

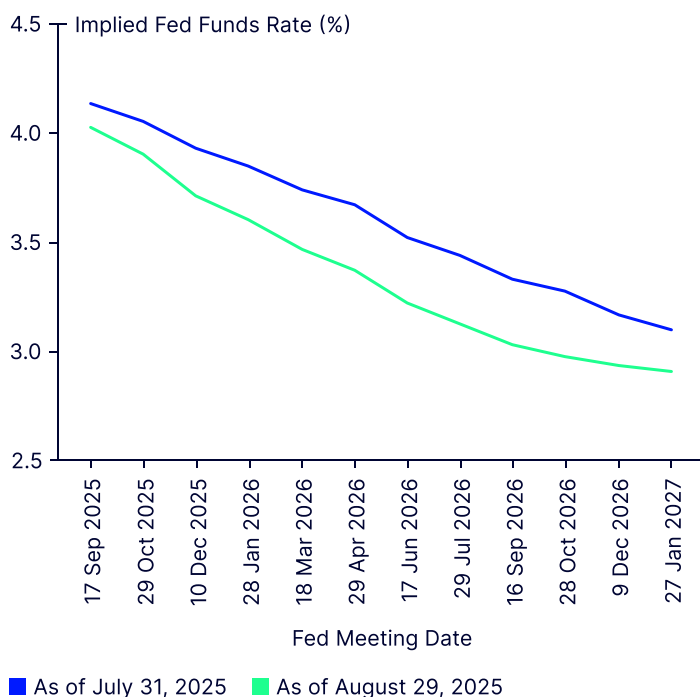
Market commentary: Emerging market debt

Insights
August 2025

Chart of the month: Fed rates set to decline

In August, market expectations of a 25 basis points rate cut by the US Federal Reserve in September triggered a bull steepening of the US Treasury yield curve as near-term rates declined. This placed downward pressure on the US dollar to the benefit of most EM currencies.

Figure 1: Markets pricing in lower Fed policy rates



Sources: State Street Investment Management, Bloomberg Finance L.P. as of 31 August, 2025.

EMD commentary: August 2025

Emerging market (EM) debt began August with the US reciprocal tariffs announced in July going into effect. Tariff developments contributed to country-specific volatility in yields, especially in EM Asia and Latin America (LatAm). In addition to an evolving trade policy narrative, the Trump administration announced additional 25% tariffs on India, citing India's oil imports from Russia. The initial set of

25% reciprocal tariffs became effective on 8 August and the new 25% tariff applied from 27 August. As India-US trade talks stalled, the Indian government began preparing measures to support the economy, with a focus on export-oriented sectors. The additional 40% tariff on Brazil was implemented from 6 August, which was on top of the 10% levy already imposed. Despite such tariff actions, economic growth in Q2 generally topped expectations, especially in EM Asia. A notable development was the US postponing earlier punitive tariffs imposed on China and extending the deadline to reach a trade agreement by another 90 days. Meanwhile, a meeting between Donald Trump and Vladimir Putin in Alaska in mid-August was cited as a vital step towards peace in Ukraine, though the timeline for a Russia-Ukraine ceasefire remained unclear. Elsewhere, heightened tensions were evident as Israel continued to advance plans to take complete control of Gaza.

EM inflation picked up in some major economies and despite the potential for additional increases in Consumer Price Index (CPI) levels from new tariffs, concerns about economic growth prospects took precedence. Against this backdrop, some EM central banks have been adopting a more accommodative stance. In LatAm, the Bank of Mexico reduced its key interest rate by 25 basis points (bps) to 7.75%. While in EM Asia, a similar-sized cut was delivered in Indonesia and Thailand, lowering their respective interest rates to 5% and 1.5%. In China, market expectations for further stimulus measures and the effect of an anti-involution campaign (to tackle price wars and unfair competition) provided stability to the Chinese yuan. The People's Bank of China (PBOC) kept its key lending rates at record lows for the third consecutive month, with the one-year prime loan rate and the five-year mortgage reference rate held at 3% and 3.5%, respectively. Overall, EM local currency bonds posted positive returns in August, largely supported by the currency component amid a weaker US dollar. EM hard currency bonds also achieved positive returns in the month, driven by the treasury component and some idiosyncratic developments in the high yield countries. Net flows in the month for hard currency and local currency bonds were +\$2.5bn and +\$1.5bn, respectively.¹

Figure 2: Emerging market debt index returns — as of 29 August 2025

| | 1m (%) | 3m (%) | 6m (%) | YTD (%) | 12m (%) | 3yrs (%) | 5yrs (%) |
|-------------------------------|-----------|-----------|-----------|------------|------------|-------------|-------------|
| In USD | | | | | | | |
| GBI-EM GD (EM Local Currency) | 2.15 | 4.21 | 10.80 | 13.82 | 9.47 | 8.91 | 1.63 |
| EMBI GD (EM Hard Currency) | 1.63 | 5.40 | 5.53 | 8.72 | 8.59 | 9.21 | 1.53 |
| CEMBI BD (EM Corporates) | 1.29 | 3.63 | 3.88 | 6.33 | 6.77 | 7.93 | 2.81 |
| In EUR | | | | | | | |
| GBI-EM GD (EM Local Currency) | -0.11 | 1.07 | -1.55 | 0.69 | 3.52 | 3.54 | 2.06 |
| EMBI GD (EM Hard Currency) | -0.62 | 2.23 | -6.24 | -3.81 | 2.68 | 3.82 | 1.97 |
| CEMBI BD (EM Corporates) | -0.96 | 0.51 | -7.70 | -5.93 | 0.97 | 2.60 | 3.26 |
| In GBP | | | | | | | |
| GBI-EM GD (EM Local Currency) | 0.06 | 4.02 | 3.27 | 5.51 | 6.48 | 3.62 | 1.44 |
| EMBI GD (EM Hard Currency) | -0.45 | 5.21 | -1.65 | 0.79 | 5.63 | 3.91 | 1.35 |
| CEMBI BD (EM Corporates) | -0.79 | 3.44 | -3.18 | -1.43 | 3.86 | 2.69 | 2.63 |

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 29 August, 2025. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. Performance returns for periods of less than one year are not annualized.

**Figure 3: Key EM and Macro levels
as of 29 August 2025**

| Item | Δ 1 Month | Δ 3 Months | Δ YTD | Current Level |
|--------------------|--------------|---------------|----------|------------------|
| GBI-EM GD Yield | -5 bps | -16 bps | -48 bps | 5.91% |
| EMBI GD Yield | -15 bps | -51 bps | -56 bps | 7.30% |
| EMBI GD Spread | -1 bps | -37 bps | -28 bps | 298 bps |
| CEMBI BD Yield | -17 bps | -47 bps | -45 bps | 6.47% |
| CEMBI BD Spread | 0 bps | -30 bps | -3 bps | 287 bps |
| CDX.EM 5y | -9 bps | -28 bps | -27 bps | 145 bps |
| 10y UST | -15 bps | -17 bps | -34 bps | 4.23% |
| Dollar Index (DXY) | -2.20% | -1.57% | -9.88% | — |
| DOW 30 | 3.20% | 7.75% | 7.05% | 45545 |
| Oil (WTI) | -7.58% | 5.30% | -10.75% | \$ 64.01 |

Source: JP Morgan, Bloomberg as of 29 August, 2025. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Local currency market highlights

EM local currency debt returned +2.15% (in USD terms) in August 2025, as measured by the JP Morgan GBI-EM Global Diversified Index. A major contribution to this performance came from positive foreign exchange (FX) returns (+1.32%). Market expectations for a rate cut in September by the Fed weighed on the US dollar, with 16 of the 20 currencies in the index gaining against the greenback — eight currencies strengthened by 2% or more. On a regional basis, LatAm was the best performer. The combined bond and interest rate returns were also positive (+0.83%). The GBI-EM GD Index yield decreased by 5bps in August.

Figure 4: Key return drivers of EM local government bond markets

| GBI-EM GD (EM local currency) | Monthly return (%) | 3 month return (%) | YTD return (%) |
|-------------------------------------|-----------------------|-----------------------|-------------------|
| In USD | | | |
| Total return (in \$) | 2.15 | 4.21 | 13.82 |
| FX return (vs \$) | 1.32 | 1.61 | 6.74 |
| Price return (local currency) | 0.39 | 1.19 | 3.25 |
| Interest return (local currency) | 0.45 | 1.41 | 3.83 |
| In EUR | | | |
| Total return (in €) | -0.11 | 1.07 | 0.69 |
| FX return (vs €) | -0.95 | -1.52 | -6.39 |
| In GBP | | | |
| Total return (in £) | 0.06 | 4.02 | 5.51 |
| FX return (vs £) | -0.78 | 1.42 | -1.57 |

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 29 August, 2025. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. Performance returns for periods of less than one year are not annualized.

Figure 5: Best and worst performers across EM local government bond markets in USD*

| August 2025 | Country | Total return USD (%) | Bond return (%) | FX return (%) | Index weight (%) | Index impact (bps)** |
|----------------------------|--------------------|----------------------|-----------------|---------------|------------------|----------------------|
| GBI-EM GD | | 2.15 | 0.83 | 1.32 | — | — |
| Top 5 performers | Colombia | 5.4 | 1.7 | 3.7 | 3.7 | 20 |
| | Brazil | 4.9 | 1.7 | 3.2 | 6.7 | 33 |
| | Hungary | 3.7 | 0.7 | 3.0 | 2.2 | 8 |
| | Czech Republic | 3.6 | 0.7 | 2.9 | 4.9 | 17 |
| | Mexico | 3.5 | 2.5 | 1.0 | 10.0 | 35 |
| Bottom 5 performers | Indonesia | 1.5 | 1.7 | -0.2 | 10.0 | 15 |
| | Malaysia | 1.5 | 0.5 | 1.0 | 9.9 | 15 |
| | China | 0.5 | -0.3 | 0.8 | 10.0 | 5 |
| | Dominican Republic | -1.5 | 1.8 | -3.3 | 0.3 | 0 |
| | India | -1.9 | -1.2 | -0.7 | 10.0 | -19 |

Source: State Street Investment Management, JP Morgan, Bloomberg as of 29 August, 2025. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. *Country and currency performance of JP Morgan GBI-EM Global Diversified Index. **Index impact is calculated by multiplying the period ending weight by total return.

Colombia was the best performer in the month, largely due to FX component returns. The Colombian peso appreciated against the US dollar by 4.0% and closed at 4,017.05. Colombia's finance ministry set a fiscal deficit target of 6.2% of GDP for 2026, down from the 2025 target of 7.1%. The yield on Colombia's 10-year local currency bond fell to 11.35% at the end of August from 11.92% a month earlier.

Brazil was another good performer in August. The annual inflation rate in Brazil dipped to a five-month low of 5.23% in July, down from 5.35% in June and below market expectations of 5.33%. Brazil's 2026 annual budget bill was submitted to Congress on August 29, with a primary surplus projected of around US\$6.36 billion. The Brazilian real gained against the US dollar by 3.05% in August and closed at 5.43.

Hungary also performed well. In its August fixing, the National Bank of Hungary kept its key interest rate unchanged at 6.50% for the eleventh consecutive meeting. The country's annual inflation rate decreased to 4.3% in July, although this was still above the central bank's tolerance band. The Hungarian forint appreciated against the US dollar by 3.1% in August and closed at 339.41.

India was the worst performer in August. Investor sentiment was hit by developments on the tariff front and the lack of progress in trade negotiations with the US. India's GDP grew at a year-on-year rate of 7.8% to June, beating market expectations of around 6.7%. The Indian rupee weakened against the US dollar by 0.7% in August and closed at 88.21.

Dominican Republic was another poor performer in August, majorly due to negative FX returns. Bond component returns were positive. Moody's Ratings upgraded Dominican Republic's local and foreign currency issuer ratings to Ba2 from Ba3, while changing the outlook to stable from positive. The Dominican peso depreciated against the US dollar by 3.4% in August and closed at 63.10.

Hard currency market highlights

EM hard currency sovereign debt returned +1.63% (in USD terms) in August 2025, as measured by the JP Morgan EMBI Global Diversified Index, the fourth consecutive month of positive returns, aided by a combination of robust macro fundamentals, increased inflows, and country-specific developments. The treasury component return (+1.21%) was the major

contributor to returns, with the JPM EMBI GD yield down 15bps in August. The spread component return was also positive (+0.42%). The compression in Investment Grade-High Yield spreads in August resulted in the HY sub-index outperforming IG counterparts by +0.59%.

Figure 6: Key return drivers of EM hard currency government bond markets in USD

| EMBI GD (EM Hard Currency) | Monthly return (%) | 3 month return (%) | YTD return (%) |
|----------------------------|--------------------|--------------------|----------------|
| Total Return | 1.63 | 5.40 | 8.72 |
| Spread Return | 0.42 | 3.33 | 3.82 |
| Treasury Return | 1.21 | 2.00 | 4.72 |
| IG Sub-Index | 1.34 | 4.16 | 7.14 |
| HY Sub-Index | 1.93 | 6.61 | 10.26 |

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 29 August, 2025. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. Performance returns for periods of less than one year are not annualized.

Figure 7: Best and worst performers across EM hard currency government bond markets*

| July 2025 | Country | Total return (%) | Spread return (%) | Trsry. return (%) | Avg. Index weight (%) | Index impact (bps)** |
|--------------------------------|-----------|------------------|-------------------|-------------------|-----------------------|----------------------|
| EMBI global diversified | | 1.63 | 0.42 | 1.21 | — | — |
| Top 5 performers | Venezuela | 8.0 | 7.4 | 0.6 | 0.7 | 6 |
| | Lebanon | 5.8 | 5.1 | 0.7 | 0.4 | 2 |
| | Ukraine | 5.0 | 3.6 | 1.4 | 1.3 | 6 |
| | Bolivia | 4.9 | 4.0 | 0.9 | 0.2 | 1 |
| | Colombia | 3.7 | 2.4 | 1.3 | 3.0 | 11 |
| Bottom 5 performers | Iraq | 0.4 | -0.3 | 0.7 | 0.1 | 0 |
| | Gabon | 0.3 | -0.9 | 1.3 | 0.2 | 0 |
| | Ethiopia | 0.0 | -0.6 | 0.6 | 0.1 | 0 |
| | Argentina | -2.6 | -3.9 | 1.3 | 2.4 | -6 |
| | Zambia | -3.5 | -3.9 | 0.4 | 0.3 | -1 |

Source: State Street Investment Management, JP Morgan, Bloomberg as of 29 August, 2025. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. *Country and currency performance of JPM EMBI Global Diversified Index **Index impact is calculated by multiplying the period ending weight by total return.

Colombia was one of the outperformers in August, contributing 11bps to the index return. Early in August, Colombia announced a cash tender offer to repurchase some of its outstanding USD-denominated long-dated bonds in an effort to revamp its financing strategy, reduce borrowing costs, and lower its debt-to-GDP ratio amid concerns around its increasing budget deficit.

Venezuela was another good performer in the month, contributing 6bps to the index return. The spread component return was the primary driver. The US Treasury Department issued a restricted license to Chevron that allows the US company to operate in Venezuela and export its oil after a three-month pause — a lift in oil exports helped improve investor sentiment towards the country’s dollar bonds.

Ukraine also performed well, contributing 6bps to the index return. Like other high-yielding exposures in the index universe, the country benefited from compression in IG/HY spreads. Ukraine’s USD-denominated bonds were bolstered by market optimism around the “shuttle diplomacy” talks between Washington, Moscow, Kyiv, and European capitals in August.

Argentina was among the underperformers in August, detracting 6bps from index returns. With mid-term elections upcoming in October, President Milei’s hopes that he will improve his support in Congress were damaged by a poll that suggested his approval rating had fallen below 40% for the first time since he took office amid allegations of corruption in this administration.

Zambia was another poor performer in August, detracting 1bp from index returns. Investor concerns about the country’s ability to manage its debt burden weighed on the country’s international bonds even as Zambia’s finance minister expressed hopes the country will receive an additional US\$145 million in funding by extending its International Monetary Fund program by another 12 months.

Endnote

1 Source: JP Morgan.

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