BlueBay Emerging Markets Debt Desk Note May 2025

Market review

- Markets have settled in the aftermath of last month's tariff turmoil. The S&P 500 began the month by reversing all of the previous "Liberation Day" losses as trade negotiations began, and ended the month up 6.15% driven by strong corporate earnings and the "TACO" trade – an acronym for "Trump Always Chickens Out". Further, investors were gifted a brief respite at the end of the month from a US trade court ruling that blocked most of the tariffs, but this was quickly appealed by the administration – adding to trade policy uncertainties going forward. Several negotiating countries were already granted concessions, most notably being China and the UK which both had tariffs greatly reduced. Moreover, the battered US dollar continues to be encumbered by concerns about the US fiscal outlook, bringing the currency down 0.14% for the month against a basket of its peers. President Trump's proposed tax cuts from the One, Big, Beautiful Bill Act aim to extend the 2017 Tax Cuts and Jobs Act and have rattled deficit hawks. As well, a Moody's downgrade of the US credit rating on concerns of the growing debt was the coup de grâce to its pristine triple A rating status. The benchmark 10-year Treasury yield ended the month up 24bps at 4.40%, while the 30-year yield rose 25bps to 4.93%. The long bond yield added pressure on other curves, most notably Japan's. Elsewhere, crude oil prices recovered from the lows of the tariff selloffs, but still face future headwinds due to OPEC+ planned production increases that surprised the markets in May and will continue into July. Brent crude oil ended the month at $63.90/bbl, up 1.24%.

- Emerging markets (EM) took things in stride with EM equity markets and currencies experiencing strong monthly gains led by a rally in Asia. EM stocks had their biggest one-month advance since September 2024 – up 4%. EM local currency performance continues to show strength, with the local index having its fifth consecutive positive month – its longest winning streak in 5 years. This was led by weakness in the US dollar due to the deteriorating US fiscal outlook. In the EM hard currency fixed income space, sovereign markets climbed 1.1% while corporate markets were up 0.6% with spreads 34bps and 22 bps tighter respectively. In the sovereign space, high yield, higher beta names outperformed versus investment grade, with frontiers such as Maldives and Ethiopia outperforming heavily. Elsewhere, Pakistan spreads tightened as tensions with India over Kashmir subsided, while Ukraine underperformed as expected peace talks hit an impasse and military responses continued to escalate. In the corporate space, high yield names outperformed, particularly those credits in frontier markets. The transport and infrastructure sectors continued to show the strongest performance for the month, while real estate was an underperformer.

Emerging Markets News:

- The US and China held trade talks in Geneva earlier in the month which resulted in a détente whereby US tariffs on Chinese imports were reduced to 30%, and Chinese tariffs on US imports were cut to 10%. Both countries have since accused each other of violating the agreement, leading to heightened uncertainty regarding global trade policy.

- Pakistan and India announced a ceasefire following cross border strikes after a terrorist attack (which India linked to Pakistan) in the Indian controlled part of Kashmir.

- In Argentina, libertarian President Javier Milei's party won the most votes in the Buenos Aires local elections, a boost for the party ahead of the October midterms. This was viewed as a referendum in support of his radical economic reform agenda. Sovereign bonds cheered the results.

- In Romania, liberal mayor and math prodigy Nicusor Dan claimed victory in the Presidential election in a tense challenge against the leader of the right-wing AUR party, George Simion. Simion was more successful in courting in the diaspora votes and was a close ally of C lin Georgescu – the nationalist candidate who was barred from the election due to allegations of foreign interference after gaining mass popularity on one of the world's most popular social media apps. Dan ran on a pro-Western, pro-EU platform and formerly served as the Mayor of Bucharest. He had also previously won the International Mathematics Olympiad with perfect scores – twice. The Romanian leu and sovereign bonds welcomed the results.

- In Poland, conservative historian and former boxer Karol Nawrocki emerged as the winner of the Presidential election in an upset after polls and betting markets were suggesting otherwise. Nawrocki's win presages further blocks to Prime Minister Donald Tusk's progressive agenda in favour of more nationalistic and Eurosceptic stances, and a deteriorating relationship with Ukraine. The Polish zloty and government bonds fell against the uncertain political backdrop and possible fiscal deficit concerns.

Outlook

Risk markets have relaxed since the tariff announcements first unsettled them. Negotiations remain a comforting factor, though uncertainty remains as trade headlines, legal challenges and the big, beautiful tax bill still loom large. While the S&P 500 has since recovered, the long bond yield remains pinned near the 5% level, applying pressure on other curves. A further move higher in global bond yields is therefore the number one risk markets are facing presently, and central banks and governments are taking note, as seen with the Bank of Japan considering amending the pace of its bond tapering as a result.

For EM fixed income, the more conciliatory tone on tariffs has abated fears of a sharp global growth slowdown. Additionally, the nature of the tariffs themselves appear to be shifting from broad-based to idiosyncratic country or sector specific targets. EM local markets are still tied to the weakness in duration from core markets, however, the fact that yields are already at a much higher starting point in EMs while the disinflation trend is still in place in Asia and Europe lends support to the argument of EM outperformance. The weaker US dollar and waning reputation of US exceptionalism also supports EM FX. In EM credit markets, the longer duration nature of the EM asset class is a risk to be aware of, particularly in terms of the recent shifts in developed market bond yields. However, spread movements are mostly hinged on the asset class's strong fundamentals and the global growth outlook, where the reduced likelihood of a recession should allow for positive performance, especially as carry remains at elevated levels.

Asset class performance

Hard Currency Corporate		
	MTD Change (%)	YTD Change (%)
CEMBI Diversified	0.64	2.74
Investment Grade	0.19	2.78
Non-Investment Grade	1.26	2.71
Spreads (Δbps)	-22	29
IG Spreads (Δbps)	-17	23
HY Spreads (Δbps)	-29	41
Africa	1.06	1.88
Asia	0.52	2.88
CEEMEA	0.67	2.53
Europe	1.33	2.87
Latin	0.82	2.86
Middle East	0.26	2.68
Consumer	0.92	2.88
Diversified	0.90	3.26
Financial	0.48	2.82
Industrial	1.03	2.85
Infrastructure	0.95	3.58
Metals & Mining	0.73	2.87
Oil & Gas	0.64	1.35
Pulp & Paper	-0.02	2.17
Real Estate	-0.68	2.85
TMT	0.82	3.07
Transport	1.40	2.09
Utilities	0.52	3.14
AA	-0.04	3.26
A	-0.03	2.70
BBB	0.35	2.77
BB	1.32	3.16
B	1.45	1.56
C	2.24	5.80
Not Rated	-0.01	1.35

Source: JPMorgan EMBI Global Diversified Index, JPMorgan GBI-EM Global Diversified Index, JPMorgan CEMBI Diversified Index, ICE BofA Diversified Local EM Non-Sovereign Index

Hard Currency Sovereign	MTD Change (%)	YTD Change (%)
EMBI Global Diversified	1.12	3.15
Investment Grade	-0.06	2.87
Non-Investment Grade	2.27	3.43
Spreads (Δbps)	-34	9
IG Spreads (Δbps)	-18	2
HY Spreads (Δbps)	-58	17
Africa	4.72	3.13
Asia	0.88	2.96
Europe	0.42	1.81
Latin	0.91	3.97
Middle East	0.04	3.13
Non Latin	1.22	2.74
AA	-0.72	2.25
A	-0.33	2.81
BBB	0.25	3.05
BB	1.00	2.97
B	3.57	2.78
C	4.20	5.71
Not Rated	1.98	9.48

Local Currency Sovereign	MTD Change (%)	MTD Change (%)
GBI-EM Global Div Composite	1.41	9.22
Asia	1.52	5.58
Europe	-0.10	11.84
Latin America	1.15	14.46
Mid-East Africa	5.81	8.84
Brazil	-0.22	18.62
Chile	1.09	8.37
China	0.76	1.76
Colombia	2.29	9.90
Czech Republic	-0.27	13.18
Dominican Republic	-0.47	0.92
Hungary	-0.12	13.42
Indonesia	2.72	3.12
Malaysia	2.35	8.79
Mexico	1.61	16.67
Peru	1.80	7.21
Poland	0.17	15.62
Romania	-1.48	10.28
Serbia	0.20	10.79
South Africa	5.81	8.84
Thailand	1.98	7.97
Turkey	2.73	-6.51
Uruguay	3.37	10.96

Local return rates	MTD Change (%)	YTD Change (%)
Local rates	0.73	4.44
Asia	0.63	3.56
Europe	0.21	3.11
Latin America	0.76	7.37
Mid-East Africa	2.69	4.16
Brazil	1.03	10.06
Chile	-0.09	3.01
China	-0.17	0.32
Colombia	0.82	3.85
Czech Republic	-0.07	2.35
Dominican Republic	-0.14	-2.46
Hungary	-0.09	1.61
Indonesia	0.80	4.37
Malaysia	0.96	3.55
Mexico	0.73	8.89
Peru	0.62	3.63
Poland	-0.31	4.82
Romania	0.33	2.36
Serbia	0.37	1.29
South Africa	2.69	4.16
Thailand	0.38	3.46
Turkey	4.82	3.76
Uruguay	2.22	5.58

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