Newsletter

Emerging Market

July 2026

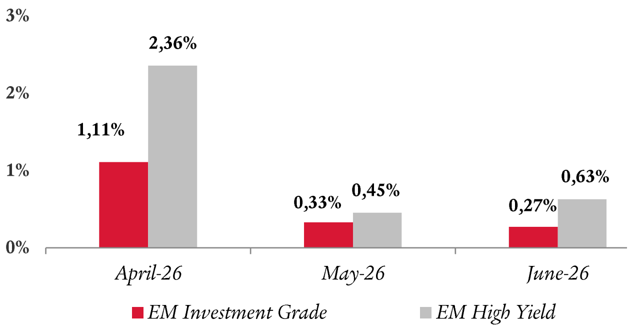
June remained positive for EM credit, supported by further spread tightening despite a more challenging macro backdrop and higher US Treasury yields. EM monetary policy and growth trends stayed highly differentiated, with AI-linked economies and some oil exporters showing greater resilience than oil importers.
Geopolitical tensions eased following US–Israel–Iran negotiations and the reopening of shipping routes through the Strait of Hormuz, improving investor sentiment, although uncertainties remain.
Supported by strong technicals, investor inflows, and resilient corporate and sovereign fundamentals, EM spreads tightened further, with corporate and sovereign spreads narrowing by 6bp and 2bp, respectively.

Monthly highlights

Performances: Investment Grade vs High Yield

Investment-grade bonds trailed high yield in June, as the latter benefited from more pronounced credit spread tightening, while its shorter duration played a comparatively smaller role in the outperformance.

Performance EM Investment Grade and High Yield Bonds

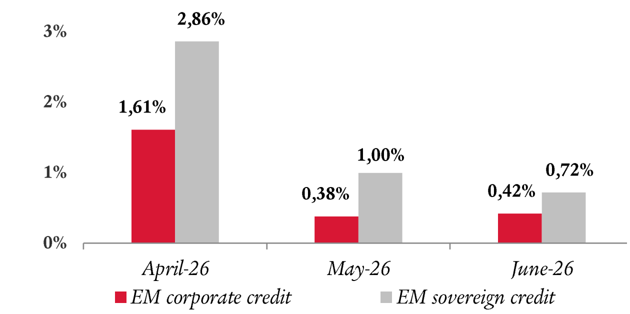


Source: Swiss Life Asset Managers, data as of 30.06.2026

Performance: Corporate vs Sovereigns

Sovereigns outperformed corporates in June, supported by higher carry and less sensitivity to movements at the front end of the U.S. Treasury curve.

Performance EM Hard Currency and Local Currency Corporates

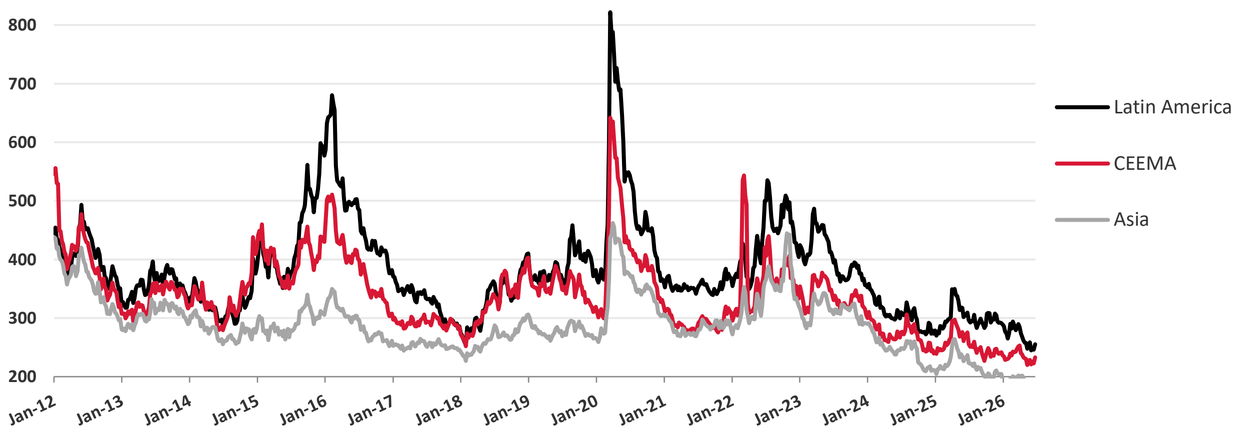


Source: Swiss Life Asset Managers, data as of 30.06.2026

Regional Performance

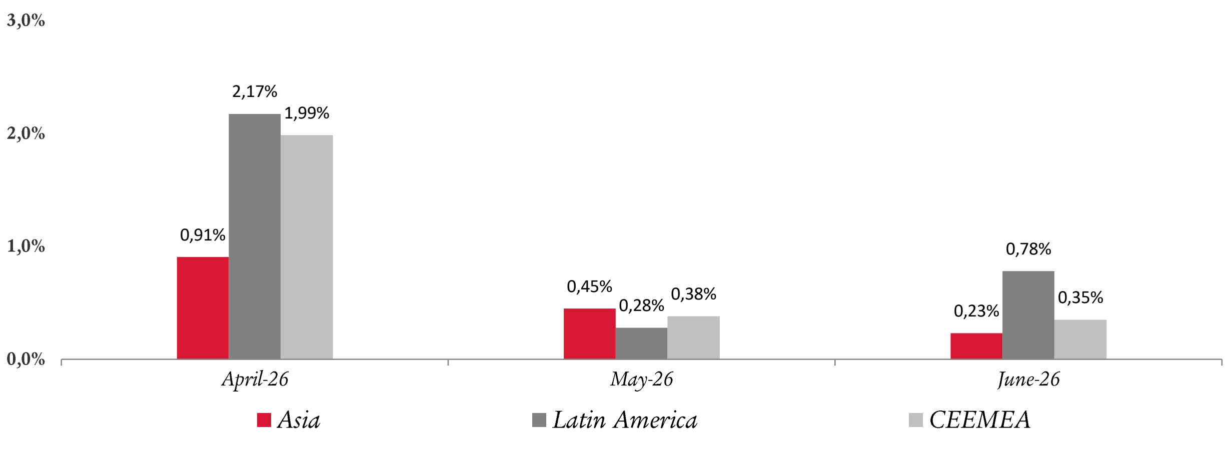
June saw positive absolute returns across all regions, with LatAm outperforming on the back of greater credit spread tightening.

Regional Credit Spreads - EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 30.06.2026

Regional Performance – EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 30.06.2026

Disclaimer: Source: Swiss Life Asset Managers France, Bloomberg. This presentation contains historical market data. Historical market trends are not a reliable indicator of future market behavior. These data are provided for illustrative purposes only. Depending on the date of publication, the information presented may differ from the updated data.

The Figure of the month

51,4

Emerging Markets aggregate manufacturing PMI for June

Josipa Markovic
Emerging markets economist

Macroeconomic environment

The aggregate manufacturing PMI for emerging markets remained comfortably above the 50-point expansion threshold in June, coming in at 51.4 and signalling continued resilience in industrial activity. The survey details suggest that the negative effects of the temporary disruption in the Strait of Hormuz have already begun to fade. As oil flows gradually improved from mid-June onwards and oil prices declined rapidly, supply-side pressures eased. Consequently, the PMI input price index moderated, while supplier delivery times shortened compared with the previous month. Most major emerging-market economies recorded manufacturing PMI readings above 50, highlighting broadly expansionary conditions across the sector. There were, however, three notable exceptions: Indonesia, Turkey and Poland, all of which posted significantly contractionary readings, largely due to country-specific factors. In Indonesia, manufacturing activity continues to be affected by political uncertainty stemming from erratic policymaking under President Prabowo, while the start of a monetary tightening cycle has added to growth headwinds. In Turkey, industrial activity remains constrained by the government's ongoing disinflation programme and tight macroeconomic policies. Meanwhile, Poland's manufacturing sector is being weighed down by weak export orders, reflecting sluggish demand in Europe, particularly for consumer goods, which account for a significant share of the country's exports.

Latin America shifting to the right

Latin America is experiencing a rapid political shift to the right. In just under two years, seven presidential elections in the region have been won by right-wing candidates. The most recent example is Colombia, where Abelardo de la Espriella secured victory on a tough-on-crime platform. This marks one of the fastest and most synchronised political swings the region has seen in decades. The main driver of this shift is rising insecurity. Latin America accounts for roughly one-third of global homicides despite having only about 8% of the world’s population. In several countries, murder rates have surged sharply in recent years, driven by organised crime and drug trafficking. Voters have grown frustrated with the inability of centrist and left-wing governments to restore security. As a result, candidates promising aggressive crackdowns – including militarised policing and mass incarceration – have gained traction. However, this is not a return to traditional centre-right politics, but the rise of a more populist, hardline right. Economically, this creates a mixed outlook. On the positive side, many governments emphasise fiscal prudence and market-oriented reforms. Argentina is a key example, where Javier Milei’s policies have helped bring inflation down sharply from extremely high levels. On the negative side, weakening institutions and erosion of the rule of law risk undermining investor confidence, posing challenges for sustainable long-term growth.

OUR STRATEGY

"EM Credit: Strong Fundamentals Tempered by Emerging Macro Headwinds."

Dorthe Fredsgaard Nielsen
Emerging Market Senior Portfolio Manager

Gabriele Bartoletti, CFA
Emerging Market Senior Portfolio Manager

Strategy for Emerging Markets

EM credit continues to benefit from a supportive fundamental and technical backdrop. Investor flows into the asset class have resumed, providing additional support to spreads alongside still-robust credit fundamentals. Together, these factors have largely driven the spread tightening observed in recent months. However, this favourable environment is increasingly being challenged by a gradually weakening macroeconomic backdrop. Inflationary pressures have re-emerged across several EM economies, prompting some central banks to respond with policy rate hikes. The sources of inflation remain country-specific, ranging from above-trend economic growth to higher energy costs, currency depreciation, and, in some cases, less disciplined policy frameworks. Markets currently appear to be pricing in a relatively swift de-escalation of tensions in the Middle East. Expectations that disruptions related to the US/Israel–Iran conflict will remain contained, combined with the normalization of shipping traffic through the Strait of Hormuz, have eased concerns over sustained oil price increases and the associated inflationary pressures. While we remain constructive on EM credit given its resilient fundamentals, valuations have become less compelling following the strong spread tightening of recent months. As a result, we continue to favour a selective approach to credit allocation. We remain cautious on countries and sectors with elevated refinancing needs or greater vulnerability to external shocks, where a renewed rise in energy prices, a stronger US dollar, or higher US Treasury yields could materially increase refinancing costs and weigh on credit quality.

Latin America's Rightward Shift Continues, but Mandates Remain Narrow

Over the past two years, Latin America has continued to shift toward center-right and right-wing political forces. The trend reflects voter frustration with weak economic growth, high crime levels, and dissatisfaction with traditional political elites. Elections in Ecuador, Uruguay, Chile, Peru, and Colombia have highlighted growing support for candidates advocating tougher security policies, fiscal discipline, and a stronger role for the private sector.

The latest examples are Peru and Colombia, where right-leaning candidates won highly polarized elections in 2026. Security, law and order, and economic management were central campaign themes in both countries, underscoring how public safety has become one of the region's defining political issues as voters demand stronger action against crime and violence.

At the same time, both elections were extremely close, highlighting the region's deep political divisions. While right-of-center candidates have gained momentum, they lack overwhelming mandates. As a result, the new administrations will need to build broad coalitions beyond their own parties to pass reforms, suggesting that consensus-building will be essential for effective policymaking.

Markets have responded positively to developments in Colombia, where the incoming finance minister has signaled a more disciplined fiscal approach, acknowledging that the budget deficit is larger than previously reported and indicating that 2027 spending growth will remain below inflation.

Brazil stands out as an exception to the regional trend. Ahead of the October 2026 presidential election, incumbent President Luiz Inácio Lula da Silva remains highly competitive and is leading major opinion polls. Brazil's political dynamics continue to differ from much of the region, with social welfare and economic management remaining important priorities for voters.

About Swiss Life Asset Managers

Swiss Life Asset Managers has more than 165 years of experience in managing the assets of the Swiss Life Group. This insurance background has exerted a key influence on the investment philosophy of Swiss Life Asset Managers, which is governed by such principles as value preservation, the generation of consistent and sustainable performance and a responsible approach to risks. Swiss Life Asset Managers offers this proven approach to third-party clients in Switzerland, France, Germany, Luxembourg, the UK, Italy and the Nordic countries.

As at 31 December 2025, assets under management for third-party clients amount to EUR 156.5 billion. Together with insurance assets for the Swiss Life Group, total assets under management at Swiss Life Asset Managers stood at EUR 309.6 billion. Swiss Life Asset Managers is a leading institutional real estate investor in Europe1. Of the assets totalling EUR 309.6 billion, EUR 96.1 billion are invested in real estate. In addition, Swiss Life Asset Managers, in cooperation with Livit, manages real estate totalling EUR 26.3 billion in value. Total real estate assets under management and administration at the end of December 2025 thus came to EUR 122.4 billion.

Swiss Life Asset Managers employs more than 2 300 people in Europe.

A financially self-determined life

Swiss Life enables people to lead a financially self-determined life and look to the future with confidence. Swiss Life Asset Managers pursues the same goal: We think long-term and act responsibly. We use our knowledge and experience to develop future-oriented investment solutions. This is how we support our customers in achieving their long-term investment objectives, which in turn also take account of their client’s needs so they can plan their future in a financially self-determined manner.

[1] #2 IPE Top 150 Real Estate Investment Managers 2025 Ranking Europe, #2 INREV Fund Manager Survey 2025

Find all our publications on:
www.swisslife-am.com

If you have any further questions, please do not hesitate to contact us:
In France: service.clients-securities@swisslife-am.com, Tel.: +33 (0)1 40 15 22 53
In Switzerland: info@swisslife-am.com

Swiss Life Asset Managers France
Portfolio Management Company
GP-07000055 of 13.11.2007
Limited liability company governed by an executive board with capital of EUR 671 167
Registered office: Tour la Marseillaise, 2 bis, boulevard Euroméditerranée, Quai d’Arenc 13002 Marseille
Main office: 122, rue La Boétie, 75008 Paris