

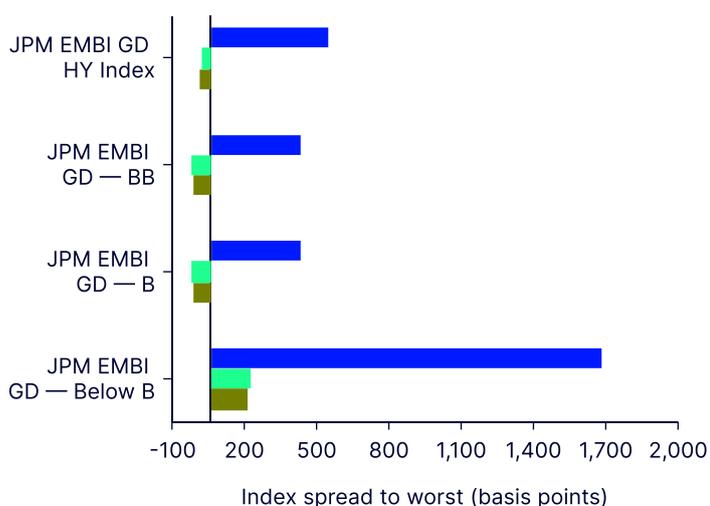
# Market commentary: Emerging market debt

Insights  
Q3 2025

## Chart of the quarter: Hard currency spreads at multi-year lows

Emerging market hard currency sovereign spreads persisted at multi-year lows throughout the third quarter. This was particularly evident in the high yield segment of the JP Morgan EMBI Global Diversified Index, where spreads compressed 41bps in the three months. However, the tightening was not universal, with the sell-off in Argentina’s dollar bonds and other idiosyncratic developments in the lower-rated segment driving spreads wider.

**Figure 1: Tightening of spreads continues in Q3**



■ As of September 30, 2025    ■ Quarter-on-quarter change  
■ Year-on-year change

Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 30 September 2025. Past performance is not a reliable indicator of future performance.

## EMD commentary: Q3 2025

Emerging Market (EM) debt markets navigated a volatile quarter that was shaped by escalating trade tensions, fiscal challenges, persistent geopolitical risks, and evolving market expectations around the US Federal Reserve’s (Fed) policy rate path for the remainder of

the year. The quarter began under a cloud following a renewal of tariff disputes — the US administration announced new sector-specific levies on major EM economies, with implementation slated for August. India faced a 50% tariff because of its Russian oil imports, while Brazil and other EM countries were also targeted with higher levies. These developments triggered country-specific yield volatility, particularly in EM Asia, though the broader market reaction remained largely contained. Market sentiment improved when the US postponed its punitive tariffs on Chinese products and extended trade talks by 90 days. Tariff negotiations between the US and several major EM economies continued through the quarter against the backdrop of macroeconomic uncertainty and political gyrations.

In the US, the signing of the “Big Beautiful Bill,” which combines tax cuts with increased defense and border security spending, raised concerns about the consequences for the US fiscal deficit. The impact on emerging markets was mixed as investors weighed potential benefits against risks stemming from a higher US deficit. The geopolitical backdrop remained uncertain, with mounting international pressure for an Israel-Hamas ceasefire and an escalation in the conflict between Thailand and Cambodia. There was limited progress on the Russia-Ukraine war, notwithstanding an August Trump-Putin meeting in Alaska that was viewed as a tentative first step toward resolution.

Ongoing trade tensions along with broad supply and inventory factors weighed on oil prices in Q3 — although a headwind for oil-producing countries, oil-importing EM economies reaped the benefit of lower input costs and easing inflationary pressures. September marked a turning point as the Fed delivered its first rate cut of the year, lowering the federal funds target range by 25bps to 4.00%–4.25%. This dovish shift, aimed at mitigating downside growth risks, reinforced expectations of more easing to come and placed downward pressure on the US dollar. Inflation ticked higher in some key EM economies, but these pressures were counterbalanced

by growth concerns, which in turn prompted a more accommodative monetary stance. In Latin America (LatAm), the Central Bank of Chile and the Bank of Mexico cut policy rates by 25bps and 50bps, respectively, taking their rates to 4.75% and 7.50%. In EM Asia, Bank Indonesia cut its policy rate by 75bps to 4.75%, while central banks in Thailand, Malaysia, and the Philippines delivered rate cuts of 25bps to reduce their key rates to 1.50%, 2.75%, and 5.00%, respectively. In China, the People's Bank of China (PBoC) maintained key lending rates at record lows throughout Q3, while expectations for additional stimulus and regulatory measures supported sentiment. In Europe, the Central Bank of Turkey delivered two cuts amounting to

550bps of easing, taking its benchmark rate to 40.5% as it sought to address weak domestic demand.

Overall, EM local currency debt posted positive returns in the three months, aided by currency gains against the US dollar and widespread interest rate cuts.

EM hard currency bonds also delivered gains, driven by sovereign spread tightening and strong issuance activity. A rebound in global liquidity conditions, risk-on sentiment, and increasing FX reserves supported inflows into EM debt. Net flows in the quarter for hard currency and local currency bonds were +\$7.0bn and +\$4.3bn, respectively.<sup>1</sup>

**Figure 2: Emerging market debt index returns — as of 30 September 2025**

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
<b>In USD</b>							
GBI-EM GD (EM Local Currency)	1.40	2.80	10.64	15.41	7.35	11.25	2.32
EMBI GD (EM Hard Currency)	1.78	4.75	8.23	10.66	8.52	12.29	2.27
CEMBI BD (EM Corporates)	0.95	3.18	4.80	7.34	6.48	9.69	3.11
<b>In EUR</b>							
GBI-EM GD (EM Local Currency)	1.01	2.70	1.71	1.71	1.97	4.71	2.28
EMBI GD (EM Hard Currency)	1.39	4.65	-0.50	-2.48	3.07	5.69	2.23
CEMBI BD (EM Corporates)	0.57	3.08	-3.65	-5.40	1.14	3.24	3.07
<b>In GBP</b>							
GBI-EM GD (EM Local Currency)	1.76	4.64	6.08	7.36	6.96	4.52	1.50
EMBI GD (EM Hard Currency)	2.14	6.63	3.77	2.95	8.12	5.49	1.44
CEMBI BD (EM Corporates)	1.31	5.03	0.48	-0.14	6.09	3.05	2.27

Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 30 September 2025. Past performance is not a reliable indicator of future performance. 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: ESG emerging market debt index returns — as of 30 September 2025**

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
<b>In USD</b>							
JESG GBI-EM (ESG EM Local Currency)	1.53	3.13	11.52	16.78	8.14	12.33	2.51
JESG EMBI (ESG EM Hard Currency)	1.65	4.35	7.69	9.96	7.30	11.40	1.32

Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 30 September 2025. Past performance is not a reliable indicator of future performance. 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 as of 30 September 2025**

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current level
GBI-EM GD Yield	1 bps	-9 bps	-47 bps	5.93%
EMBI GD Yield	-22 bps	-46 bps	-79 bps	7.08%
EMBI GD Spread	-14 bps	-39 bps	-42 bps	284 bps
CEMBI BD Yield	-15 bps	-39 bps	-60 bps	6.33%
CEMBI BD Spread	-13 bps	-36 bps	-15 bps	275 bps
CDX.EM 5y	3 bps	-9 bps	-24 bps	148 bps
10y UST	-8 bps	-8 bps	-42 bps	4.15%
Dollar Index (DXY)	0.00%	0.93%	-9.87%	—
DOW 30	1.87%	5.22%	9.06%	46398
Oil (WTI)	-2.56%	-4.21%	-13.04%	\$ 62.37

Source: JP Morgan, Bloomberg, as of 30 September 2025. Past performance is not a reliable indicator of future performance. 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 +2.80% (in USD terms) in Q3 2025, as measured by the JP Morgan GBI-EM Global Diversified Index. A major contribution to this performance outcome came from bond returns (+2.43%), which includes price and interest rate components. A combination of monetary easing in key economies, including the Fed's September rate cut, and high real yields underpinned EM local currency bond gains in Q3. The foreign exchange (FX) return was also positive (+0.38%). Persistent downward pressure on the US dollar during the quarter resulted in 14 of the 20 currencies in the index gaining against the US currency. From a total return perspective, 17 of the 20 countries in the index posted positive returns. At the regional level, LatAm was the best performer, driven by the ongoing rate cut cycle in the region, and sizeable FX returns against the US dollar. The GBI-EM GD Index yield decreased by 9bps in Q3.

**Colombia** was the best performer in Q3. The Central Bank of Colombia left its benchmark policy rate unchanged at 9.25% as it maintained efforts to bring inflation down to the 3% target. Even so, the country's annual inflation rate rose to 5.1% in August from 4.9% a month earlier. Economic activity remains strong, growing 2.5% year-on-year in Q2 amid robust domestic demand. The Colombian peso appreciated against the US dollar by 4.37% in Q3 and closed at 3,920.46.

**Figure 5: 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>1.40</b>	<b>2.80</b>	<b>15.41</b>
FX return (vs \$)	0.61	0.38	7.51
Price return (local currency)	0.32	1.00	3.58
Interest return (local currency)	0.47	1.43	4.32
<b>In EUR</b>			
<b>Total return (in €)</b>	<b>1.01</b>	<b>2.70</b>	<b>1.71</b>
FX return (vs €)	0.22	0.27	-6.19
<b>In GBP</b>			
<b>Total return (in £)</b>	<b>1.76</b>	<b>4.64</b>	<b>7.36</b>
FX return (vs £)	0.97	2.21	-0.53

Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 30 September 2025. Past performance is not a reliable indicator of future performance. 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 2025	Country	Total return USD (%)	Bond return (%)	FX return (%)	Index weight (%)	Index impact (bps)**
<b>GBI-EM GD</b>		<b>2.80</b>	<b>1.00</b>	<b>1.43</b>	—	—
<b>Top 5 performers</b>	Colombia	11.1	6.5	4.6	3.8	43
	South Africa	10.2	7.0	3.2	7.4	75
	Mexico	7.8	4.7	3.2	10.0	78
	Uruguay	6.4	6.1	0.3	0.2	1
	Peru	6.0	3.5	2.5	2.0	12
<b>Bottom 5 performers</b>	Indonesia	1.1	3.8	-2.7	10.0	11
	Malaysia	1.1	1.1	0.0	9.7	11
	China	0.0	-0.7	0.7	10.0	0
	Chile	-1.4	1.6	-3.0	1.6	-2
	India	-2.9	0.5	-3.4	10.0	-29

Source: State Street Investment Management, JP Morgan, Bloomberg, as of 30 September 2025. Past performance is not a reliable indicator of future performance. 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 another good performer in Q3. The South African Reserve Bank reduced its key repo rate by 25bps to 7% in July but kept rates unchanged in September as it assessed the impact of cumulative rate cuts. The country's annual inflation rate declined to 3.3% in August from a ten-month high of 3.5% in July and remains above the bank's target of 3%. The South Africa rand appreciated against the US dollar by 2.5% in Q3 and closed at 17.27.

**Mexico** was another good performer in the quarter. The Bank of Mexico cut its key rate by a total of 50bps to 7.50% in Q3, and indicated it would consider additional cuts as necessary. The annual inflation rate eased to 3.57% by the end of August from 4.32% at the end of Q2. The Mexican peso strengthened against the US dollar by 2.3% in Q3 to close at 18.31.

**India** was among the relatively poorer performers in Q3, with negative FX returns accounting for underperformance. The Indian rupee depreciated by 3.54% against the US dollar and closed at 88.79. Trade tensions with the US and tariff uncertainties added to a darkening of the macro backdrop. Frequent outflows in Q3 weakened the currency further, which raised hedging costs and discouraged foreign participation. The Reserve Bank of India left its key repo rate unchanged at 5.50% throughout the quarter.

**Chile** was another poor performer in Q3, mainly because of negative FX returns. The Chilean peso depreciated against the US dollar by 3.31% in the period and closed at 962.50. The Central Bank of Chile lowered its policy rate by 25bps to 4.75% in the quarter. Chile's GDP grew moderately in Q2, lifted by investment and private consumption, while labor market fortunes have been mixed—the unemployment rate stood at 8.7% in July.

**China** delivered a flat return in Q3. The PBoC kept its key lending rates at record lows throughout the quarter — the one-year Loan Prime Rate and the five-year mortgage reference rate stayed at 3.0% and 3.5%, respectively. The yield on the 10-year CNY-denominated sovereign closed September at 1.86%, an increase from 1.65% at the end of Q2. The Chinese yuan appreciated against the US dollar by 0.58% in Q3 and closed at 7.12.

## Performance comparison of JPM local currency benchmark vs ESG local currency benchmark

The JP Morgan ESG GBI-EM Index returned +3.13% (in USD terms) in Q3 2025, outperforming the

standard JP Morgan GBI-EM Global Diversified Index return of +2.80%. This outperformance was driven by relative index overweights in Poland (+2.1%), Czech Republic (+2.0%), Romania (+1.4%), Hungary (+0.9%), Thailand (+0.6%), South Africa (+0.5%), and Brazil (+0.5%), which contributed a total of +0.22% to excess returns. A relative index underweight in India (-2.9%) contributed +0.08% to excess returns. These contributions were partially offset by relative underweights in Indonesia (-2.8%) and Turkey (-0.3%), detracting -0.04% from excess returns as Indonesian and Turkish local bonds posted positive returns in Q3.

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

JESG GBI-EM GD (EM local currency)	Monthly return (%)	3 month return (%)	YTD Return (%)
<b>In USD</b>			
<b>Total return (in \$)</b>	<b>1.53</b>	<b>3.13</b>	<b>16.78</b>
FX return (vs \$)	0.74	0.65	8.81
Price return (local currency)	0.33	1.08	3.75
Interest return (local currency)	0.46	1.41	4.22

Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 30 September 2025. Past performance is not a reliable indicator of future performance. 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 (JESG GBI-EM vs GBI-EM GD)**

Sep. 2025	Country	JESG GBI-EM (%)	GBI-EM GD (%)	Relative weight (%)
<b>Top 5 performers</b>	Poland	10.0	7.9	2.1
	Czech Republic	6.8	4.8	2.0
	Romania	4.5	3.2	1.4
	Hungary	3.0	2.1	0.9
	Thailand	9.1	8.5	0.6
<b>Bottom 5 performers</b>	Mexico	10.0	10.0	0.0
	Turkey	0.9	1.2	-0.3
	Indonesia	7.2	10.0	-2.8
	India	7.1	10.0	-2.9
	China	7.1	10.0	-2.9

Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 30 September 2025. 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 +4.75% (in USD terms) in Q3 2025, as measured by the JP Morgan EMBI Global Diversified Index. The spread component return (+3.20%) was the major contributor to the total return outcome, with the JPM EMBI GD spread tightening by 39bps in Q3. EM sovereign spreads compressed through Q3, aided by improved fundamentals, increased inflows, and idiosyncratic tail risk reductions in certain instances via support from the International Monetary Fund (IMF). Investor sentiment towards EM hard currency debt improved in Q3 amid the 25bps rate cut by the Fed, market repricing of further Fed rate cuts in 2025, and a reduction in US treasury yields. The compression in Investment Grade-High Yield (IG/HY) spreads in Q3 resulted in the HY sub-index outperforming IG counterparts by +1.43%. The contribution from the treasury component was also positive (+1.50%), with the JPM EMBI GD yield decreasing by 46bps 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 (%)
<b>In USD</b>			
Total return (in \$)	1.78	4.75	10.66
Spread Return	0.92	3.20	4.78
Treasury Return	0.85	1.50	5.61
IG Sub-Index	1.86	4.02	9.14
HY Sub-Index	1.70	5.45	12.14

Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 30 September 2025. Past performance is not a reliable indicator of future performance. 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.

**Venezuela** was one of the outperformers in Q3, with the spread component largely accounting for the performance and the 16bps contribution to the index return. A combination of political, economic, and geopolitical developments drove performance. The US Treasury Department issued a restricted license to Chevron that allows the US company to operate in Venezuela and export its oil after a three-month pause—a lift in oil exports helped improve investor sentiment towards the country’s dollar bonds.

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

Q3 2025	Country	Total return (%)	Spread return (%)	Treasury return (%)	Index weight (%)	Index impact (bps)**
<b>EMBI Global Diversified</b>		<b>4.75</b>	<b>3.20</b>	<b>1.50</b>	—	—
<b>Top 5 performers</b>	Venezuela	21.5	20.1	1.2	0.8%	16
	Lebanon	17.2	15.7	1.3	0.4%	8
	Bolivia	15.6	14.3	1.1	0.2%	3
	Senegal	10.8	9.4	1.3	0.3%	3
	Benin	10.7	8.8	1.8	0.2%	2
<b>Bottom 5 performers</b>	India	2.2	0.9	1.4	0.8%	2
	Suriname	2.0	0.7	1.3	0.1%	0
	China	1.8	0.5	1.4	3.5%	6
	Latvia	0.0	0.0	0.0	0.2%	0
	Argentina	-17.7	-19.0	1.6	2.0%	-36

Source: State Street Investment Management, JP Morgan, Bloomberg, as of 30 September, 2025. Past performance is not a reliable indicator of future performance. 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.

**Lebanon** was another good performer in Q3, contributing 8bps to index returns. Lebanon signed a US\$250 million loan agreement with the World Bank in August to support reconstruction of infrastructure damaged by Israel attacks. Fitch Ratings affirmed Lebanon’s long-term foreign and local currency Issuer Default Ratings at ‘Restricted Default’, reflecting the fact that Lebanon remains in default on its long-term foreign currency government bonds.

**Bolivia** also performed well in the quarter, contributing 3bps to index returns. Similar to other high-yielding exposures in the index universe, the country benefited from compression in IG/HY spreads. Bolivia’s international bonds rallied in the run-up to the presidential election in August, fueled by investors’ hopes that a political change could help improve the country’s fragile economy and pave the way for an IMF program.

**Argentina** was among the underperformers in Q3, detracting 36bps from index returns. With mid-term elections upcoming in October, President Milei’s

hopes that he will improve his support in Congress were damaged by a poll that suggested his approval rating had fallen below 40% for the first time since he took office amid allegations of corruption in this administration. The political problems facing President Milei brought a renewed spotlight on the economic challenges facing the country.

**Latvia** was among the underperformers in Q3, with no contribution to index returns. Both spread and treasury component returns were flat for the quarter. According to the Treasury, Latvia has borrowed €1.25 billion from international financial markets. The yield on Latvia's euro-denominated 10-year bond closed Q3 at 3.22%, up from 3.18% at the end of Q2.

**Suriname** was another underperformer with no contribution to index returns. The combined treasury and spread component return was positive, but given the country's insignificant weight in the index, the performance impact was negligible. Suriname's new government is in talks with bondholders and multilateral lenders as it seeks to refinance its dollar bonds to ease its debt servicing burden over the next two years.

## Performance comparison of JPM hard currency benchmark vs ESG hard currency benchmark

The JP Morgan ESG EMBI hard currency index returned +4.35% (in USD terms) for Q3 2025, underperforming the standard benchmark JP Morgan EMBI Global Diversified Index by +4.75%. A major contribution to underperformance came from the compression in sovereign spreads in Q3 that benefited the standard benchmark more than the ESG benchmark. This was due to a greater allocation to the high yield segment (50% vs the ESG benchmark's 46%). In broad terms, the standard benchmark benefited slightly more compared to the ESG benchmark from market risk-on sentiments and increased inflows stemming from improved sentiment toward the asset class. The HY sub-index of the standard benchmark outperformed the HY sub-index of the ESG benchmark by around +0.92% and the IG sub-index of the ESG benchmark outperformed the IG sub-index of the standard benchmark by around +0.17% in Q3.

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

JESG EMBI (ESG EM hard currency)	Monthly return (%)	3 month return (%)	YTD return (%)
<b>In USD</b>			
<b>Total return (in \$)</b>	<b>1.65</b>	<b>4.35</b>	<b>9.96</b>
Spread Return	0.71	2.75	4.05
Treasury Return	0.94	1.56	5.67
IG Sub-Index	1.97	4.19	9.44
HY Sub-Index	1.28	4.53	10.53

Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 30 September 2025. Past performance is not a reliable indicator of future performance. 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 (JESG EMBIG vs EMBI GD)**

Sep. 2025	Country	JESG EMBI (%)	EMBI GD (%)	Relative Weight (%)
<b>Top 5 performers</b>	Romania	4.5	2.8	1.7
	Poland	4.5	3.0	1.5
	Hungary	4.3	2.9	1.4
	Uruguay	3.6	2.3	1.3
	Saudi Arabia	5.9	5.2	0.7
<b>Bottom 5 performers</b>	Turkey	3.4	4.3	-0.9
	Indonesia	3.3	4.3	-0.9
	Mexico	3.7	5.4	-1.7
	Malaysia	0.6	2.6	-2.1
	China	1.1	3.5	-2.4

Sources: State Street Investment Management, Bloomberg, JP Morgan, as of 30 September 2025. Country exposures are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

To discover what the future may hold for emerging market debt, please check out our latest analysis: [\*\*Emerging market debt outlook: The return of Goldilocks\*\*](#)

## Endnote

1 Source: JP Morgan.

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