

Emerging Market Debt Market Commentary: Q2 2026

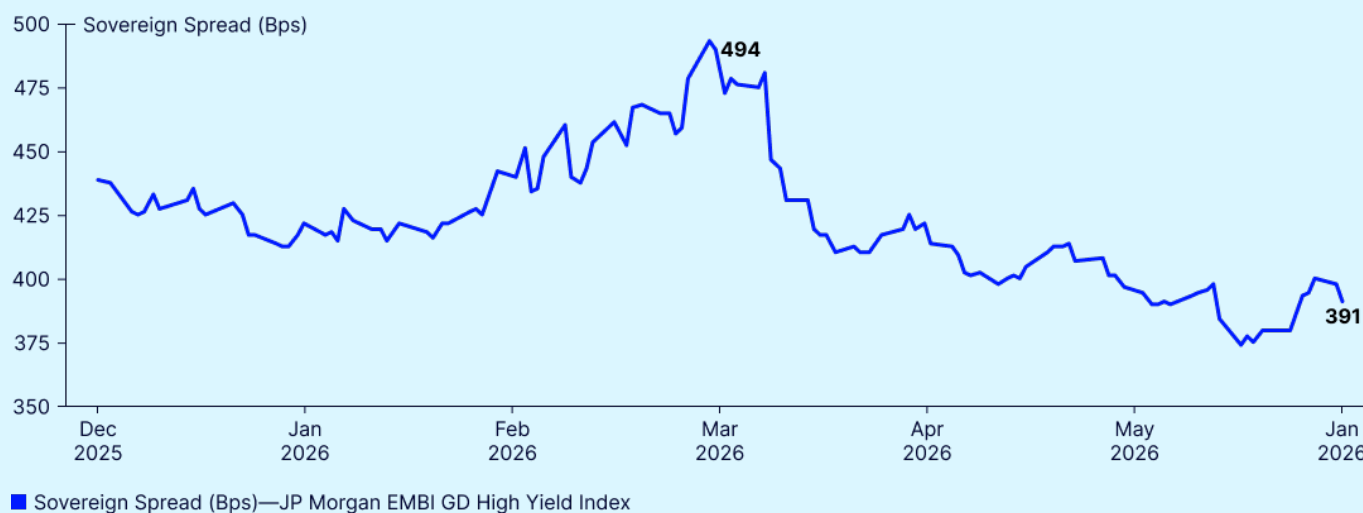
Insights
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Chart of the quarter: Hard currency spreads benefit from tailwinds

Emerging market high yield sovereign spreads tightened significantly through the latest quarter, propelled by renewed risk appetite following a deescalation in the US-Iran conflict in April. Although spreads then briefly widened in early May on lingering Strait of Hormuz tensions and ceasefire violations, the subsequent 14-point US-Iran Memorandum of Understanding in June underpinned renewed tightening. Gains among distressed issuers—notably Venezuela, Ukraine, Sri Lanka, and Kenya—amplified the move. Technicals reinforced the trend, with healthy yields attracting flows, supported by the strongest sovereign upgrade momentum among lower-rated issuers in over a decade. Gains partially reversed into quarter-end, as Israel, Iran, and the US traded strikes, testing the ceasefire.

Figure 1: Spread tightening trend returns in Q2



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

A broad-based rebound in Q2

Emerging market (EM) debt entered Q2 on a firmer footing as the acute Q1 sell-off triggered by the US/Israel–Iran war and associated spike in oil prices was partially reversed. The early-quarter backdrop was supported by resilient global liquidity, elevated EM real yields, and some US dollar weakening; EM local currency debt benefited from currency appreciation, carry, and modest duration gains. EM hard currency debt also rebounded, led by spread compression among high yield and distressed sovereigns. Market expectations of de-escalation in the Middle East eased risk premia, although continued restrictions on transport through the Strait of Hormuz kept oil prices volatile—this supported commodity exporting countries but weighed on the fortunes of importers via current-account and inflation channels. By May, the recovery had become more differentiated: the US dollar regained ground, local currency performance turned uneven, and hard currency spreads retraced to historically tight levels. The most consequential June development was the US–Iran Memorandum of Understanding signed by President Trump at the Palace of Versailles on June 17, during the G7 in Evian-les-Bains—this established a 60-day ceasefire and the reopening of the Strait of Hormuz. Once again, this reprieve was short-lived. On June 25, an Iranian drone strike on a Singapore-flagged vessel transiting the Strait sparked tit-for-tat attacks by the US on Iran and Iranian attacks on US bases in Bahrain and Kuwait, ensuring the quarter closed on a cautious tone.

Trade negotiations re-emerged as a key driver of EM risk premia late in Q2, with the US Trade Representative's proposal of labor-related tariffs of 10–12.5% on around 60 economies, including major EM countries. At the same time, bilateral talks with the US intensified across parts of EM ahead of the 24 July expiry of Washington's temporary 10% baseline tariff.

Country-specific developments also shaped returns. Hungary outperformed after Péter Magyar's Tisza Party won the election on 12 April, securing a two-thirds supermajority that prompted markets to price in netter relations with the European Union and the potential unlocking of around €18 billion in frozen funds. By comparison, Romania struggled, with government instability and fiscal concerns keeping investors cautious. In Latin America, Peru's election

cycle weighed on sentiment ahead of the June runoff, in which Keiko Fujimori narrowly defeated Roberto Sánchez. Colombia's first-round presidential election outcome in May was received well by markets with Abelardo de la Espriella, who advocated fiscal discipline, subsequently winning the June runoff. In Turkey, political and legal developments weighed on investor confidence and contributed to weakness in local assets. Argentina's hard currency bonds strengthened after Fitch upgraded the sovereign to B- from CCC+ and the International Monetary Fund (IMF) completed the second review under its Extended Fund Facility (EFF). Ukraine, Zambia, and Mozambique also benefited from funding and IMF-related developments, which supported sovereign valuations despite fragile macroeconomic positions.

The US Federal Reserve (Fed) kept the federal funds target range unchanged at 3.50%–3.75% through Q2, with the June meeting under new Chair Kevin Warsh reflecting a more cautious tone that emphasized persistent inflation and energy-related supply pressures. This kept global duration conditions restrictive and limited the scope for a broad EM rates rally. Most EM central banks remained guarded, though policy divergence remained a feature. In LatAm, Brazil cut the Selic by 25 bps in both April and June to 14.25%, in line with expectations. Banco de México lowered its policy rate by 25 bps in Q2 to 6.50%. In Asia, the Bangko Sentral ng Pilipinas increased its benchmark rate twice by 25 bps in Q2 to 4.75%. Bank Indonesia delivered three hikes in Q2 totaling 100 bps to 5.75%, in an effort to stabilize the rupiah after it hit a record low. The Reserve Bank of India held the repo rate at 5.25% and raised its inflation forecast for 2027 to 5.1% on oil and monsoon risks. The People's Bank of China (PBoC) held its one-year Loan Prime Rate and five-year Mortgage Reference Rate at 3.00% and 3.50%, respectively, for the thirteenth consecutive month in June.

Fiscal divergence across EM persisted. China continued to lean on fiscal support, including higher government bond issuance and ultra-long special treasury bonds, while monetary policy remained steady. Several Latin American economies faced tighter fiscal constraints due to high borrowing costs, debt-service burdens, and political pressure on spending. In EM Europe, fiscal slippage and coalition instability remained material drivers of risk premia.

Overall, EM local currency debt delivered positive returns in Q2, supported by high real yields and selective FX strength—though currency performance dispersed as the quarter progressed. EM hard currency debt benefited from strong spread compression early on, led by high yield sovereigns, but softened in

June as spreads widened. Supportive global liquidity conditions and a broadly risk-on tone through much of the quarter underpinned EM debt inflows, with net flows in Q2 of approximately +\$9.0 billion into hard currency and +\$4.5 billion into local currency EM bond funds (Source: J.P. Morgan).

Figure 2: Emerging market debt index returns (30 June 2026)

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	0.20	3.85	1.52	1.52	7.85	7.31	2.13
EMBI GD (EM Hard Currency)	0.72	4.63	3.32	3.32	11.78	10.32	2.58
CEMBI BD (EM Corporates)	0.42	2.42	2.21	2.21	6.82	7.98	2.67
In EUR							
GBI-EM GD (EM Local Currency)	2.27	4.66	4.28	4.28	10.73	5.65	2.88
EMBI GD (EM Hard Currency)	2.80	5.45	6.13	6.13	14.77	8.61	3.34
CEMBI BD (EM Corporates)	2.50	3.22	5.00	5.00	9.68	6.30	3.42
In GBP							
GBI-EM GD (EM Local Currency)	1.76	3.18	2.88	2.88	11.35	5.78	2.95
EMBI GD (EM Hard Currency)	2.29	3.96	4.70	4.70	15.41	8.75	3.41
CEMBI BD (EM Corporates)	1.98	1.76	3.58	3.58	10.29	6.44	3.49

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June 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: JSTAR emerging market debt index returns (30 June 2026)

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
JSTAR GBI-EM (EM Local Currency)	-0.10	4.03	1.61	1.61	8.44	7.74	2.43
JSTAR EMBI (EM Hard Currency)	0.86	4.36	2.49	2.49	10.17	9.21	1.61

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June 2026. JP Morgan Screened Tilted and Reweighted (JSTAR) indices. 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 4: Key EM and Macro levels (30 June 2026)

Item	1 Month	3 Months	YTD	Current Level
GBI-EM GD Yield	-10 bps	-27 bps	23 bps	6.10%
EMBI GD Yield	1 bps	-39 bps	12 bps	6.92%
EMBI GD Spread	-2 bps	-53 bps	-18 bps	235 bps
CEMBI BD Yield	-2 bps	-19 bps	12 bps	6.48%
CEMBI BD Spread	-5 bps	-40 bps	-20 bps	248 bps
CDX.EM 5y	-10 bps	-53 bps	16 bps	141 bps
10y UST	3 bps	15 bps	30 bps	4.47%
Dollar Index (DXY)	2.27%	1.23%	2.91%	—
DOW 30	2.52%	12.90%	8.85%	52319
Oil (WTI)	-20.44%	-31.45%	21.04%	\$ 69.5

Source: JP Morgan, Bloomberg as of 30 June 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.

Local currency market highlights

EM local currency debt returned +3.85% (in USD terms) in Q2 2026, as measured by the JP Morgan GBI-EM Global Diversified Index, with gains led by strong local bond performance and modestly positive FX returns. The bond component posted positive returns (+3.31%), reflecting downward shifts in local yield curves as the pullback in oil prices on the mid-June US-Iran developments helped unwind the inflation risk premium built up earlier in the quarter. Carry reinforced duration-related price gains, particularly in high-beta and longer-duration markets. Over the quarter, the GBI-EM GD yield fell by 27 bps to 6.10%. The FX component also contributed positively (+0.54%). The US dollar softened through much of Q2 against higher-yielding EM currencies, supported by attractive carry and easing geopolitical risk premia. This reversed after the Fed's June meeting, where a hawkish tone from new Fed Chair Kevin Warsh drove the US dollar higher, tempering the currency contribution. Broadly, 13 of the 20 index currencies posted gains against the US dollar in Q2. Regionally, LatAm outperformed in absolute terms, though all regions posted positive returns.

Figure 5: 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 \$)	0.20	3.85	1.52
FX return (vs \$)	-1.13	0.54	-0.93
Price return (local currency)	0.85	1.89	-0.39
Interest return (local currency)	0.47	1.42	2.84
In EUR			
Total return (in €)	2.27	4.66	4.28
FX return (vs €)	0.95	1.35	1.84
In GBP			
Total return (in £)	1.76	3.18	2.88
FX return (vs £)	0.44	-0.13	0.43

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June 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.

Figure 6: Best and worst performers across EM local government bond markets in USD*

Q2 2026	Country	Total return USD (%)	Bond return (%)	FX return (%)	Index weight (%)	Index impact (bps)*
GBI-EM GD		3.85	3.31	0.54	—	—
Top 5 performers	Hungary	19.4	10.9	8.5	2.70	51
	Colombia	16.1	9.4	6.7	4.80	78
	South Africa	12.8	8.0	4.8	7.60	97
	Mexico	7.2	3.8	3.4	10.00	72
	Peru	7.1	4.6	2.5	2.00	14
Bottom 5 performers	Thailand	0.5	2	-1.5	7.90	4
	Malaysia	0.4	1.1	-0.7	9.40	4
	Romania	0.0	3.5	-3.5	3.20	0
	Serbia	-0.2	0.5	-0.7	0.30	0
	Indonesia	-5.3	-0.4	-4.9	9.10	-48

Source: State Street Investment Management, JP Morgan, Bloomberg as of 30 June 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 calculated by multiplying the period ending weight by total return.

Hungary was the best performer in Q2 as local markets benefited from currency appreciation, disinflation, and improved risk sentiment. Headline annual inflation eased to 1.8% in May (from 2.1% in April), settling near the lower end of the central bank's 2% to 4% band. In June, the National Bank of Hungary cut the base rate by 25 bps to 6%, noting that softer inflation, a stronger forint, and de-escalation in the Iran conflict supported easing. The Hungarian forint strengthened 6.3% versus the US dollar in Q2 and closed at 311.3.

Colombia was another good performer. Improving risk sentiment supported the macro backdrop for the Colombian peso, which appreciated against the US dollar by 6.9% in Q2 and closed at 3,418.2. The annual inflation rate ticked up to 5.8% in May (from 5.68% in April), its highest reading since August 2024. In an effort to push inflation back onto a declining path, the Central Bank of Colombia hiked its policy rate by 75 bps in Q2 to 12%.

South Africa was also among the good performers in Q2. Fitch Ratings upgraded the country's Long-Term Issuer Default Ratings from BB- to BB, citing four consecutive years of primary budget surpluses averaging ~1% of GDP, stronger revenue collection, and improved fiscal discipline. The South African Reserve Bank raised its key repo rate by 25 bps to 7% in the quarter amid rising inflation expectations. The South African rand appreciated against the US dollar by 3.3% in Q2 and closed at 16.39.

Indonesia was the worst performer in the quarter. Heavy foreign investor outflows and record-low rupiah levels forced Bank Indonesia to raise its benchmark policy rate by a cumulative 100 bps to 5.75% in Q2, pushing local yields higher across the curve. Annual inflation accelerated to 3.34% in June from 3.08% in May, which further pressured the front end of the yield curve. Structural concerns around President Prabowo's expansive spending plans, ballooning fuel subsidies, and doubts over central bank autonomy compounded the risk-off tone. The Indonesia rupiah depreciated against the US dollar by 5.2% in Q2 and closed at 17,882.

Serbia was another laggard in Q2, with the country's exposure to the Middle East energy shock and pass-through pressure on domestic fuel prices weighing on inflation and bond performance. The National Bank of Serbia kept its policy rate unchanged at 5.75% through the quarter and emphasized that inflation may temporarily breach the upper bound of its 3% ($\pm 1.5\%$) target band later in the year. The Serbian dinar weakened against the US dollar by 1.0% and closed the quarter at 102.77.

Romania was another poor performer in the period. The oil price surge contributed to annual inflation rising to 10.9% in May from 9.9% at the end of Q1. The National Bank of Romania kept its policy rate unchanged at 6.50% throughout the quarter, with policymakers noting a high level of uncertainty from energy prices, fiscal consolidation, and geopolitical tensions. As global markets grew cautious on fast-moving events in the Middle East, the Romanian leu depreciated against the US dollar by 4.0% and closed at 4.49.

Performance comparison of JPM local currency benchmark vs JSTAR local currency benchmark

The JP Morgan Screened Tilted and Reweighted GBI-EM Index returned +4.03% (in USD terms) in Q2 2026, outperforming the standard JP Morgan GBI-EM Global Diversified Index return of +3.85%. This outperformance was driven by relative index overweights in Czech Republic (+2.6%), Hungary (+1.4%), South Africa (+1.1%), and Poland (+1.3%), which together contributed +55 bps to excess returns as these markets posted sizeable positive returns. A relative underweight in Indonesia (-2.1%) added a further +11 bps, as Indonesian local bonds materially underperformed in Q2. These positive contributions were partly offset by relative underweights in China (-2.3%), Mexico (-2.3%), India (-2.3%), and Colombia (-1.1%), which collectively detracted -51 bps from excess returns, as these markets posted positive returns in Q2.

Figure 7: Key return drivers of JSTAR EM local government bond markets

JSTAR GBI-EM (ESG EM Local Currency)	Monthly Return (%)	3 Month Return (%)	YTD Return (%)
In USD			
Total Return (in \$)	-0.10	4.03	1.61
FX Return (vs \$)	-1.40	0.59	-0.94
Price Return (Local currency)	0.85	2.08	-0.18
Interest Return (Local currency)	0.45	1.36	2.73

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June 2026. JP Morgan Screened Tilted and Reweighted (JSTAR) indices. 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.

Figure 8: Relative Over/Underweights (JSTAR GBI-EM vs GBI-EM GD)

June 2026	Country	JSTAR GBI-EM (%)	GBI-EM GD (%)	Relative Weight (%)
Top 5 Overweights	Czech Republic	7.3	4.8	2.6
	Hungary	4.1	2.7	1.4
	Poland	10.0	8.7	1.3
	Thailand	9.1	7.9	1.2
	South Africa	8.7	7.6	1.1
Top 5 Underweights	Colombia	3.7	4.8	-1.1
	Indonesia	7.0	9.1	-2.1
	India	7.7	10.0	-2.3
	China	7.7	10.0	-2.3
	Mexico	7.7	10.0	-2.3

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June 2026. Country exposures are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

Hard currency market highlights

EM hard currency sovereign debt returned +4.63% (in USD terms) in Q2 2026, as measured by the JP Morgan EMBI Global Diversified Index, with gains led by strong spread tightening and a modest positive contribution from the treasury component (+0.15%). The spread component return (+4.48%) was the primary driver of total returns, with the JPM EMBI GD spread tightening by 53 bps in Q2 to end at 235 bps. EM sovereign spreads had widened early in the quarter on the escalation of Middle East tensions and the associated oil shock, before rallying sharply through May and June as the US-Iran ceasefire framework in mid-June unwound the geopolitical risk premium. The spread-tightening was broad-based but particularly benefited the high yield (HY) section of the benchmark, which significantly outperformed Investment Grade counterpart (HY: +6.74% vs IG: +2.48%) as lower rated names rallied on the risk-on turn. The JPM EMBI GD yield trended lower through most of Q2, before ticking higher into quarter-end to end June 39 bps lower at 6.92%.

Figure 9: 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	0.72	4.63	3.32
Spread Return	0.50	4.48	3.12
Treasury Return	0.22	0.15	0.19
IG Sub-Index	0.45	2.48	1.18
HY Sub-Index	0.97	6.74	5.38

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June 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.

Figure 10: Best and worst performers across EM hard currency government bond markets*

Q2 2026	Country	Total return (%)	Spread return (%)	Trsry. return (%)	Index weight (%)	Index impact (bps)*
EMBI GD		4.63	4.48	0.15	—	—
Top 5 performers	Ukraine	25.9	25.9	0.0	1.9	49
	Mozambique	20.1	19.9	0.1	0.1	2
	Sri Lanka	12.3	12.2	0.1	1.1	13
	Republic of Congo	11.3	11.2	0.0	0.1	1
	Kenya	11.0	11.0	0.0	1.3	14
Bottom 5 performers	Indonesia	1.9	1.5	0.4	4.1	8
	Malaysia	1.6	1.3	0.4	5.2	8
	Senegal	1.6	1.7	-0.1	0.2	0
	India	1.0	0.8	0.1	0.8	1
	China	0.5	0.0	0.5	3.3	2

Source: State Street Investment Management, JP Morgan, Bloomberg as of 30 June, 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 was among the outperformers in Q2, contributing 49 bps to index returns, primarily driven by the spread component. Ukrainian sovereign bonds were supported by tangible progress on the country's new USD 8.1 billion Extended Fund Facility from the IMF, including the staff-level agreement on the first program review reached in June. Sentiment was

further bolstered by Western support signals from the G7 summit, the Ukraine Defense Contact Group, the European Council, and bilateral engagements with key partners, alongside improving global risk appetite that drove a sharp rerating across the curve earlier in the quarter.

Kenya was another strong performer in Q2, contributing 14 bps to index returns. Sentiment was underpinned by improving credit fundamentals and a strong external liquidity position—its FX reserves of ~USD 13 billion is equivalent to ~5.3 months of import cover. Constructive engagement with the IMF on a successor arrangement to the expired USD 3.6 billion EFF further bolstered sentiment. Demand for Kenyan external debt also strengthened alongside a broader reopening of the frontier Eurobond window, which saw several African sovereigns return to international markets.

Sri Lanka also performed well in Q2, contributing 13 bps to index returns. Sentiment was supported by continued progress under the 48-month IMF EFF—a staff-level agreement on the combined 5th and 6th reviews was reached in April and Executive Board approval followed on 27 May, unlocking ~USD 695 million and bringing cumulative disbursements to ~USD 2.4 billion. Program performance was assessed as "generally strong", with all end-December 2025 quantitative criteria met. Sovereign ratings remained anchored at Moody's Caa1 (Stable) and S&P/Fitch CCC+, following the country's exit from default in late 2024/2025.

Senegal was among the underperformers in Q2, contributing 0 bps to index returns, as sentiment remained subdued from stalled IMF negotiations and the government's continued rejection of debt restructuring as a policy option. The overhang from S&P's affirmation of the foreign currency rating at CCC+ and its revising of the outlook to negative—extended into the quarter, reflecting elevated gross financing needs (~26% of GDP for 2026), a high interest burden (~25% of revenue), and the lack of an active IMF anchor. Reports of delayed payments to non-Eurobond creditors following the ~USD 480 million external debt service in March, alongside persistent civil unrest, further weighed on debt-sustainability perceptions.

India posted broadly flat returns in Q2, reflecting the muted performance of EXIM Bank—the sole India-domiciled issuer in the benchmark. Spreads had limited room to tighten, having compressed to multi-year lows earlier in the year following EXIM's landmark dual-tranche January issuance, which priced at the

tightest-ever levels achieved by any Indian issuer in the public USD bond markets across both the 10-year and 30-year tenors. Technicals were also weighed down by a heavy pipeline of Indian financial issuers tapping the dollar market in the latter part of the quarter, spurred by the RBI's early-June measures, which drew investor attention away from existing EXIM issues.

China posted broadly flat returns in Q2, as the high-grade sovereigns had limited scope for further spread compression from already tight levels. With risk-on sentiment prevailing through much of the quarter—driven by de-escalation narratives of the Middle East conflict and a rotation back into higher-beta EM credit—flows favored lower-rated sovereigns, leaving China as a relative laggard within the benchmark. Unresolved US-China trade tensions continued to weigh on investor appetite, even though sovereign fundamentals remained stable and the People's Bank of China maintained an accommodative policy stance.

Performance comparison of JPM hard currency benchmark vs JSTAR hard currency benchmark

The JP Morgan Screened Tilted and Reweighted EMBI Index returned +4.36% (in USD terms) for Q2 2026, underperforming the standard benchmark JP Morgan EMBI Global Diversified Index which posted +4.63%. A major contribution to this underperformance came from lower spread return (+3.22% vs +4.48%). The tightening in sovereign spreads in Q2 benefited the standard benchmark's investment universe more than the JSTAR benchmark, largely due to the former's greater allocation to the high yield segment (50% vs the JSTAR benchmark's 46%), where spread compression was most pronounced. This offset the benefit JSTAR received from its higher exposure to net oil importing countries (65.6% vs standard benchmark's 45.4%) as oil prices fell in Q2. The HY sub-index of the standard benchmark outperformed the HY sub-index of the JSTAR benchmark by around +0.27%, while the IG sub-index of the JSTAR benchmark outperformed the IG sub-index of the standard benchmark by around +0.21% in Q2.

Figure 11: Key return drivers of JSTAR EM hard currency government bond markets in USD

JSTAR EMBI (ESG EM Hard Currency)	Monthly Return (%)	3 Month Return (%)	YTD Return (%)
Total Return	0.86	4.36	2.49
Spread Return	0.25	3.22	0.51
Treasury Return	0.47	1.37	2.80
IG Sub-Index	0.54	2.69	1.28
HY Sub-Index	1.24	6.47	3.91

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June 2026. JP Morgan Screened Tilted and Reweighted (JSTAR) indices. 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 12: Relative over/underweights (JSTAR EMBIG vs EMBI GD)

June 2026	Country	JSTAR EMBI (%)	EMBI GD (%)	Relative Weight (%)
Top 5 Overweights	Poland	5.3	3.0	2.3
	Hungary	4.7	2.8	1.9
	Uruguay	3.8	2.3	1.5
	Chile	3.9	3.1	0.8
	Kazakhstan	2.6	1.8	0.8
Top 5 Underweights	Pakistan	0.1	0.7	-0.6
	Indonesia	3.4	4.1	-0.7
	Saudi Arabia	3.6	5.2	-1.6
	China	1.6	3.3	-1.7
	Mexico	2.6	5.2	-2.6

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 June 2026. Country exposures are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

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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.

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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 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.

Currency Risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

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The returns on a portfolio of securities which exclude companies that do not meet the portfolio's sustainable strategy criteria may trail the returns on a portfolio of securities which include such companies. A portfolio's sustainable strategy criteria may result in the portfolio investing in industry sectors or securities which underperform the market as a whole.

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The views expressed in this material are the views of the Fixed Income Client Portfolio Management Team of State Street Investment Management through the period ended 30 June 2026 and are subject to change based on market and other conditions.

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