

Emerging market debt: Why it belongs in your investment portfolio

Jennifer Taylor

Head of Emerging Market Debt
Global Fixed Income Solutions

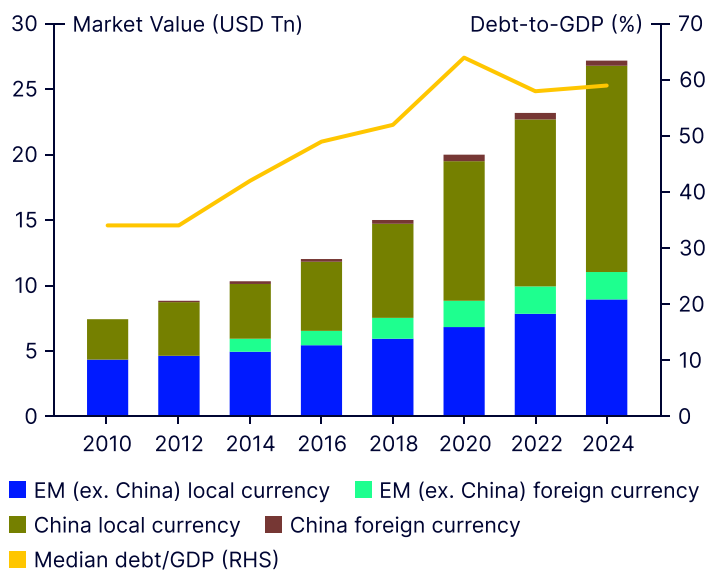
The case for a portfolio allocation to emerging market debt has continued to strengthen. It is a long time since EMD was considered an opportunistic investment option that carried high levels of risk. Today, it is more widely understood that emerging market bonds offer yield enhancement potential and strong diversification benefits. Moreover, the accessibility of these markets has improved immensely and the number of countries in EM indices has grown considerably—Saudi Arabia is set to be included in JP Morgan’s flagship local currency index in early 2027.¹

Underpinned by the relatively stronger economic growth of EM countries and generally lower debt burdens, the asset class ticks key investment boxes. We believe that EMD should always be in the portfolio construction conversation.

Emerging market debt: From niche exposure to essential portfolio allocation

Over the course of the last 25 years, the total EMD market has grown significantly to stand at over \$30 trillion at the end of 2025.² EMD's proportion of the global bond market has also increased notably, rising from about 2% in 2000 to over 25% in 2025, making it increasingly difficult for global investors to disregard. The chart below from the International Monetary Fund illustrates the nature of that growth.

Figure 1: EMD growth accelerates (2010–2024)



Source: International Monetary Fund World Economic Outlook database; IMF staff calculations; and sovereign investor base estimates by Arslanalp and Tsuda (2014). Note: chart includes the maximum sample of 56 countries.

State Street Investment Management has long recognized the ability of EMD to play a distinct and valuable role in institutional portfolios. As one of the biggest managers of emerging market debt, and with five decades of experience in an evolving market environment, we have witnessed large-scale fundamental shifts in both the marketplace and in attitudes toward investing in EMD. While the asset class is still prone to occasional bouts of volatility, investors

are now more comfortable at looking through short-term noise when making allocations.

A place in every institutional portfolio

The attitude of institutional investors toward emerging market debt has changed significantly. Where once, many investors perhaps only considered it as a substitute for part of their core fixed income allocation, there is now recognition that the asset class is best viewed as a complementary exposure. A key attraction for investors is the higher income potential of holding EM bonds, given yields that offer a healthy premium over developed market sovereign and corporate debt. That risk premium is attractive for an asset class with robust credit ratings and lower levels of default than is often perceived.

The increased adoption of EMD by institutional investors serves as validation of our view that EMD is no longer a niche exposure. How institutional investors go about making that allocation is particularly important. A belief that an active approach to investing in EMD was necessary is no longer as widely held. Indeed, we have seen a consistent trend of sophisticated investors allocating to indexing/enhanced indexing strategies to harness the return potential in a reliable and efficient way. Whatever the approach taken, investors are seeking to understand and manage the key factors involved in incorporating EMD allocations, from customized benchmarks to tracking error and liquidity, and disciplined implementation.

Investors can today more easily build an EMD exposure—whether in hard currency, local currency, or a blend—to enhance portfolio returns without a notable increase in volatility. And with ongoing developments continuing to challenge some of the traditional perceptions around how best to access the asset class, the case for **indexed EMD** exposure has strengthened further.

Why State Street for EMD

State Street Investment Management's Emerging Market Debt (EMD) platform has grown substantially through the last 15 years and we are now among the five largest EMD managers in the world. This sustained growth has been driven by institutional client demand for opportunities in the asset class and the disciplined, scalable investment approach taken at State Street.

The emerging market debt universe is complex, fragmented, and highly diverse. State Street Investment Management has delivered for our clients through **specialization, partnerships, and continuous innovation** in this asset class. The sustained growth of our business has been achieved through a period marked by macroeconomic uncertainty, shifting monetary policy regimes, and evolving geopolitical dynamics. In an ever-shifting environment, emerging market debt retains an increasingly important role within institutional portfolios, **offering income, diversification, and differentiated sources of return.**

A dedicated emerging market debt platform

Emerging market debt is an asset class that warrants attention in its own right rather than as an alternative for other fixed income instruments. Our EMD platform is dedicated solely to the asset class and is supported by deep experience across local and hard currency markets, global market coverage, and a repeatable investment process designed to deliver consistent outcomes over time.

Comprehensive range of EMD offerings

Local Currency Debt	Live since
Local Currency Core Strategy	01/2005
Local Currency Enhanced Strategy	10/2019
Hard Currency Debt	Live since
Hard Currency Sovereign Strategy	09/2012
Hard Currency Corporate Strategy	04/2014

As well as the support of our global footprint, our clients benefit from local market expertise. This provides us with crucial market insights that feed into portfolio

construction and implementation results. Moreover, we are continuously innovating to enhance our process and maintain a leading investment edge and retain a proactive mindset toward market developments, index events, and client requirements.

Scale, partnership, customization

Sophisticated institutional investors have been the key drivers of flows into emerging market debt and we partner closely with our clients to build and implement solutions aligned to their objectives.

Our partnership approach is underpinned by:

- Two-way, proactive communication with full transparency
- Clear insights into trade-offs when customizing mandates
- Cost-aware implementation
- A focus on long-term client outcomes

Our EMD strategies aim to deliver the performance of all major EMD benchmark indices using sophisticated investment techniques.

- **Insight:** Throughout our long track record, which spans the full EMD spectrum, we have accumulated deep market insights and expertise in how these markets operate and perform.
- **Expertise:** We manage a variety of funds and ETFs as well as separately managed accounts that track the performance of the established institutional EMD benchmarks. We also manage customized versions of these. We have considerable experience partnering with clients to design a specific EMD exposure and strategy that is consistent with their own investment objectives and beliefs.
- **Sustainability:** We manage indexed sustainability-screened hard currency and local currency EM bond strategies and funds that aim to closely track the return of the relative JP Morgan index.

Where we add value

Rather than seeking to make directional macro bets, our focus is on **delivering excellent index tracking**, managing risk tightly, and adding value through disciplined portfolio construction and implementation.

Consistent and scalable through market cycles

Our EMD platform has been built and refined across multiple market environments. Throughout periods of volatility and shifting liquidity conditions, as well as index developments, we have remained focused on **consistency, scalability, and transparency**.

To meet our clients' expectations and objectives, we continually seek to:

- Deliver reliable, repeatable outcomes across portfolios
- Maintain consistency of performance through time
- Provide clear attribution and transparency around results
- Scale complex and customized mandates without compromising discipline

To this end, we have developed a **stratified sampling methodology** that aims to strike the right balance between minimizing tracking error and the cost of implementation.

Trading advantage supports success

Effective trading is critical to success in emerging market debt. Our platform is supported by a **dedicated EMD trading capability**, with specialist traders providing around-the-clock market coverage across major regions.

Our trading approach is designed to minimize implementation costs and reduce performance drag, supported by:

- Dedicated EMD traders with regional and instrument specialization
- 24-hour coverage aligned to global EMD market hours
- Large and diversified trading volumes
- Broad counterparty access, including global banks, local brokers, and electronic platforms
- High touch trading in less liquid and restricted currencies

By combining market insight, scale, and execution expertise, we seek to deliver **low execution costs and efficient implementation** for client portfolios.

The long-term growth potential in EMD

The growth of EMD assets under management is a reflection of the trust our clients place in our capabilities. We remain committed to delivering the robust solutions and outcomes that they seek. As the asset class evolves, we will continue to invest in our people, processes, and trading capabilities to support investors over the long term.

Emerging market debt is a versatile asset class, one that we believe should be an integral part of investors' portfolios. For fixed income investors willing to move out on the risk spectrum, EMD still presents a notable yield pick-up opportunity. It also offers equity investors risk mitigation potential with modest return dilution.

This paper is part of a broader **Income, Engineered for Outcomes** series.

- Visit the [Fixed Income Hub](#) to continue the series

Endnotes

- 1 Per JP Morgan, Saudi Arabia and the Philippines will be the latest countries added to JP Morgan's GBI-EM local currency emerging market bond index. Inclusion begins from January 29, 2027.
- 2 [Sovereign Debt 2025: Up In The U.S.; Down In Latin America | S&P Global Ratings.](#)

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Marketing communication

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Investing involves risk including the risk of loss of principal.

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.

Diversification does not ensure a profit or guarantee against loss. It is not possible to invest directly in an index. Index performance does not reflect charges and expenses associated with the fund or brokerage commissions associated with buying and selling a fund. Index performance is not meant to represent that of any particular fund.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond values and yields usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. International Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. Investing in high yield fixed income securities, otherwise known as junk bonds, is considered speculative and involves greater risk of loss of principal and interest than investing in

About State Street Investment Management

At State Street Investment Management, we draw from our global scale and market-tested expertise to help create original solutions and better outcomes for our clients and the world's investors.

investment grade fixed income securities. These Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Increase in real interest rates can cause the price of inflation-protected debt securities to decrease. Interest payments on inflation-protected debt securities can be unpredictable.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

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The views expressed in this material are the views of Jennifer Taylor through the period ended 15 May 2026 and are subject to change based on market and other conditions.

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