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Reasons to Revisit EM Corporate Debt: A Short Duration Approach

INSIGHTS

A short-duration allocation to emerging market (EM) corporate debt offers the potential for attractive carry, incremental yield and portfolio diversification—while reducing interest rate sensitivity and preserving flexibility to reposition as monetary conditions evolve.



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Market Context

Emerging markets have navigated a challenging backdrop in recent years, characterized by elevated inflation, aggressive rate hikes in developed markets, geopolitical tensions and heightened policy uncertainty in the U.S. With EM corporate bond valuations rebounding, default rates remaining low and yields still compelling, investors are reassessing the opportunity set—particularly as spreads have compressed toward multi-decade tights.

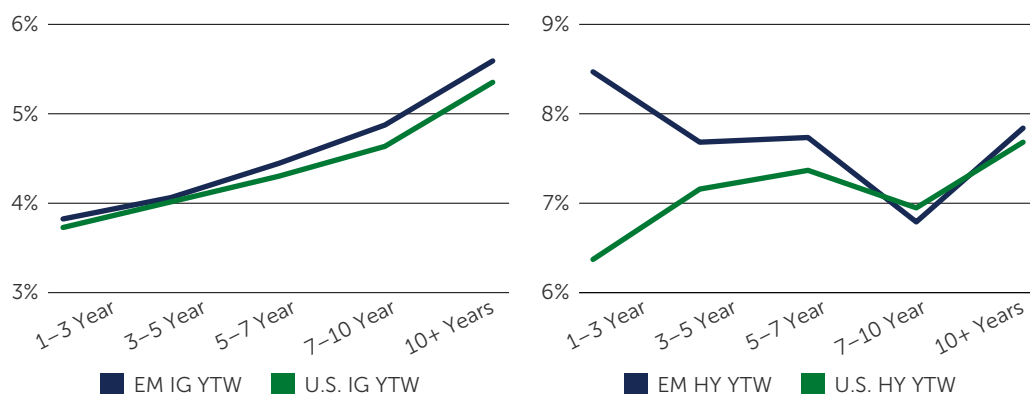
In our view, the case for EM corporates remains strong, with the short end of the curve offering a particularly attractive entry point. Short-duration EM corporates offer a compelling carry opportunity with lower interest rates and spread duration, enhancing portfolio resilience during periods of volatility. This positioning also provides liquidity and reinvestment flexibility as monetary conditions evolve.

1. Valuations Remain Compelling

Despite a broad-based rally in global credit amid resilient U.S. growth and a dovish pivot by the Fed, EM corporate yields remain compelling relative to developed market (DM) peers. In particular, yields for EM high-yield (HY) bonds—currently in the range of 7.65%–8.45%, compared to 6.37%–7.67% for DM high-yield bonds—offer compelling potential returns.

Ongoing reform momentum, greater multilateral support and new mechanisms—such as debt-for-nature swaps and state-contingent debt instruments—have reduced systemic vulnerabilities within emerging markets. The growing role of local investors and central banks in EM debt markets, as well as a shift to local currency issuance, has further stabilized the EM corporate debt universe and narrowed the gap with developed markets.

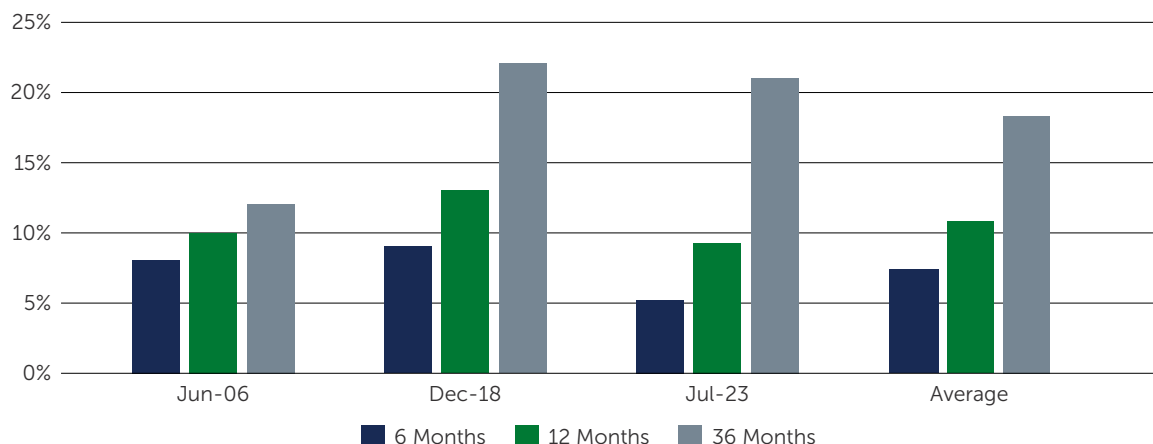
Figure 1: Yields Remain Compelling in EM vs. DM



Sources: J.P. Morgan; Bloomberg. As of November 16, 2025.

With the Fed in a rate-cutting cycle, revisiting historical patterns can help assess how EM corporate debt performs in such environments. Historically, EM corporates have delivered robust returns—typically between 8% and 22%—over the one- to three-year period following the Fed’s policy rate peak (**Figure 2**). In the current cycle, which reached the Fed’s terminal rate in July 2023, the asset class is tracking closely to historical precedents, with cumulative total returns of approximately 21% through October 31, 2025. Looking ahead, we expect this cycle to continue presenting further opportunities for compelling, risk-adjusted returns.

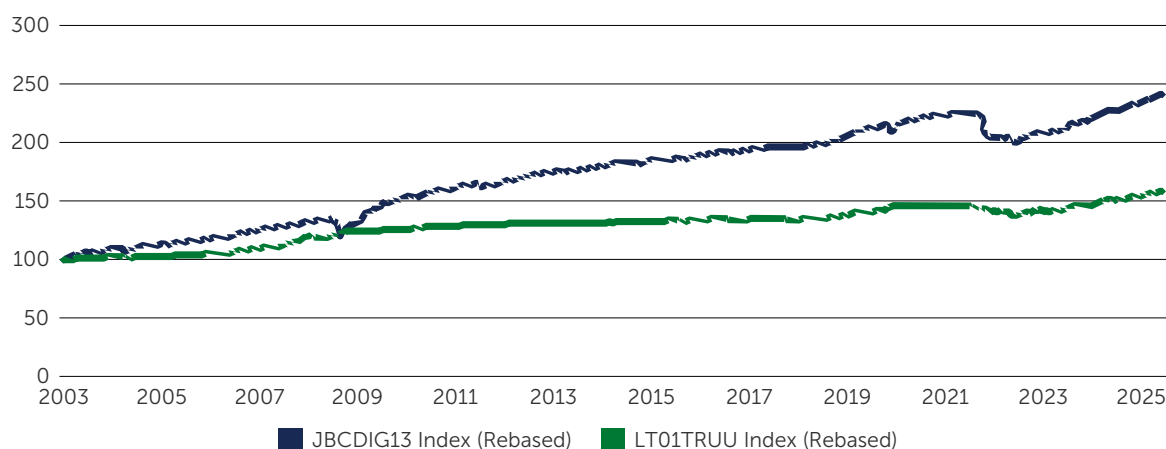
Figure 2: EM Corporate Debt Total Returns Following Peak Fed Rates



Source: J. P. Morgan. As of October 31, 2025. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

History also shows that EM short-dated corporate debt has offered attractive returns over time compared to similar duration U.S. Treasuries (**Figure 3**). This makes the asset class compelling, especially for investors concerned by U.S. Treasury volatility and the potential impact on returns.

Figure 3: EM Short Duration Debt vs. U.S. Treasuries



Source: J.P. Morgan. As of May 31, 2024. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

2. Lower Volatility & Attractive Risk-adjusted Returns

Short-duration bonds typically exhibit lower volatility due to limited sensitivity to macroeconomic shifts and interest rate changes. Their shorter maturity horizon reduces price fluctuations, making them particularly relevant in today's environment. Rate volatility has been a recurring theme through much of the year, underscoring the value of a short-dated approach.

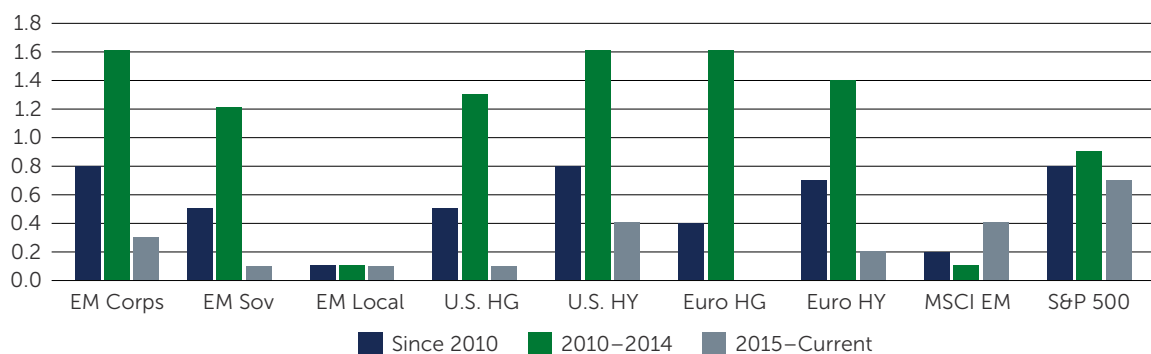
Additional stability comes from the natural "pull-to-par" effect, as bond prices converge toward par at maturity. Lower spread duration further enhances resilience, particularly given today's tight credit valuations and the risk of spread normalization.

Short-dated bonds are also less reactive to changes in corporate earnings outlooks. Their shorter horizon enables more accurate assessments of liquidity and financial trajectory, reducing vulnerability to unexpected deterioration in fundamentals. These characteristics underpin historically lower realized volatility for short-duration strategies.

The combination of strong prospective returns and low volatility has translated into superior risk-adjusted performance. Since 2015, EM corporates have delivered better Sharpe ratios than EM sovereigns, U.S. high yield and the S&P 500 (**Figure 4**). Short-duration EM corporates are particularly compelling, with Sharpe ratios of approximately 0.88 for IG and 1.02 for HY.

While short-duration strategies may sacrifice some absolute return potential, history suggests they offer strong risk-adjusted returns, especially during periods of heightened volatility.

Figure 4: Attractive Risk-Adjusted Returns Over Time



Source: J.P. Morgan. Note: Based on weekly returns annualized. CEMBI Broad for EM corporates, EMBIG Diversified for EM sovereigns, JULI for U.S. HG, and JPM Domestic HY for U.S. HY. Euro HG and HY are the respective iBoxx corporate indices. As of September 5, 2025.

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3. Robust Corporate Fundamentals

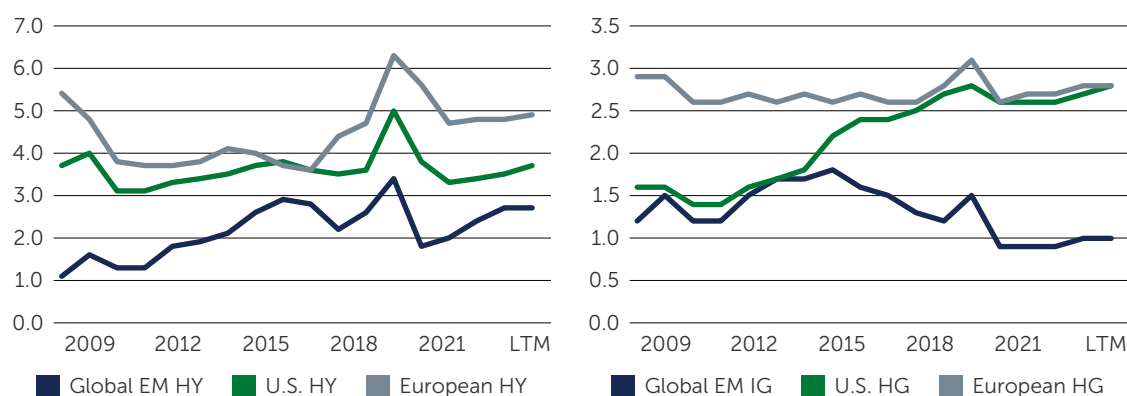
EM corporates have historically carried a perception of higher credit risk, reflected in wider spreads versus DM peers or even their respective sovereigns. However, structural improvements over the past two decades have strengthened the investment case.

- Approximately 60% of the EM corporate universe is rated IG, with significant sector diversification.
- Many large EM corporates are truly global and benefit from diversified revenue streams, experienced management teams and resilient business models, decoupling their performance from sovereign risk.
- Enhanced creditor protections and active local refinancing have improved structural soundness.

EM corporate credit fundamentals compare favorably to DM counterparts. EM IG and HY corporates currently exhibit net leverage of 1.1x and 2.7x, versus 2.8x for DM IG, 3.6x for EU HY and 4.9x for U.S. HY (**Figure 5**).

In short, EM corporate debt offers 15–100 basis points (bps) of incremental yield versus DM corporates with little to no extra credit risk.

Figure 5: Lower Leverage Levels in EM vs. DM



Sources: J.P. Morgan; Bloomberg Finance L.P.; CapitalIQ. Note: Excluding 100%-quasis, financials, real estate, and defaulted companies. 2022 and afterwards additionally exclude Russian corporates. DM numbers as of 2Q25. EM results are based on partial 3Q25 earnings (300+ companies) blended with earlier results for those that did not report.

4. A Global & Diverse Opportunity Set

The EM corporate debt market, at approximately USD 2.5 trillion, represents a significant component of the global investment universe. While EM debt is often perceived as higher risk, many EM corporates are large, globally integrated businesses with diversified revenue streams; yet they trade at valuation discounts not fully justified by fundamentals.

The linkage between corporates and sovereigns is weakening as companies become more globally integrated, enhancing resilience during sovereign stress. In some cases, EM corporates trade at tighter spreads than their sovereigns, reflecting stronger fundamentals and lower default risk. Unlike sovereigns, which may experience repeated defaults, major EM corporates rarely default multiple times and typically recover more quickly. Many also maintain hard currency earnings and actively manage debt structures. Multinationals and quasi-sovereign corporates often have export revenue and diversified business models, insulating them from local sovereign risk.

On average, EM corporates carry higher or equivalent standalone credit ratings than their sovereign counterparts, particularly among large IG issuers. This evolution in quality and risk management is not fully reflected in current valuations—creating a structural opportunity for investors. Active managers can exploit this divergence between perception and reality, capturing a premium that should converge toward fair value as markets recognize the asset class’s transformation.

Key Takeaway

EM corporates have undergone a fundamental shift in quality and risk management, yet valuation differentials remain wide. For investors seeking yield, diversification and quality, EM corporate debt offers a compelling structural opportunity. While risks such as policy uncertainty and geopolitical tensions persist, we believe a short-duration approach provides an effective way to access the asset class while mitigating volatility.



Source: Barings. As of November 18, 2025.

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**As of September 30, 2025*

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