

Market commentary: Emerging market debt

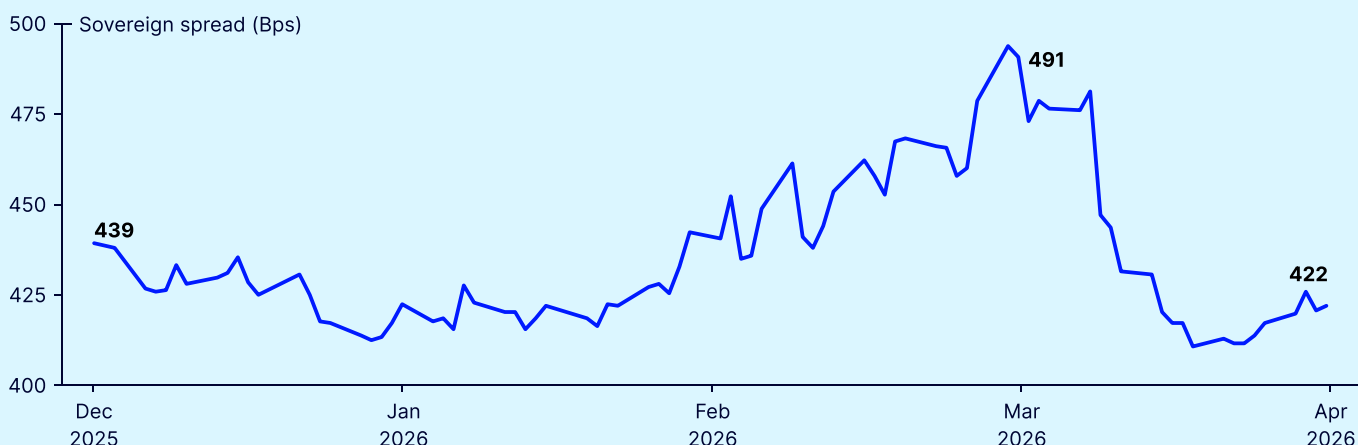
Insights
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Chart of the month: Hard currency high yield spreads tighten on improved risk appetite

Emerging market high yield sovereign spreads tightened significantly through April, reflecting a shift to a more risk-on tone. After climbing to around 491 basis points (bps) at the end of March amid heightened geopolitical tensions, spreads reversed course to tighten by roughly 70 bps as a tentative US-Iran ceasefire was agreed and extended. The tightening was broad-based, with additional support from idiosyncratic spread compression in lower rated high yield sovereigns such as Venezuela, Ukraine, and Lebanon.

Figure 1: EMD hard currency high yield sovereign spread



Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 30 April, 2026. The performance data quoted represents past performance. Past performance does not guarantee future results.

Risk rebound lifts EMD, but geopolitics keep markets on edge

Emerging market debt began April on firmer footing, buoyed by improving global risk sentiment and ample liquidity. EM sovereign spreads rebounded and there was a rally in local bond markets, aided by a modestly weaker US dollar that supported EM currencies. Markets largely took in stride the ongoing turbulence in the Middle East, although elevated US-Iran tensions and risks around the Strait of Hormuz kept investors cautious amid continued uncertainty around energy supply and prices. At the same time, cross-border

clashes in Lebanon between Israel and Hezbollah reinforced geopolitical risk concerns and weighed on broader EM sentiment. Oil prices were the main channel through which these risks fed into markets, with Brent crude rising above \$110 per barrel toward month-end amid persistent disruption worries. Higher energy prices kept inflation pressures elevated for energy-importing economies and served to highlight differentiation between EM economies. While higher fuel costs tested disinflation trends in some countries, credible monetary policy frameworks continued to anchor expectations. EM local yields remained high overall, reflecting the impact of energy prices on inflation expectations

and upward pressure on rates. Trade uncertainty also stayed in focus. The evolving legal and policy backdrop following the US Supreme Court's February decision that overturned the previous tariff regime continued to weigh on sentiment in April, particularly for export-oriented economies; this left markets to navigate a fluid environment with limited clarity on the longer-term direction of global trade policy.

Country-specific factors added to return dispersion across EM. In Thailand, attention remained on government formation following the February election, with progress on coalition building helping to avoid a prolonged policy vacuum. Hungary experienced increased volatility ahead of its election in April, followed by a post-election rally in local bonds as risk premia eased and inflows resumed after voters ousted the Orban government. In Romania, leadership instability and coalition strains after a government collapse pushed yields higher. Political uncertainty also weighed on sentiment in Peru, where weak electoral mandates kept bond yields elevated. On the monetary policy front, the US Federal Reserve (Fed) held rates steady at 3.50%–3.75%, highlighting solid growth and sticky inflation while continuing to maintain a data-dependent stance on rate decisions. Against this backdrop, EM central banks largely maintained

a cautious stance, with those taking policy actions a reflection on lingering inflation risks and growth dynamics. In Latin America, the Central Bank of Brazil reduced its Selic rate by 25 bps to 14.50%. In Asia, the Central Bank of Philippines raised its policy rate by 25 bps to 4.5%, marking its first hike in more than two years. In China, the People's Bank of China (PBoC) maintained a measured approach, holding benchmark lending rates steady at record lows while earlier measures to support its currency remained in place.

On the fiscal front, divergence across EM persisted. China signaled a sizeable fiscal expansion, stepping up bond issuance including ultra-long special treasury bonds, while parts of Latin America faced tighter fiscal constraints due to higher borrowing costs. In EM Europe, fiscal slippage, election-related spending pressures and slow progress on consolidation remained key challenges. Overall, EM hard currency debt delivered positive returns in April, supported by spread tightening and renewed demand for high beta assets. EM local currency debt also posted gains, helped by US dollar weakness and persisting high real yields in several markets. Investor flows turned positive during the month, with hard currency and local currency EM bond funds recording net-inflows of around \$2.4bn and \$0.1bn, respectively.¹

Figure 2: Emerging market debt index returns

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	2.77	-1.68	3.34	0.46	11.25	7.51	2.17
EMBI GD (EM Hard Currency)	2.86	0.88	2.72	1.57	13.80	10.29	2.60
CEMBI BD (EM Corporates)	1.61	0.65	2.13	1.40	8.11	7.86	2.81
In EUR							
GBI-EM GD (EM Local Currency)	0.95	-0.29	1.68	0.58	7.81	5.36	2.70
EMBI GD (EM Hard Currency)	1.03	2.31	1.07	1.69	10.27	8.09	3.13
CEMBI BD (EM Corporates)	-0.19	2.08	0.49	1.52	4.76	5.71	3.34
In GBP							
GBI-EM GD (EM Local Currency)	-0.26	-0.71	-0.08	-0.56	9.36	4.75	2.55
EMBI GD (EM Hard Currency)	-0.18	1.87	-0.68	0.53	11.86	7.46	2.98
CEMBI BD (EM Corporates)	-1.39	1.65	-1.25	0.37	6.27	5.10	3.19

Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 30 April, 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 levels as of 30 April 2026

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-11 bps	40 bps	39 bps	6.26%
EMBI GD Yield	-34 bps	18 bps	16 bps	6.97%
EMBI GD Spread	-41 bps	3 bps	-6 bps	248 bps
CEMBI BD Yield	-19 bps	15 bps	11 bps	6.48%
CEMBI BD Spread	-26 bps	5 bps	-6 bps	262 bps
CDX.EM 5y	-32 bps	34 bps	37 bps	162 bps
10y UST	5 bps	14 bps	20 bps	4.37%
Dollar Index (DXY)	-1.91%	1.10%	-0.27%	—
DOW 30	7.14%	1.55%	3.31%	49652
Oil (WTI)	3.64%	61.13%	82.99%	\$ 105.07

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Local currency market highlights

EM local currency debt returned +2.77% (in USD terms) in April 2026, as measured by the JP Morgan GBI-EM Global Diversified Index. A major contribution to the performance outcome came from the foreign exchange (FX) component (+1.60%). The US dollar depreciated as markets pivoted from safe-haven bidding to risk-on sentiments, fueled by investor rotation into high yield segments. Nineteen of the 20 currencies in the index achieved gains against the US dollar in the month. The treasury component return, which includes combined price and interest rate returns, was also positive (+1.17%). In terms of local curves, high carry and reform-credible markets outperformed amid improved global sentiment, while more rate sensitive markets delivered modest gains. The dispersion across curves reflected country specific inflation dynamics and central bank outlooks, with ongoing geopolitical tensions continuing to limit a more uniform rates rally. Regionally, Central Europe and Latin America outperformed, supported by strong FX appreciation. The GBI-EM GD Index yield decreased by 11 bps in the month.

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 \$)	2.77	-1.68	0.46
FX return (vs \$)	1.60	-1.24	0.13
Price return (local currency)	0.68	-1.87	-1.57
Interest return (local currency)	0.50	1.43	1.90
In EUR			
Total return (in €)	0.95	-0.29	0.58
FX return (vs €)	-0.23	0.15	0.25
In GBP			
Total return (in £)	-0.26	-0.71	-0.56
FX return (vs £)	-1.44	-0.27	-0.89

Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 30 April, 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*

April 2026	Country	Total return USD (%)	Bond return (%)	FX return (%)	Index weight (%)	Index impact (bps)**
GBI-EM GD		2.77	1.17	1.60		
Top 5 performers	Hungary	14.0	5.7	8.3	2.5	34
	Brazil	6.1	1.3	4.9	7.6	46
	South Africa	5.9	3.4	2.6	7.1	42
	Mexico	4.5	1.4	3.1	10.0	45
	Chile	4.2	0.8	3.4	1.7	7
Bottom 5 performers	India	0.9	1.0	-0.1	10.0	9
	Colombia	0.9	0.1	0.8	4.1	4
	Peru	0.7	1.6	-0.9	1.9	1
	Romania	0.5	0.5	0.0	3.1	2
	Indonesia	-1.0	0.9	-1.8	9.4	-9

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*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.

Hungary was the best performer in April as its sovereign bonds performed strongly as post-election clarity—following Prime Minister Viktor Orbán’s Fidesz failure to secure another term—reduced political risk premia and drove a compression in yields. Markets priced in a credible monetary policy backdrop, which attracted inflows and supported local duration returns. The Hungarian forint appreciated against the US dollar by 6.52% to close April at 310.71.

Brazil was another good performer in the month. The Central Bank of Brazil lowered its Selic rate by 25 bps to 14.50% in April, in line with expectations. Inflows were also supported by attractive real yields and improved risk sentiment. While fiscal concerns persisted, the lack of negative surprises prevented a repricing of risk premia, allowing rates dynamics to dominate returns. The Brazilian real appreciated against the US dollar by 4.35% in April and closed at 4.96.

South Africa also featured among the better performers as a decline in local yields, supported by stabilizing global risk sentiments and moderating inflation expectations, drove strong duration returns. The yield on South Africa’s 10-year local bond ended April at 8.92%, down from 9.30% a month earlier. Persistently high real yields and improved risk sentiment attracted inflows. The South African rand appreciated against the US dollar by 1.59% in April and closed at 16.67.

Indonesia was the poorest performer in April, as local yields moved higher, driven by persistent concerns around currency stability and the need for Bank Indonesia to maintain a relatively tight policy stance. In its April meeting, the central bank kept its policy rate unchanged at 4.75%. In addition, ongoing government bond issuance kept term premia elevated. The Indonesian rupiah weakened, reducing the attractiveness of local bonds for foreign investors; the rupiah fell against the US dollar by 2.11% in April and closed at 17,353.

Romania posted flat total returns in the month. Domestic political uncertainty—including noise around the electoral cycle and policy direction—kept risk premia elevated and limited investor appetite for duration. In its April meeting, the National Bank of Romania held its

benchmark interest rate unchanged at 6.50%. Ongoing political, policy, and fiscal concerns also weighed on the Romanian Leu, which depreciated against the US dollar by 0.26% in April and closed at 4.42.

Hard currency market highlights

EM hard currency sovereign debt returned +2.86% (in USD terms) in April 2026, as measured by the JP Morgan EMBI Global Diversified Index, rebounding after March’s sell-off as global risk sentiment improved and volatility declined. The recovery was driven by broad-based sovereign spread compression, supported by easing investor concerns, stable US Treasury yields, and renewed investor appetite for higher beta emerging market assets. The spread component return amounted to +2.96%, with the JP Morgan EMBI GD Index spread compressing by 41 bps in April. The treasury component return was slightly negative (-0.09%). Additionally, with Brent crude prices remaining structurally high, hard currency issues from oil exporting economies featured among the standout performers in the month. At the country level, total returns were positive across the index, with distressed and high yield sovereigns leading performance. The narrowing in investment grade/high yield (IG/HY) sovereign spreads enabled the high yield sub-index to outperform its investment grade counterpart by around +2.44%.

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	2.86	0.88	1.57
Spread Return	2.96	0.82	1.62
Treasury Return	-0.09	0.06	-0.05
IG Sub-Index	1.64	0.49	0.35
HY Sub-Index	4.08	1.23	2.75

Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 30 April, 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 7: Best and worst performers across EM hard currency government bond markets*

April 2026	Country	Total return (%)	Spread return (%)	Trsry. return (%)	Avg. Index weight (%)	Index impact (bps)**
EMBI global diversified		2.86	2.96	-0.09		
Top 5 performers	Venezuela	12.2	12	0.2	1.60	20
	Ukraine	10.9	10.9	0.0	1.60	18
	Mozambique	9.9	9.8	0.1	0.10	1
	Lebanon	8.3	8	0.2	0.50	4
	Republic of Congo	8.2	8.1	0.0	0.10	1
Bottom 5 performers	Latvia	0.7	0.7	0.0	0.20	0
	India	0.6	0.6	0.0	0.80	0
	Ethiopia	0.5	0.2	0.3	0.10	0
	China	0.1	0.0	0.1	3.30	0
	Democratic Republic of Congo	0.0	0.0	0.0	0.20	0

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*Country and currency performance of JPM EMBI Global Diversified Index **Index impact is calculated by multiplying the period ending weight by total return.

Venezuela stood out in April with its performance contributing 20bps to the index return. Contribution to outperformance predominantly came from spread component returns. Hard currency bonds continued to outperform, as higher oil prices, sustained expectations of an eventual debt restructuring, and improving recovery assumptions continued to support valuations. The rally was amplified by technical factors, with improved risk appetite driving opportunistic buying in a highly illiquid, distressed asset class.

Ukraine was another good performer in the month, contributing 18bps to the index return. Ukraine's macro backdrop remained fragile but was supported

by sustained external funding and improved liquidity. Ukraine bonds posted strong gains amid improving visibility on near-term funding needs. Markets also responded positively to progress on debt restructuring discussions. Sovereign spreads tightened meaningfully as investors priced in lower near-term default risk and improved recovery assumptions.

Lebanon also performed well, contributing 4bps to the index return. Sovereign spreads tightened, driven largely by speculative buying and technical factors in a highly distressed and illiquid market. Lebanese dollar bonds were supported by periodic optimism around political normalization and renewed engagement with the International Monetary Fund (IMF), which improved sentiment around a potential restructuring path. The incremental progress on governance discussions helped reduce near-term downside risk.

China recorded flat returns in April, making no contribution to the index return. Chinese USD sovereign bonds were broadly stable in the month, with spreads remaining well anchored given the country's strong external position and low external financing risk. Returns were modest and were driven by stabilization in US Treasury yields, with policy support helping to limit the downside. China's foreign exchange reserves increased to USD 3,410.55 billion ending April, from 3,342.12 billion ending March.

Ethiopia also posted flat returns, with no contribution to index return. Economic activity has gradually stabilized, supported by reform momentum and a partial normalization in domestic conditions. Ethiopia continued to face acute foreign exchange shortages and a weak external position, though expectations of IMF support and creditor engagement helped ease near-term balance-of-payments stress.

We publish regular updates on what is driving market performance within the EM universe as well as producing twice-yearly outlooks. Visit our [website to learn more.](#)

Endnote

1 Source: JP Morgan.

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