From fragmentation to opportunity: EMD in a multipolar world

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Key takeaways:

- **Emerging markets debt is proving more resilient than in past cycles. Stronger policy frameworks, improved fundamentals, and a deeper local investor base are leading to more measured, differentiated responses to external shocks.**
- **Starting conditions are more favourable, but results are increasingly uneven. Oil prices, domestic policy, and external exposures are driving wider dispersion across countries.**
- **Opportunities are more selective. In local markets, high real yields and easing inflation support some regions, while others face tighter conditions.**

The world is undergoing a series of profound global shifts, a dynamic we have termed to as the Great Global Restructuring.

The first half of 2026 highlights how emerging markets (EM) debt has evolved. Periods of volatility — driven by geopolitics, rising energy prices, and shifting global rate expectations — have tested markets. However, the response has been less uniform than in the past: some markets have adjusted quickly, while others have come under pressure.

This reaction reflects a broader shift. As EM debt has become more integrated into global fixed income portfolios, outcomes are increasingly driven by domestic conditions, not just global factors.

EM debt resilience: a structural shift

Recent experience points to greater resilience than in earlier cycles. While periods of stress still lead to price adjustments, drawdowns have generally been more contained. Recoveries have also been more measured and less synchronised across markets.

EM debt resilience in recent market events

Less spread widening in risk off episodes than in the past

Past results are not a guide to future results.

As at 31 March 2026. Source: Bloomberg. EMBI spreads are represented by JPMorgan EMBI Global Diversified Sovereign Spread Index. Risk off episodes defined by International Monetary Fund World Economic Outlook, Kansas City Fed, and Capital Group

A couple of factors appear to be contributing to this:

Stronger policy frameworks: Many central banks have responded earlier to inflation, helping to anchor expectations and maintain flexibility. Countries have also improved debt management — extending maturities, building FX reserves, and maintaining more flexible exchange rates.

Deeper local investor base: Greater domestic participation reduces reliance on external flows. Local investors can help stabilise markets during volatility, limiting sharp moves in yields and currencies and anchoring local yield curves to domestic conditions.

Together, these changes mean parts of the asset class are better positioned to absorb external shocks. However, resilience is not uniform and differences across countries remain significant.

Oil prices: a source of differentiation

Oil prices have been an important driver of market outcomes in 2026, but their impact has varied widely.

Exporters: Higher prices support fiscal and external balances, benefiting currencies and local markets.

Importers: Higher energy costs feed inflation and constrain policy, weighing on markets.

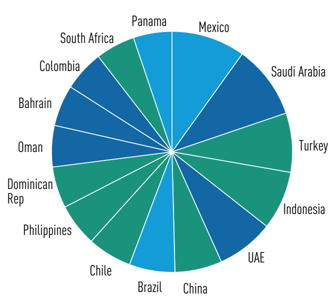
These divergences are visible across regions. Parts of Latin America and EMEA have generally benefited, while more import-dependent economies have faced tighter conditions. In this context, oil is less a broad macro driver and more a lens highlighting differences between countries.

The Iran Conflict has different implications for oil importers and exporters

Divergence creating meaningful relative value opportunities

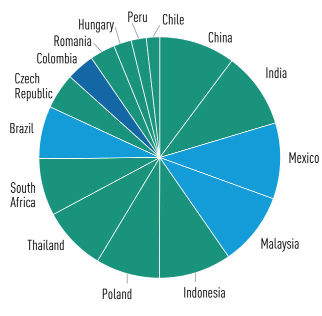
Hard currency Index is fairly mixed

EMBI GD by country (15 largest issuers)



Local currency index members are mainly net oil importers

GBI-EM GD by country (15 largest issuers)



Data as at 27 February 2026 (for net oil importers/exporters). Source: JPMorgan, EIA, IMF WEO. The 15 largest issuers in the JPMorgan EMBI Global Diversified account for almost 60% of the index. The 15 largest issuers in the JPMorgan GBI-EM GD account for 98% of the index. Countries are classified as net oil exporters or importers based on their structural oil trade balance. Economies with an oil balance within ±1% of GDP are treated as neutral, reflecting the limited macro and market impact of oil price movements at these levels.

Local markets: opportunities, but not everywhere

Local currency markets still offer opportunities, but these are uneven. In parts of Latin America, high real yields and improving inflation provide a supportive backdrop. In Central and Eastern Europe, relatively stable inflation and disciplined policy support more attractive valuations.

Currency trends also matter. A weaker or more stable dollar would provide an additional tailwind for local returns, particularly in higher-carry markets. Elsewhere, the picture is less supportive. In parts of Asia, lower yields and greater exposure to external pressures — such as energy costs — limit policy flexibility.

Overall, opportunities in local markets are selective rather than broad-based.

Wide dispersion of hard currency returns

A notable feature of the current environment is the wide dispersion in returns within EM dollar-denominated debt.

Some countries benefit from improving fundamentals and stable external balances; others face refinancing risks, political uncertainty, or weaker fiscal positions. Frontier and lower-rated issuers are particularly exposed to tighter global financing conditions. Higher funding costs and limited market access continue to weigh on returns.

As a result, return outcomes across USD markets are wider than in many previous cycles. Differences in credit quality, fiscal strength, and policy credibility are increasingly reflected in spreads and total returns.

Implications for investors

While EM debt continues to offer income and diversification, outcomes are increasingly driven by country-specific factors. Differences in policy, external balances, and exposure to global conditions are more clearly reflected in results.

In this environment, portfolio construction matters more. The range of outcomes is wider, and opportunities are less evenly distributed across markets.

Robert Burgess is a fixed income portfolio manager and research director at Capital Group. He has 35 years of investment industry experience and has been with Capital Group for eight years. He holds a master's degree in economics from the University of London and a bachelor's degree in politics and economics from Oxford University. Robert is based in London.

This insight is part of our broader analysis on how today's global shifts are impacting investment opportunities – a dynamic we call The Great Global Restructuring.

For more information, scan the QR code

Risk factors you should consider before investing:

*** This material is not intended to provide investment advice or be considered a personal recommendation.**

*** The value of investments and income from them can go down as well as up and you may lose some or all of your initial investment.**

*** Past results are not a guide to future results.**

*** If the currency in which you invest strengthens against the currency in which the underlying investments of the fund are made, the value of your investment will decrease. Currency hedging seeks to limit this, but there is no guarantee that hedging will be totally successful.**

*** Depending on the strategy, risks may be associated with investing in fixed income, derivatives, emerging markets and/or high-yield securities; emerging markets are volatile and may suffer from liquidity problems.**

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