

Market commentary: Emerging market debt

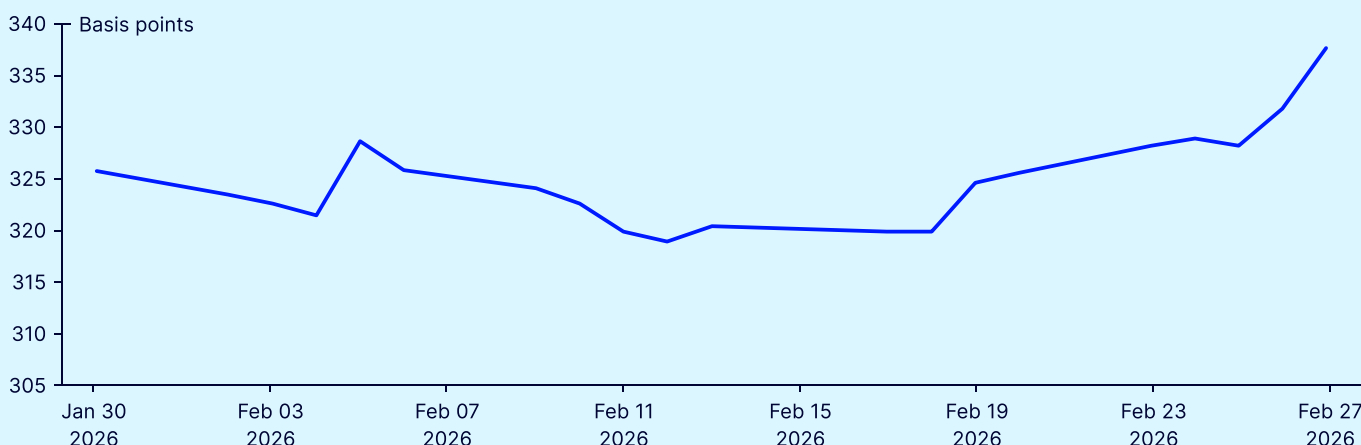
Insights
February 2026

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Chart of the month: EMD HC spreads widen on risk-off tone

Having hovered around multi-year lows through much of February, EMD hard currency sovereign spreads widened late in the month as a risk-off tone began to grip global financial markets. The ratcheting up of US-Iran tensions that further darkened the geopolitical landscape was reflected in the widening yield spread between EM investment grade and high yield bonds, as illustrated by the JP Morgan EMBI Global Diversified Index. Overall, the widening in hard currency sovereign spreads was contained and largely technical, and spreads remained well inside historical averages.

Figure 1: Investment grade/high yield spread widens toward month-end



Sources: JP Morgan, Bloomberg Finance L.P., as of February 27, 2026. The performance data quoted represents past performance. Past performance does not guarantee future results.

Positive month for EMD, but clouds darken as February ends

February was a month of two halves in terms of emerging market (EM) debt performance, with a still-supportive macro backdrop initially providing support before a sharp deterioration in geopolitical conditions then weighed on sentiment. Escalating tensions in the Middle East, a renewal of trade uncertainty following a US Supreme Court ruling on tariffs, and broader geopolitical fragmentation contributed to oil price volatility and safe haven flows. While not derailing EMD performance, these events reinforced market

caution toward energy importing issuers. Early optimism around US-Iran nuclear negotiations faded, and the accelerated US military buildup in the region culminated in coordinated US-Israeli strikes against Iranian targets late in February. Consequently, oil importing countries faced renewed concerns around imported inflation, current account pressures, and policy credibility. Up to this point, the broad disinflation trends across most EM economies have remained intact and allowed central banks to maintain accommodative or neutral policy stances. Global liquidity conditions remained largely supportive in February.

EM sovereign yields stayed at elevated levels across regions, with relative stability in Asia and modest compression in parts of Latin America (LatAm)—volatility picked up late in the month. On the currency front, high carry currencies in LatAm appreciated, although the developing risk-off tone resulted in some major EM currencies losing ground towards the end of the month. In Thailand, the outcome of the general election delivered short-term market stability and provided policy continuity reassurance as incumbent Prime Minister Anutin Charnvirakul formed a coalition government with his conservative Bhumjaithai Party and Pheu Thai.

On the trade front, progress towards an India–US agreement provided modest relief for Indian assets, supporting sentiment around medium-term growth and trade integration prospects. On February 20, a US court ruling that declared some imposed tariffs as unconstitutional provided partial relief to export-oriented EM economies, even as the threat of new tariffs and broader trade policy uncertainty continued to drive differentiation across countries. In terms of monetary policy, major EM central banks held their respective policy rates steady in February to anchor inflation expectations— notable exceptions included Hungary, Thailand, and the Philippines, where policy rates were raised by 25bps to take their benchmark

rates to 6.25%, 1.0%, and 4.25%, respectively. China announced targeted FX measures, most notably cutting the USD/CNY forward FX risk reserve requirement to 0% to support growth and exports. The People’s Bank of China (PBoC) left its benchmark lending rates unchanged for a ninth consecutive month, in line with expectations.

On the fiscal side, divergence across EM economies persisted. China and parts of Asia continued to deploy front-loaded fiscal stimulus, supported by increased bond issuance and infrastructure spending. Conversely, several LatAm economies faced tighter fiscal constraints amid rising wage bills, higher debt service costs, and political pressures.

Overall, EM hard currency debt generated positive returns, supported by the treasury component and selective sovereign spread compression earlier in the month. However, gains were capped as spreads widened from multi-year tightness later in February. EM local currency debt also posted positive returns, largely driven by persistently high real yields, healthy inflows into the asset class, and major EM currencies gaining against the US dollar. Net flows in the month for hard currency and local currency bonds were positive, amounting to +\$3.9bn and +\$5.0bn, respectively.¹

Figure 2: Emerging market debt index returns

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	1.29	5.04	8.44	3.49	20.15	10.37	2.59
EMBI GD (EM Hard Currency)	1.39	2.81	7.31	2.08	13.24	11.03	2.95
CEMBI BD (EM Corporates)	0.90	2.14	3.94	1.65	7.98	8.57	2.85
In EUR							
GBI-EM GD (EM Local Currency)	2.06	3.25	7.50	2.94	5.84	6.49	3.16
EMBI GD (EM Hard Currency)	2.15	1.06	6.38	1.54	-0.25	7.12	3.52
CEMBI BD (EM Corporates)	1.67	0.40	3.05	1.12	-4.89	4.75	3.42
In GBP							
GBI-EM GD (EM Local Currency)	3.38	3.52	8.97	3.54	12.53	6.58	3.40
EMBI GD (EM Hard Currency)	3.48	1.32	7.84	2.12	6.06	7.22	3.76
CEMBI BD (EM Corporates)	2.99	0.66	4.45	1.70	1.13	4.84	3.66

Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 27 February, 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 27 February 2026

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-3 bps	-7 bps	-4 bps	5.83%
EMBI GD Yield	-13 bps	-18 bps	-15 bps	6.66%
EMBI GD Spread	14 bps	-11 bps	5 bps	259 bps
CEMBI BD Yield	-13 bps	-15 bps	-16 bps	6.20%
CEMBI BD Spread	17 bps	-8 bps	6 bps	275 bps
CDX.EM 5y	7 bps	0 bps	10 bps	135 bps
10y UST	-30 bps	-8 bps	-23 bps	3.94%
Dollar Index (DXY)	0.64%	-1.86%	-0.73%	—
DOW 30	0.17%	2.64%	1.90%	48,978
Oil (WTI)	2.78%	14.47%	16.72%	\$67.02

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Local currency market highlights

EM local currency debt returned +1.29% (in USD terms) in February 2026, as measured by the JP Morgan GBI-EM Global Diversified Index. A major contribution to the performance outcome came from the treasury component (+0.72%), which combines the bond and interest rate returns. EM local bonds maintained early-year momentum with easing inflation trends across emerging markets and high real yields. The GBI-EM GD Index yield decreased by 3 basis points (bps) in the month. The contribution from the foreign exchange (FX) component was also positive (+0.52%). Fourteen out of the 19 currencies in the index gained against the US dollar, driven by macro fundamentals and flows into high carry EM FX, with six currencies appreciating by more than 1%. On a regional basis, Asia outperformed, followed by LatAm, with Europe delivering the lowest absolute returns.

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 \$)	1.29	5.04	3.49
FX return (vs \$)	0.58	2.94	2.01
Price return (local currency)	0.28	0.69	0.58
Interest return (local currency)	0.43	1.41	0.90
In EUR			
Total return (in €)	2.06	3.25	2.94
FX return (vs €)	1.34	1.15	1.46
In GBP			
Total return (in £)	3.38	3.52	3.54
FX return (vs £)	2.67	1.42	2.06

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Figure 5: Best and worst performers across EM local government bond markets in USD*

February 2026	Country	Total return USD (%)	Bond return (%)	FX return (%)	Index weight (%)	Index impact (bps)**
GBI-EM GD		1.29	0.72	0.58		
Top 5 performers	Dominican Republic	7.5	3.0	4.5	0.3	2
	Thailand	3.3	1.7	1.5	8.4	28
	Brazil	3.1	1.0	2.1	6.9	21
	South Africa	2.6	1.8	0.8	7.5	19
	Mexico	2.5	1.7	0.8	10.0	25
Bottom 5 performers	Peru	-0.1	-0.1	0.0	2.0	0
	Poland	-0.3	0.8	-1.0	8.4	-2
	Turkey	-0.5	0.5	-1.1	1.1	-1
	Chile	-0.8	0.5	-1.3	1.8	-1
	Colombia	-6.7	-4.6	-2.2	3.7	-25

Source: State Street Investment Management, JP Morgan, Bloomberg, as of 27 February, 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.

Dominican Republic was the best performer in February, largely driven by carry, as investor confidence remained anchored by solid growth, prudent debt management, and ongoing efforts to deepen local-currency financing and liability-management operations. The yield curve experienced a ‘bull steepening’ in the month, with the two-year yield falling by 29bps. The Dominican Republic peso appreciated against the US dollar by 5.24% to close February at 59.77.

Thailand was another good performer. The Bank of Thailand lowered its benchmark interest rate by 25bps to 1%, contrary to market expectations of a hold. The annual inflation rate stood at -0.88% year-on-year in February, lower than expectations of a -0.50% reading—this marks the eleventh consecutive month of deflation. The Thai baht appreciated against the US dollar by 1.25% in February and closed at 31.08.

Brazil also featured among the better performers as high real yields continued to attract domestic institutional demand and selective foreign inflows into BRL-denominated issues. The yield curve experienced a ‘bull steepening’ in February, with the two-year yield decreasing by 66bps. Brazil’s annual inflation rate increased to 4.44% year-on-year in January, broadly in line with market expectations of 4.43%. The Brazilian real appreciated against the US dollar by 2.63% in February and closed at 5.13.

Colombia was the poorest performer in the latest month, with the outcome driven by the ramifications from an unexpected January rate hike, heavy domestic issuance, and concerns around fiscal slippage. Elevated inflation and policy uncertainty kept risk premia high, limiting duration gains, and leaving Colombia lagging other EM local markets. The country’s annual inflation rate increased to 5.35% in January from 5.10% in December. The Colombia peso fell against the US dollar by 1.48% in February and closed at 3,751.64.

Chile was also among the poorer performer in February, with the FX component largely accounting for this outcome. The Chilean peso took a hit early in the month and recovered some ground toward month-end, aided

by a recovery in copper prices; the peso ultimately made a marginal gain of 0.11% against the US dollar to close February at 872.73. The bond component return was flat. The annual inflation rate in Chile fell to 2.8% in January, down from 3.5% in December for its lowest reading since February 2021.

Hard currency market highlights

EM hard currency sovereign debt returned +1.39% (in USD terms) in February 2026, as measured by the JP Morgan EMBI Global Diversified Index, marking a tenth consecutive month of positive returns. Performance was driven primarily by the Treasury component (+2.10%). The JP Morgan EMBI GD Index yield decreased by 13bps in the month. The spread component return was negative (-0.70%). EMD hard currency sovereign spreads persisted near record lows through February before widening later in the month in response to a pick-up in risk aversion amid geopolitical developments. The JP Morgan EMBI GD Index spread widened by 14 bps in February. On a regional basis, Latin America outperformed, followed closely by Europe. The widening in Investment grade/High Yield (IG/HY) sovereign spreads enabled the investment grade sub-index to outperform its high yield counterpart by approximately +0.98%.

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	1.39	2.81	2.08
Spread Return	-0.70	1.35	0.09
Treasury Return	2.10	1.44	1.98
IG Sub-Index	1.87	1.72	1.73
HY Sub-Index	0.89	3.89	2.40

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

February 2026	Country	Total return (%)	Spread return (%)	Trsry. return (%)	Avg. Index weight (%)	Index impact (bps)**
EMBI global diversified		1.39	-0.70	2.10		
Top 5 performers	Senegal	8.4	6.7	1.5	0.2	2
	Venezuela	4.8	4.5	0.3	1.3	6
	Panama	3.5	0.6	2.9	2.7	10
	Bolivia	2.9	2.4	0.5	0.2	1
	Bulgaria	2.6	-0.2	2.8	0.2	0
Bottom 5 performers	Kenya	-0.8	-2.6	1.9	1.2	-1
	Mozambique	-1.3	-2.2	1.0	0.1	0
	Gabon	-1.6	-2.6	1.0	0.2	0
	Ethiopia	-1.9	-2.1	0.2	0.1	0
	Argentina	-1.9	-3.5	1.7	2.6	-5

Source: State Street Investment Management, JP Morgan, Bloomberg, as of 27 February, 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.

Panama stood out in February with its performance contributing 10bps to the index return. The country's USD sovereign bonds benefited from falling US Treasury yields. Panama's liability management and tender operations reduced net supply and tightened bond-level technicals, amplifying price gains. Panama sold USD 3 billion of global bonds in its first deal since President Jose Raul Mulino took office, with the proceeds expected to help fund a buyback of outstanding debt.

Venezuela was another good performer in the month, contributing 6bps to the index return. Venezuelan sovereigns and PDVSA bonds, that have been in default since 2017, have surged since the start of the year,

driven by the US removal of President Maduro from office. Markets priced in a credible path to a sovereign debt restructuring and higher recovery rates under a transitional government, something that was impossible under Maduro due to sanctions. Venezuelan dollar bonds are currently priced at around 40 cents on the dollar.

Senegal also performed well, contributing 2bps to the index return. Senegal's USD bonds rallied strongly after confirmation that the government had secured funding to meet the March Eurobond payment, removing an imminent default risk and triggering a rapid unwind of distressed positioning despite weak fundamentals. Hopes of renewed engagement with the International Monetary Fund (IMF) priced out debt restructuring possibilities and helped stabilize investor expectations.

Argentina was among the underperformers in February, detracting 5bps from index return. Argentina's USD denominated sovereigns were impacted by investors' focus on liquidity risk, as large obligations to the IMF were met via emergency support rather than reserves, while heavy upcoming HC maturities kept rollover concerns elevated. This was compounded by wider sovereign spreads from new issuances and uncertainty around an IMF review, making Argentina's USD curve vulnerable during a mild EM risk-off phase.

Kenya was also an underperformer, detracting 1bp from index returns—the spread component accounted for the underperformance. Kenya's hard currency sovereigns were impacted by significant Eurobond supply and liability-management activity, as the USD 2.25 billion issuance and associated buybacks pressured secondary-market prices across the yield curve. This was compounded by ongoing debt-sustainability concerns, leading investors to demand higher risk premia to hold the debt.

To discover more about what 2026 may have in store, please explore our [EMD Outlook](#)

Endnote

1 Source: JP Morgan.

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