Contents

1
Fed cuts amid economic resilience extends positive backdrop for EMD assets

2
US dollar is expensive vs developed and emerging markets

3
Long rates bias with differentiation on fiscal and political risks

4
Supportive technicals to drive credit valuations tighter

5
Risks

FOR PROFESSIONAL CLIENTS / QUALIFIED INVESTORS ONLY
– NOT FOR RETAIL USE OR DISTRIBUTION

Investment themes for emerging market debt - Q4 2025

Federal Reserve (Fed) cuts amid economic resilience **extends positive backdrop for EMD assets**

Weaker US dollar on structural and cyclical drivers, though momentum may be slower

Long rates bias with differentiation on fiscal and political risks

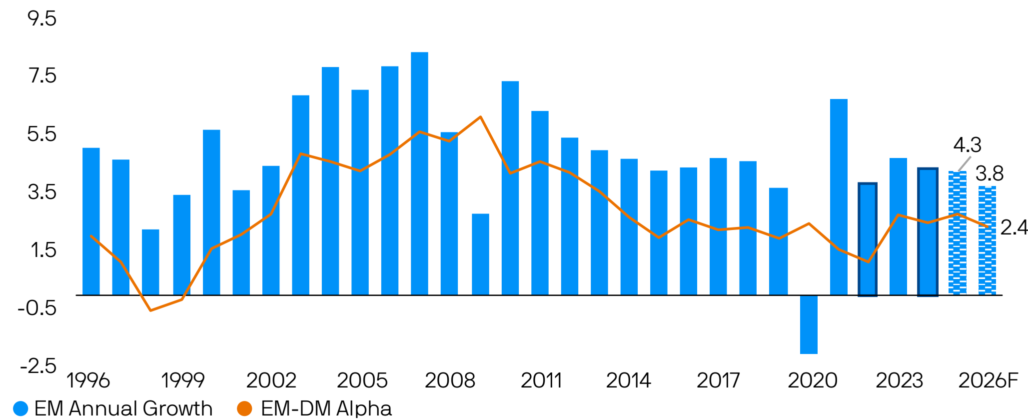
Supportive technicals to drive credit valuations tighter

Risks: US inflation, recession, geopolitics
Risk allocation: Local currency debt – high conviction; hard currency credit – medium conviction

J.P.Morgan ASSET MANAGEMENT

1 – Fed cuts amid economic resilience extends positive backdrop for EMD assets

Emerging market GDP growth is healthy and far above developed markets



In defiance of a slowdown in developed markets, emerging markets are expected to grow at a stable rate of around 4%. As a result, emerging markets are continuing to gain on developed markets, with emerging markets growing over two percentage points faster for the next two years.

Inflation remains contained within emerging markets with disinflation continuing in Emerging Europe and Latin America while Asian inflation remains subdued due to China. Inflation in the rest of emerging markets is now back to target levels with some idiosyncratic exceptions.

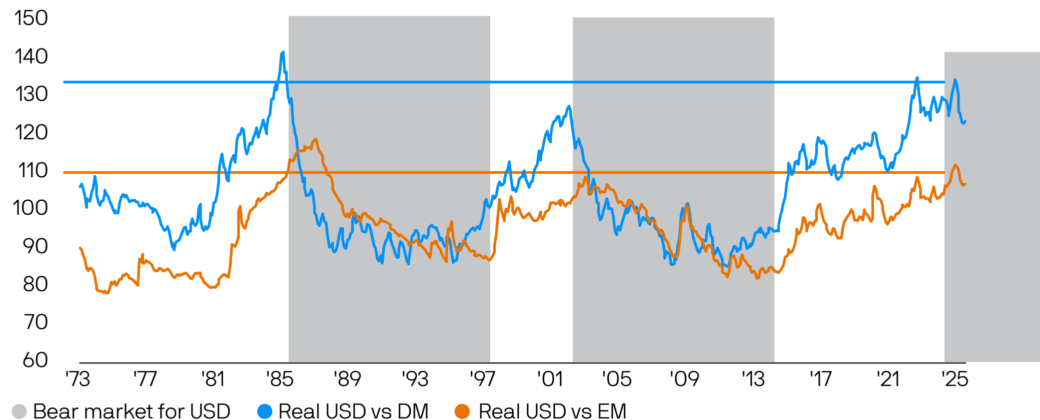
Overall, we are optimistic about the fundamentals in emerging markets and believe others are starting to take notice of the asset class. Credit rating agencies are expected to announce more upgrades than downgrades for emerging market countries. **Since "Liberation Day", emerging markets have gone from strength to strength, weathering volatility with increased** investor allocations and becoming the best performing asset class within public fixed income markets.

Source: Bloomberg, J.P. Morgan Asset Management; data as of September 2025. EM = emerging market. DM = developed market. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

2 – Weaker US dollar on structural and cyclical drivers, though momentum may be slower

US dollar is expensive vs developed and emerging markets

(Real effective exchange rates, 2006 = 100)



Emerging market foreign exchange (EMFX) is the way to diversify from the US dollar. Further weakness of the US dollar is predicated on a combination of factors, including a slowdown of US growth, which should lead to lower trade flows, and rate cuts from the Federal reserve, which will lead to a decreasing yield differential and make the dollar less attractive from a carry perspective compared to other currencies.

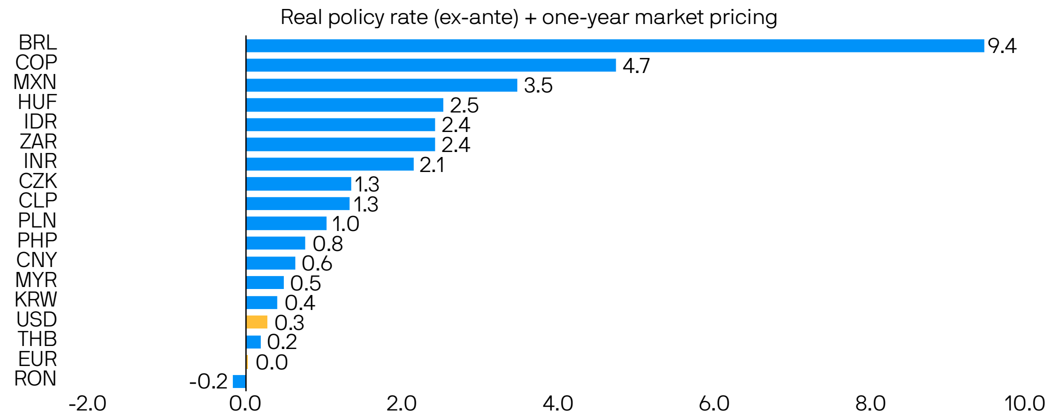
We also expect investors to continue to either hedge more of their US dollar currency risk or diversify their portfolios away from US dollar assets given their already significant allocations. And finally, even with the depreciation of the dollar so far this year, the **US currency is still significantly overvalued on long-term valuation metrics.**

With this said, we do not expect a disorderly or one-way decline in the dollar. Instead, **we expect a slow, gradual decline over the medium term, which should provide investors with opportunities to scale into positions over time.**

Source: J.P. Morgan, J.P. Morgan Asset Management, Bureau of Economic Analysis. Data as of 29 August 2025.

3 – Long rates bias with differentiation on fiscal and political risks

Central bank ex-ante real policy rates
(%)



Source: Bloomberg, J.P. Morgan Asset Management; data as of September 2025.

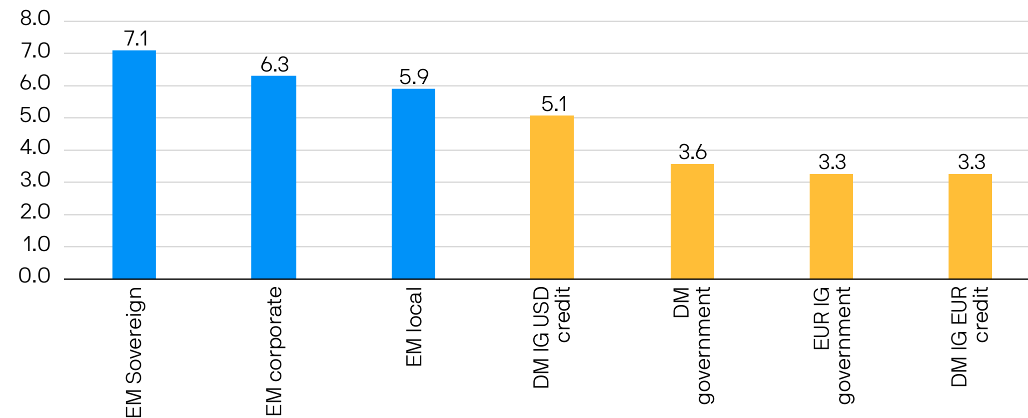
Emerging market (EM) local currency debt is our preferred sector within EMD for the next three to six months. On the surface, EM local yields are high at close to 6.5%. With inflation subdued while rates are still high, **EM central banks are in a position to cut rates,** helping investors to benefit from both current income and potential future capital appreciation.

Strong domestic ownership of EM local debt provides foundational support. Around 90% of EM local bonds are owned by domestic investors (pension funds, insurance companies, wealth managers), which will lower the volatility of the asset class.

Putting this together, **EM local currency debt provides enticing real rates and a better carry-to-volatility profile than developed market government securities.** Within the sector, we prefer quality EM local countries, such as Mexico, the Czech Republic and Thailand. We also find idiosyncratic opportunities in developing frontier markets in countries such as Egypt, Uganda and Uzbekistan.

4 – Supportive technicals to drive credit valuations tighter

Selected index yields
Yield (%)



Source: Bloomberg, J.P. Morgan Asset Management; data as of September 2025. IG = investment grade.

Supply and demand dynamics are expected to be supportive for EM credit markets for the remainer of 2025 and into 2026.

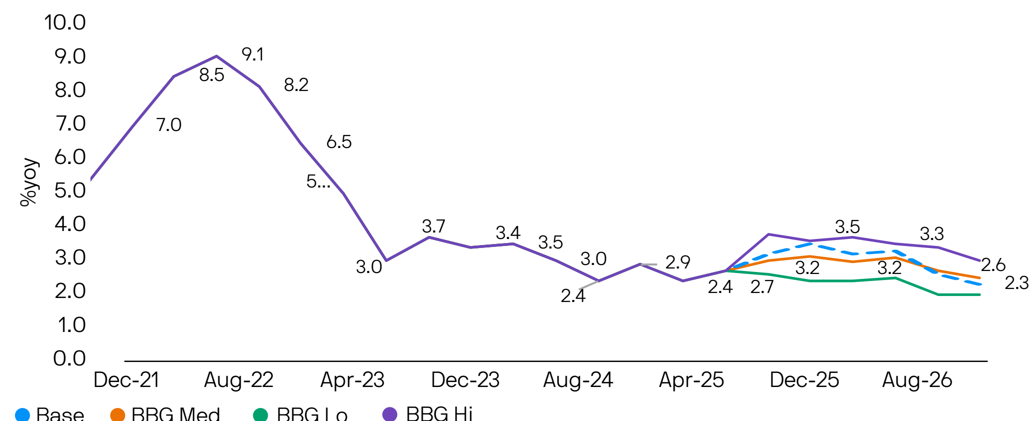
On the supply front, we expect more repayments of debt, through coupon and capital repayments of bonds, than issuance of new supply across both sovereign and corporate markets. The majority of the issuance we have seen so far this year has been investment grade and we expect this trend to continue as high yield issuers hold off refinancing until rates come down or look to other sources for refinancing.

Yields have been the main draw to fixed income markets over recent years. This insatiable demand has led to spreads compressing across many fixed income sectors. With central banks globally starting to cut rates and little spread premium on offer, yields will decline, and investors will be searching for new opportunities for the yields they were once used to. **With DM markets looking tight while there is still a premium in emerging markets, we believe investors will look to rotate allocations.**

Within EM credit we find value in a barbell of longer duration high quality and high yield (BB-rated) bonds along with shorter duration high carry (B-rated) opportunities.

5 – Risks

US Inflation is expected to pick up over the next six months before declining through 2026



Source: Bloomberg, J.P. Morgan Asset Management (JPMAM); data as of September 2025. Base= JPMAM base case. BBG Med = Bloomberg middle forecast. BBG Lo = Bloomberg lowest forecast. BBG Hi = Bloomberg highest forecast.

The main risk that we previously highlighted was the impact of tariffs on EM economies, which have the potential to slow growth or lead to an escalation in trade tensions. **So far, emerging markets have seen limited impact from US tariffs. The pass through of tariffs to increasing prices is also yet to be seen in the US,** with many market commentators alluding to a sharing of these costs between EM exporters, US importers and US consumers. Nevertheless, we expect inflation to rise over the next six months, before declining for the rest of next year.

Current market expectations are for further Fed rate cuts in 2026, which will be beneficial for EM assets. **If these rate cuts do not come to fruition because of rising inflation, there is a risk that EM assets will not perform as expected.** Conversely, if US rate cuts are not delivered and rates are kept too high for too long, there is the probability of a recession occurring, which could lead to EM assets underperforming through wider credit spreads.

NOT FOR RETAIL DISTRIBUTION: This communication has been prepared exclusively for institutional, wholesale, professional clients and qualified investors only, as defined by local laws and regulations. The views contained herein are not to be taken as advice or a recommendation to buy or sell any investment in any jurisdiction, nor is it a commitment from J.P. Morgan Asset Management or any of its subsidiaries to participate in any of the transactions mentioned herein. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, based on certain assumptions and current market conditions and are subject to change without prior notice. All information presented herein is considered to be accurate at the time of production. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. In addition, users should make an independent assessment of the legal, regulatory, tax, credit and accounting implications and determine, together with their own financial professional, if any investment mentioned herein is believed to be appropriate to their personal goals. Investors should ensure that they obtain all available relevant information before making any investment. Investment involves risks, the value of investments and the income from them may fluctuate in accordance with market conditions and taxation agreements and investors may not get back the full amount invested. Both past performance and yield are not a reliable indicator of current and future results. J.P. Morgan Asset Management is the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide. To the extent permitted by applicable law, we may record telephone calls and monitor electronic communications to comply with our legal and regulatory obligations and internal policies. Personal data will be collected, stored and processed by J.P. Morgan Asset Management in accordance with our privacy policies at https://am.jpmorgan.com/global/privacy. This communication is issued by the following entities: In the United States, by J.P. Morgan Investment Management Inc. or J.P. Morgan Alternative Asset Management, Inc., both regulated by the Securities and Exchange Commission; in Latin America, for intended recipients' use only, by local J.P. Morgan entities, as the case may be; in Canada, for institutional clients' use only, by JPMorgan Asset Management (Canada) Inc., which is a registered Portfolio Manager and Exempt Market Dealer in all Canadian provinces and territories except the Yukon, an Investment Fund Manager in British Columbia, Ontario, Quebec, and Newfoundland and Labrador, and a derivatives adviser in Ontario and Quebec. In the United Kingdom, by JPMorgan Asset Management (UK) Limited, which is authorized and regulated by the Financial Conduct Authority; in other European jurisdictions, by JPMorgan Asset Management (Europe) S.à r.l. In Asia Pacific ("APAC"), by the following issuing entities and in the respective jurisdictions in which they are primarily regulated: JPMorgan Asset Management (Asia Pacific) Limited, or JPMorgan Funds (Asia) Limited, or JPMorgan Asset Management Real Assets (Asia) Limited, each of which is regulated by the Securities and Futures Commission of Hong Kong; JPMorgan Asset Management (Singapore) Limited (Co. Reg. No. 197601586K), this advertisement or publication has not been reviewed by the Monetary Authority of Singapore; JPMorgan Asset Management (Taiwan) Limited; JPMorgan Asset Management (Japan) Limited, which is a member of the Investment Trusts Association, Japan, the Japan Investment Advisers Association, Type II Financial Instruments Firms Association and the Japan Securities Dealers Association and is regulated by the Financial Services Agency (registration number "Kanto Local Finance Bureau (Financial Instruments Firm) No. 330"); in Australia, to wholesale clients only as defined in section 761A and 761G of the Corporations Act 2001 (Commonwealth), by JPMorgan Asset Management (Australia) Limited (ABN 55143832080) (AFSL 376919). For all other markets in APAC, to intended recipients only.
Copyright 2025 JPMorgan Chase & Co. All rights reserved.

LV-JPM57172 | 10/25 | 5a64c0bd-a44b-11f0-ae1e-0fa5a29c97a6