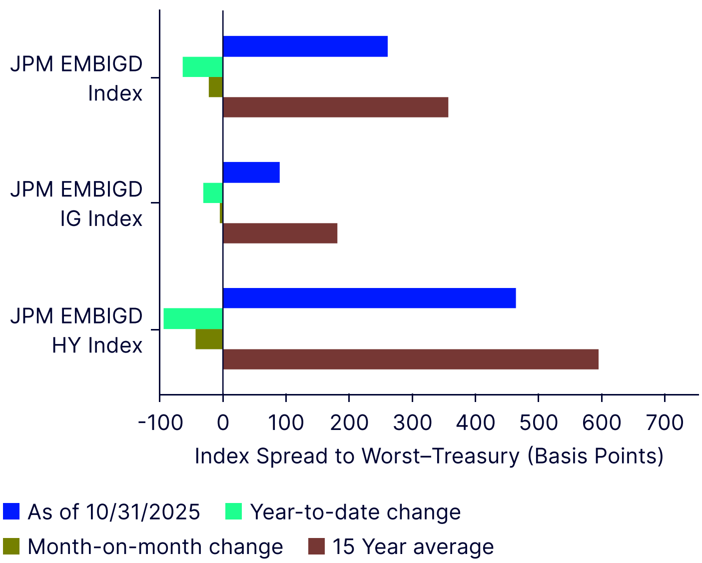
Market commentary: Emerging market debt

Insights
October 2025

Chart of the Month: Hard currency sovereign spreads tighten further

Emerging markets hard currency sovereign spreads tightened towards the end of October to reach multi-year lows. The rate cut by the US Federal Reserve, along with market expectations of more cuts and broad risk-on sentiment drove the spread compression. The JPM EMBI GD Index spread narrowed 21 basis points (bps) to 358 bps, with the high yield hard currency spread tightening by 43 bps.

Figure 1: HC spreads tighten again in October



Sources: JP Morgan, Bloomberg Finance L.P., as of 31 October 2025.
Past performance is not a reliable indicator of future performance.

EMD Commentary: October 2025

Emerging market (EM) debt started October well, benefiting from robust investor appetite, resilient growth data, and dovish global monetary conditions. Trade tensions remained a factor though, with India and Brazil still facing cumulative tariffs of up to 50%, encouraging both countries to accelerate export diversification strategies. Meanwhile, the US-China trade truce provided some relief to global supply chains and the consequent repricing in term premiums. China's exports to non-US markets surged, likely contributing to Q3 GDP growth, while other economies in EM Asia continued to display export resilience. President Trump's visit to the Association of Southeast Asian Nations (ASEAN) summit in October resulted in agreement on US trade deals with Malaysia, Thailand, Vietnam, and Cambodia. However, geopolitical risks stemming from the Middle East remained a latent source of volatility in yields, especially in the high yielding EM currencies. In October, Israel and Hamas agreed to a US-convened ceasefire, halting two years of war and initiating a phased peace plan with hostage and prisoner exchanges. Despite the truce, violence flared later in the month. Oil prices declined in October, as oversupply fears and sluggish demand weighed on sentiment. For EM economies, lower oil prices eased inflationary pressures and improved trade balances for importers like India and Thailand. Conversely, oil-exporting nations in the Gulf accelerated borrowing to offset revenue shortfalls, contributing to record EM debt issuance.

In October, the Fed delivered its second consecutive 25 bps rate cut, lowering the federal funds target range to 3.75%–4.00%. The Fed also announced the end of quantitative tightening from December 1, signaling a shift toward stabilizing liquidity conditions. The Fed's easing supported risk sentiment and drove spread compression in EM hard currency bonds to multi-year lows. With the Fed's pivot, markets factored in more flexibility for EM central banks to maintain accommodative stances, while investors rotated into higher-yielding EM assets. However, Fed Chair Jerome Powell's hawkish tone introduced caution, tempering expectations for an aggressive loosening of Fed monetary policy and leaving EM markets sensitive to US data surprises. Inflation in some of the major EM economies was largely back near targets, thereby improving local currency bond real yields. Some of the key EM central banks held on to their benchmark interest rates in their respective fixings in October, except for Poland and Philippines. In China, deflationary pressures showed signs of easing in October. In its October meeting, the People's Bank of China kept key lending rates unchanged at record lows while resuming

Figure 2: Emerging Market Debt Index Returns — As of 31 October, 2025

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	0.46	4.06	7.66	15.94	13.06	11.75	2.33
EMBI GD (EM Hard Currency)	2.13	5.64	10.78	13.02	12.76	13.02	2.71
CEMBI BD (EM Corporates)	0.56	2.83	5.85	7.95	8.01	10.66	3.17
In EUR							
GBI-EM GD (EM Local Currency)	2.27	3.19	6.03	4.02	6.35	6.12	2.52
EMBI GD (EM Hard Currency)	3.97	4.76	9.11	1.39	6.06	7.33	2.90
CEMBI BD (EM Corporates)	2.38	1.97	4.25	-3.15	1.60	5.08	3.36
In GBP							
GBI-EM GD (EM Local Currency)	2.94	4.81	9.45	10.52	10.64	6.94	2.00
EMBI GD (EM Hard Currency)	4.65	6.40	12.62	7.73	10.34	8.16	2.38
CEMBI BD (EM Corporates)	3.04	3.57	7.62	2.90	5.69	5.89	2.84

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 31 October 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.

sovereign bond purchases to help stabilize markets. Overall, EM local currency bonds posted positive returns, benefiting from benign inflation, market expectations of lower interest rates, and subdued oil prices. EM hard currency debt posted positive returns, benefiting from the compression in sovereign spreads and some idiosyncratic developments in the high yield countries. Net flows in the month for hard currency and local currency bonds were +$1.7bn and +$2.9bn, respectively.[1]

Figure 3: Key EM and Macro levels as of 31 October 2025

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-2 bps	-5 bps	-49 bps	5.91%
EMBI GD Yield	-26 bps	-63 bps	-104 bps	6.83%
EMBI GD Spread	-21 bps	-37 bps	-63 bps	262 bps
CEMBI BD Yield	-2 bps	-33 bps	-62 bps	6.31%
CEMBI BD Spread	-3 bps	-15 bps	-18 bps	271 bps
CDX.EM 5y	-12 bps	-18 bps	-36 bps	136 bps
10y UST	-7 bps	-30 bps	-49 bps	4.08%
Dollar Index (DXY)	2.08%	-0.16%	-8.00%	—
DOW 30	2.51%	7.78%	11.80%	47563
Oil (WTI)	-2.23%	-11.95%	-14.97%	$ 60.98

Source: JP Morgan, Bloomberg as of 31 October 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 +0.46% (in USD terms) in October 2025, as measured by the JP Morgan GBI-EM Global Diversified Index. A major contribution to this performance came from the bond component, which includes the combined bond and interest rate returns (+0.78%). EM local currency debt benefited in October with increased traction, improved risk sentiment and investor expectations for further rate cuts. The GBI-EM GD Index yield decreased by 2bps in October. The foreign exchange (FX) component return was negative (-0.32%), with an uptick in US dollar strength in October. Ten out of the nineteen currencies in the index lost ground against the dollar in October. On a regional basis, Asia outperformed in absolute terms, for the first time in 2025.

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 $)	**0.46**	**4.06**	**15.94**
FX return (vs $)	-0.32	1.63	7.23
Price return (local currency)	0.29	1.00	3.88
Interest return (local currency)	0.50	1.43	4.84
In EUR			
Total return (in €)	**2.27**	**3.19**	**4.02**
FX return (vs €)	1.49	0.76	-4.70
In GBP			
Total return (in £)	**2.94**	**4.81**	**10.52**
FX return (vs £)	2.15	2.38	1.80

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 31 October 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*

October 2025	Country	Total return USD (%)	Bond return (%)	FX return (%)	Index weight (%)	Index impact (bps)**
GBI-EM GD		**0.46**	**0.78**	**-0.32**	**—**	**—**
Top 5 performers	Peru	3.2	0.4	2.8	2.1	7
	Chile	2.9	0.8	2.1	1.7	5
	Indonesia	2.1	1.9	0.2	10.0	21
	South Africa	2.1	2.5	-0.5	7.5	15
	Colombia	1.5	0.1	1.4	3.8	6
Bottom 5 performers	Hungary	-0.7	0.7	-1.3	2.2	-1
	Poland	-0.7	1.0	-1.7	7.8	-6
	Serbia	-1.2	0.6	-1.8	0.3	0
	Czech Republic	-1.2	0.6	-1.8	4.7	-6
	Thailand	-1.4	-1.7	0.3	8.3	-12

Source: State Street Investment Management, JP Morgan, Bloomberg as of 31 October, 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.

Peru was the best performer in the month. The annual inflation rate in Peru closed at 1.35% in October, persisting near the lower end of the central bank's target range of 1% to 3%. In line with expectations, Peru's Central Reserve Bank kept its benchmark interest rate unchanged at 4.25% in October. The long-term yields on the country's government bonds eased in October, driven by expectations of continued disinflation and moderate growth. The Peruvian sol appreciated against the US dollar by 3% in October and closed at 3.37.

Chile was another good performer in October, supported by inflows and copper price recovery. Chile's annual inflation decreased to 3.4% in October, the lowest since May 2021. The Central Bank of Chile held its benchmark rate at 4.75% in its October meeting, while signaling caution and inflation risks. This stability, combined with a slight decline in long-term yields, boosted bond prices. The Chilean peso appreciated against the US Dollar by 2.1% in October and closed at 942.38.

Indonesia also performed well in October. Indonesia's annual inflation rate increased to 2.86% in October from 2.65% in September, recording the highest reading since April 2024. Contrary to expectations of a rate cut, Bank Indonesia (BI) unexpectedly kept its benchmark interest rate unchanged at 4.75% in the month. Demand for local bonds picked up with increased purchases by Indonesian banks and pension funds, while foreign inflows also picked up. The Indonesia rupiah appreciated against the US dollar by 0.2% and closed at 16,630.

Thailand was the worst performer in October, driven by the erratic political backdrop. In its October meeting, the Bank of Thailand's monetary policy committee unexpectedly voted to keep the policy rate unchanged at 1.5%. The annual inflation rate decreased to 0.76% in October from 0.72% in September. The yield on Thailand's 10-year government bond increased from 1.39% to end October at 1.70%. The FX returns were however flat. The Thai baht appreciated against the US dollar by 0.2% in October and closed at 32.34.

Czech Republic was another poor performer in October, with much of this attributable to negative FX returns. The Czech koruna depreciated against the US dollar by 1.9% in October and closed at 21.12. The yield on Czech Republic's 10-year government bond ended October at 4.47%,down from 4.53% a month earlier. Bond component returns were positive. The annual inflation rate in the Czech Republic increased to 2.5% in October from 2.3% in September.

Hard currency market highlights

EM hard currency sovereign debt returned +2.13% (in USD terms) in October 2025, as measured by the JP Morgan EMBI Global Diversified Index, the sixth consecutive month of positive returns. This outcome was aided by a combination of robust macro fundamentals, risk-on sentiment, and tailwinds from the Fed's latest rate cut. The spread component return (+1.50%) was the major contributor to returns, with the JPM EMBI GD spread tightening by 21bps in the month. Hard currency sovereign spreads remained around multi-year lows in October. The consequent compression in Investment Grage-High Yield (IG/HY) spread resulted in the high yield sub-index outperforming its investment grade counterpart. The treasury component return was also positive (+0.62%), driven by idiosyncratic developments and rallies in the high yielding segment. The overall EMBI GD yield decreased by 26bps in October.

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	**2.13**	**5.64**	**13.02**
Spread Return	1.50	2.86	6.35
Treasury Return	0.62	2.70	6.27
IG Sub-Index	1.15	4.41	10.39
HY Sub-Index	3.12	6.90	15.64

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 31 October, 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*

August 2025	Country	Total return (%)	Spread return (%)	Trsry. return (%)	Avg. Index weight (%)	Index impact (bps)**
EMBI global diversified		**2.13**	**1.50**	**0.62**	—	—
Top 5 performers	Argentina	29.3	28.9	0.3	2.6%	76
	Venezuela	26.8	26.5	0.2	0.9%	25
	Ethiopia	9.7	9.4	0.2	0.1%	1
	Bolivia	4.7	4.3	0.3	0.2%	1
	Egypt	3.7	3.1	0.6	2.8%	10
Bottom 5 performers	Cameroon	-0.4	-0.8	0.4	0.1%	0
	Honduras	-1.0	-1.4	0.5	0.3%	0
	Trinidad And Tobago	-1.0	-1.4	0.5	0.5%	0
	Mozambique	-1.9	-2.3	0.4	0.1%	0
	Gabon	-2.3	-2.7	0.4	0.2%	0

Source: State Street Investment Management, JP Morgan, Bloomberg as of 31 October, 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.

Argentina was the best performer in October, contributing 76bps to the index return. Argentinian bonds had struggled in September amid speculation that President Milei was losing popular support ahead of congressional midterm elections. However, his La Libertad Avanza Party ultimately won just over 40% of the votes, taking 13 of the 24 upper house seats and 64 of the 127 lower house seats under contention. The results sparked a strong recovery in Argentinian bonds as the month progressed.

Venezuela was another good performer in the month, contributing 25bps to the index return. The rally in Venezuelan dollar bonds was fueled by renewed investor hopes of a political transition towards a more market friendly direction, against the backdrop of continued pressure from the US on President Nicolas Maduro. The yield on Venezuela's 10-year USD-denominated bond decreased to 33.31% at the end of October from 37.08% a month earlier.

Egypt also performed well, contributing 10bps to the index return. The International Monetary Fund (IMF) expressed its readiness to release the fifth and sixth instalments of Egypt's USD 8 billion loan before the end of 2025. In October, S&P Global Ratings upgraded Egypt's long-term credit rating to 'B' from 'B-', citing progress in economic reforms, particularly the liberalization of the foreign exchange market.

Gabon was among the underperformers in October, with a flat contribution of 0bp to index returns. Fitch Ratings affirmed in October that the very large fiscal deficit presented in Gabon's budget for 2026 will make it difficult for the country to secure funding support from the International Monetary Fund (IMF). Gabon continued to face liquidity challenges in its foreign and local currency debt markets. The country was also impacted negatively by the decrease in oil prices.

Mozambique was another poor performer in October, with no contribution to index returns. Mozambique has been struggling following three consecutive quarters of economic contraction. The country's dollar bonds were hit by the government's announcement to hire Alvarez & Marsel to advise on reworking the country's liabilities and medium-term debt strategy. Mozambique's long-term foreign currency debt rating was affirmed at CCC+ with a negative outlook by S&P Global.

Endnote

1 Source: JP Morgan.

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