Global Asset Management

Emerging market debt

Diving deep into the world's largest pool of credit

May 2025

Executive summary

Despite being the world's largest pool of credit, at $29 trillion[1] in size, emerging market debt (EMD) remains one of the most misunderstood markets amongst investors. We provide an overview of EMD and help investors consider the practical aspects of investing in this asset class.

What is emerging market debt

Emerging market debt refers to the outstanding tradeable debt issued by emerging market governments or corporations domiciled in those countries. Of the roughly 200 countries in the world today, 41 are considered 'developed' economies by the International Monetary Fund (IMF) with the remaining classified as 'emerging market and developing'. Combined, emerging market economies account for over 50% of global Gross Domestic Product (GDP), 45% of global consumer spending and roughly 87% of the world's population[2]. The EM debt universe comprises four primary sub-classes: hard currency (denominated in a globally traded currency of a developed country, such as the US dollar or euro) and local currency and containing both sovereign and corporate debt.

Why invest in emerging market debt

There are several key benefits that investors find attractive within EMD, including diversification, yield premium and an opportunity for compelling returns. Emerging markets provide investors with access to a wider array of idiosyncratic returns drivers which can be uncorrelated to other asset classes. EMD may also provided investors with a yield advantage, compensating them for venturing out of their core markets and providing an effective cushion against market volatility. In addition, we highlight the benefit of active management with emerging market debt, which provides a fertile hunting ground for sourcing alpha opportunities.

Ways to access emerging market debt

We introduce a framework to help investors consider the most suitable way to access EMD including benchmark relative and several benchmark agnostic strategies, including unconstrained, absolute return (long/short) and private credit.

Dispelling myths concerning emerging market debt

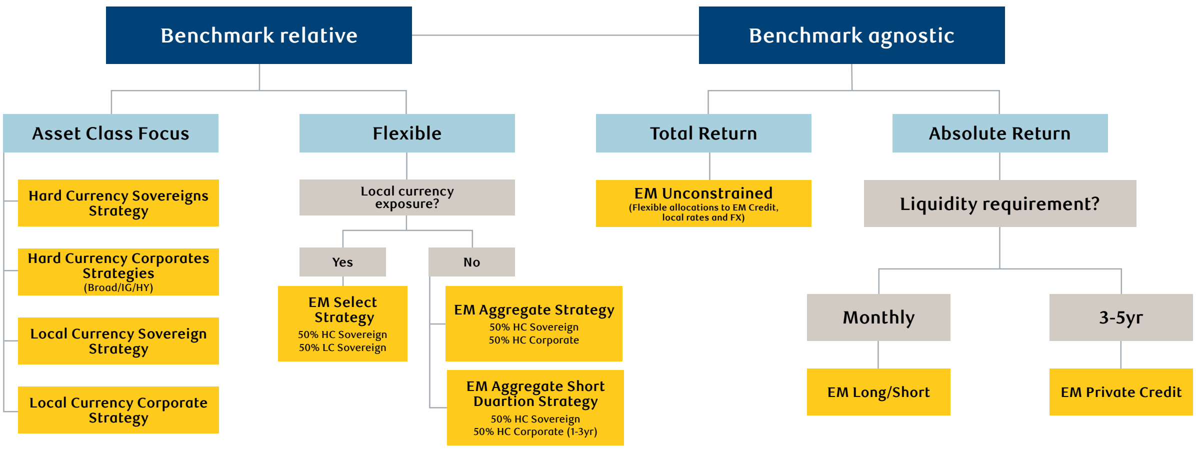
There are several misconceptions that exist in some investors minds, and we help put those in context. While some may view EMD as a niche asset class, we explain that in total, it's a very substantial pool of assets. Some also believe that because EMD offers a yield advantage, this must signify lower credit ratings, the reality is that EMD has an investment grade rating, on average.

Finally, while EMD is sometimes viewed as inherently risky, we discuss how the asset class demonstrates stronger underlying fundamentals than developed markets.

Conclusion

EMD can offer solutions to investors looking for yield, diversification, and the opportunity for excess returns. In our judgement, it deserves to be a core holding in investors' overall fixed income allocations. However, investing successfully in EMD requires a level of specialist expertise to mitigate the challenges.

Figure 1: Finding the best solution for EMD exposures



Source: RBC GAM, as at December 2024.

[1] JPMorgan, RBC BlueBay Asset Management as of December 2024.
[2] IMF as of Q3 2024.

Introduction

Despite being the world's largest pool of credit, at $29 trillion in size, EMD or emerging market debt remains one of the most misunderstood markets amongst investors, not only in terms of composition of the asset class but also the risk-reward profile of the underlying assets. Indeed, asset allocators and investors alike are often surprised to discover the breadth, versatility and return opportunities the asset class can offer their portfolios and, moreover, the fundamental and liquidity characteristics of various sub-asset classes.

In the following note, we provide an overview of EMD, summarizing the distinct sub-asset classes that offer differentiated risk-return characteristics that can potentially enhance portfolio outcomes.

In addition to strong fundamental stories and a yield pick-up for fixed income investors, we will illustrate that EMD can offer diversification benefits.

As the size of the investable universe of EMD has increased over the years we explain how investors can select from an array of different investment solutions and determine how to best access the market depending on their individual requirements with respect to benchmark, liquidity, and flexibility regarding asset class exposure and yield. The possibilities for gaining attractive returns in this universe can be extremely exciting, and as with any investment opportunity, it is important to understand the advantages and risks, whilst also dispelling some of the myths that are sometimes associated with the asset class.

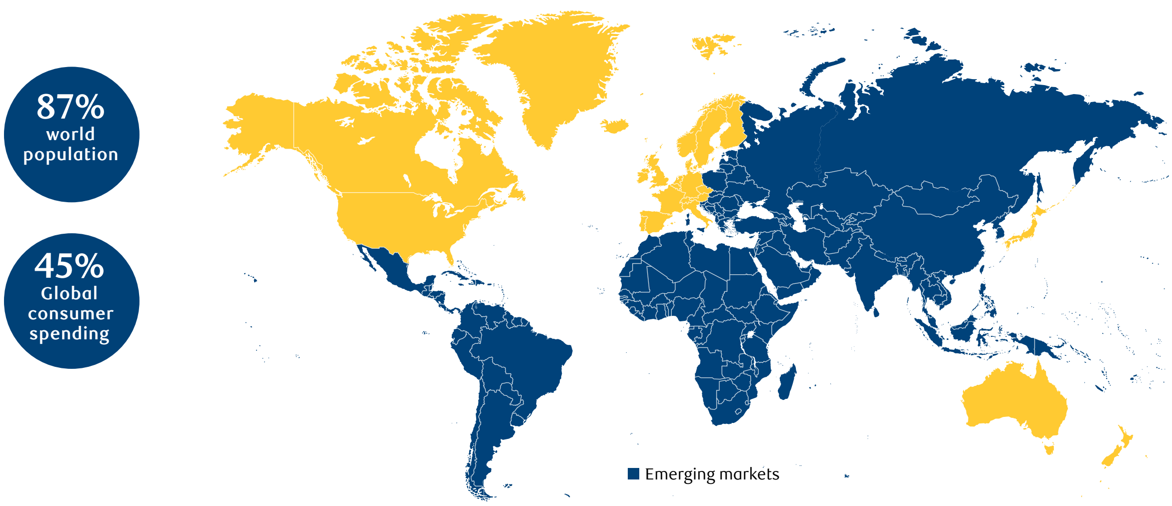
What constitutes emerging market debt?

Defining emerging market debt

Emerging market debt refers to the outstanding tradeable debt issued by emerging market governments or corporations domiciled in those countries. Although there is no official definition, within capital markets the term 'emerging markets' is generally used to refer to countries with lower per capita income and limited integration within the global financial system. While they may have an established financial infrastructure, the institutional strengths and market characteristics of these emerging markets may not be on par with the efficiency, accounting standards or securities regulations of 'developed' nations.

Of the roughly 200 countries in the world today, 41 are considered 'developed' economies by the IMF with the remaining classified as 'emerging market and developing'. These countries are widely dispersed across Latin America, Asia, Eastern Europe, the Middle East and Africa, and range in size from giants like China and India to much smaller countries such as Belize and Ivory Coast. Combined, emerging market economies account for over 50% of global GDP, 45% of global consumer spending and roughly 87% of the world's population.

Figure 2: Emerging market debt spans a wide range of countries

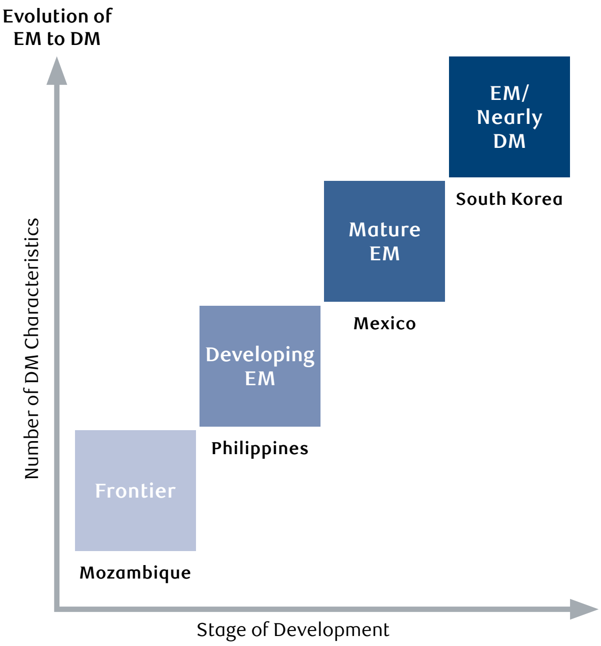


Source: Oxford Economics and the IMF as of 30 September 2024.

Market liquidity and governance factors have historically been a key factor in defining classification. Some countries such as South Korea are considered developed by the IMF but deemed as emerging by some market participants. Likewise, some EM countries, such as Brazil, China, and India rank amongst the world's largest economies, but are considered by most as emerging economies. At the opposite end of the spectrum there are frontier markets (less developed economies) such as Mozambique, which are typically smaller and have less liquid capital markets.

Clearly these markets will not have progressed as far down the path as today's developed markets (DM), and as such, debt from these economies will be subject to a higher level of risk premia than their developed counterparts, thus rewarding investors with a higher yield. Figure 3 shows the stages of development as emerging countries transition towards developed market status.

Figure 3: Emerging markets - not all countries are at the same stage of development



DM characteristics

- Well-established, liquid local debt markets.
- Established local insurance/pension fund industry.
- Structural reforms to engender competitiveness within the economy.
- Established regional and international banking systems.
- Free-floating currency/liberalised exchange rate regime.
- Open economy (lack of strict barriers to entry/ tariffs etc).
- Clearly-defined and enforced institutional framework (i.e. laws/regulations etc).
- Orthodox, independent, inflation-targeting central bank.
- Market exchange and regulatory framework.

Source: BlueBay Asset Management.

Investable universe

The size and sophistication of the investable universe of debt issued in emerging countries has increased substantially over the last 30 years. EM debt was once issued only sporadically and in US dollar denominations, but today far fewer EM governments require support from G-7 nations for their funding and are able to access the international capital markets directly. Moreover, because of strong internal growth, economic development and favourable macroeconomic factors, many EM sovereigns have also developed deeper domestic capital markets. This has, in many cases, translated into a significant shift to local currency debt issuance.

The EM debt universe comprises four primary sub-classes and accounts for nearly US$29 trillion[3]. This is a large heterogenous asset class with debt issued in both **hard currency** (denominated in a globally traded currency of a developed country, such as the US dollar or euro) and **local currency** and containing both **sovereign** and **corporate debt**.

The following compares the key characteristics of the four main sub-asset classes:

Hard currency sovereign debt

- Longest serving sub asset class in EMD.
- Significant diversification with 80+ countries.
- Total debt stock at ≈US$1.5 trillion[4].
- Reasonably liquid bond universe.
- Most commonly used benchmark: JP Morgan Emerging Market Bond Index Global Diversified.
- No direct currency risk.
- Possible default or restructuring risk.
- High duration risk – index duration ≈ 7 years.
- Index includes quasi sovereign issuers[5].
- Increasing issuance of sustainability linked bonds.

The **EM hard currency sovereign** sub-class is the oldest and most established going back to the Brady bond era in the early 1990s. The market has since evolved significantly, presenting a broad opportunity set for investors. Not surprisingly, it has the largest group of managers involved and is more familiar to many investors.

These bonds have a global investor base and tend to trade at a spread over US Treasuries and are therefore much more sensitive to US rates. Compared to local currency bonds, hard currency bonds also tend to have longer maturities and larger issuance sizes, making them easier to trade on the secondary market. The depth of the market and diverse set of participants, including local and foreign investors, translates into higher trade volumes and strong liquidity levels.

Hard currency corporate debt

- At ≈ US$2.5 trillion[6], this is one of the fastest growing asset classes, with a disproportionately low dedicated AuM.
- The resulting inefficiencies provide scope for alpha generation across sectors, regions, and portfolio strategies.
- Most commonly used benchmark: JP Morgan Corporate Emerging Market Bond Index (CEMBI) Diversified.
- Highly diverse universe, with ≈500 issuers from 44 countries.
- No direct currency risk.
- Corporate default risk.
- Opportunity to participate in improving Environmental, Social & Governance (ESG) trends, such as Indian renewables sector.

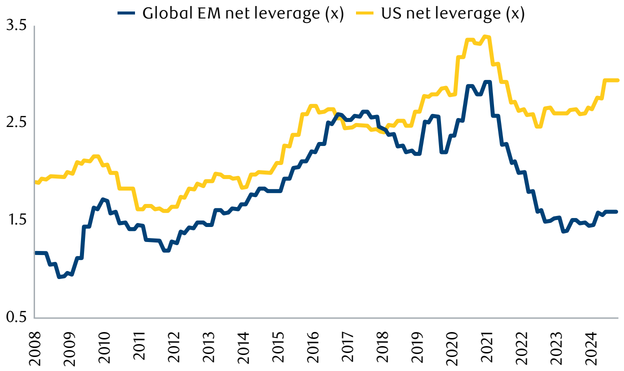
The **hard currency EM corporate debt** market is a diverse and very well-established asset class which has seen strong growth in the last decade, driven by robust investor demand, rapid long-term EM economic growth, and increasing integration into global capital markets. Despite being a majority investment grade (IG) rated asset class, EM corporate debt has offered higher yield over similarly rated DM corporates, a reflection of the higher risk premium investors typically require when investing in EM. However, investor perception of risk in emerging markets is changing as corporate governance and transparency continue to improve and macro policy across the EM universe has become more orthodox.

At a company level, fundamentals have seen considerable improvement over the last few years as EM corporates have consistently reported lower leverage and higher cash to total debt ratios than their US counterparts. Currently, the difference in net leverage and cash to debt ratio in EM vs DM (using US corporates as a proxy) stands above 10-year highs (Figure 4).

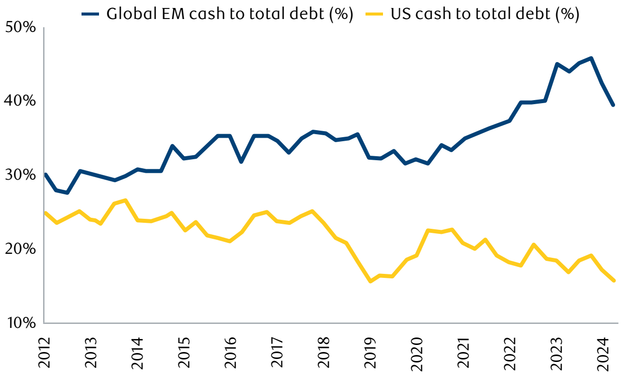
[3] JP Morgan, as of 31 December 2024.
[4] RBC Global Asset Management as of 31 December 2024.
[5] Quasi-sovereign: an entity that is 100% guaranteed by a sovereign or majority owned or controlled by a sovereign.
[6] RBC Global Asset Management as of 31 December 2024.

Figure 4: EM net leverage near historic lows relative to US peers

EM net leverage at historic lows



EM cash to total debt ratio improved vs US issuers



Source: Bank of America, Merrill Lynch as of 31 December 2024.

Local currency sovereign debt

- Largest EMD sub-sector at ≈ US$12 trillion[7].
- Currency and rates risk.
- Most commonly used benchmark: JP Morgan GBI-EM Global Diversified Index Unhedged.
- Concentrated index – 20 countries represented.
- Growing asset class.
- Considerably lower default risk.
- Ample liquidity.

The **EM local currency** market is a vast, rapidly growing universe. The range includes countries that are more mature, with a full scope of liquid cash and derivative instruments, to markets that are considered 'frontier', embarking on a long and difficult process of opening their capital accounts and deepening their local markets to attract foreign capital.

Opportunities for diversification are vast, with a multitude of sovereign and corporate issuers, inflation-linked and nominal debt, free floating to managed or pegged currencies. Debt denominated in local EM currencies typically have shorter duration and are more influenced by local inflation expectations and central bank policies. Investors in EM local currency debt tend to be domestic market participants and specialized EM funds.

Despite the breadth of the opportunity set, the most widely used index – the JPM GBI-EM Global Diversified Index Unhedged – reflects only a very specific subset of the universe, limited to the larger, more liquid markets. The price for limiting the benchmark to this subset, however, is that it has become a very concentrated and highly volatile point of reference for the market. Indeed, this detracts from the very specific diversification benefits which draw investors to this asset class in the first place.

Local currency corporate debt

- Large sub asset class at ≈ US$10.7 trillion[8].
- Asset class is relatively new and fast growing.
- Most commonly used benchmark: BofA Diversified Local Emerging Markets Non-Sovereign Index.
- Very attractive yield with low duration risk.
- Currency risk.
- Corporate default risk.
- Lack of dedicated funds mean technical support is limited.

The **EM local currency corporate debt** market, in its broadest form, covers over 80% of the global EM debt universe, with local capital markets in varying stages of development. This ranges from more mature EM countries, such as Brazil and Mexico, to markets that are considered frontier, such as Kazakhstan, and which can offer idiosyncratic opportunities. Local currency corporates typically offer higher yields when compared to local currency sovereigns due to the additional credit risk, and they are often less liquid with fragmented issuance across different countries and regulatory frameworks.

In addition, while governments actively seek foreign investment for local currency sovereign bonds, corporate debt tends to have greater restriction on foreign investor participation. These challenges combined have limited the level of foreign investor sponsorship of the local currency EM corporate sub-asset class, despite the overall higher credit ratings and lower duration risk.

[7,8] RBC Global Asset Management as of 31 December 2024.

Why invest in emerging market debt?

There are several key benefits that investors find attractive within EMD, including diversification, yield premium and a compelling opportunity for further returns from alpha generation.

Diversification

Emerging markets provide investors with access to a wider array of different economies at distinct stages of their economic cycle and, consequently, a richer variety of idiosyncratic returns drivers which can be uncorrelated to developed market economies, and often to each other. This geographical and macro-economic breadth allows for the creation of more diversified portfolios. Due to the breadth of the opportunity set, it becomes possible to find uncorrelated, idiosyncratic stories, which is particularly valuable within the context of diversifying your portfolio.

"EM bonds have provided investors with differentiated returns relative to DMs, showing modest correlation to global equities and global bonds."

Also, the diverse economic makeup of different emerging markets can mean that some can benefit from macroeconomic trends that weigh on most developed markets. An energy price spike, for example, would boost the prospects of commodities exporters. Over time, EM bonds have provided investors with differentiated returns relative to DMs, showing modest correlation to global equities and global bonds. The result being ample diversification benefits for institutional investors which can serve as an important buffer during periods of stress or volatility in other regions or asset classes.

Yield premium

EMD has provided investors with a meaningful yield advantage over developed market bonds, compensating them for venturing out of their core markets and providing an effective cushion against market volatility. Currently, yields range from 6-7% at the index level and rise to greater than 8% when investors look at instruments rated single-B or below. This attractive yield premium offered by EMD is apparent when comparing the asset class against developed market instruments with similar rating and duration risk profiles (see Figures 5 & 6).

Valuation in EM remains attractive relative to other DM asset classes

Figure 5: EM vs. other asset classes: duration relative to yield

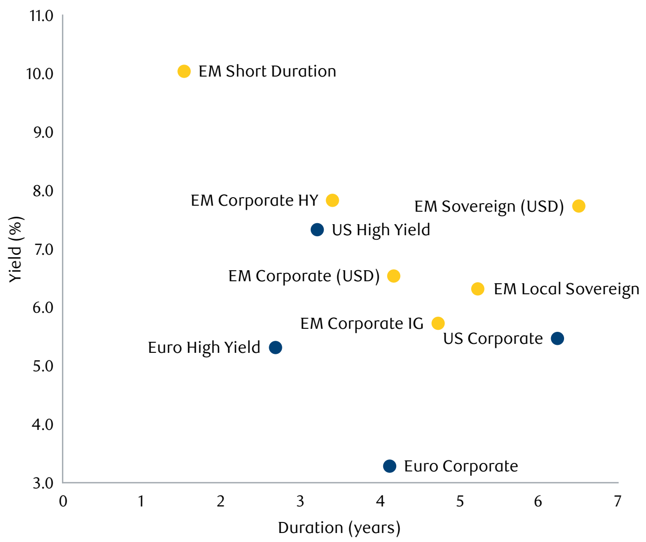
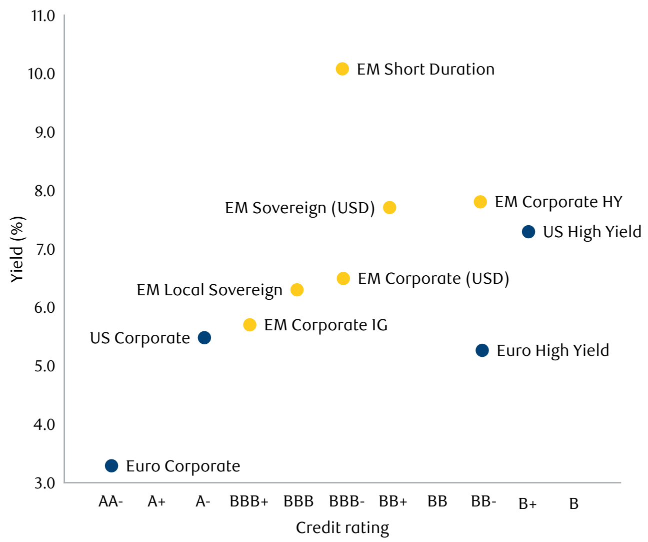


Figure 6: EM vs. other asset classes: credit rating relative to yield



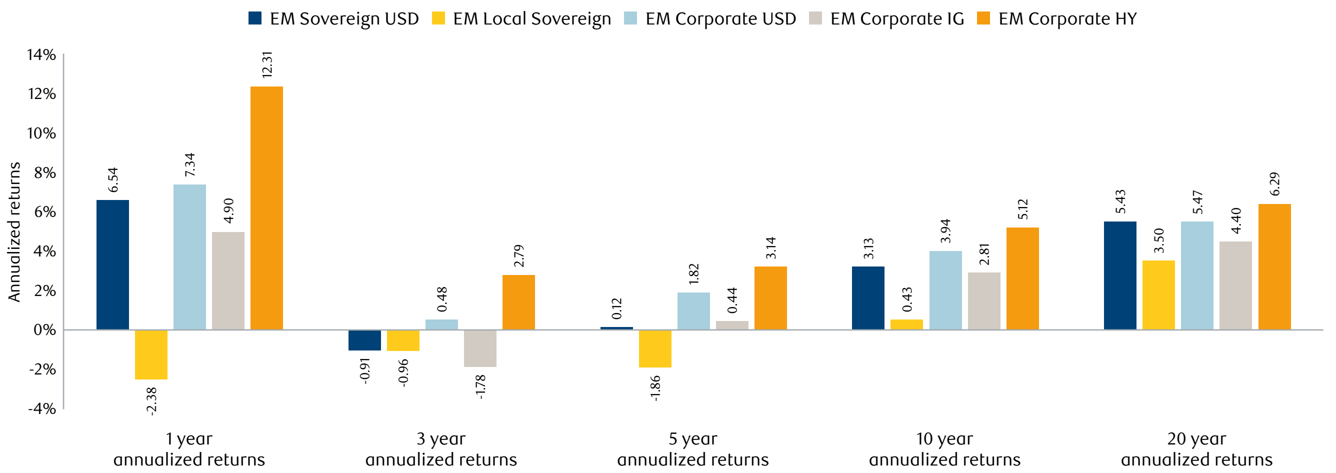
Source: JPMorgan, BofA, Bloomberg. as at 31 January 2025.
Note: EM Corporate (USD) = JPM CEMBI Diversified; EM Sovereign (USD) = JPM EMBI Global Diversified; EM Local Sovereign = JPM GBI-EM Global Diversified USD unhedged; US High Yield = BofA US High Yield Master II; US Corporate = BofA US Corporate Master; Euro High Yield = BofA Euro HY Index; Euro Corporate = BofA Euro Corporate Index; EM Corporate HY = JPM CEMBI Diversified HY, and EM Corporate IG = JPM CEMBI Diversified IG.

Return characteristics

For clients who believe in the benefit of active management they need to look no further than emerging market debt, which provides a fertile a hunting ground for sourcing alpha opportunities. The market can be inefficient and less well understood, as many market participants do not have the resource and expertise to analyse all the risks (and opportunities) and properly price these securities. As a result, specialist active managers can be presented with a 'dream scenario', exploiting price anomalies in a market which is prone to spikes of volatility and periods of dislocation.

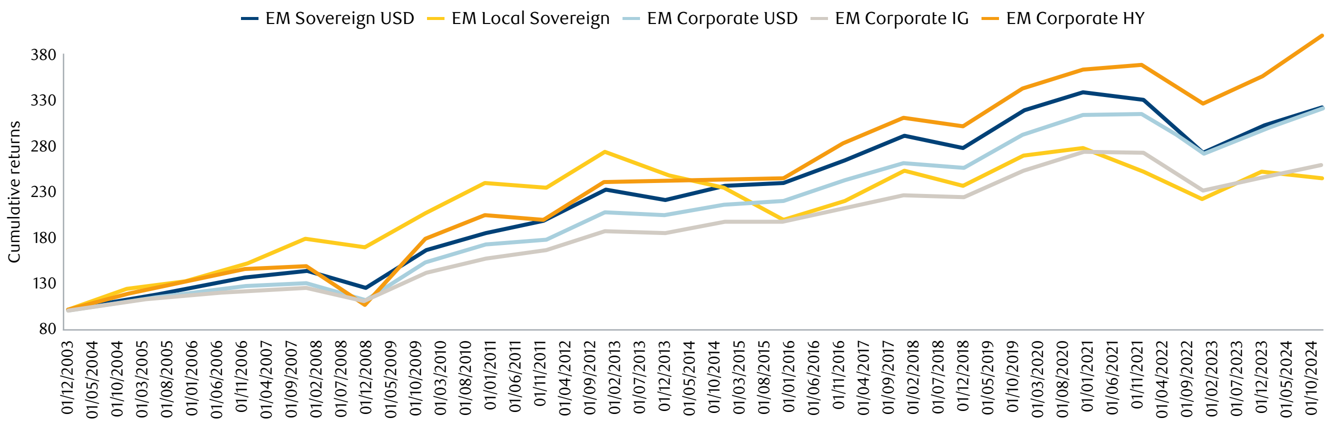
EMs are by their nature subject to swings in risk sentiment and to external economic and geopolitical shocks. We believe the wide range of issuers and asset characteristics can create opportunities for enhanced returns through active management as markets overreact in the short term to news flow. The range of exploitable returns can vary across sub-asset classes, depending on the context and market developments. Figures 7 & 8 demonstrate the competitive results achieved by EMD over time.

Figure 7: Compelling return characteristics



Source: Bloomberg, as at 31 December 2024.

Figure 8: 20 year cumulative return



Source: Bloomberg, as at 31 December 2024.

Ways to access emerging market debt

Passive investment in EMD is sub-optimal and investors should tread carefully

EMD markets can, at times, be significantly inefficient and volatile with meaningful dispersion between the best and worst performing bonds. Passive investors could therefore be tied into highly volatile returns. In contrast, active investors are in a position to avoid the potential pitfalls associated with deteriorating credit developments and can employ downside protection strategies to mitigate negative periods in the market, allowing for a attractive risk-return profile.

Active funds can also benefit from a larger investable universe with the option of investing in off-benchmark positions. These may include bonds that lie outside the index yet offer higher risk-adjusted return potential, or bonds issued by smaller issuers that the index might not capture due to liquidity or other constraints defined by the index provider.

This is particularly relevant in the EM local currency market, which accounts for approximately 80% of the global EM debt universe[9], yet the key indices only represent about 20% of the investable local market universe. This means the benchmark is highly concentrated amongst the high beta local currency markets and can be very volatile and not necessarily a true reflection of the overall sub-asset class. As a result, passive investors miss a vast opportunity to diversify outside of the benchmark and potentially boost returns.

A framework to help identify the most suitable active approach

Below, we introduce a framework to help investors consider the most suitable way to access EMD, based on their requirements with respect to benchmark, liquidity, flexibility regarding asset class exposure and yield. We illustrate this spectrum in Figure 1, using the strategies we offer to our clients as examples.

Benchmark relative

- **Asset class focus:** Investors who aim to gain exposure to the beta of a specific sub-asset class (e.g. to perform a specific role in a multi-manager portfolio or because of a strong view on certain asset classes), can invest in strategies where the manager seeks to outperform this sub-asset class benchmark over a cycle.

- **Flexible:** Investors with more flexibility, but still seeking benchmark-relative returns, can target strategies which span multiple asset classes, but allow their active manager some flexibility to allocate between these sub-asset classes. These strategies aim to produced higher overall returns and lower volatility than holding separate single asset class investments as managers have an additional active lever to pull.

> "Active funds can also benefit from a larger investable universe with the option of investing in off-benchmark positions."

[9] RBC Global Asset Management as of 31 December 2024.

Benchmark agnostic

- **Total return, unconstrained (long-biased):** These 'go anywhere' strategies are for investors who want the ability to capture the attractive upside available in EMD though a high conviction portfolio, but would like more flexibility to limit the downside during periods of high volatility, often using derivatives to manage risk quickly and efficiently. These are still long-biased solutions, but without the constraints of a market benchmark. They can help to smoothen the volatility of investments over the long term.

- **Absolute return, long/short (hedge fund):** For investors who have the ability to allocate to long/short hedge funds, these strategies are similar to unconstrained strategies but have the added ability to short bonds. These are designed to be market neutral and generate strong positive returns irrespective of the underlying market environment. Typically, liquidity will be limited to monthly or longer and net return targets will be double-digits.

- **Private credit:** For investors able to lock up their capital for multiple years, a private credit strategy can target 15+% gross and net IRR in excess of 12%, annualised. In an uncertain and volatile environment, when demand for EM corporate issuance may be unreliable, healthy corporates in EM often choose the private credit route for funding smaller or shorter maturity financing requirements, often at a premium versus their funding costs in the liquid, public markets. As a result, investors in EM private credit can earn a healthy premium whilst still focusing on higher quality credits. At times, private market lenders, particularly banks, will need to reduce their balance sheets for reasons unrelated to the specific underlying assets. Given the illiquid nature of the private credit markets within EM, this activity can cause temporary asset price dislocations. Investors in a position to take advantage of these dislocations can generate an additional return pick up in their private credit portfolios.

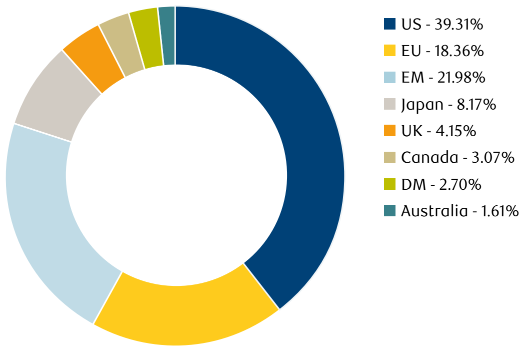
Dispelling myths concerning emerging market debt

Myth 1: EMD is a niche asset class.
Reality: At $29 trillion, emerging market debt dwarfs many other fixed income asset classes.

When investors hear EMD, many think small and niche. This is not the case. EM debt has become the largest pool of credit in the world, according to the Bank for International Settlements, surpassing the US over the past decade. Some people may be surprised to learn that the total market size is over $29 trillion in total debt, as of 31 October 2024, according to the Institute for International Finance.

To put that into perspective, the size of the US High Yield market is roughly $3 trillion[10] and the US Investment Grade (IG) market is about $8 trillion[11]. These are both very mainstream asset classes that often form large parts of client portfolios, yet both are dwarfed by EMD.

Figure 9: Global fixed income market outstanding



Source: Bank of International Settlements (BIS). Note: DM= developed markets (excluding countries listed in the chart).

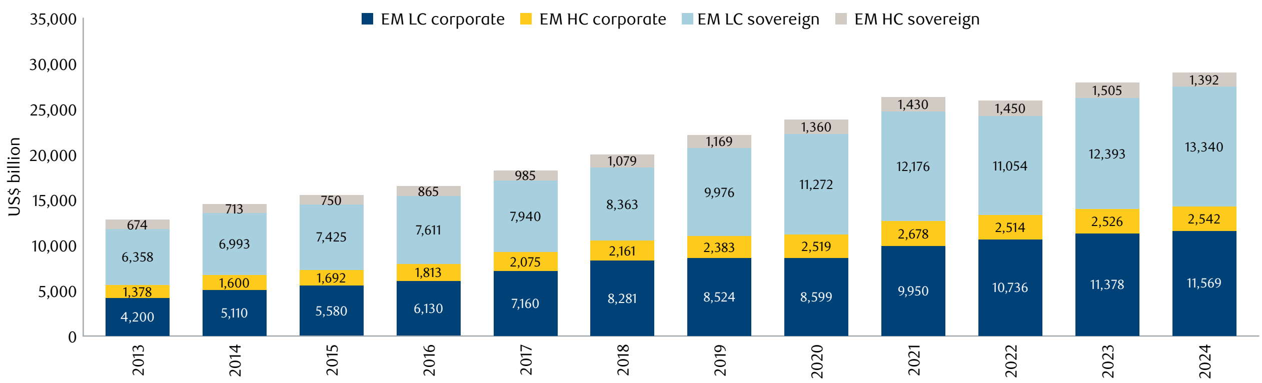
Significant market growth demonstrates the growing importance of EMD

Over the past decade, the EM asset class has more than doubled in size (see Figure 10). The overall expansion highlights the deepening and maturing of EMD and the growing presence of EM countries and corporations, as they have increasingly turned to global markets to raise capital. It is worth noting, however, that this is not simply due to the largest countries and companies issuing more and more debt.

In fact, the growth is being driven by a widening range of market participants becoming more integrated into global capital markets. Moreover, because of the size and breadth of maturity profiles within issuers' yield curves, investors can access deep, liquid markets with a broad choice of individual instruments for their investment objectives.

Figure 10: Evolution of the EM debt stock

Significant growth of total debt stock over the past few years



Source: JPMorgan, as at 31 December 2024.

[10, 11] JPMorgan, RBC BlueBay Asset Management as of December 2024.

Myth 2: Higher yields in EMD signify lower credit rating. **Reality:** EMD has an investment grade rating, on average.

Investors may be surprised to know that, on average, the EMD asset class has an investment grade rating. The narrative seems to be that it is inherently more risky and poorly rated, but that is simply not the case. Because of the geographical breadth of the asset class, various headlines, often pertaining to a small component of the index, can dominate perceptions of the overall asset class. As a result, emerging markets have, at times, been cast in shadows by investor apprehension. Whilst this dynamic can create opportunities, it can also make investors who are unfamiliar with the asset class reluctant to dip their toes into the market.

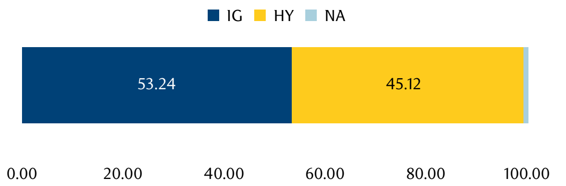
Indeed, supported by robust reserves and strong financial discipline, emerging markets creditors have developed mechanisms to address market fluctuations, revealing their strategic strength when it comes to meeting funding requirements. EMD default rates are lower, and recovery rates are higher than for developed markets, challenging the notion that it's a riskier financial frontier.

Of course, there is a broad range of credit quality in the market, as shown below, providing ample opportunity for active investors uncover opportunities.

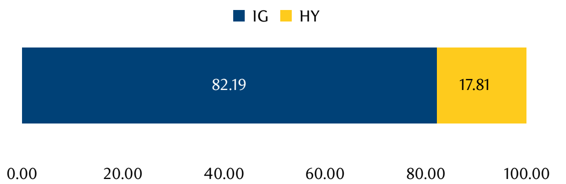
Figure 11: EM credit is an investment grade asset class

EM credit is an investment grade asset class

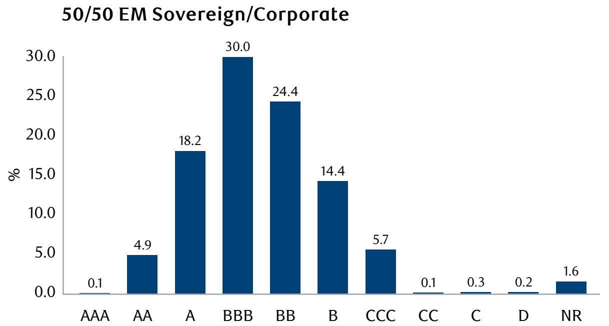
	Average rating
50/50 EM Sovereign/Corporate	BBB-

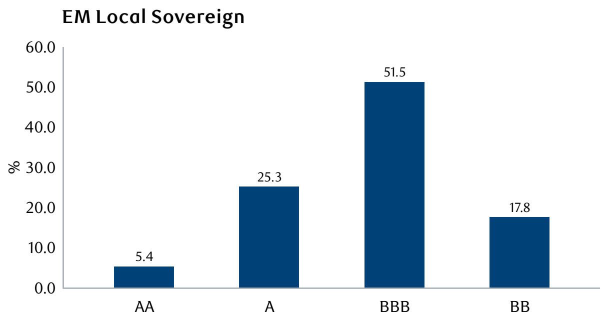


	Average rating
EM Local Sovereign	BBB



Less than 1% below CCC rating





Source: RBC Global Asset Management and Bloomberg as of 31 December 2024.

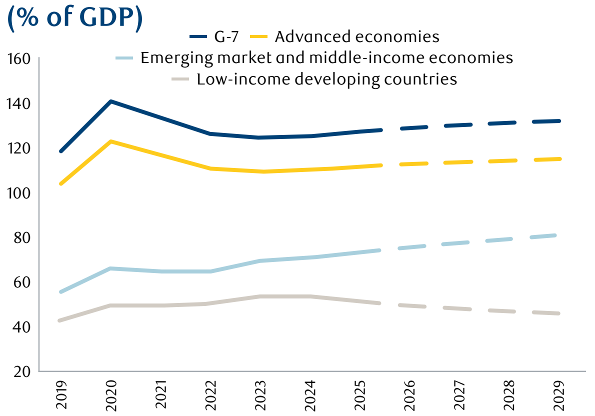
Myth 3: Emerging markets are inherently risky, so stay away.
Reality: Emerging markets demonstrate stronger fundamentals than developed markets.

There will always be some emerging market headlines that making the front page of the Wall Street Journal or the Financial Times. But for every one or two stories that make headlines for all the wrong reasons, there are another 80+ countries that do not, given the breadth of the market. These countries are generally fundamentally sound and on an upward trajectory, make good investments and paying attractive levels of yield relative to the risks.

Contrary to the historical norm, emerging market sovereigns currently showcase strong fundamental economic metrics compared to developed markets countries and represent a fast-growing share of global GDP. While developed markets grapple with a higher debt-to-GDP ratio of 126.5%, emerging markets have a moderate 69.4% debt-to-GDP ratio, on average. Emerging market fundamentals look compelling relative to developed markets across a range of additional metrics, including fiscal deficits and current account deficits.

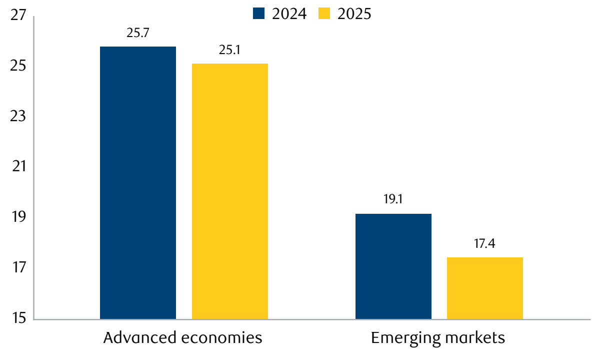
Despite global challenges in recent years, such as supply chain disruptions, inflationary pressures, and geopolitical uncertainties, EM economies have demonstrated healthy resilience. Many EM countries have implemented sound fiscal and monetary policies over the last few years, building stronger macroeconomic foundations that will lower gross financing needs (Figure 13). As a result, we have seen a decisively positive trend in EM sovereign ratings in 2024, which is likely to extend to 2025 (Figure 14).

Figure 12: General government gross debt (% of GDP)



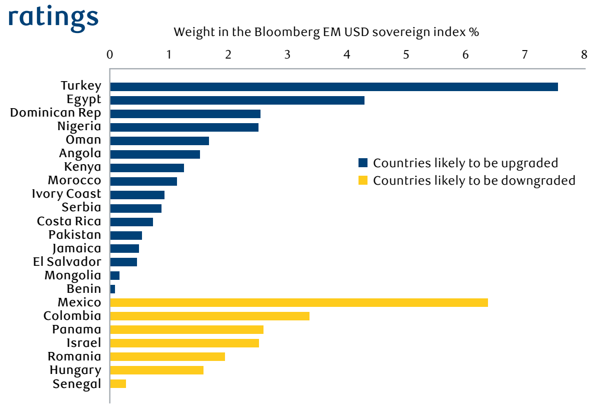
Source: IMF projections as of October 2024.

Figure 13: Gross financing needs 2024 (% of GDP)



Source: IMF projections as at December 2024. Weighted average GFNs for advanced economies and emerging markets. GFNs are defined as the sum of the primary deficit, debt service, and the stock of short-term debt at the end of the previous peroid, plus other debt-creating or reducing flows.

Figure 14: A positive trend in EM sovereign ratings



Source: Barclays Research. The chart shows countries that are expected to receive at least one rating upgrade/downgrade by any of the three major rating agencies up to year-end 2025. Default/ recent restructuring situations excluded. Please note that El Salvador was updated as of 7 January 2025. The foreign currency debt rating was upgraded by Fitch to B-, making it the equivalent of B- across all major rating agencies.

In addition, EM corporates entered 2025 from a position of strength. The high default rates of the post-Covid era, which were largely driven by the Chinese property crisis along with a steady stream of negative geopolitical events, are now behind us, with EM corporates going through a sharp de-leveraging event as a result. We expect corporate defaults to be in line with US markets and meaningfully lower than Europe.

Final thoughts

In a world where investors are worried about endless monetary experimentation and leverage in developed markets, but also looking for attractive yield, EMD can offer solutions. With diversification benefits, a yield premium driven by strong fundamentals and an outsized share of global economic activity, EMD provides an attractive alpha opportunity relative to developed markets and, we believe, warrants becoming a core holding in investors' overall fixed income allocations.

However, investing successfully in EMD requires a level of specialist expertise. The magnitude of the combined investible universe, reduced transparency and noise from headlines can present challenges. These can be mitigated by accessing the market via a strong, fundamental bottom-up approach which requires a well-resourced team with significant experience, access to key decision makers and deep local knowledge.

In addition, as with many asset classes, EMD is prone to periods of meaningful devaluation and short-term losses. The key to generating attractive, risk-adjusted returns is understanding the risk-reward profile of individual investments, whilst maintaining a strong focus on downside protection.

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