

Emerging Market Debt Market Commentary

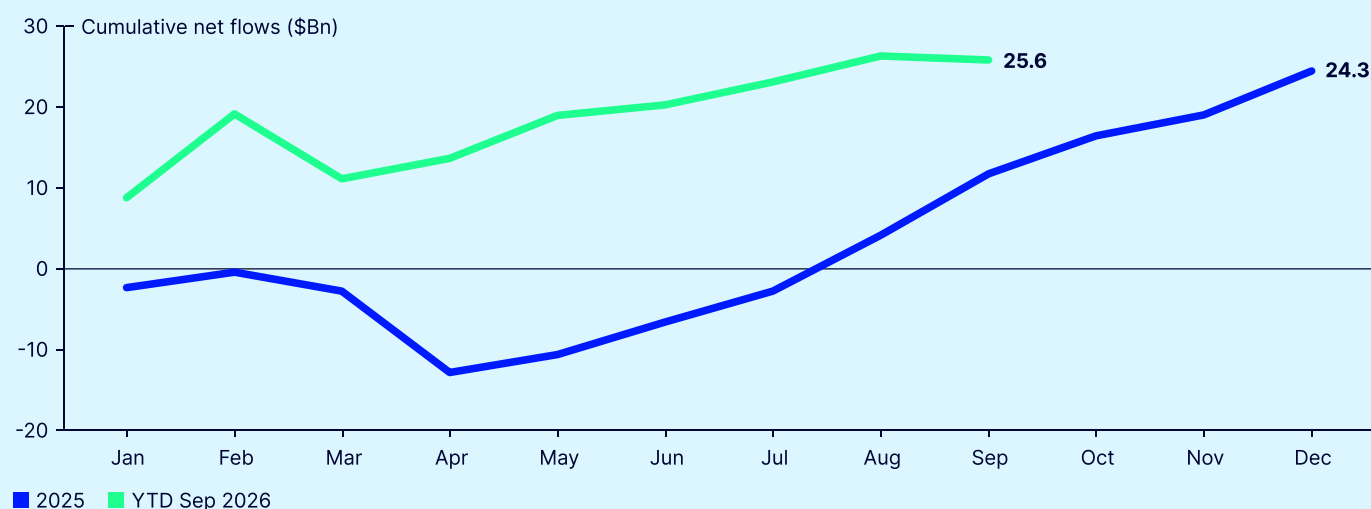
Insights
Q3 2026

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Chart of the quarter: EMD flows ahead of 2025 levels

For the first nine months of 2026, net inflows to emerging market debt funds have already surpassed last year's total. Local currency debt flows have been supported by elevated real yields, attractive carry, and periods of US dollar weakness. Interest in hard currency debt has risen on demand for higher-beta exposure, spread compression among high yield sovereigns, and positive rating momentum among lower-rated issuers.

Figure 1: Cumulative net flows in 2025 and YTD 2026



Sources: JP Morgan, Bloomberg, as of 30 September, 2026. Flows data is inclusive of EMD local and hard currency funds, based on JP Morgan EM client survey.

Higher core rates test EM resilience in Q3

In a more challenging Q3, the emerging market (EM) debt backdrop was shaped by geopolitical risk and a shifting core rates outlook. The quarter commenced with a re-escalation of the US–Iran war, once again disrupting energy transit through the Strait of Hormuz, while Houthi attacks on Saudi shipping then strained another key route. Oil prices rose back toward triple digits, before a tentative Iran–Oman arrangement to share Hormuz toll revenues helped contain prices through August. EM debt was mostly resilient through July and August as hard currency spreads stayed near historic tightness and a softer US dollar lifted EM currencies. A rebounding US dollar in September helped reverse those gains. In addition, renewed oil supply concerns lifted Brent crude to its highest level since May, reviving inflation risks across Asia and Latin America (LatAm). Meanwhile, tightening by major central banks reinforced the higher-for-longer repricing. The 10-year US Treasury yield rose 82 basis points (bps) in Q3 to 5.28%, as term premia, fiscal concerns, and AI-related dynamics weighed on the long end.

The US Federal Reserve (Fed) held rates at 3.50%–3.75% in July, albeit with three votes in favor of a hike, though the meeting minutes revealed that a potential September move was in play. At the Jackson Hole Economic Policy Symposium, Fed Chair Kevin Warsh avoided providing forward guidance while reaffirming the Fed's commitment to its 2% inflation target. In September, the Fed raised rates by 25 bps to 3.75%–4.00%, a unanimous decision and its first hike since 2023. The projections of Fed members signaled one more increase before year-end. EM central banks largely followed their own paths: still high real policy rates limited the pass-through from the Fed, though

higher energy costs increasingly tested easing cycles. In LatAm, Brazil lowered its key interest rate, while Colombia's central bank surprised with a 25 bps hike. Elsewhere, Hungary eased by a cumulative 50 bps, while there was a policy rate hike in the Philippines. The Reserve Bank of India's special USD–INR swap window for Foreign Currency Non-Resident account (FCNR) deposits attracted around USD 133 billion, strengthening India's external buffers. China favored targeted, investment-led support over broad-based easing.

Trade, fiscal, and political risks also shaped returns. Hard currency sovereign issuance ran at a record pace, swelled by war-related Gulf financing needs. New US tariffs on Brazil took effect in July, US–Canada talks broke down in August, while Mexico was spared new levies. Bank Indonesia Governor Perry Warjiyo's resignation put central bank independence in focus. Lebanon's de-escalation and reform path supported its bonds. Venezuela rallied on restructuring progress, though the gains faded in September. Other lower-rated sovereigns came under pressure late in the quarter. Ukraine suffered from reform slippage and delayed official support. Turkey moved to contain spillovers from a domestic hedge fund crisis. Brazil's October election came into focus as polls tightened.

Overall, EM local currency debt posted negative returns in Q3. Carry was outweighed by higher local yields and a late-quarter rebound in the US dollar. EM hard currency debt delivered negative returns, driven almost entirely by the rise in benchmark yields, with longer-duration investment grade sovereigns lagging. Over the quarter, net inflows reached approximately +\$1.4 billion for hard currency and +\$4.1 billion for local currency EM bond funds.¹

¹ Source: J.P. Morgan

Figure 2: Emerging market debt index returns

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	-2.12	-0.94	2.87	0.56	3.92	8.16	2.58
EMBI GD (EM Hard Currency)	-3.34	-3.86	0.59	-0.67	2.59	9.71	1.92
CEMBI BD (EM Corporates)	-1.96	-1.83	0.55	0.34	1.63	7.41	2.24
In EUR							
GBI-EM GD (EM Local Currency)	0.10	-0.29	4.35	3.98	7.50	5.65	2.99
EMBI GD (EM Hard Currency)	-1.14	-3.23	2.04	2.70	6.13	7.16	2.33
CEMBI BD (EM Corporates)	0.27	-1.18	2.00	3.75	5.14	4.92	2.65
In GBP							
GBI-EM GD (EM Local Currency)	-0.10	-1.03	2.12	1.82	5.31	5.15	2.88
EMBI GD (EM Hard Currency)	-1.35	-3.95	-0.15	0.57	3.96	6.65	2.22
CEMBI BD (EM Corporates)	0.06	-1.92	-0.19	1.60	3.00	4.42	2.54

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

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
JSTAR GBI-EM (EM Local Currency)	-2.18	-1.23	2.76	0.36	3.85	8.59	2.90
JSTAR EMBI (EM Hard Currency)	-3.43	-4.37	-0.20	-1.98	0.97	8.57	0.89

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

Item	1 Month	3 Months	YTD	Current Level
GBI-EM GD Yield	20 bps	44 bps	67 bps	6.54%
EMBI GD Yield	3 bps	31 bps	42 bps	7.23%
EMBI GD Spread	-47 bps	-48 bps	-67 bps	187
CEMBI BD Yield	0 bps	48 bps	60 bps	6.97%
CEMBI BD Spread	11 bps	7 bps	-17 bps	171 bps
CDX.EM 5y	22 bps	20 bps	36 bps	160 bps
10y UST	53 bps	82 bps	112 bps	5.28%
Dollar Index (DXY)	2.03%	0.26%	3.18%	101.45
DOW 30	-4.29%	-2.70%	5.91%	50906
Oil (WTI)	5.43%	30.10%	57.47%	\$ 90.42

Source: JP Morgan, Bloomberg as of 30 September 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 -0.94% (in USD terms) in Q3 2026, as measured by the JP Morgan GBI-EM Global Diversified Index. Losses were split between local bonds and FX. The bond component returned -0.30%, as carry (+1.47%) was more than offset by price losses (-1.77%) as local yield curves shifted higher. The repricing of US rates spilled into EM duration, particularly at the long end, while renewed

energy-driven inflation risks in September limited the room for further easing. Over the quarter, the GBI-EM GD yield rose by 44 bps to 6.54%. The FX component detracted (-0.64%). Only six of the 20 index currencies gained against the US dollar in the quarter. Regionally, Central and Eastern Europe lagged, as its higher-beta curves bore the brunt of the US rates shock and regional currency weakness. LatAm showed the widest dispersion, with strong gains in some markets offset by sharp currency-driven losses in others.

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 \$)	-2.12	-0.94	0.56
FX return (vs \$)	-1.76	-0.64	-1.64
Price return (local currency)	-0.85	-1.77	-2.16
Interest return (local currency)	0.49	1.47	4.36
In EUR			
Total return (in €)	0.10	-0.29	3.98
FX return (vs €)	0.46	0.00	1.78
In GBP			
Total return (in £)	-0.10	-1.03	1.82
FX return (vs £)	0.25	-0.73	-0.38

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

Q3 2026	Country	Total return USD (%)	Bond return (%)	FX return (%)	Index weight (%)	Index impact (bps)*
GBI-EM GD		-0.94	-0.30	-0.64		
Top 5 performers	Paraguay	7.4	3.3	4.1	0.1	1
	Dominican Republic	4.3	4.1	0.2	0.2	1
	Brazil	4.2	4.1	0.1	7.8	33
	Colombia	3.0	-1.2	4.2	4.9	15
	China	2.2	1.0	1.2	10.0	22
Bottom 5 performers	Mexico	-3.1	-0.3	-2.9	10.0	-31
	Czech Republic	-3.6	-2.3	-1.3	4.3	-16
	Poland	-4.8	-2.8	-2.1	8.6	-41
	Hungary	-5.4	-2.0	-3.4	2.6	-14
	Chile	-7.2	-2.1	-5.1	1.5	-11

Source: State Street Investment Management, JP Morgan, Bloomberg as of 30 September 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.

Chile was the worst performer in the quarter, with currency weakness driving most of the decline. The peso is particularly sensitive to US bear steepening, and low carry offered little cushion. Domestic fundamentals added pressure: activity contracted 1.0% year-on-year in August and unemployment rose to 9.6%. Annual inflation rose to 4.1% in August from 3.5%, and the central bank held its policy rate at 4.50%. The peso depreciated against the US dollar by 5.6% in Q3 and closed at 974.17.

Hungary was another poor performer. Its long-end rates are among the most sensitive to US yields across EM local markets, which left the curve exposed to the core rates sell-off. The National Bank of Hungary cut by a cumulative 50 bps to 5.50%, as inflation of 1.3% in August was below its targeted 2%–4% band. Together with the Fed's September hike, this narrowed the rate differential by around 75 bps and eroded the forint's carry cushion—the currency depreciated against the US dollar by 3.9% in Q3 to close at 323.36.

Poland was the largest detractor from index returns, with losses led by local bonds. Rising domestic inflation hurt the curve alongside global rates: energy prices pushed annual inflation up to 4.0% in September from 3.0% in July, above the upper end of the National Bank of Poland's 2.5% ±1 percentage point tolerance band. The central bank held its reference rate at 3.75% and kept a balanced tone. The zloty depreciated against the US dollar by 2.4% in Q3 and closed at 3.85.

Paraguay was the best performer in Q3, with gains split between local bonds and the currency component. Record soybean exports and steady capital inflows lifted the guaraní to its strongest level since 2018, and the Banco Central del Paraguay (BCP) declined to intervene. Reliance on hydroelectric power shielded the economy from the oil shock: annual inflation was 1.7% in September, well below the 3.5% target, and the BCP held its policy rate at 5.50%. Fitch affirmed the sovereign at BB+ with a positive outlook. The guaraní appreciated against the US dollar by 4.1% in Q3 and closed at 5,834.8.

Brazil was another strong performer and the largest positive contributor to index returns, driven almost entirely by local bonds. The central bank cut the Selic rate by a cumulative 50 bps to 13.75% as annual inflation slowed to 4.22% in August from 4.64% in June. High carry supported the curve despite new US tariffs and persistent fiscal concerns, while the October election came into focus as polls tightened.

The Brazilian real depreciated marginally by around 0.3% in Q3 against the US dollar and closed at 5.17.

China was also among the better performers, with returns split between bonds and a firmer currency. Low sensitivity to US rates helped Chinese government bonds hold up well as core yields rose. Inflation stayed subdued at 0.8% in August, and the People's Bank of China kept policy rates unchanged for the sixteenth consecutive month in September, favoring targeted, investment-led support over broad-based easing. The renminbi appreciated against the US dollar by 1.2% in Q3 and closed at 6.71.

Performance comparison of JPM local currency vs JSTAR local currency benchmarks

The JP Morgan Screened Tilted and Reweighted GBI-EM Index returned –1.23% (in USD terms) in Q3 2026, underperforming the standard JP Morgan GBI-EM Global Diversified Index return of –0.94%. The underperformance was driven mainly by relative overweights in the Czech Republic (+2.3%), Poland (+1.4%), and Hungary (+1.4%), which together detracted –23 bps from excess returns as Central European local markets sold off sharply in Q3. Relative underweights in China (–2.3%), Indonesia (–2.1%), and Colombia (–1.1%) detracted a further –13 bps, as these markets posted positive returns for the quarter. These were partly offset by relative underweights in Mexico (–2.3%) and India (–2.3%), which together added +12 bps as both markets declined, and by a relative overweight in Brazil (+1.2%), which added +5 bps on the back of strong local returns.

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

JSTAR GBI-EM (EM Local Currency)	Monthly return (%)	3 month return (%)	YTD return (%)
In USD			
Total Return (in \$)	-2.18	-1.23	0.36
FX Return (vs \$)	-1.80	-0.76	-1.76
Price Return (Local currency)	-0.84	-1.87	-2.05
Interest Return (Local currency)	0.47	1.41	4.18

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 September 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)

September 2026	Country	JSTAR GBI-EM (%)	GBI-EM GD (%)	Relative Weight (%)
Top 5 Overweights	Czech Republic	6.6	4.3	2.3
	Poland	10.0	8.6	1.4
	Hungary	4.1	2.6	1.4
	Brazil	8.9	7.8	1.2
	Thailand	8.7	7.6	1.2
Top 5 Underweights	Colombia	3.7	4.9	-1.1
	Indonesia	6.9	9.0	-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 September 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 -3.86% (in USD terms) in Q3 2026, as measured by the JP Morgan EMBI Global Diversified Index. Almost all of the loss came from the treasury component (-3.73%), as the 10-year US Treasury yield rose 82 bps to 5.28% in Q3. The spread component was marginally negative at -0.14%, amid softer risk sentiment toward the end of the quarter. Spreads held near historically tight levels for much of Q3, supported by steady demand for higher-beta exposure and idiosyncratic developments. Late in Q3, higher core rates and pressures among lower-rated sovereigns reversed some of the earlier high yield compression. The high yield (HY) segment still outperformed its investment grade (IG) counterpart, as the IG segment's longer duration left it more exposed to rising benchmark treasury yields. The overall EMBI GD index yield increased by 31 bps to 7.23% in Q3.

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	-3.34	-3.86	-0.67
Spread Return	-0.65	-0.14	2.98
Treasury Return	-2.70	-3.73	-3.55
IG Sub-Index	-3.24	-4.55	-3.42
HY Sub-Index	-3.42	-3.24	1.97

Sources: State Street Investment Management, Bloomberg, JP Morgan as of 30 September 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 10: Best and worst performers across EM hard currency government bond markets

Q3 2026	Country	Total return USD (%)	Spread Return (%)	Treasury return (%)	Index weight (%)	Index impact (bps)*
GBI-EM GD		-3.86	-0.14	-3.73		
Top 5 performers	Lebanon	17.0	205.6	-61.7	0.6	10
	Mozambique	8.3	9.0	-0.7	0.1	1
	Iraq	2.0	1.0	0.9	0.1	0
	Cameroon	1.9	2.5	-0.6	0.1	0
	Republic of Congo	1.7	4.6	-2.7	0.2	0
Bottom 5 performers	Chile	-5.9	-1.2	-4.8	3.0	-18
	Paraguay	-6.1	-1.1	-5.0	0.8	-5
	Uruguay	-6.4	-1.5	-5.0	2.2	-14
	Ukraine	-7.3	-4.9	-2.5	1.8	-13
	Argentina	-8.7	-6.5	-2.3	2.6	-23

Source: State Street Investment Management, JP Morgan, Bloomberg as of 30 September, 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.

Argentina was the weakest performer in Q3, detracting 23 bps from the index return. Moody's July upgrade to B3 from Caa1 failed to sustain momentum, as reserve accumulation slowed and bank-loan delinquencies hit record highs. Higher core rates pushed sovereign yields above 10%, a level historically inconsistent with durable market access. With more than USD 20 billion of debt service due in 2027, investors increasingly priced in the risk of a less market-friendly outcome at the next presidential election.

Uruguay was another notable underperformer, detracting 14 bps from the index return. As a longer-duration, investment grade issuer, Uruguay was highly exposed to the rise in US Treasury yields, and the treasury component accounted for the bulk of the loss. Spreads also widened modestly as the earlier compression across the index partly unwound late in the quarter, despite the sovereign's stable credit fundamentals.

Ukraine also lagged, detracting 13 bps from the index return. Attacks on Black Sea port infrastructure in August weighed on the export outlook as earlier hopes of a peace settlement faded. Pressure built in September amid reform slippage, delays in official support, and intensified Russian airstrikes. International Monetary Fund (IMF) projections of a USD 54 billion funding gap through 2029 underscored the fragility of Ukraine's financing position.

Lebanon was the best performer in Q3, contributing 10 bps to index return, with performance almost entirely driven by spreads. The rally built on de-escalation and reform momentum: as Israel withdrew, the Lebanese army deployed into a first southern pilot zone, beginning to bring Hezbollah's weapons under state control. Building on June's US-brokered framework and EU support for the armed forces, this reinforced expectations of an eventual debt restructuring. Lebanon's defaulted Eurobonds rose to around 30 cents on the dollar by end-September, up from around 25 cents at end-June.

Mozambique was another good performer, contributing 1 bp to index returns. The lower-rated issues benefited from continued demand for high-beta frontier exposure during the summer. Renewed IMF engagement added support: a September staff mission held talks on a new Extended Credit Facility, with the authorities targeting a staff-level agreement by year-end.

Iraq was also among the best performers. Iraq's short-dated bonds limited its exposure to rising US yields, while higher oil prices supported the backdrop of this major oil exporter. Export resilience improved after Baghdad signed a one-year agreement with Türkiye in August to move at least 750,000 barrels per day through the Kirkuk–Ceyhan pipeline, an export route that bypasses the Strait of Hormuz.

Performance comparison of JPM hard currency vs JSTAR hard currency benchmarks

The JP Morgan Screened Tilted and Reweighted EMBI Index returned –4.37% (in USD terms) in Q3 2026, underperforming the standard JP Morgan EMBI Global Diversified Index return of –3.86%. The underperformance came entirely from the treasury component. The JSTAR index's overweights in longer-duration, higher-quality sovereigns left it more exposed to the sharp rise in US Treasury yields. Among these, overweights in Uruguay and Chile were among the quarter's weakest performers. A stronger spread return (+0.23% vs –0.14%) partly offset this, as the JSTAR index's tilt toward higher-rated credits held up better than the broader universe as high yield compression unwound late in the quarter. The JSTAR index underperformed in both rating segments: its HY sub-index trailed the standard benchmark's by around –0.63%, while its IG sub-index lagged by around –0.25%.

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

JSTAR EMBI (EM Hard Currency)	Monthly return (%)	3 month return (%)	YTD return (%)
Total Return	-3.43	-4.37	-1.98
Spread Return	0.06	0.23	2.55
Treasury Return	-3.49	-4.58	-4.42
IG Sub-Index	-3.38	-4.80	-3.58
HY Sub-Index	-3.47	-3.87	-0.11

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

We have now published an updated EMD outlook in October. To discover what the prospects are for emerging markets debt, please read [Emerging markets: Inflation, central banks, and near-term debt outlook](#).

Figure 12: Relative over/underweights (JSTAR EMBIG vs EMBI GD)

September 2026	Country	JSTAR EMBI (%)	EMBI GD (%)	Relative Weight (%)
Top 5 Overweights	Poland	5.4	3.0	2.4
	Hungary	4.7	2.8	1.9
	Uruguay	3.8	2.2	1.6
	Brazil	4.1	3.2	0.9
	Chile	3.9	3.0	0.9
Top 5 Underweights	Indonesia	3.4	4.1	-0.7
	Pakistan	0.1	1.1	-1.1
	Saudi Arabia	3.7	5.2	-1.5
	China	1.7	3.3	-1.5
	Mexico	2.6	5.1	-2.5

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