Marketing communication

Newsletter

Emerging Market

June 2026

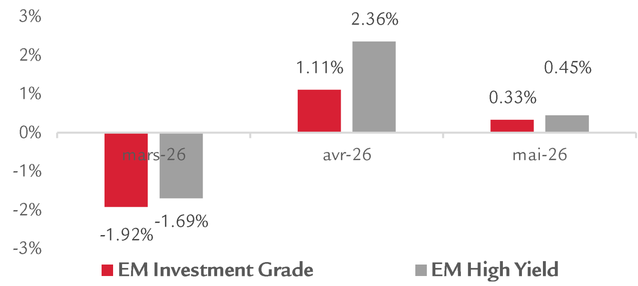
In May, EM credit extended its rebound, supported by continued spread tightening despite a more challenging macro backdrop, while UST yields remained under pressure due to reassessed inflation risks linked to the Middle East conflict. Monetary policies have continued to diverge against a backdrop of increasingly uneven growth: countries benefiting from the boom in artificial intelligence, as well as certain oil exporters, are proving more resilient, whilst energy importers remain vulnerable. The geopolitical climate, marked by tensions between the United States and Iran and the issues surrounding the Strait of Hormuz, as well as the political situation in Turkey and the elections in Colombia and Peru, have had a significant impact on the markets. Finally, favourable technical and fundamental factors have led to a further narrowing of spreads, of around 3 basis points for corporate bonds and 10 basis points for government bonds.

Monthly highlights

Performances: Investment Grade vs High Yield

Investment-grade bonds underperformed high yield in May, largely due to the latter's shorter duration.

Performance EM Investment Grade and High Yield Bonds

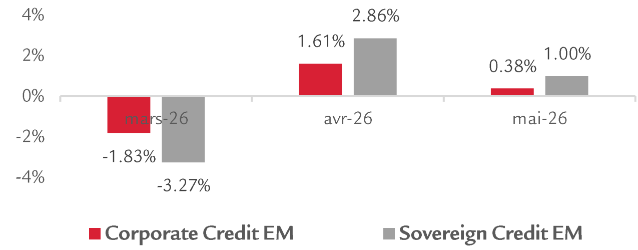


Source: Swiss Life Asset Managers, data as of 29.05.2026

Performance: Corporate vs Sovereigns

Sovereigns outperformed corporates in May, driven by more pronounced spread tightening in Sovereigns, especially in the high yield distressed space.

Performance EM Hard Currency and Local Currency Corporates



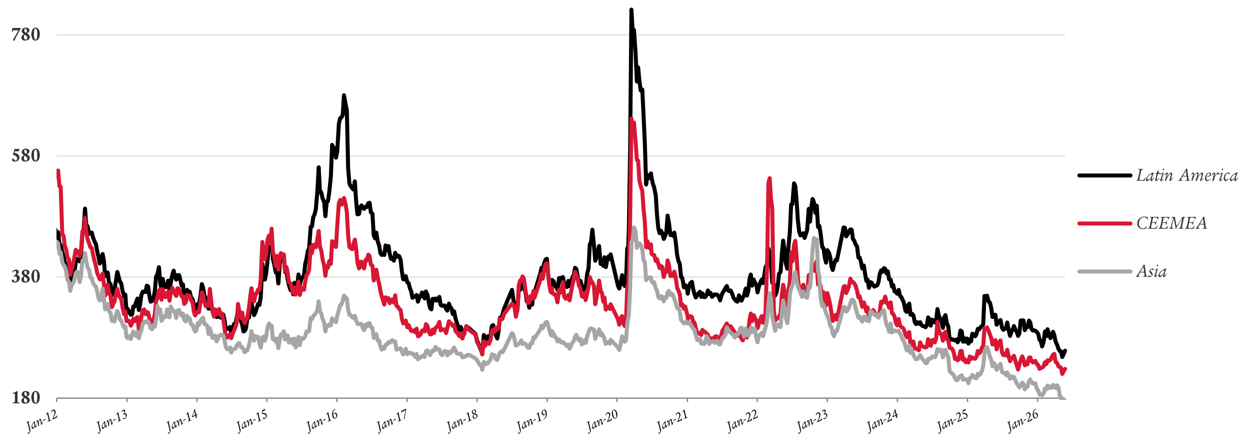
Source: Swiss Life Asset Managers, data as of 29.05.2026

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.

Regional Performance

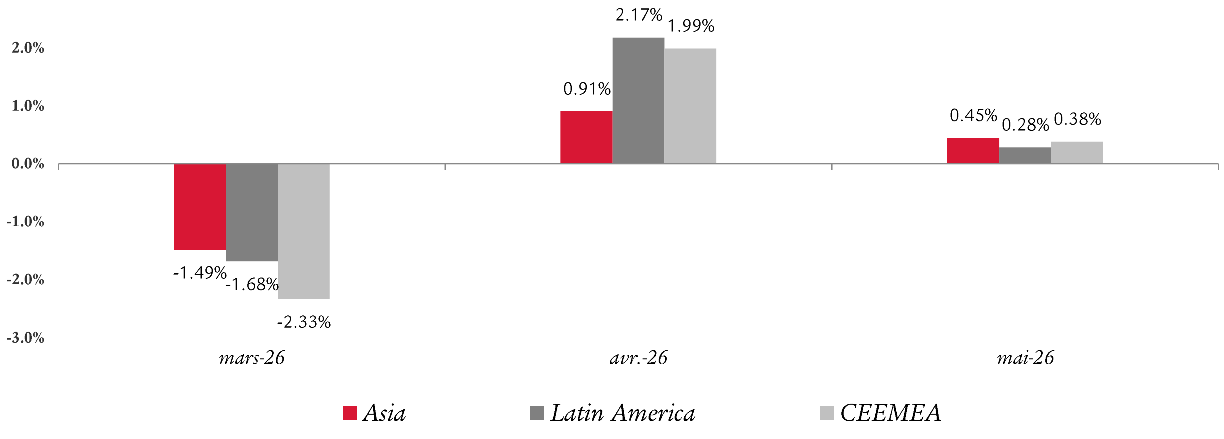
Absolute returns were positive across all regions in May, with Asia slightly outperforming others. Performance was primarily driven by carry and modest spread tightening across the board.

Regional Credit Spreads - EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 29.05.2026

Regional Performance – EM Hard Currency Corporate Bonds



Source: Swiss Life Asset Managers, data as 29.05.2026

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The Figure of the month

Josipa Markovic
Emerging markets economist

14,6%

Taiwan’s Q1 GDP growth rate year-on-year

Macroeconomic environment

Taiwan’s economy expanded by 14.6% year-on-year in the first quarter, marking its fastest growth since Q2 1987. This surge was driven by exceptionally strong demand for AI-related hardware, which pushed exports up by more than 30% year-on-year and reinforced their role as the primary engine of growth, outweighing the negative impact of the Middle East conflict. Encouragingly, the technology boom is beginning to generate positive spillovers into the domestic economy. Private consumption has strengthened, helping to create a more balanced growth composition. A similar pattern is evident in South Korea, where the economy is being propelled by robust demand for memory chips. Expectations are rising that this momentum will gradually spill over into other sectors through higher investment, income gains, and increased fiscal revenues. However, there are notable risks to this outlook. In both economies, exports are becoming increasingly concentrated in a narrow set of products – primarily semiconductors – and overall industrial output growth is heavily reliant on AI-related sectors. Non-AI industries remain weak and face mounting competitive pressure from China, particularly in traditional manufacturing such as automobiles. As a result, any correction in the AI cycle could have significant economic consequences.

Monetary policy in emerging markets takes divergent paths

Rising energy prices are pushing headline inflation higher. So far, the impact has been largely confined to headline inflation, with core inflation remaining relatively contained, suggesting limited second-round effects. As a result, most EM central banks have adopted a wait-and-see approach, pausing the rate-cutting cycles they had previously been pursuing. However, policy responses are beginning to diverge. Economies more severely affected by the energy shock, such as the Philippines and South Africa, have responded with rate hikes. In contrast, Hungary may soon begin easing, supported by a strong currency and elevated real interest rates. In South Korea, the central bank has signalled a potential rate hike, not due to energy prices but in anticipation of stronger growth feeding into inflationary pressures. Overall, highly uneven economic dynamics as well as uneven exposure to the Middle East war are driving a growing divergence in monetary policy across emerging markets.

OUR STRATEGY

“EM credit continues to benefit from a strong fundamental and technical backdrop, despite macro weakness.”

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 strong fundamental and technical backdrop. Flows into the asset class have resumed, supporting spreads alongside still-robust fundamentals, which largely explain the spread tightening observed over the past two months.

This supportive environment is, however, being challenged by a gradually deteriorating macro backdrop. The energy price shock is feeding into higher inflationary pressures across EM economies, prompting several central banks to respond swiftly by raising policy rates to contain these pressures. This has been particularly evident in Indonesia and the Philippines, which are also facing FX and balance-of-payments pressures.

That said, the shock remains uneven across EM. Some economies have demonstrated relative resilience, reducing the need for immediate policy tightening, particularly among oil-exporting countries. The extent of the shock’s transmission ultimately depends on its persistence, which in turn hinges on the trajectory of supply normalization and the resolution of geopolitical tensions in the Middle East.

Markets currently appear to anticipate a resolution sooner rather than later. This expectation, combined with mitigating factors such as elevated oil inventory levels that have limited further increases in oil prices, helps to explain the resilience observed across risk assets, including EM credit.

While we remain constructive on the asset class given its strong starting point and solid fundamentals, we continue to adopt a selective approach to credit allocation. We remain particularly vigilant toward countries and sectors exhibiting heightened vulnerability, where credit events could materialize should the energy price shock become more severe or prolonged.

Colombia Elections: first-round surprise

The first round of Colombia’s presidential election came as a surprise, with right-wing populist candidate De la Espriella performing much better than expected and taking the lead ahead of the runoff at the end of June. He will face leftist candidate Cepeda in the runoff in what is expected to be a closely contested race.

The initial market reaction has been positive, as investors see the potential for a change in policy direction after President Gustavo Petro’s term, which has been associated with a weaker fiscal position, a more fragile economic environment, and strained relations with the United States.

More broadly, the results highlight how politically divided Colombia has become. Voters are increasingly supporting candidates at opposite ends of the political spectrum, reflecting growing dissatisfaction with economic conditions, inequality, and especially security concerns. Issues such as crime, corruption, and drug-related violence are becoming central to public debate, helping candidates with tougher “law-and-order” platforms gain traction.

This shift is not unique to Colombia. Across Latin America, there is a growing tendency for voters to support leaders who promise strong and decisive action on security issues. The experience of countries like El Salvador, where strict policies have sharply reduced crime, is influencing public opinion across the region, even if such approaches remain controversial.

Overall, while the possibility of political change has been welcomed by markets, uncertainty remains high. The election result will have important consequences for the country’s economic direction, but underlying challenges, such as fiscal pressures and social tensions, are likely to persist regardless of who wins.

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

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