Market commentary: Emerging market debt

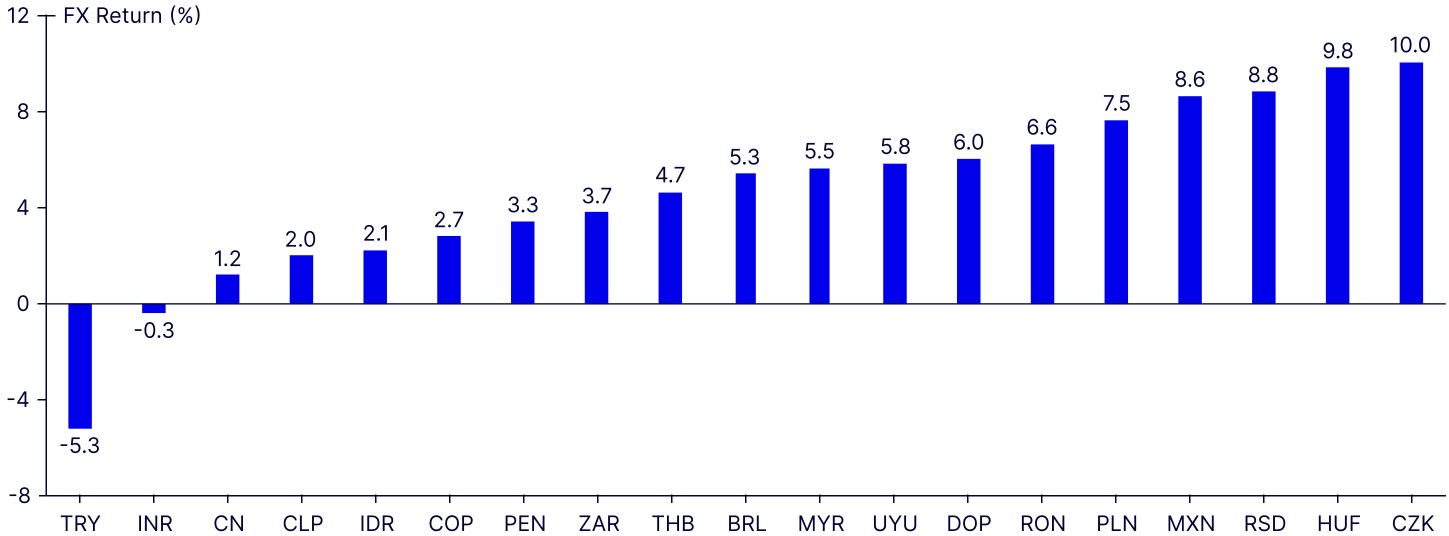
Chart of the quarter: EM returns bolstered by fragile US dollar

The weakness of the US dollar through much of Q2 was key to EM local currency outcomes, with trade tariff dynamics and US growth concerns helping to bolster positive returns. Seventeen of the 19 currencies in the JP Morgan GBI-EM Global Diversified Index gained against the greenback in Q2 (See Figure 1).

EMD commentary: Q2 2025

The second quarter of 2025 was heavily marked by US trade tariff developments, shifting economic data, and escalating geopolitical tensions. For investors in emerging market (EM) debt, focus was primarily on idiosyncratic considerations related to the reciprocal tariffs levied by the Trump administration at the start of April, which were then suspended in most instances to allow for trade negotiations. A 10% baseline tariff was applied to all nations, and this was supplemented by additional levies for countries that run a trade surplus with the US. The uncertainty that this created for global trade and concerns around prospects for the US economy prompted investors to question the safe-haven status of US Treasuries. This triggered a sell-off in long-dated US government bonds, with the consequent rise in risk aversion resulting in wider EM sovereign spreads, although these later compressed after the US announced a delay in the implementation of reciprocal tariffs. However, the US kept tariffs on Chinese products in place, prompting retaliatory tariff action by China. Subsequent tit-for-tat tariffs further strained US-China and global trade relations. Following high-level discussions in Switzerland in May, the US and China agreed a 90-day pause in the tariff war. Elsewhere, geopolitical risks escalated, with strikes by the Indian army in Pakistan in response to the terror attack in Kashmir in April. Israel's surprise attack on Iranian military and nuclear structures in June spurred a retaliatory response and the US got involved by bombing key nuclear facilities in Iran. Tensions

Figure 1: EM FX returns in Q2 2025



Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June, 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.

remained heightened although a ceasefire agreement was achieved after 12 days of conflict.

In Europe, there was a focus on elections. In Romania, there was a clear victory for centrist presidential candidate Nicusor Dan. In Poland, the first round election in May failed to produce a new president, with the run-off election in June then being won by the right-wing candidate Karol Nawrocki. The EM risk backdrop was also impacted by oil price fluctuations through Q2 as markets factored in a complex range of economic and geopolitical issues. The Organization of the Petroleum Exporting Countries (OPEC) announced an increase in oil production of 411,000 barrels per day from July. However, concerns about the potential for disruption to supply due to the conflict in the Middle East along with progress in trade talks helped push oil prices recover later in the quarter. On the monetary policy front, some major EM central banks maintained a neutral stance and offered cautious forward guidance on upside risks to inflation. In Latin America (LatAm), the Central Bank of Brazil increased its Selic rate by 75 basis points (bps) to 15% in Q2. Rate cuts were delivered in other LatAm countries, including Colombia, Peru, and Mexico. In EM Asia, rate cuts were announced in India, China, Indonesia, and Philippines. Overall, both EM local and hard currency bonds posted positive returns in Q2. EM local currency bonds continued to benefit from US dollar weakness and high real yields, while EM hard currency debt benefited from compression in sovereign spreads as the quarter progressed.

Net flows in the quarter for hard currency and local currency bonds were -$5.1bn and +$1.3bn, respectively.[1]

Figure 2: Emerging market debt index returns — as of 30 June, 2025

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	2.79	7.62	12.26	12.26	13.81	8.47	1.88
EMBI GD (EM Hard Currency)	2.41	3.33	5.64	5.64	9.97	8.86	1.79
CEMBI BD (EM Corporates)	1.39	1.57	4.03	4.03	7.82	7.58	3.02
In EUR							
GBI-EM GD (EM Local Currency)	-0.59	-0.96	-0.97	-0.97	3.91	4.36	0.99
EMBI GD (EM Hard Currency)	-0.96	-4.92	-6.81	-6.81	0.40	4.73	0.90
CEMBI BD (EM Corporates)	-1.94	-6.53	-8.23	-8.23	-1.56	3.51	2.11
In GBP							
GBI-EM GD (EM Local Currency)	1.15	1.37	2.60	2.60	4.99	4.19	-0.20
EMBI GD (EM Hard Currency)	0.78	-2.68	-3.45	-3.45	1.44	4.56	-0.30
CEMBI BD (EM Corporates)	-0.22	-4.33	-4.92	-4.92	-0.54	3.34	0.91

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June, 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: ESG emerging market debt index returns — as of 30 June, 2025

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
JESG GBI-EM (ESG EM local currency)	3.05	8.13	13.23	13.23	14.42	9.31	2.14
JESG EMBI (ESG EM hard currency)	2.26	3.20	5.37	5.37	9.38	8.09	0.96

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June, 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 4: Key EM and Macro levels as of 30 June 2025

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-6 bps	-29 bps	-38 bps	6.01%
EMBI GD Yield	-27 bps	-23 bps	-33 bps	7.54%
EMBI GD Spread	-12 bps	-27 bps	-3 bps	322 bps
CEMBI BD Yield	-23 bps	-5 bps	-21 bps	6.72%
CEMBI BD Spread	-6 bps	5 bps	21 bps	311 bps
CDX.EM 5y	-16 bps	-28 bps	-15 bps	157 bps
10y UST	-17 bps	2 bps	-34 bps	4.23%
Dollar Index (DXY)	-2.47%	-7.04%	-10.70%	—
DOW 30	4.32%	4.98%	3.64%	44095
Oil (WTI)	7.11%	-8.91%	-9.22%	$ 65.11

Source: JP Morgan, Bloomberg as of 30 June, 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 +7.62% (in USD terms) in Q2 2025, as measured by the JP Morgan GBI-EM Global Diversified Index. A major contribution to this performance outcome came from sizeable foreign exchange (FX) returns (+4.41%). Persistent weakness in the US dollar during the quarter resulted in 17 of the 19 currencies in the index gaining against the greenback, with Turkey and India the two exceptions. From a total return perspective, all countries in the index posted positive returns. At the regional level, Latin America (LatAm) was the best performer, followed by Europe and Asia. The combined bond and interest rate returns were also positive (3.21%). The GBI-EM GD Index yield decreased by 29 bps in Q2.

Hungary was the best performer in Q2, with FX accounting for the bulk of the total return. The Hungarian forint appreciated against the US dollar by 9% in Q2 and closed at 338.85. The annual inflation rate eased to 4.6% in June from 4.7% in March, maintaining the downward trend since hitting a 12-month high of 5.6% in February. The National Bank of Hungary kept its benchmark interest rate unchanged at 6.5% in the quarter.

Brazil was another good performer in Q2. The annual inflation rate in Brazil dipped to 5.32% in May, from 5.48% in March, but this is still above the Central Bank of Brazil's upper target level of 4.5%. Economic activity

Figure 5: 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 $)	**2.79**	**7.62**	**12.26**
FX return (vs $)	1.83	4.41	6.87
Price return (local currency)	0.51	1.81	2.56
Interest return (local currency)	0.44	1.40	2.84
In EUR			
Total return (in €)	**-0.59**	**-0.96**	**-0.97**
FX return (vs €)	-1.55	-4.18	-6.37
In GBP			
Total return (in £)	**1.15**	**1.37**	**2.60**
FX return (vs £)	0.20	-1.84	-2.80

Source: JP Morgan, Bloomberg as of 30 June, 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.

Figure 6: Best and worst performers across EM local government bond markets in USD*

Q2 2025	Country	Total return USD (%)	Bond return (%)	FX return (%)	Index weight (%)	Index impact (bps)**
GBI-EM GD		**7.62**	**3.21**	**4.41**	**—**	**—**
Top 5 performers	Hungary	12.5	2.7	9.8	2.3	28
	Brazil	11.8	6.5	5.3	6.5	76
	Mexico	11.7	3.2	8.6	10.0	117
	Czech Republic	11.0	1.0	10.0	5.0	55
	Uruguay	10.9	5.1	5.8	0.2	2
Bottom 5 performers	Colombia	6.1	3.3	2.7	3.6	22
	Indonesia	5.4	3.4	2.1	10.0	54
	Chile	4.3	2.3	2.0	1.7	7
	China	2.7	1.5	1.2	10.0	27
	India	2.0	2.4	-0.3	10.0	20

Source: State Street Investment Management, JP Morgan, Bloomberg as of 30 June, 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.

and the labor market remained resilient. Against this backdrop, the central bank hiked its Selic rate by a total of 75 bps in Q2 to 15%. The Brazilian real appreciated against the US dollar by 4.8% in Q2 and closed at 5.43.

Mexico was another good performer in the quarter, with gains largely driven by the FX component return. The Mexican peso strengthened against the US dollar by 8.4% in Q2 and closed at 18.75. The Bank of Mexico cut its key rate by a total of 100 bps to 8.00%, although it confirmed its cautious stance amid elevated global uncertainties that pose potential upside risks to inflation and could trigger economic slowdown.

India was among the relatively poorer performers in Q2, though returns were positive. India's consumer price inflation decreased to 2.82% in May, from 3.34% in March, taking it close to the central bank's lower tolerance threshold of 2%. The Reserve Bank of India lowered its key repo rate by a total of 75 bps and shifted its policy stance from accommodative to neutral. The Indian rupee depreciated against the US dollar by 0.34% in Q2 and closed at 85.75.

China also delivered a comparatively modest positive return in the quarter. During Q2, the People's Bank of China (PBoC) reduced its key rates to record lows: the one-year loan prime rate and the five-year mortgage reference rate were cut to 3.0% and 3.5%, respectively. The move was intended to help shield the economy from the impact of US trade tariffs and was followed by deposit rate cuts by major state-owned banks. The Chinese yuan appreciated against the US dollar by 1.3% in Q2 and closed at 7.16.

Chile was another positive performer in Q2. The Central Bank of Chile kept its policy rate unchanged at 5% throughout the quarter while noting that despite an easing risk backdrop, global uncertainty could still disrupt inflation convergence. The annual inflation rate in Chile fell to 4.4% in May from 4.9% in March, staying above the central bank's 2-4% target. The Chilean peso gained against the US dollar by 2.1% in Q2 and closed at 931.62.

Performance comparison of JPM local currency benchmark vs ESG local currency benchmark

The JP Morgan ESG GBI-EM Index returned +8.13% (in USD terms) in Q2 2025, thereby outperforming the standard benchmark JP Morgan GBI-EM Global Diversified Index, which returned +7.62%.

This outperformance was driven by relative index overweights, especially in Poland (+2.4%), Czech Republic (+1.8%), Romania (+1.2%), and Hungary (+0.8%), which contributed a total of +0.64% to excess returns. These contributions were partially offset by relative underweights in India (-3.2%), China (-3.2%,) and Turkey (-0.4%), detracting a total of -0.19% from excess returns as Indian, Chinese, and Turkish local bonds delivered positive returns for the quarter.

Figure 7: Key return drivers of ESG EM local government bond markets

JESG GBI-EM (ESG EM local currency)	Monthly return (%)	3 month return (%)	YTD return (%)
In USD			
Total return (in $)	**3.05**	**8.13**	**13.23**
FX return (vs $)	2.09	4.95	7.82
Price return (local currency)	0.53	1.81	2.64
Interest return (local currency)	0.43	1.37	2.77

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June, 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 tha n one year are not annualized.

Figure 8: Relative Over/Underweights (JESG GBI-EM vs GBI-EM GD)

June 2025	Country	JESG GBI-EM (%)	GBI-EM GD (%)	Relative Weight (%)
In USD				
Top 5 overweights	Poland	10.0	7.6	2.4
	Czech Republic	6.8	5.0	1.8
	Romania	4.4	3.3	1.2
	Hungary	3.1	2.3	0.8
	Thailand	8.8	8.7	0.2
Top 5 underweights	Malaysia	10.0	10.0	0.0
	Mexico	10.0	10.0	0.0
	Turkey	0.9	1.4	-0.4
	India	6.8	10.0	-3.2
	China	6.8	10.0	-3.2

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June, 2025. Past performance is not a reliable indicator of future performance. Country exposures are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

Hard currency market highlights

EM hard currency sovereign debt returned +3.33% (in USD terms) in Q2 2025, as measured by the JP Morgan EMBI Global Diversified Index. The spread component return (+2.50%) was the major contributor to the total return outcome, with the JPM EMBI GD spread tightening by 27 bps in Q2. Early in the quarter, the upward adjustment of inflation expectations and downward forecast of US growth weighed on spreads. EM sovereign spreads compressed from wider levels as the quarter progressed, aided by macro fundamentals, increased inflows, modest new issuances, and tail risk reduction in certain instances via support from the International Monetary Fund (IMF). The compression in Investment Grade-High Yield (IG/HY) spreads in Q2 resulted in the HY sub-index outperforming IG counterparts by +2.46%. The contribution from the treasury component was also positive (+0.80%), with the JPM EMBI GD yield decreasing by 23bps in Q2.

Ecuador was one of the outperformers in Q2, with the spread component largely accounting for the performance and the 65bps contribution to the index return. Ecuador's dollar bonds rallied early in the quarter as sentiment improved following the victory of incumbent Daniel Noboa in the country's presidential election. President Noboa, who is an ally of US President Donald Trump, will have a four-year term to implement campaign promises to boost the economy. The country's dollar bonds also rallied in June after an announcement of plans to tap capital markets next year.

Ghana was another good performer in Q2, contributing 9 bps to index returns. Ghana is three years ahead of the timeline to meet its debt reduction goals, an outcome backed by strong growth and tight fiscal discipline. S&P Global Ratings upgraded Ghana's foreign currency sovereign credit rating to 'CCC+/C' from 'SD/SD', citing successful debt restructuring, reforms to reduce fiscal vulnerabilities, and improved positioning against high debt service costs.

Lebanon also performed well in the quarter, contributing 8bps to index returns. Investor sentiment towards Lebanon improved on renewed investor hopes of economic recovery following the election held earlier in the year. The IMF held productive discussions with the Lebanese authorities on a comprehensive economic reform program aimed at restoring macroeconomic sustainability and potential financing for reconstruction.

Figure 9: Key return drivers of EM hard currency government bond markets in USD

EMBI GD (EM hard currency)	Monthly return (%)	3 month return (%)	YTD return (%)
In USD			
Total return (in $)	**2.41**	**3.33**	**5.64**
Spread return	1.05	2.50	1.53
Treasury return	1.35	0.80	4.05
IG Sub-Index	1.99	2.08	4.92
HY Sub-Index	2.82	4.54	6.34

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June, 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 10: Best and worst performers across EM hard currency government bond markets*

Q2 2025	Country	Total return USD (%)	Spread return (%)	FX return (%)	Index weight (%)	Index impact (bps)**
GBI-EMBI global diversified		**3.33**	**2.50**	**0.80**	—	—
Top 5 performers	Ecuador	48.1	46.4	1.2	1.4	65
	Lebanon	21.9	20.6	1.1	0.4	8
	Maldives	13.6	12.5	1.0	0.1	1
	Ghana	9.9	8.4	1.4	0.9	9
	Zambia	9.7	11.0	-1.2	0.3	3
Bottom 5 performers	Kazakhstan	0.3	-0.4	0.7	1.0	0
	Kyrgyzstan	0.0	0.0	0.0	0.1	0
	Ukraine	-3.7	-4.9	1.2	1.2	-5
	Venezuela	-6.7	-7.7	1.1	0.6	-4
	Senegal	-8.5	-9.9	1.6	0.3	-2

Source: State Street Investment Management, JP Morgan, Bloomberg as of 30 June, 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.

Ukraine was among the underperformers in Q2, detracting 5 bps from index returns. The country's hard currency bonds continued to underperform as investor hopes of a ceasefire with Russia have not materialized. The IMF completed its eighth review under the Extended Fund Facility in June, which should result in disbursement of around USD 500 million. The yield on Ukraine's 10-year USD-denominated bond increased to 15.91% from 15.09% at the end of Q1.

Venezuela was another poor performer, detracting 4 bps from index returns in the quarter, with the negative spread component largely accounting for the outcome. The country's bond market performance was impacted by the volatility in oil prices in Q2, with investor sentiment towards the country also dented by continued pressure and financial sanctions from the US.

Senegal was another underperformer in Q2, detracting 2bps from index returns. The IMF froze Senegal's support program in October following the misreporting of economic data. It transpired that the government debt-to-GDP ratio was 100% at end-2023 compared to a previously reported figure of 74%. Market sentiment was hit by speculation that the ratio may have increased to almost 120% last year, and the IMF has sought more clarity before further support can be discussed.

Performance comparison of JPM hard currency benchmark vs ESG hard currency benchmark

The JP Morgan ESG EMBI hard currency index returned +3.20% (in USD terms) for Q2 2025, underperforming the standard benchmark JP Morgan EMBI Global Diversified Index by -0.13%. A major contribution to underperformance came from the compression in sovereign spreads in Q2 that benefited the standard benchmark more than the ESG benchmark — this was due to a higher allocation to the high yield segment (51% vs the ESG benchmark's 47%). Broadly, the standard benchmark benefited slightly more compared to the ESG benchmark from idiosyncratic developments within the benchmark universe and increased inflows stemming from reinvigorated interest in the asset class. The HY sub-index of the standard benchmark outperformed the HY sub-index of the ESG benchmark by around +0.12% and the IG sub-index of the ESG benchmark outperformed the IG sub-index of the standard benchmark by around +0.07% in Q2.

Figure 11: Key return drivers of ESG EM hard currency government bond markets in USD

JESG EMBI (ESG EM hard currency)	Monthly return (%)	3 month return (%)	YTD return (%)
In USD			
Total Return (in $)	**2.26**	**3.20**	**5.37**
Spread return	0.83	2.48	1.27
Treasury return	1.41	0.71	4.05
IG Sub-Index	2.06	2.15	5.04
HY Sub-Index	2.49	4.42	5.74

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June, 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 12: Relative Over/Underweights (JESG EMBIG vs EMBI GD)

June 2025	Country	JESG EMBI (%)	EMBI GD (%)	Relative Weight (%)
Top 5 overweights	Romania	4.1	2.6	1.5
	Poland	4.4	3.0	1.4
	Hungary	4.1	2.8	1.4
	Uruguay	3.6	2.3	1.3
	Oman	3.6	3.0	0.7
Top 5 underweights	Pakistan	0.1	0.8	-0.7
	Turkey	3.4	4.2	-0.9
	Mexico	3.3	4.9	-1.6
	Malaysia	0.7	2.6	-1.9
	China	1.1	3.5	-2.5

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June, 2025. Past performance is not a reliable indicator of future performance. Country exposures are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

Endnote

1 Source: JP Morgan.

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