convictions, supported by improving debt sustainability and policy frameworks. We are overweight Latin America, where structural reforms and U.S. policy support create tailwinds, and remain attentive to election-driven volatility in Colombia, Brazil and Peru.

Figure 7 | EM Alpha Drivers: Key Catalysts

Expected Outcome	+	Zambia Election Mexico USMCA	Venezuela Regime Shift** Peru Election	Colombia Election** Argentina Reforms**
	↔		Lebanon Restructuring**	Ukraine Ceasefire** Hungary Election* Brazil Election*
	-		Senegal in Distress**	
		↓	↔	↑
Return Skew				

*Represents Medium Potential Market Impact events

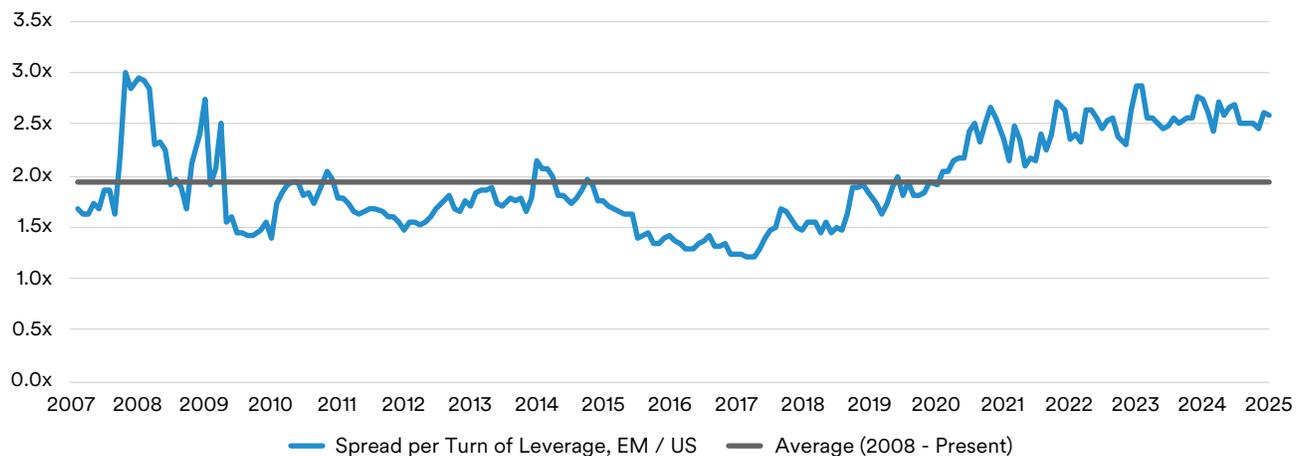
**Represents High Potential Market Impact events

No asterisk represents Low Potential Market Impact events

Source: MetLife Investment Management as of January 2026

Corporate fundamentals remain solid, with stable leverage and improving earnings trends. We favor metals exporters, domestically focused issuers, with proven ability to navigate volatility, and select opportunities in utilities and TMT. Our overweight in Latin American corporates is maintained, with a preference for less cyclical names and those benefiting from nearshoring and supply chain integration. Liability management activity and strong cash flows support technicals and offer opportunities for alpha generation.

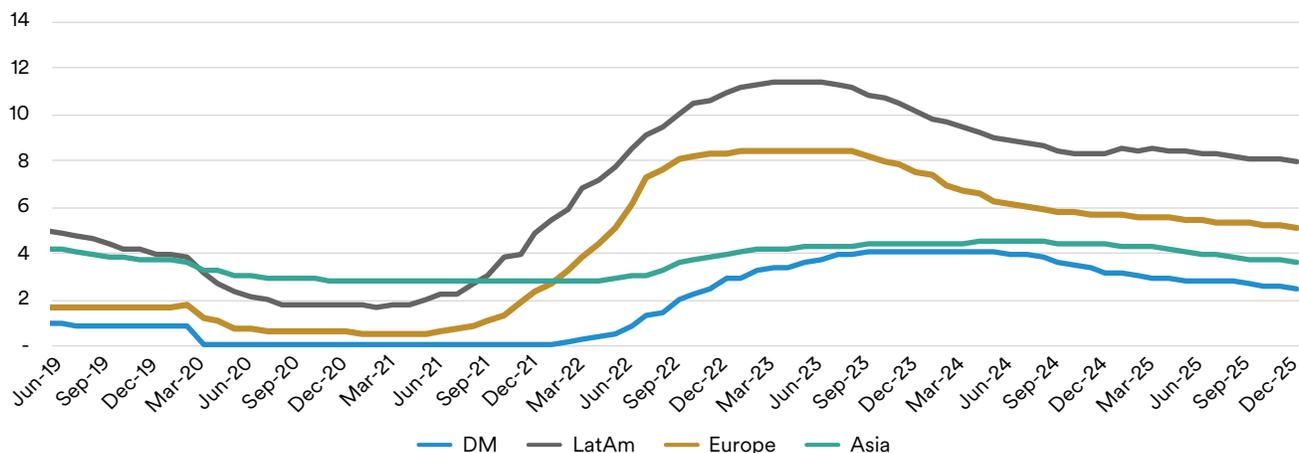
Figure 8 | Spread per Turn of Leverage EM/U.S. for Corporate Credit



Source: BofA Research. Fundamentals data as of December 31, 2024, spreads data as of December 31, 2025.

Local currency debt, in our view, remains attractive, particularly in markets with credible inflation-targeting regimes and high real yields. Latin America (notably Brazil and Mexico) offers compelling duration and carry opportunities. We believe, Colombia screens as attractive, though election volatility will keep premiums elevated. Frontier local markets (e.g., Egypt, Turkey, Zambia and Uzbekistan) continue to deliver alpha, though liquidity and position sizing require careful management. In Asia, selective opportunities exist, but we remain underweight and cautious given low relative carry. Malaysia from a currency perspective stands out, as it directly benefits from AI, more so than Indonesia or India.

Figure 9 | Average Policy Rates by Region (%)



Source: Bloomberg LP as of December 31, 2025. Countries in each region include: DM = Canada, Japan, UK, US, Eurozone. LatAm = Brazil, Chile, Colombia, Peru, Mexico. Europe = Czech Republic, Hungary, Poland, Romania. Asia = China, India, Indonesia, Malaysia, Thailand.



Endnotes

- ¹ Information in this paragraph sourced from JP Morgan
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