Trust must be earned

Emerging Market Investor Diary

November 2025 | Author: Priyank Shah

Executive Summary:

- **Emerging markets enter 2026 from a position of strength:** GDP ~4% vs. ~2% in the US, driven by domestic demand, capex and supply-chain shifts — a ~200bp growth premium.
- **Resilient policy backdrop:** strong macro frameworks and room for further cuts. Over 15 central banks have cut rates in 2025, amid cooling inflation and a 7–8% USD depreciation — a rare mix of easing with FX stability.
- **Improving credit quality:** 2025 saw the best credit rating upgrade cycle in a decade and no sovereign defaults, narrowing EM–DM credit quality gaps.
- **Income remains the differentiator:** EM debt yields ~7–8%, a ~300bp premium to global benchmarks. Since 2010, income has accounted for >80% of EMD total returns.
- **Flows recovering but allocations lag:** YTD inflows of US$16.7bn, yet institutional exposure to EMD is still low (~2% of global fixed income versus ~2.5% pre-COVID).
- **Reform-driven spread tightening into 2026:** fiscal and structural reforms in Türkiye, Egypt, Nigeria, Argentina, Ghana and Côte d'Ivoire support spread compression and upgrades; elections in Brazil, Chile, Peru and Colombia create idiosyncratic opportunities.

Bottom Line:
Emerging Market Debt (EMD) is entering 2026 with credible policy anchors, higher real yields, and stronger credit profiles. The next phase of the global easing cycle should favour returns from **higher-income opportunities, alpha driven by spread tightening from credit-reform stories, and differentiation between winners and losers** — conditions that support **strategic allocation** to EMD as a core fixed-income asset class.

A. Regional Growth Engines – A Broader, More Balanced Expansion

EM growth is no longer concentrated in a few economies; it is driven by multiple regional engines. Domestic demand, infrastructure spending, and credible fiscal management define this cycle.

Asia	Latin America	EEMEA	Sub-Saharan Africa
○ **China** – pivot to EVs, batteries & renewables; outward FDI to Global South. ○ **India** – domestic driven growth, faster working population growth. ○ **Indonesia** – downstream metals & EV ecosystem. ○ **Vietnam / Malaysia / Philippines** – supply-chain relocation.	○ **Brazil** – high real yields, natural resources. ○ **Mexico** – near-shoring, fiscal prudence, MXN resilience. ○ **Argentina** – reform-led rebound, IMF anchor. ○ **Chile / Peru / Colombia** – commodity stabilisation, easing cycles.	○ **Türkiye** – orthodox reset; reserves accumulation. ○ **Poland** – post-election fiscal consolidation, EU inflows. ○ **Egypt** – FX liberalisation & subsidy reform (IMF EFF). ○ **South Africa** – energy reform, fiscal discipline. ○ **Ukraine** – stronger external financing visibility.	○ **Nigeria** – FX unification, fiscal rationalisation. ○ **Côte d'Ivoire / Kenya** – successful refinancing. ○ **Ghana** – post-restructuring stabilisation. ○ **Regional trend:** growth >4%, renewables & critical minerals draw capital.

Sources: Amundi, IMF Regional and World Economic Outlook, October 2025.

B. Policy and the Dollar Cycle – Resilient EMFX and Carry

The global policy environment has shifted decisively. The **Federal Reserve** has cut rates by ~**150 bps** in this cycle, while the **USD** has depreciated **7–8% YTD**, marking the largest annual decline since 2017. Global rate volatility is down significantly.

Weaker USD → FX stability → disinflation → policy space → inflows → further FX resilience

Over **15 EM central banks** have eased (in bps):

- **Latin America:** Argentina (-300), Chile (−25), Colombia (-25), Mexico (-275), Peru (-75)
- **Asia:** India (-100), Indonesia (-125), Malaysia (-25), Philippines (-100), South Korea (-50), Thailand (-75)
- **EEMEA & Africa:** Turkey (−800), South Africa (−75), Egypt (−625), Czech Republic (-50), Poland (-150)

Inflation has halved from 2023 peaks, with **70% of EMs** within target bands. Real policy rates remain globally competitive—**Brazil ~6%, Colombia ~6%, Mexico ~4%, South Africa ~4%, Indonesia ~3½%, India ~2%**—ensuring that carry remains durable. This is **easing from strength**, underpinned by credibility rather than liquidity dependence.

Sources: Bloomberg; Central bank releases. As of November 2025.

C. Credit Quality Convergence and the Income Anchor

2025 marked the strongest sovereign credit rating upgrade cycle in over a decade, marking a clear shift from cyclical recovery to structural convergence with DM, underscoring both policy credibility and debt sustainability. Sovereign upgrades were broad-based: India, Pakistan, Indonesia, Brazil, Dominican Republic, Türkiye, Egypt, Nigeria, Ghana and Côte d'Ivoire all saw rating improvements or positive outlook revisions through 2025. These actions reflect stronger fiscal anchors, IMF-supported programmes, external buffer rebuilding, and progress on subsidy and FX reforms. **There were no sovereign defaults across the investable EM Universe – a rare outcome during a global tightening-to-easing transition**.

Why upgrades matter:

- Improve sentiment and valuation and flows.
- Compress risk premia by 20–50 bps per notch.
- Increase benchmark inclusion and passive inflows.
- Reinforce policy credibility and improve refinancing costs.

The share of Investment Grade sovereigns in JP Morgan's flagship EMBI Global Diversified Index has risen to ~51%.

Meanwhile, yields across EM sovereign indices remain high – ~7-8% for hard currency, ~6-7% for local currency with real yields near 3-4% - offering one of the deepest income cushions in fixed income. With global inflation normalising, that carry is now compounding, rather than compensating, turning EMD from a tactical trade into a strategic income engine. More than **80% of total EMD returns since 2010** have come from **income**, not price. As global inflation stabilises, that carry becomes a compounding engine rather than a hedge.

Sources: Moody's, S&P, Fitch; JPM, Bloomberg, as of November 2025.

D. Flows & Positioning: From Under-Ownership to Re-Allocation

Flows have turned positive, but ownership remains structurally light.

- **YTD fund inflows:** US$16.7bn (+US$12.5bn local; +US$4.2bn hard) – strongest since 2019 with a notable reversal (+~$26bn), from -$11.6bn at the end of April.
- **Cumulative since 2004:** >~US$220bn.
- **European Institutional allocations:** ~<2% (vs 2.5% pre-COVID).
- **ETF participation:** still <10% of overall EM debt funds.

Regional flow highlights:

- Local-currency inflows concentrated in **Brazil, Mexico, Indonesia, India**.
- Frontier hard-currency issuance in **Nigeria, Ghana, Côte d'Ivoire** absorbed by real-money investors.
- Renewed allocations from **GCC and Asian reserve managers** adding stability.

Institutional survey data from consultants continue to **flag EMD as one of the most under-owned fixed-income asset class** relative to global GDP share. This underweight positioning is a latent technical driver as allocations normalise through 2026. Specifically to EM, blended finance pipelines for sustainable debt remain strong (particularly in low income markets) and it is possible to see additional demand coming from that angle.

Sources: JPM Flows Weekly, November 2025; EPFR Global, Oct 2025; IIF Capital Flows Monitor, Oct 2025.

E. Reforms and Politics – Alpha in a Dispersion-Rich Cycle

Alpha is increasingly sourced from bottom-up differentiation — curve trades, relative-value credit selection, and local duration management — rather than beta exposure. Active investors can harness volatility, exploit reform convergence, and capture risk premia more efficiently than passive benchmarks.

Reforms in Emerging Markets are turning into a key differentiator. Credible policy momentum in Türkiye, Egypt, Nigeria, Argentina, and Ghana have supported tighter spreads and stronger FX performance, while laggards face persistent premia. Trade reordering and tariff realignment favour manufacturing and resource exporters—**Mexico, India, Indonesia, GCC, SSA**—adding another tailwind for reform-linked sovereigns.

Country	Reform Themes / Political Context	Investor Implication
Türkiye	Orthodox reset; rising; inflation moderation.	Still a strong carry trade an inverted curve.
Egypt	FX liberalisation, subsidy reform, IMF EFF compliance.	Restored liquidity; new Eurobond access.
Nigeria	FX unification, fiscal reforms; oil output recovery.	Rating momentum, improving external balance.
Argentina	Fiscal consolidation, IMF re-engagement.	Recovery with potential for upside.
Ghana / Côte d'Ivoire	Post-restructuring stabilisation, renewed issuance.	Frontier credit market reopening.

2026 will also be a politically active year: elections in Brazil, Chile, Peru and Colombia. This environment of policy dispersion is fertile ground for active management.

Sources: National electoral commissions; IMF programme calendars; JPM Political Risk Monitor. As of November 2025.

Conclusion: Increase Strategic Allocations to EMD

Emerging-market debt stands at the intersection of **strong fundamentals, structural income, and light positioning**. Credit upgrades, credible policy cycles, and institutional reforms have transformed EM from a high-beta trade into a **core allocation**. In a world of moderating inflation, falling real rates, and stable FX, EMD offers **carry, convergence, and conviction**—yielding 7–8% with improving quality and diversification. **Strategic stance:** Increase strategic allocations to EM debt—balancing local-currency duration, reform-anchored hard-currency exposure, and selective FX carry—to capture income and reform-driven alpha as the 2026 fixed-income cycle unfolds.

IMPORTANT INFORMATION

Date of first use: November 2025
Doc ID: 4980897