Emerging Market Debt Market Commentary

Insights
August 2026

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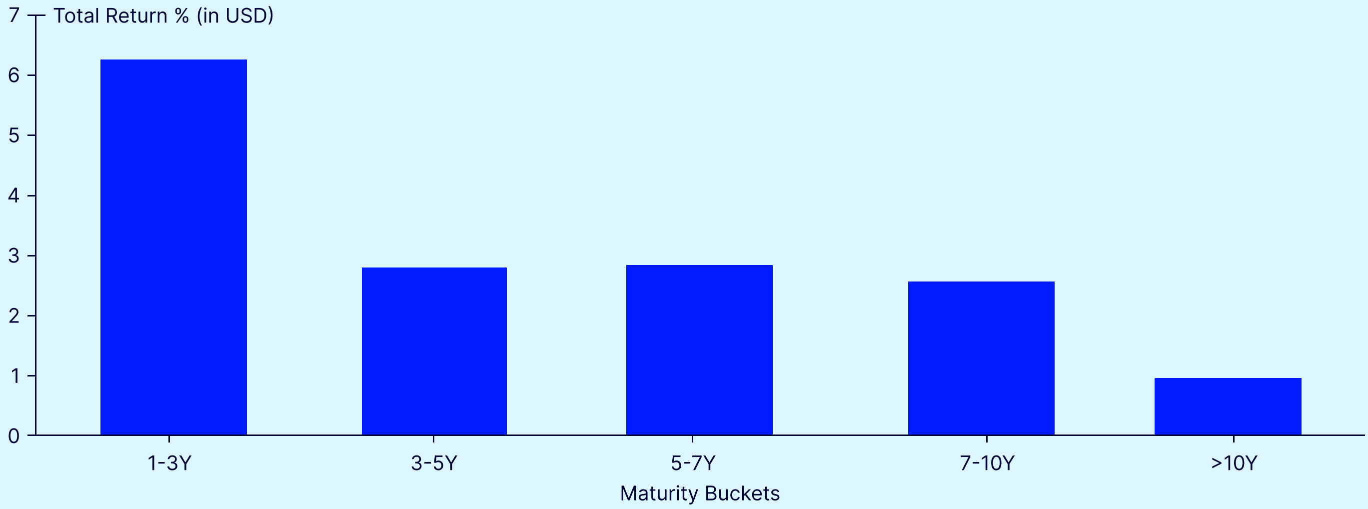
Chart of the month: Shorter-duration HC bonds have outperformed in 2026

Shorter-maturity emerging markets (EM) hard currency (HC) bonds have outperformed longer-dated bonds in the first eight months of 2026. Higher US Treasury yields, driven by rising term premia amid fiscal concerns, and a more price-sensitive investor base, weighed disproportionately on longer-duration bonds in the latest month. Remarks perceived as hawkish by Federal Reserve (Fed) Chair Kevin Warsh also appeared to contribute to a rise in US Treasury yields.

Figure 1: Hard currency returns by maturity bucket (Jan–Aug 2026)



Sources: Bloomberg, JP Morgan, as of 31 August 2026. Maturity buckets shown are from the JP Morgan EMBI Global Diversified Index.
The performance data quoted represents past performance. Past performance does not guarantee future results.

EMD sovereigns resilient as rates reprice

Investors in emerging market debt navigated a choppy August: a renewed surge in long-end US Treasury yields tested duration. The outlook for core rates remained the dominant driver of returns. Higher term premia, fiscal concerns, and increased AI-related supply weighed more on longer duration bonds although hard currency spreads stayed firm.

This dynamic spilled into EM local markets, though rate differentials versus the US tightened across most countries. US Treasury Secretary Bessent's announcement that buybacks of long-dated bonds would double to at least USD 4 billion per operation from 9 September initially drove a decline in yields that soon reversed in the absence of any fiscal consolidation signal. US dollar softness supported EM currencies even as the oil price stayed volatile and FX volatility hovered near cyclical lows.

On the geopolitical front, the US signaled new sanctions on countries trading with Iran. Meanwhile, a tentative Iran–Oman deal to share revenues from Strait of Hormuz tolls raised hopes that the waterway could reopen and helped keep oil prices in check. Elsewhere, renewed US–Canada trade tensions erupted as talks broke down and new tariffs were announced. Thus far, Mexico has been spared from new levies amid continued cooperation on security and immigration.

At the Fed’s annual Jackson Hole symposium, Chair Kevin Warsh discussed longer-term themes, including artificial intelligence, and affirmed a shift away from forward guidance on future Fed moves. He maintained the Fed’s commitment to returning above-target inflation to 2%. EM central banks increasingly followed their own paths, and the transmission from any potential Fed move appeared modest given still-tight real policy rates across the board. In Asia, the policy bias remained hawkish even as most central banks held rates steady. Policy rates in the Philippines were raised 25 bps to 5.00% on inflation concerns, while rates were unchanged in Thailand (1.00%), Indonesia (5.75%), and India (5.25%). China held its policy rates for a fifteenth straight month, keeping the one-year at 3.00% and the five-year mortgage reference rate at 3.50%. Elsewhere, the National Bank of Hungary cut by 25 bps to 5.50%, citing below-target inflation. In Latin America (LatAm), Mexico’s Banxico left its benchmark interest rate unchanged at 6.50%, while Brazil's central bank cut its Selic rate by 25 bps to 14.00%—reflected the different monetary policy dynamics across the continent.

Hard currency sovereign issuance continued at a record pace, with war-related Gulf financing needs sending full-year issuance forecasts higher. Even so, EM debt proved resilient across segments, with returns shaped by the interplay of rates, spreads and currencies. EM hard currency debt recovered much of July's rates-driven decline as the treasury sell-off stabilized and sovereign spreads resumed tightening, while local currency debt benefited from US dollar weakness. Investor flows were positive, with net inflows of USD 1.6 billion into hard currency bonds and USD 1.2 billion into local currency bonds in August (Source: JP Morgan).

Figure 2: Emerging market debt index returns

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	0.90	1.40	-0.73	2.74	7.65	7.70	2.30
EMBI GD (EM Hard Currency)	0.89	0.17	0.66	2.75	8.02	9.98	2.19
CEMBI BD (EM Corporates)	0.62	0.55	0.68	2.35	4.65	7.83	2.50
In EUR							
GBI-EM GD (EM Local Currency)	-0.06	1.87	0.90	3.87	8.47	5.29	2.63
EMBI GD (EM Hard Currency)	-0.07	0.63	2.32	3.89	8.85	7.52	2.52
CEMBI BD (EM Corporates)	-0.34	1.01	2.34	3.48	5.45	5.42	2.83
In GBP							
GBI-EM GD (EM Local Currency)	0.15	0.81	-1.56	1.92	7.27	5.30	2.61
EMBI GD (EM Hard Currency)	0.14	-0.41	-0.18	1.94	7.64	7.53	2.49
CEMBI BD (EM Corporates)	-0.13	-0.03	-0.16	1.53	4.28	5.43	2.81

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 31 August, 2026. The performance data quoted represents past performance. Past performance does not guarantee future results. 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 moves in august

Item	1 Month	3 Months	YTD	Current Level
GBI-EM GD Yield	7 bps	14 bps	46 bps	6.33%
EMBI GD Yield	-6 bps	29 bps	40 bps	7.20%
EMBI GD Spread	-10 bps	-3 bps	-19 bps	235 bps
CEMBI BD Yield	-2 bps	22 bps	36 bps	6.72%
CEMBI BD Spread	-11 bps	-14 bps	-29 bps	240 bps
CDX.EM 5y	-7 bps	-12 bps	13 bps	138 bps
10y UST	2 bps	31 bps	58 bps	4.75%
Dollar Index (DXY)	-0.49%	0.49%	1.12%	—
DOW 30	1.34%	4.22%	10.66%	53186
Oil (WTI)	1.29%	-1.83%	49.36%	$ 85.76

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Local currency market highlights

EM local currency debt returned +0.90% (in USD terms) in August 2026, as measured by the JP Morgan GBI-EM Global Diversified Index. The foreign exchange (FX) component was the major contributor (+0.66%), supported by broad US dollar depreciation that lifted most EM currencies—14 of the 20 currencies in the benchmark gained against the dollar. FX strength was led by commodity-linked exporters such as South Africa, Indonesia, Malaysia, and Peru, alongside Central European currencies. Meanwhile, some of the high-carry LatAm currencies lagged on domestic fiscal and political concerns. The treasury component, which includes combined price and interest rate returns, contributed positively this month. In terms of local curves, carry remained supportive through interest income (+0.46%) which outweighed modest price losses (-0.23%) as local yields moved higher. The GBI-EM GD Index yield increased by 7 bps in August. Performance across local curves remained differentiated, with high-carry markets such as Turkey, Indonesia and Brazil generally proving more resilient, while several lower-yielding markets saw modest duration-led price declines.

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 $)	**0.90**	**1.40**	**2.74**
FX return (vs $)	0.66	0.04	0.21
Price return (local currency)	-0.23	-0.09	-1.32
Interest return (local currency)	0.46	1.45	3.85
In EUR			
Total return (in €)	**-0.06**	**1.87**	**3.87**
FX return (vs €)	-0.30	0.50	1.35
In GBP			
Total return (in £)	**0.15**	**0.81**	**1.92**
FX return (vs £)	-0.09	-0.55	-0.60

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 31 August, 2026. The performance data quoted represents past performance. Past performance does not guarantee future results. 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 2026	Country	Total return USD (%)	Bond return (%)	FX return (%)	Index weight (%)	Index impact (bps)*
GBI-EM GD		**0.90**	**0.24**	**0.66**		
Top 5 performers	Turkey	3.8	5.4	-1.6	1.30	5
	Indonesia	3.7	2.1	1.6	9.20	34
	South Africa	3.3	0.6	2.6	7.30	24
	Paraguay	2.3	1.6	0.7	0.10	0
	Mexico	2.3	0.4	1.9	10.00	23
Bottom 5 performers	Poland	-0.1	-0.5	0.4	8.70	-1
	Chile	-0.2	0.3	-0.6	1.60	0
	Dominican Republic	-0.5	0.9	-1.4	0.30	0
	Brazil	-1.0	1.0	-2.0	6.80	-7
	Colombia	-3.6	-1.4	-2.2	5.00	-18

Source: State Street Investment Management, JP Morgan, Bloomberg as of 31 August, 2026. The performance data quoted represents past performance. Past performance does not guarantee future results. 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 GBI-EM Global Diversified Index. *Index impact is calculated by multiplying the period ending weight by total return.

Turkey was the best performer in August, as a strong local bond rally more than offset currency underperformance. Ahead of its September rate-setting meeting, the Central Bank of the Republic of Turkey resumed funding through its weekly repo window at 37% (announced 23 August), effectively lowering borrowing costs by around 300 bps from the 40% overnight rate and driving front-end yields sharply lower. Continued disinflation alongside elevated carry underpinned demand for local debt. The Turkish lira depreciated against the US dollar by 1.57% in August and closed at 48.26.

Indonesia was another strong performer, with gains split between local bonds and a firmer currency. In its August meeting, Bank Indonesia held its policy rate at 5.75%, the first decision under acting Governor Destry Damayanti following Perry Warjiyo's resignation in late July. A broadly stable rupiah and contained inflation supported sentiment and sustained carry appeal. The Indonesian rupiah appreciated against the US dollar by 1.56% in August and closed at 17,720.

South Africa also featured among the better performers, driven predominantly by currency strength. South Africa's annual inflation rate dipped to 4.3% in July, from 5% in June, remaining comfortably within the target range and reinforcing a benign outlook. Fiscal consolidation continued to provide support, with producer price inflation easing to 5.7%, though longer-dated bonds saw only modest price gains as global core yields rose. The South African rand gained against the US dollar by 2.51% in August and closed at 16.12.

Brazil was among the underperformers, as a weaker currency outweighed solid carry and modest local bond gains. The Central Bank of Brazil cut the Selic rate by 25 bps to 14%, its fourth consecutive reduction, and left the door open to another cut in September. Fiscal and electoral concerns weighed on performance ahead of the October first-round election, with President Lula's polling lead narrowing and US tariff pressures persisting. The Brazilian real depreciated against the US dollar by 2.22% in August and closed at 5.19.

Colombia was the weakest performer in August, reversing July's rally as both local bonds and the currency declined. Fiscal concerns dominated, as the new De la Espriella administration revised the FY27 budget, signaling spending cuts of COP 20–30 trillion (around 1.5–2.5% of GDP), while a pension-reform case remained before the constitutional court. The Colombian peso depreciated against the US dollar by 2.19% in August and closed at 3,224.25.

Hard currency market highlights

EM hard currency sovereign debt returned +0.89% (in USD terms) in August 2026, as measured by the JP Morgan EMBI Global Diversified Index, recovering much of July's rates-driven losses as the Treasury sell-off stabilized and sovereign spreads narrowed from already-tight levels. Performance was primarily driven by the spread component (+0.72%), as the overall EMBI GD spread tightened by 10bps in August, to around 235bps. The Treasury component also contributed modestly (+0.17%) as the index yield decreased and US Treasury yields broadly steadied after July's sharp back-up, with the 10-year ending August at 4.75%. Returns were positive across most of the index, with higher-beta, lower-rated sovereigns generally leading as rates were broadly stable. The high yield sub-index outperformed investment grade by around +0.36% in August, reflecting the longer duration and greater rate sensitivity of the investment grade segment.

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	**0.89**	**0.17**	**2.75**
Spread Return	0.72	1.02	3.66
Treasury Return	0.17	-0.84	-0.87
IG Sub-Index	0.70	-0.91	-0.19
HY Sub-Index	**1.06**	**1.16**	**5.58**

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

August 2026	Country	Total return USD (%)	Bond return (%)	FX return (%)	Index weight (%)	Index impact (bps)*
EMBI Global Diversified		-1.42	-0.20	-1.23	—	—
Top 5 performers	Venezuela	5.6	5.7	-0.1	1.7	10
	Lebanon	4.0	3.8	0.3	0.6	2
	Republic of Congo	3.0	3.0	0.1	0.2	1
	Kenya	2.7	2.6	0.1	1.3	4
	Benin	2.5	2.4	0.1	0.3	1
Bottom 5 performers	Latvia	-0.1	-0.1	0.0	0.2	0
	Gabon	-0.7	-0.8	0.2	0.2	0
	Ukraine	-1.3	-1.4	0.1	1.9	-2
	Senegal	-2.8	-3.0	0.2	0.2	-1
	Argentina	-3.1	-3.2	0.2	2.7	-8

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Venezuela stood out in August, contributing 10 bps to the index return. Its USD bonds extended their rally as the record ~USD 240 billion restructuring process advanced and a commercial-creditor committee was formed, bolstering recovery-value assumptions. As a distressed, low-priced issue with limited rate sensitivity, the outcome was almost entirely spread-driven, with the treasury component broadly flat.

Kenya was another good performer, contributing 4 bps to the index return, benefitting from positive investor appetite for higher-beta exposures and a firmer business-activity backdrop. Sentiment was supported by S&P's affirmation of Kenya's 'B' rating with a stable outlook in August, which highlighted record foreign-exchange reserves and strengthened external buffers.

Lebanon also performed well, contributing 2 bps to the index return. Its USD bonds extended their strong run on continued spread compression, building on the earlier de-escalation and reform momentum that had raised expectations of a debt restructuring. As a distressed, low-priced issue, performance was driven almost entirely by the spread component.

Argentina was the weakest performer in August, detracting 8 bps from the index return. Its US dollar-denominated bonds came under pressure as the country risk premium rose above 500 bps, implying a sovereign spread of more than five percentage points over US Treasuries. Rising loan delinquencies, weakness outside the primary sectors, and growing political uncertainty ahead of the 2027 electoral cycle weighed further on sentiment.

Ukraine detracted 2 bps from the index return as its USD-denominated bonds came under pressure. Intensifying attacks on Black Sea port infrastructure weighed on the export and growth outlook, while earlier optimism around a potential peace settlement faded. With spreads repricing wider, the spread component accounted for essentially all the decline.

To discover more about what the rest of 2026 may have in store, please read our latest EMD Outlook.

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