

# Market commentary: Emerging market debt

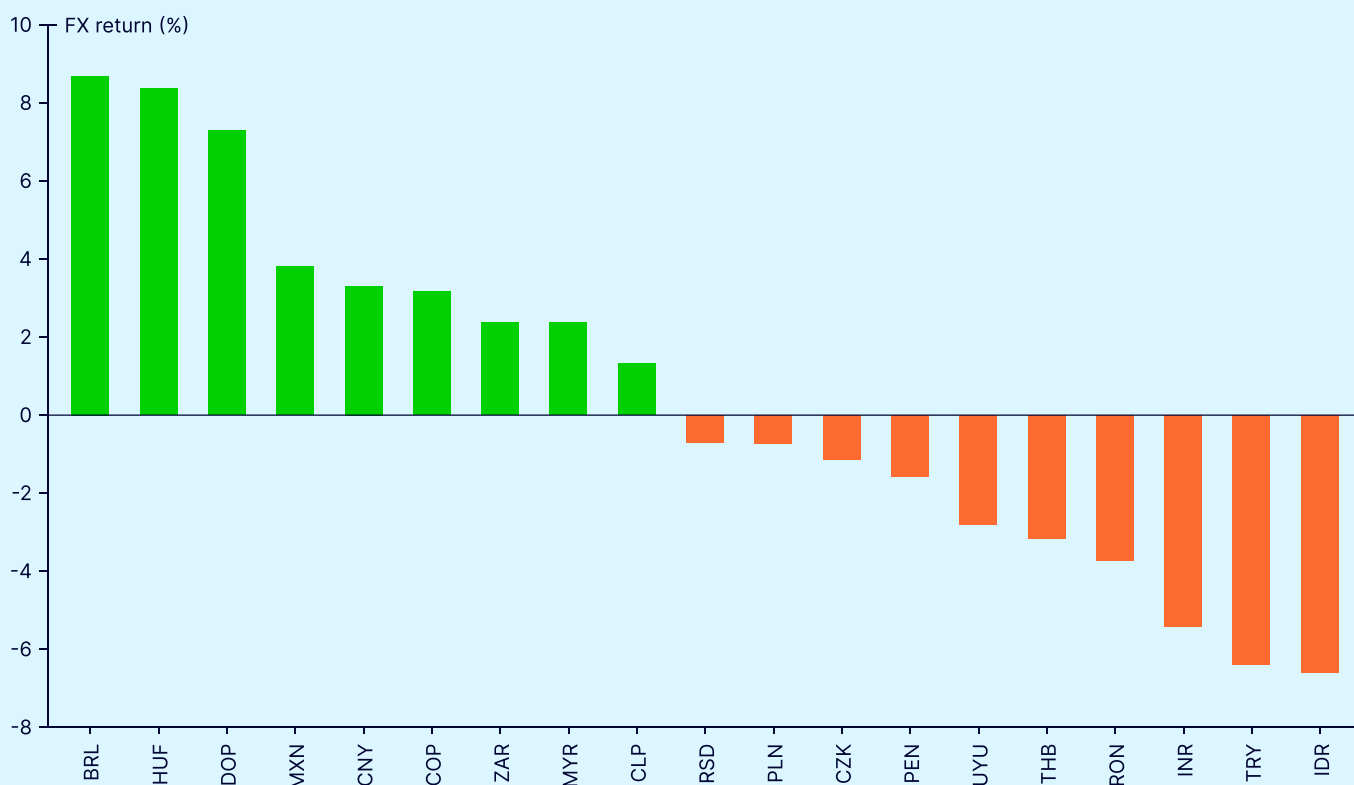
Insights  
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## Chart of the month: Emerging market currencies diverge amid crosscurrents

The emerging markets (EM) currency backdrop for the year to date has been marked by meaningful cross-market dispersion, with a steadier US dollar and differences in domestic policy credibility becoming important drivers of returns. Energy price factors further widened that dispersion, which generally supported exporters and commodity-linked currencies while pressuring Asian oil importers and prompting more defensive policy responses. Among the notable outliers, the Hungarian forint (HUF) outperformed on post-election risk-premia compression, while the Indonesian rupiah (IDR) and Turkish lira (TRY) lagged amid intervention pressures, policy dynamics, and persistent inflation.

Figure 1: EM currencies extend mixed performance in 2026 (year to date)



Sources: JP Morgan, Bloomberg Finance L.P., as of 29 May 2026. The performance data quoted represents past performance. Past performance does not guarantee future results.

## EMD resilience despite geopolitical and trade uncertainty

Emerging market debt extended gains into May, supported by resilient global risk sentiment and liquidity conditions. Hard currency sovereign spreads remained tight, while local bond markets posted modest gains, though performance was more differentiated than in April. Currency dynamics were mixed, as the US dollar advanced through much of the month—reducing the broad-based FX support seen earlier in the year—before losing some momentum toward month-end. Markets continued to absorb geopolitical developments with a measured response. Tensions in the Middle East remained a notable overhang, with associated disruption and uncertainty around energy transit through the Strait of Hormuz continuing to keep investors cautious. Continuing conflict between Israel and Hezbollah in southern Lebanon also contributed to elevated geopolitical risk.

Oil prices stayed volatile, with high prices on supply concerns partly giving way to ceasefire optimism and lower prices later in the month—inflation risks remain acute in energy-importing economies. EM growth remained broadly resilient in May; however, higher energy prices and persistent trade uncertainty contributed to a mixed backdrop by country, with greater pressure on oil-importing and export-oriented

economies than on commodity exporters. While higher energy costs complicated disinflation in some markets, credible monetary frameworks continued to anchor inflation expectations—against this backdrop local yields stayed elevated amid cautious policy settings. Trade uncertainty also remained in focus, with ongoing changes to US trade policy weighing on sentiment, particularly for export-oriented economies.

US-China talks favored stability over breakthrough. Trump's China visit yielded constructive rhetoric, while chip disputes, Taiwan tensions, and the broader strategic rivalry remained unresolved. In Thailand, the Q1 GDP reflected stronger-than-expected growth, although the full-year outlook remained unchanged due to higher energy costs. In Central and Eastern Europe, post-election normalization in Hungary continued to support local assets, while Romania's government collapse kept investors in cautious mode.

Ahead of the June presidential runoff in Peru, policy uncertainty weighed on business and investor sentiment despite a solid macroeconomic backdrop. Turkey's bond market underperformed as a court ruling against the main opposition led a broad selloff in Turkish assets. Argentina's sovereign bond market strengthened, with spreads tightening following Fitch Ratings' upgrade of the sovereign to B- from CCC+ with a stable outlook, as well as the International Monetary Fund's (IMF) completion of the second review under

Figure 2: Emerging market debt index returns

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
<b>In USD</b>							
GBI-EM GD (EM Local Currency)	0.85	-2.10	2.83	1.32	10.63	8.39	1.84
EMBI GD (EM Hard Currency)	1.00	0.49	3.32	2.58	13.66	10.87	2.59
CEMBI BD (EM Corporates)	0.38	0.13	2.27	1.79	7.86	8.21	2.75
<b>In EUR</b>							
GBI-EM GD (EM Local Currency)	1.38	-0.95	2.27	1.97	7.63	5.17	2.79
EMBI GD (EM Hard Currency)	1.52	1.67	2.75	3.24	10.57	7.58	3.47
CEMBI BD (EM Corporates)	0.90	1.31	1.71	2.44	4.93	5.00	3.64
<b>In GBP</b>							
GBI-EM GD (EM Local Currency)	1.67	-2.35	1.08	1.10	10.68	5.40	2.93
EMBI GD (EM Hard Currency)	1.81	0.23	1.56	2.36	13.71	7.81	3.63
CEMBI BD (EM Corporates)	1.19	-0.13	0.53	1.57	7.91	5.23	3.80

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 29 May 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.

the Extended Fund Facility (EFF). On the monetary policy front, EM central banks remained cautious, as policymakers sought to balance inflation risks and the effects of external volatility. In Latin America (Latam), Banco de México cut its benchmark rate by 25 bps to 6.50% in May and indicated that the easing cycle was likely complete. In Asia, Bank Indonesia raised its policy rate by 50 bps to 5.25%, alongside corresponding increases in its deposit and lending facility rates, in an effort to stabilize the rupiah. The People's Bank of China (PBoC) left its one-year and five-year loan prime rates unchanged at 3.00% and 3.50%, respectively in May.

Fiscal trends across EM remained uneven in May. China continued to implement a proactive fiscal stance, including ultra-long special treasury bonds and ongoing government bond issuance. By contrast, fiscal space remained constrained across parts of Latam amid high borrowing costs and debt burdens. Overall, EM hard currency debt delivered positive returns in May, supported by spread compression. EM local currency debt also generated gains as high real yields remained a key driver of investor interest. Investor net-flows into hard currency and local currency EM bonds amounted to \$1.3bn and \$2.0bn, respectively.<sup>1</sup>

**Figure 3: Key EM and Macro levels as of 29 May 2026**

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-7 bps	37 bps	32 bps	6.19%
EMBI GD Yield	-5 bps	26 bps	11 bps	6.92%
EMBI GD Spread	-10 bps	-21 bps	-16 bps	237 bps
CEMBI BD Yield	2 bps	30 bps	14 bps	6.50%
CEMBI BD Spread	-9 bps	-21 bps	-15 bps	253 bps
CDX.EM 5y	-12 bps	15 bps	25 bps	150 bps
10y UST	6 bps	50 bps	27 bps	4.44%
Dollar Index (DXY)	0.90%	1.37%	0.63%	—
DOW 30	2.78%	4.19%	6.18%	51032
Oil (WTI)	-16.86%	30.35%	52.14%	\$ 87.36

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## Local currency market highlights

EM local currency debt returned +0.85% (in USD terms) in May 2026, as measured by the JP Morgan GBI-EM Global Diversified Index. The treasury component return, which includes combined price and interest rate returns, was the major contributor (+0.79%). In terms of local curves, carry remained the primary driver of returns, supported by interest income (+0.45%) and modest price gains (+0.34%). Performance across local curves was more differentiated, with reform-credible and higher carry markets generally outperforming, while others experienced more limited duration gains. The foreign exchange (FX) component contributed modestly (+0.06%). Currency performance was mixed, with gains in select high carry and commodity-linked markets offset by weakness in others due to idiosyncratic developments. Regionally, Latin America continued to demonstrate resilience, aided by carry and selective FX strength, while Central Europe and parts of Asia delivered more mixed results. The GBI-EM GD Index yield decreased by 7 bps in May.

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

GBI-EM GD (EM local currency)	Monthly return (%)	3 month return (%)	YTD return (%)
<b>In USD</b>			
<b>Total return (in \$)</b>	<b>0.85</b>	<b>-2.10</b>	<b>1.32</b>
FX return (vs \$)	0.06	-1.74	0.19
Price return (local currency)	0.34	-1.81	-1.23
Interest return (local currency)	0.45	1.45	2.36
<b>In EUR</b>			
<b>Total return (in €)</b>	<b>1.38</b>	<b>-0.95</b>	<b>1.97</b>
FX return (vs €)	0.59	-0.59	0.84
<b>In GBP</b>			
<b>Total return (in £)</b>	<b>1.67</b>	<b>-2.35</b>	<b>1.10</b>
FX return (vs £)	0.88	-2.00	-0.02

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 29 May, 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\***

May 2026	Country	Total return USD (%)	Bond return (%)	FX return (%)	Index weight (%)	Index impact (bps)**
<b>GBI-EM GD</b>		<b>0.85</b>	<b>0.79</b>	<b>0.07</b>		
<b>Top 5 performers</b>	South Africa	6.1	2.9	3.2	7.5	46
	Hungary	5.5	3.0	2.5	2.6	14
	Peru	4.3	1.2	3.1	2.0	9
	Mexico	2.1	1.1	1.0	10.0	21
	Chile	2.0	0.5	1.5	1.8	4
<b>Bottom 5 performers</b>	Thailand	-0.3	-0.2	-0.1	7.9	-2
	Brazil	-1.0	0.5	-1.5	7.5	-7
	Paraguay	-1.4	-3.5	2.1	0.1	0
	Turkey	-1.7	-0.2	-1.5	0.9	-2
	Indonesia	-3.1	0.1	-3.1	9.0	-28

Source: State Street Investment Management, JP Morgan, Bloomberg, as of 29 May 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 JP Morgan GBI-EM Global Diversified Index. \*\*Index impact is calculated by multiplying the period ending weight by total return.

**South Africa** was the best performer in May, with returns bolstered by attractive carry, a resilient currency, policy credibility, and improving domestic fundamentals. In line with expectations, the South African Reserve Bank increased its key repo rate by 25 bps to 7% in May. South Africa has been a beneficiary of rising global allocations to EM, with investors attracted to its yield profile. The South African rand appreciated against the US dollar by 2.67% to close May at 16.23.

**Hungary** was another good performer in the month. In its May meeting, the National Bank of Hungary held its base interest rate unchanged at 6.25%, as expected by markets, to maintain benchmark borrowing costs at a four-year low. Political risk premia in Hungary declined, supported by improving relations with the European Union (EU) and growing expectations of access to EU funds. The Hungarian forint appreciated against the US dollar by 2.32% in May and closed at 303.50.

**Mexico** also featured among the better performers as a decline in local yields and stabilizing global risk sentiment drove strong duration returns. In its May fixing, the Bank of Mexico lowered its benchmark interest rate by 25 bps to 6.50%, bringing the policy rate to its lowest level since April 2022. Firm oil prices also provided support, improving external balances for the export-linked economy. The Mexican peso appreciated against the US dollar by 0.63% in May and closed at 17.36.

**Indonesia** was the poorest performer in May. Bank Indonesia surprised with a larger-than-expected rate hike of 50 bps to 5.25%, in response to rupiah weakness and external pressures. The first hike in two years aimed to stabilize the currency and stabilize inflation expectations. The Indonesian rupiah weakened in May, reducing the attractiveness of local bonds for foreign investors; the currency fell against the US dollar by 3.00% and closed at 17,874.

**Turkey** was another poor performer as renewed volatility in the domestic political backdrop weighed on investor confidence and drove yields higher. At the same time, inflation pressures and limited evidence of a durable disinflation path continued to erode real return prospects, further pressuring demand for lira-denominated debt. The Turkish lira depreciated against the US dollar by 1.48% in May and closed at 45.85.

## Hard currency market highlights

EM hard currency sovereign debt returned +1.00% (in USD terms) in May 2026, as measured by the JP Morgan EMBI Global Diversified Index, extending April's gains amid broadly resilient global risk sentiment. Performance was primarily driven by continued sovereign spread compression, supported by steady investor appetite for higher beta emerging market assets and a relatively stable US rates backdrop. The spread component return amounted to +0.97%, while the treasury component contributed marginally (+0.02%). With oil prices remaining relatively stable, some support was evident for select oil-exporting sovereign issuers. At the country level, returns were largely positive, with high yield and distressed sovereigns again leading performance. Idiosyncratic developments also influenced performance dispersion: Argentina bonds benefited from a sovereign rating

upgrade, while renewed political volatility in Turkey dampened sentiment. The high yield sub-index outperformed investment grade by around +1.20%, reflecting ongoing compression in IG/HY spreads. The overall EMBI GD spread compressed by 10bps in May.

**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 (%)
<b>Total Return</b>	<b>1.00</b>	<b>0.49</b>	<b>2.58</b>
Spread Return	0.97	2.51	2.61
Treasury Return	0.02	-1.97	-0.03
IG Sub-Index	0.38	-0.98	0.73
HY Sub-Index	1.58	1.92	4.37

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 29 May 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\***

May 2026	Country	Total return (%)	Spread return (%)	Trsry. return (%)	Avg. Index weight (%)	Index impact (bps)**
<b>EMBI global diversified</b>		<b>1.00</b>	<b>0.97</b>	<b>0.02</b>		
<b>Top 5 performers</b>	Ukraine	10.5	10.6	-0.1	1.8	19
	Zambia	7.3	7.1	0.2	0.3	2
	Mozambique	7.2	7.2	0.0	0.1	1
	Republic Of Congo	5.1	5.2	-0.1	0.1	0
	Gabon	5.0	5.0	0.0	0.2	1
<b>Bottom 5 performers</b>	Barbados	-0.2	-0.1	-0.1	0.1	0
	Jamaica	-0.7	-0.9	0.2	0.6	0
	Suriname	-1.0	-0.9	-0.1	0.3	0
	Bolivia	-2.4	-2.3	-0.1	0.3	-1
	Senegal	-6.6	-6.6	0.1	0.2	-1

Source: State Street Investment Management, JP Morgan, Bloomberg as of 29 May 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 EMBI Global Diversified Index \*\*Index impact is calculated by multiplying the period ending weight by total return.

**Ukraine** stood out in May, with its performance contributing 19bps to the index return. Investor sentiment was aided by periodic diplomacy-related headlines, including direct Russia-Ukraine talks in Istanbul and short-lived ceasefire efforts. Official financing support also remained key for investor confidence, with the IMF's new \$8.1 billion program forming part of a broader USD136.5 billion international support package. Meanwhile, Ukraine's ratification of up to EUR 90 billion in EU support for 2026–27 helped strengthen funding visibility.

**Zambia** was another good performer in the month, contributing 2bps to the index return. Zambia's USD sovereign bonds performed well after the government launched a tender offer to repurchase part of its USD 1.36 billion 2053 bond, funded partly with a USD 600 million African Development Bank loan—a constructive debt-management step in the eyes of investors. Investor sentiment was also underpinned by Zambia's broader post-restructuring progress and IMF support.

**Mozambique** also performed well, contributing 1bps to the index return, with spread component returns largely accounting for the performance outcome. Mozambique's USD sovereign bonds gained on expectations of renewed IMF engagement, with the IMF confirming a June 8–12 mission, and from the government's early repayment of about USD 699 million to the IMF—officials presented this as a step to restore market confidence.

**Senegal** was among the underperformers in May, detracting 1 bp from index return. Senegal's USD bonds lagged as political tensions rose and investors grew worried about the government's policy direction. At the same time, there was still no new IMF program in place after the earlier suspension of Senegal's \$1.8 billion facility, which kept concerns about public finances in focus.

**Bolivia** was another underperformer in May, detracting 1 bp from index return. Bolivia's USD sovereign bonds weakened in May as violent protests disrupted supplies and increased fears of renewed political and economic instability. The sell-off was also driven by deeper macro stress in Bolivia, triggered by fuel shortages, scarce US dollar reserves and rising living costs.

**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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