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2025 Emerging market debt outlook: Stick to income and relative value in a disruptive year

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As 2024 is now behind us, we are reflecting on a year of political and geopolitical upheaval which culminated in the election of Donald Trump in the U.S., whose disruptive agenda hangs over emerging market (EM) investors' heads. In this outlook, we flesh out our current view of the world, as seen from an EM lens, and highlight a few key investment themes. We also try to illustrate how a conviction-based emerging market debt (EMD) strategy blending "income" generation, "alpha" from idiosyncratic stories, and relative value ideas could significantly beat a more passive, "beta"-driven approach, as it just did in 2024. This will remain a market environment regularly shaken by global risk events and policy uncertainty, subject to rich valuations in places, and investors' constant swings between "greed and fear", where Finisterre's flexible and adaptive approach and ability to identify the most valuable opportunities should continue to demonstrate its relevance.

2024 in the mirror: EM naysayers proven wrong again

Amidst all the noise and headlines of 2024, which kept many global investors away from EMD, we find that emerging countries (ex-China) have remained remarkably resilient in growth terms (from 3.5% 2024 GDP growth ex-China, to a likely 3.2% in 2025), amidst continuing global disinflation and stable commodity prices, despite the policy uncertainties related to the most intense election cycle of the past 20 years. A number of challenging macro situations have spectacularly turned around, thanks to either forceful reform, an increasingly active and benevolent International Monetary Fund (IMF), or the defaulters of 2021-2022 who managed to restructure their debts. This is not to say that all countries got it right: from Mexico, to Brazil, Panama, Colombia, Romania, Hungary, Senegal—market vigilantes remain on alert regarding institutional, fiscal, or monetary credibility issues. EM corporate bonds continued to experience steady spread tightening while managing to largely alleviate the challenge of elevated U.S. yields, thanks to mostly clean debt structures and persistently low debt leverage: EM high yield (HY) corporates' net leverage at 2.3x remains much lower than the 2.8-2.9x of U.S./EU investment grade (IG) credit issuers, let alone the 3.5-3.8x of developed market (DM) HY names. Meanwhile, EM currencies experienced a disorderly year, largely at the hands of a strong USD, while some of the highest real and absolute yields in the past 20 years in local EM bonds (ex-Asia) did not manage to attract much love from investors. Yet, we are convinced that the right EMD investment approach for 2025 could aim to achieve double-digit returns, on a combination of a still generous current yield stream complemented by some extra added value which will need to come from active management. This is for a highly diversifying EMD fixed income asset class, which sits right across the global IG/HY credit divide.

2025 EMD outlook: All about "Trumponomics", growth, and fiscal stability

What will shape the outcome for EMD in 2025 will be a blend of global macro issues—chiefly the impact of "Trumponomics" on the rest of the world in terms of trade, growth, and geopolitical risks, as well as EM home-grown considerations focusing on the growth/inflation trade-off and its impact on fiscal and monetary credibility. To blur the picture a bit further, populism will continue to rule in both DMs and EMs, often bringing erratic decision making, aggressive rhetoric, disinformation, and institutional challenges for democracies, as well as

macro decisions which sometimes run against the economics textbook logic. Investors will need a solid "political economy" toolkit to make sense of all those moving parts.

Trump and EMs: Perhaps not as bad as you think

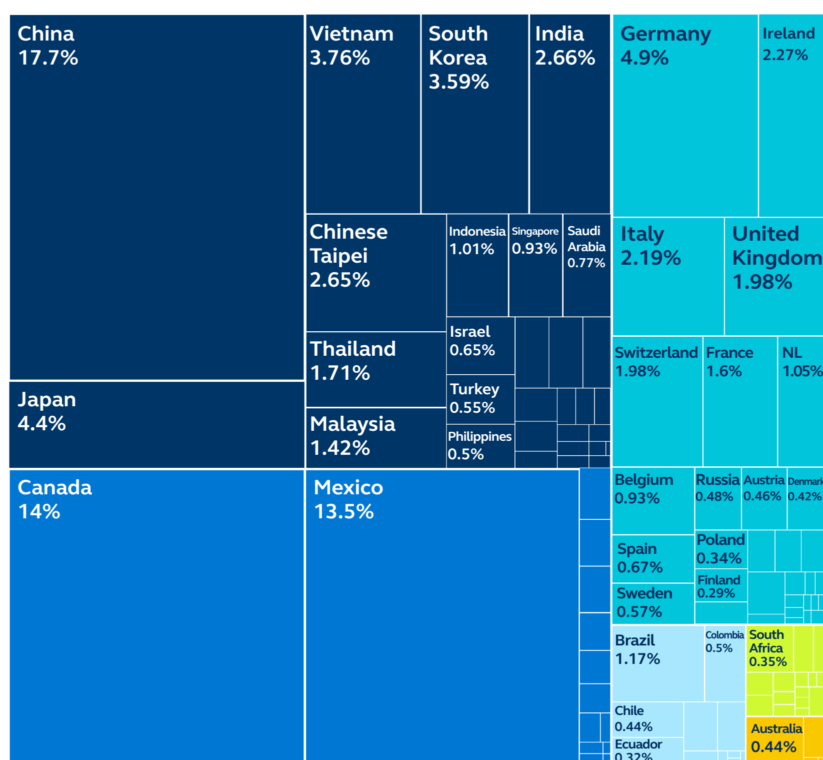
Let's start with a caveat: the main thing we know about Mr. Trump is that you can't know in advance what he will or won't do. His unpredictability is a trademark, which perhaps plays in his favour. Yet, some constants in his rhetoric—about trade issues, immigration, the threat from China, his contempt for European democracies, and his claim to resolve world conflicts—together with hints from the extensive "Project 2025" document, can at least help us define a framework to discriminate between countries and regions likely "in-focus" or not.

Trade and tariffs risks

Our starting point is simply to look at the current state of U.S. imports from the rest of the world (see Exhibit 1). China, Mexico, South-East Asia, and the EU obviously look most at risk given their large share in U.S. imports and could be the first hit by tariffs after the January 20 Trump inauguration. Interestingly, though, those countries in the "first line of fire", do not account for much of the EMD opportunity set.

We expect China to be hit first, if not with a full 60% rate right away, at least with a first batch on day one, and further increments as negotiations get under way. However, for Mexico or the EU, a more transactional approach remains highly likely as the entangled supply chains are hard to break without significant damage, and each have bargaining chips to offer. For Mexico, it could be about further tightening immigration controls at its southern border, clamping down on chemical drug flows, as well as on the "rerouting" of Chinese exports through Mexico. This "rerouting" of Chinese exports to the U.S. via several other key South-East Asian economies like Vietnam, Malaysia, Thailand, or even Taiwan will likely be the next priority, and, for some of these governments, increased political pressure to choose between the U.S. and China may make it harder to sit on the fence. The EU is also high on the agenda, but bargaining options also exist in terms of increased defence spending above the NATO prescribed 2% of GDP, purchase of U.S. shale oil or military equipment, and possible tactical alignments on tariffs against China to avoid being the dumping ground of Chinese exports overcapacity.

EXHIBIT 1: U.S. imports in value by country in 2022



Source: Observatory of Economic Complexity, MIT for 2022 (https://oec.world/).

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However, we have to note that, of those EM economies most at risk, China and the developed economies of South-East Asia no longer represent much investment potential in the global EMD universe. Indeed, these are now mostly a low yielding, low volatility, and low value at risk (VAR) contributor to any global EMD portfolio, exhibiting tightly valued IG sovereigns or corporate USD credits, or mostly low yield and low "Beta" local bonds and currencies. We assume the other (higher yielding) Asian markets of India, Indonesia, or Philippines to be less exposed.

Hence, this really leaves Mexico as a key situation to manage, together with the monitoring of second round EU impacts on the small open economies of Central Europe, with the Czech Republic and Hungary particularly exposed to the EU car industry slowdown. But those markets also offer multiple liquid ways to hedge positions and isolate certain risk factors (spreads, rates, or foreign exchange (FX)) making for attractive trading and relative value opportunities.

Geopolitics, conflicts, and the role of the IMF

A second angle of Trump 2.0, which EMs will struggle to sidestep, is geopolitics. Despite its isolationist temptations, we assume that the new U.S. administration will remain very involved in places where its interests are at stake. It will also strive to do whatever could strategically weaken China and pressure whoever chooses to openly side with them. This somehow makes fault lines easier to identify. Whether it is about tariffs, immigration, oil policy, or the willingness to quickly settle both the Ukrainian and Middle Eastern crises, most EMs will be forced to position themselves.

It may be easier for some who are somewhat ideologically aligned with Trump like Argentina, El Salvador, Israel, or Hungary, but others, namely BRICS members like Brazil, South Africa, and possibly India will have to clarify their stance. Those South-East Asian countries which have been facilitating the rerouting of China's exports to the U.S. will also be put to the test. Our preference in Asia goes to Indonesia, India, or the Philippines which we see less at risk on this front.

Other countries may still benefit in the short term from perceived U.S. interventionism to solve conflicts. Israel's pro-active actions to weaken Iran and its regional support bases will likely be even more supported by the incoming administration, with an eye to revive the Abraham Accords with Gulf Cooperation Council (GCC) countries, as a key path towards peace in the region. In Ukraine, things are less clear as to what could bring Putin to the negotiating table, other than a complete win. Any ceasefire is likely to remain unstable, and unfavourable to both Ukraine and the EU. But, in the short term, any pause in fighting that would allow for reconstruction and some relief on the financial drain of the war effort would be welcome news for the recently restructured Ukrainian debt prices.

We do expect the IMF to remain very engaged in supporting a number of frontier countries under refinancing stress. The newfound IMF interventionism and benevolence since late 2023 was originally meant to avoid more geopolitical instability by supporting countries like Pakistan, Egypt, Sri Lanka, and Ecuador, but also preventing several African frontier countries from falling prey to other masters like Russia or China. We can imagine that the new U.S. administration, historically the largest and most influential funder of the IMF, would likely continue to support such interventionism, but wonder if future support packages may become a bit more selective or conditional on political alignment with the West.

"Trumponomics", inflation, and the Federal Reserve (Fed)

Most risk assets, including EM debt, will remain under the influence of U.S. rates and the USD in 2025. Questions abound about the likely inflationary risks of "Trumponomics". An economy closing the door on immigration (which was the key factor behind the recent post-pandemic U.S. job market normalization), the impact of tariffs on consumer prices and corporates import costs, and the risk that planned tax cuts will not be compensated enough by efforts to rein in public sector expenditures, resulting in debt slippage and surging borrowing needs by the U.S. Treasury, are all legitimate causes for concern for fixed income and FX markets.

Chief among them is whether the Fed will be able continue its rate cutting cycle, started in September 2024. We are starting the year with less than two 25 basis points (bps) rate cuts priced for 2025, which would bring U.S. terminal policy rate to just under 4%. We are not sure if a 4% risk free rate will alleviate legitimate refinancing concerns in the U.S. private debt or HY universe. Conversely, the impact of tariffs on the U.S. consumer is unclear and will depend on whether they are seen as a one-off hit on prices, or whether they translate into protracted upward pressure on domestic prices over many months.

That said, we are now of the view that, even if many initiatives are floated and discussed shortly after inauguration, implementation will need to at least wait for the second half of 2025, and the actual impact on data will most likely happen into 2026. Also, if the impact of U.S. tariffs is seen as a "one-off" price adjustment by the Fed (to which it would be unlikely to overreact) and if, as we expect, U.S. tariffs end up being more deflationary for the rest of the world (as China is forced to dump its excess capacity away from the U.S.), then the overall monetary environment should not become more restrictive. While the Fed may opt to be prudent, the current pricing of future cuts already reflects such prudence in our opinion, unless U.S. data start pricing "Trumponomics" much more in advance. For now, the broad U.S. macro consensus seems to be for some U.S. GDP growth slowdown from 3% in 2024, to a 2% trend into 2025, with inflation staying between 2% and 2.5% annualized. This is coherent with two to three cuts, which should remain good enough for global and EM credit markets to continue their "grind tighter" in spread terms.

The outlook for the USD is a bit more conflicted. Although we continue to feel defensive on EM currencies, given the recent bout of USD strength and obvious tariffs risks, we also note how consensus a number of so-called "Trump trades" since mid-November 2024 have become. Such trades (long USD, short CNH and EUR, short U.S. treasurys and rates, U.S. rate curve steepeners, long U.S. equities versus EU and EM ones) have either already nicely played out or look heavily positioned. All-in, we find that investors had likely pre-positioned for what could be an asymmetric outcome from the U.S. election. However, if the overall narrative around "Trumponomics" doesn't negate the fundamental logic of those trades into the January 20 inauguration, there may however come a point where the "pain trade" starts to materialise, and the USD and U.S. treasury yields weaken because of over-positioning in those consensus positions.

The EMD silver lining into 2025

However, when it comes to 2025, there is also a sensible narrative, so that, next year's environment remains close to a "Goldilocks" one for risk assets. If indeed the measurable impacts of Trump 2.0 are mostly seen in data from 2026 onwards, then, in fact, little should change for 2025: the Fed remains in progressive easing mode, while Europe and China ease much faster, the U.S. economy slows from a 3% to a 2% pace but remains healthy (partly held up by hopes of upcoming deregulation and tax cuts), U.S. treasury supply is buffered by large U.S. bank deposits, $7 trillion in money market funds holdings and the end of the Fed's quantitative tightening, some global conflicts are resolved, and the heavily discounted European and Chinese slowdowns abate somewhat thanks to some consumer dissaving and fresh public investments in both economies. Meanwhile, other EMs ex-China proceed with their stated fiscal adjustments—despite our fiscal concerns for some countries, the EM ex-China fiscal "thrust" should be negative in 2025, owing to expected fiscal consolidation in Turkey, South Africa, Brazil, and Mexico mainly—and EM central banks therefore feel less defensive about potential rate cuts. Adding to that the secular under-ownership of EMD assets by global investors (at the lowest since 2002 for EM local bonds and back to the 2012 lows for EM hard currency assets) and it wouldn't take much for any fresh fund inflows to generate a significant technical rally.

EM currencies: An evolving trading pattern

In such an environment we could perfectly imagine EM currencies starting to trade again on their own merits, rather than being constantly pressured by a stronger USD. We surely need to apply acute discrimination, preferring large domestic (India, Indonesia, Turkey) over small open economies (Thailand, Malaysia, Korea), high yielding local assets with policy credibility and room to ease (South Africa, Peru, Mexico?) those frontier currencies which remain on a reform path (Nigeria, Turkey) and/or are supported by the IMF (Egypt), but, in this context, attractive returns can be generated from a highly differentiated approach. Although overall value is harder to define in EM currencies, the accumulated depreciation of the past few years in absolute and real terms versus USD provides a significant cushion to potential investors.

In an environment where recurring USD strength has remained the key hurdle over the past three years, we believe that investors could also rethink their approach, to possibly run EMFX versus other more regional pivot currencies. Central European currencies have for years been more quoted versus EUR than USD, remaining quite anchored to the common currency. There is an argument for Asian FX to be traded versus a blend of CNY or JPY, as the regionalization of trade flows progresses, and we clearly see that structurally lower Asian yields versus U.S.

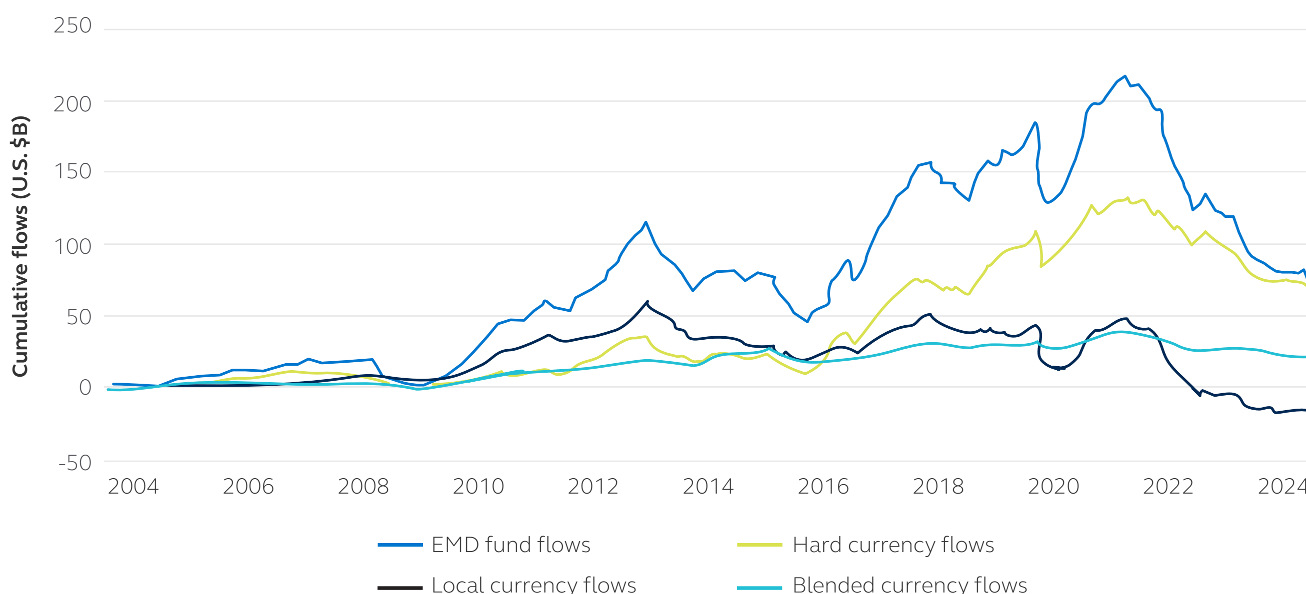
ones are not a factor for massive FX instability. Latin currencies will however remain largely paced by USD moves, as their own domestic investors continue to see the USD as a hedge and a store of value at times of domestic uncertainty. Finally, other, more idiosyncratic EM currencies like the Turkish Lira or the South African Rand increasingly behave as a blend between the USD and either the EUR or the CNY.

As our EMD EUR income or our AUD denominated Total Return strategies show, owning EM currencies versus a different currency from the USD can make local debt and FX investments significantly less volatile, while still generating a generous income stream.

EM local bond yields: Ex-Asia yields at cheapest in 20 years, but ignored by investors

As discussed before, EM local bonds is where global ownership has dropped to the most ridiculously low levels (see Exhibit 2).

EXHIBIT 2: Cumulative global EMD fund flows since 2004



Source: Morgan Stanley Research, EPFR. As of December 6, 2024. EM cumulative flows since 2004.

This has happened both actively, but also passively since 2019, as global supply increased but was increasingly placed in more resilient local hands, helped by the fast-growing balance sheets of local banks, insurers, and pension funds from Indonesia, India, Thailand, Malaysia, Mexico, and Chile. This in turn helps reduce price volatility in local currency terms, unless locals themselves turn bearish, as per the revolt of Brazilian domestic hedge funds against their own government's perceived fiscal recklessness in 2024 (although we see no equivalent of such active and politically biased local investor bases elsewhere in EMs). The surge in local ownership to 80%+ of EM domestic bond markets in aggregate also helps explain a lower degree of contagion from one country to another. Even when large economies like Turkey, South Africa, Mexico, or Brazil have been through rough times in the past three years, the currency volatility pass-through to other countries has been virtually absent, validating the concept of risk diversification.

This leaves many non-Asian countries at yields close to the past 20-year highs in nominal terms. Many of them also exhibit real risk premia which remain abnormally high with regard to long term inflation and policy risks, especially where inflation in most EMs has now largely been tamed. Many EM 10-year bond yields exhibit very high absolute and real yield levels based on 1-year "ex-ante" forecasted inflation. Similarly, they score well against U.S. yields (see Exhibit 3).

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EXHIBIT 3: 10-year bond yield valuations across EMs and the U.S.

Region	10Y current bond yield	Real 10Y yield ex-ante (using 1Y forward CPI estimate/forecast)	Gap with U.S. 10Y rates	
			Nominal 10Y gap	Real ex-ante 10Y gap
EMEA				
South Africa	10.23%	5.56%	5.83%	3.77%
Turkey	28.09%	3.21%	23.69%	1.42%
Russia	6.35%	0.65%	1.95%	-1.14%
Hungary	6.46%	2.89%	2.07%	1.11%
Poland	5.87%	2.29%	1.47%	0.50%
Romania	7.21%	3.42%	2.81%	1.63%
Czech Republic	4.15%	1.98%	-0.25%	0.19%
Israel	4.37%	1.78%	-0.03%	-0.01%
LATAM				
Mexico	10.13%	6.36%	5.74%	4.58%
Colombia	11.27%	7.34%	6.87%	5.55%
Brazil	14.84%	10.71%	10.44%	8.92%
Peru	6.62%	4.14%	2.23%	2.36%
Chile	5.55%	1.98%	1.15%	0.19%
Asia				
Korea	2.82%	0.95%	-1.57%	-0.83%
Indonesia	7.12%	4.57%	2.73%	2.79%
India	6.75%	2.83%	2.35%	1.04%
Malaysia	3.84%	1.07%	-0.56%	-0.72%
Thailand	2.34%	1.25%	-2.05%	-0.53%
United States	4.40%	1.79%		

Source: Principal Finisterre, Bloomberg. As of December 16, 2024.

If we are right on our assessment of resilient EM ex-China growth next year and continuing disinflation, despite (or pending) tariffs risks, then these abnormally cheap valuations should correct themselves. Any hints that central banks have space to deliver more rate cuts than priced, perhaps thanks to better fiscal management from some countries, will also be a booster.

EM USD sovereign and corporate credit spreads: The "value for money" argument

What we described above is also an environment where excess liquidity remains abundant and the search for yield should remain alive, potentially taking expensive global credit spreads to even more expensive levels. EM sovereign and corporate credits should therefore be taken along on this "grind tighter" spread ride. In many ways we find the current environment to be like the late 2004-early 2007 one, the last time U.S. 10-year yields were in a similar 4-5% range, and U.S. inflation was in the 2-4% area. This was also a time of excess liquidity, mostly because of a global surge in private borrowing and leverage. Today is much more about global excess savings fuelling global liquidity, but against a backdrop of much higher government debt levels, while private and corporate balance sheets are in aggregate much cleaner. In a nutshell, similarly to the 2004-2006 period, we could be surprised at how tight and expensive EM spreads could become in 2025, if such a balanced environment is allowed to carry on.

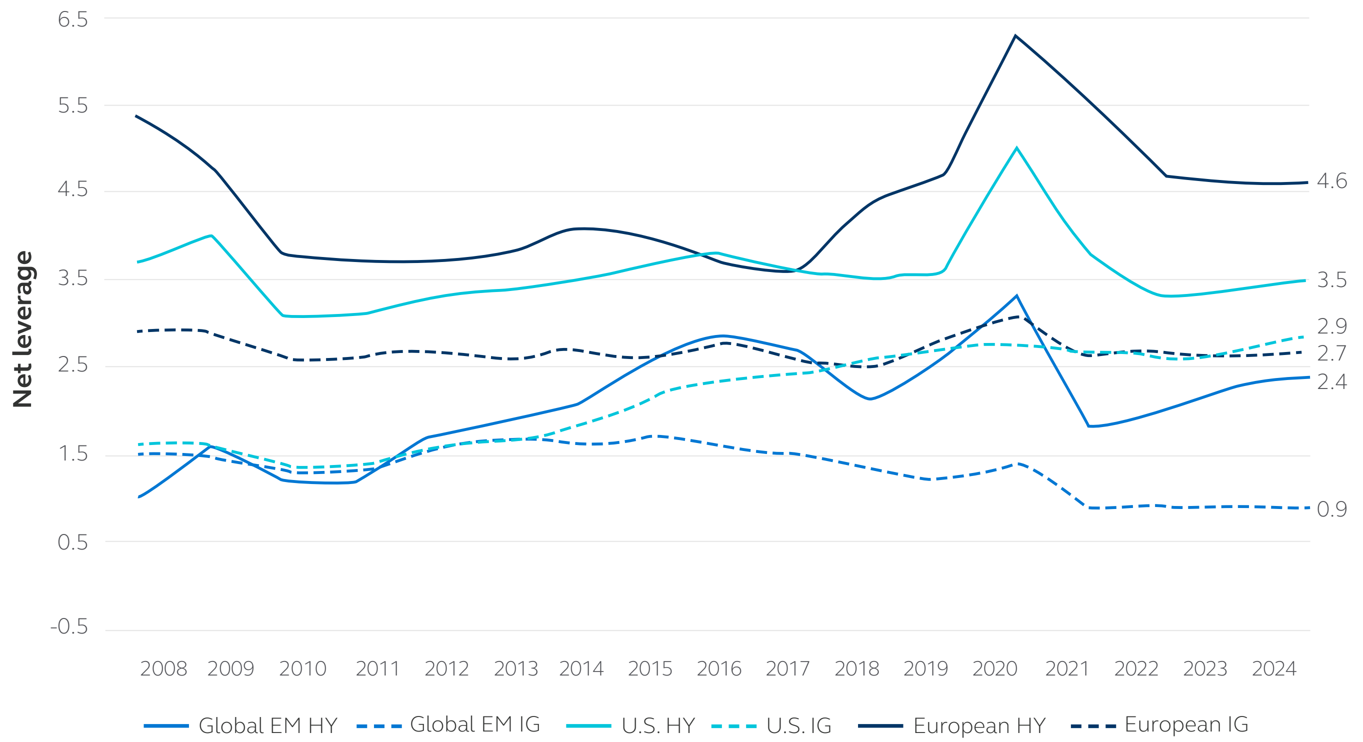
One key argument for EM credits remains their relative "value for money" versus DM ones. Despite the perception that global credit spreads have tightened significantly in the past year, EM credit spreads are not yet at 20-year tights like their DM peers. EM corporates also still provide for a net spread premium over similarly rated U.S. credits at all rating levels, and that is despite offering a significantly lower default experience and a massive de facto diversification of macro risk and default correlation exposure to a global portfolio.

One point to remember about EM corporates in particular is that, beyond the huge diversification of macro risks and the lower probability of default that an EM corporate portfolio provides at each rating level compared to U.S. credits[1], the risk taken at every rating level expressed in net leverage terms, remains also significantly lower.

[1] Source: Standard and Poor's default and transition statistics, 1980-2020.

Exhibit 4 looks at net leverage (Net Debt / EBITDA ratio) of EM versus DM corporates. EM HY corporates as a group continue to exhibit lower leverage levels than DM IG credits. Despite this they still pay you a premium to similarly rated U.S. corporates.

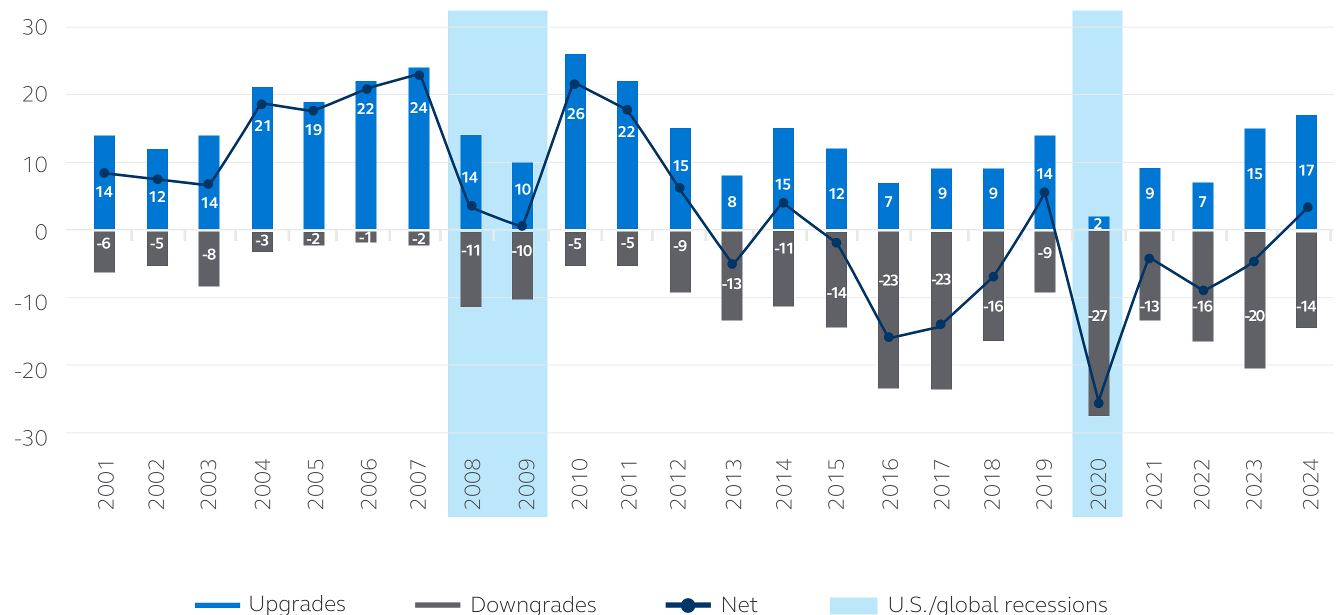
EXHIBIT 4: EM HY corporates: Less leveraged than U.S./European high-grade issuers and paying you more



Source: J.P. Morgan research, Principal Finisterre. As of the June 30, 2024.

EM sovereign rating dynamics have also turned positive with more upgrades than downgrades in 2024 for the first year in five (see Exhibit 5), thanks to resilient growth (ex-China EM growth should slightly drop from 3.5% in 2024 to 3.2% in 2025, after having been revised up in both 2022 and 2023).

EXHIBIT 5: EM sovereign ratings upgrades versus downgrades since 2000



Source: Principal Finisterre, JP Morgan, S&P, Moody's, Fitch. As of December 2024.

In the sovereign space, the IMF and international donors remain deeply committed to support many strategic frontier economies (Pakistan, Egypt, Kenya), and others have turned around thanks to significant domestic reforms (Argentina, Nigeria, Turkey), have restructured their defaulted debt and returned to markets (Ukraine, Ghana, Zambia, and most recently Sri Lanka), or have simply managed to "muddle through" (Tunisia, Ecuador). New creative financing tools like "blue bonds" offering "debt for nature" swaps have allowed for timely liability management exercises improving external liquidity (Ecuador, Ghana, Bahamas, Gabon). For more mainstream BBB and BBB sovereign segments, valuations may now appear rich in aggregate, but we remain able to identify specific resilient stories from South Africa, to Ivory Coast, Saudi Arabia, or Israel which we tend to trade more actively. Others have cheapened amidst current fiscal uncertainties like Romania, Colombia, or Panama, but could offer some attractive turnaround potential at some point in 2025.

A performance scenario and six themes for 2025

All-in, if the above expectations were to materialise, we could imagine a scenario where EM hard currency debt total returns are anchored by their current yield level of 7.17% for hard currency sovereign HY bonds and 6.34% for hard currency corporate HY bonds.[2] Such returns may possibly be augmented by incrementally lower U.S. 10-year yields, taking with them some of the highest yielding local markets, and adding some incremental spread tightening in the hard currency space. Some extra "Alpha" from active currency management and higher yielding local currency bonds from select Latin and frontier countries could further add to potential returns. We caveat that active management will be required especially to manage the U.S. yield and currency factor, and that the coming year will see bouts of risk aversion, perhaps as early as late January-early February. But we maintain that those "risk-off" episodes are quite usual and, in the context of 2025, should be bought into, as the overall fundamental backdrop for most of our investment universe will remain relatively benign. Similar to 2023 and 2024, and as we get into the reality of "Trumponomics" into the later part of 2025, what we will mainly have to manage are the constant shifts of market perceptions from extreme positiveness to extreme negativeness around a mean scenario which we believe will remain broadly benign. In that regard, what is key is to firm up certain themes which should act as guiding principles for the way we want to manage our portfolio. We offer six possible themes which are guiding our EMD portfolio strategy into 2025.

#1 Global credit spreads resilience: Grind tighter to even more expensive levels as search for yield continues in the first half of 2025.

- We see few reasons for the global grind tighter in spreads, led by U.S. credit, to be derailed despite overvaluation in several segments.
  - General positiveness about U.S. economy's resilience, despite an initial slowdown from 3% to 2% pace until the second half of 2025.
  - Hopes for less extreme fiscal deterioration than once feared (Scott Bessent at Treasury and potential expenditure cuts?).
  - U.S. Treasury funding may not require too much duration issuance. Very high deposits and money market funds liquidity allow for more funding via T-Bills and short dated paper.
  - Fed still likely allowed to cut two times until the second half of 2025, when impacts of "Trumponomics" may start to become visible.
- Current environment of strong global liquidity, demand for USD assets, U.S. 10-year in 4-5% range, inflation pre-emptively managed echoes the mid-2004 to first half of 2007 environment where sporadic spread widening was always met with more demand.
- Despite tighter spreads we still see "value for money" in BB/BBB EM corporates and those mainstream sovereign names not prone to trade, security, or policy credibility risks.

[2] Hard currency sovereign HY bonds are represented by the J.P. Morgan EMBI Global Diversified Index and hard currency corporate HY bonds are represented by the J.P. Morgan Corporate EMBI Index. As of December 31, 2024.

#2 Position portfolios for lower oil prices: From a $70-$80 to a $60-$70 range, although many EM producers can remain resilient.

- The first half of 2025 should still see growth struggle in EU and China, while the U.S. decelerates somewhat leading to slower global consumption.
- Meanwhile global oil production (ex-Trump impact) will be plentiful into 2025, coming from Brazil, Guyana, Africa, Libya, and U.S.
- OPEC+ can only cushion the blow and slow the correction with continuing cuts but will also try and protect market share.
- Renewed sanctions on Iran and Venezuela, and increasing macro pressures on Russia have a potential to limit oil price downside.
- A drop exceeding $10 pressures countries like Angola, Iraq, Azerbaijan, Kazakhstan, Bahrain, and Kuwait but GCC, Saudi, Nigeria, and Ecuador should resist the fiscal blow.

#3 Populism, disinformation, geopolitical, and institutional credibility issues imply a "political economy" approach to EMs.

- Election surprises in Mexico, recent events in Romania, Syria, and South Korea, but also the U.S. SEC case versus the Adani Group from India were not on radars.
- IMF remains a key funder of many frontier EMs, but risk is of a more selective, U.S. driven, political approach at some point.
- Implies a tactical, contrarian stance, focused on a worst case assessment once the event happens, in order to extract value.
- Watch Brazil's treatment of Jair Bolsonaro, Hungary's Viktor Orban's behaviour ahead of the 2026 election, Ivory Coast succession, Tunisia's IMF stance, and Argentina's path to 2025 October mid-terms.

#4 EMFX is harder to own structurally versus USD: Switch to regional funders, and to relative value in a more systematic manner.

- USD direction should become more unpredictable as "Trumponomics" take hold. Could go either way but should be tactical.
- Play Asia FX versus CNH or JPY; CE4 versus EUR; Latam versus USD (and/or MXN?); ZAR versus USD and/or CNY?
- Relative value trading implies clear discriminating factors:
  - Who has a better policy headroom and credibility amidst fiscal spending pressures?
  - Trade risks: Prefer large domestic economies to small open economies and "rerouters" of China's exports.
  - Which countries must choose politically between U.S. and China? (BRICS, SE Asia in focus: Short THB, MYR, VND versus Long PHP, INR, IDR? Watch ZAR).
  - Improving versus deteriorating ones on fiscal and growth credibility (prefer ZAR and TRY).
- Beware of "value traps": Cheapness is not a catalyst in FX, and currencies do not "mean-revert."
- Yet, currencies with high rather than low yields, in both real and absolute terms, and versus U.S. yields, should be better cushioned.

#5 Fiscal strains to grow on the back of populism or some growth pressures (3.5% to 3.0% ex-China growth estimate). Yet, we should still expect a negative global EM fiscal thrust in 2025.

- Broad EM ex-China fiscal thrust to be negative into 2025 with many large EMs supposed to reduce deficits (ZA, MX, TU, IN).
- Execution risks (Senegal, IN, MX) or credibility risks (HU, PA, CO) for a few. Others continue to deliver (TU, ZA, possibly MX?).
- For those governments tempted to loosen fiscal (BZ, ID, CO), market vigilantes or institutional guardrails (Congress, Supreme courts) help limit damage.

#6 EM rates: Central banks to be more defensive. Fiscal supply/demand to be decisive in anchoring the curve.

- The Fed and the European Central Bank (ECB) will set the pace of easing by EM central banks. Asia is stuck between the U.S., China, and Japan policy direction.
- Prefer select higher yielding stories with a stated agenda to reduce fiscal deficits, and a natural local demand for bonds (ZA, MX, BR, PE).
- Other rates receiving ideas focus on Central Europe (PL, CZ, or perhaps HU on positive supply/demand) given clarity to ECB cuts.
- Opportunity to pay rates where the negative yield gap versus U.S. has gone too far, absolute real yields are lowest (KO, TH, IL?).

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Risk considerations

Past performance is no guarantee of future results. Investing involves risk, including possible loss of principal. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. International and global investing involves greater risks such as currency fluctuations, political/social instability, and differing accounting standards. Risk is magnified in emerging markets, which may lack established legal, political, business, or social structures to support securities markets. Emerging market debt may be subject to heightened default and liquidity risk. Investment in foreign currency can result in losses and values may fluctuate based on foreign exchange rates, exchange restrictions, or other actions of governments or central banks.

Inflation and other economic cycles and conditions are difficult to predict and there Is no guarantee that any inflation mitigation/protection strategy will be successful.

Important information

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