Fixed Income

Core US bonds returned 0.0% in 1Q, following a 7.3% return in 2025. Higher Treasury yields and wider credit spreads in March were headwinds, as the US- Israel attack on Iran contributed to great macro and policy uncertainty and market volatility.

— The yield for the Bloomberg US Aggregate Index stands at 4.6%—still high versus the prior cycle, but down about 100 bps from its recent peak and now slightly below its post-1989 median.

— Valuations remain stretched, as spreads have compressed sharply in recent years. The index OAS is just 30 bps, slightly above its lowest level since the late 1990s. Spreads are tight across major sectors: both corporate credit and agency MBS—each comprising roughly 25% of the index—are in their bottom quintile.

— Tight spreads have been supported by easier monetary policy and a resilient macro backdrop, both of which have been challenged by the Iran War. Consensus forecasts for 2026 US real GDP growth have fallen 0.2 ppts to 2.3%, while headline CPI projections have risen 0.3 ppts to 3.0%. This backdrop may limit further Fed easing, with the median policy rate expected to remain at 3.625% through year-end.

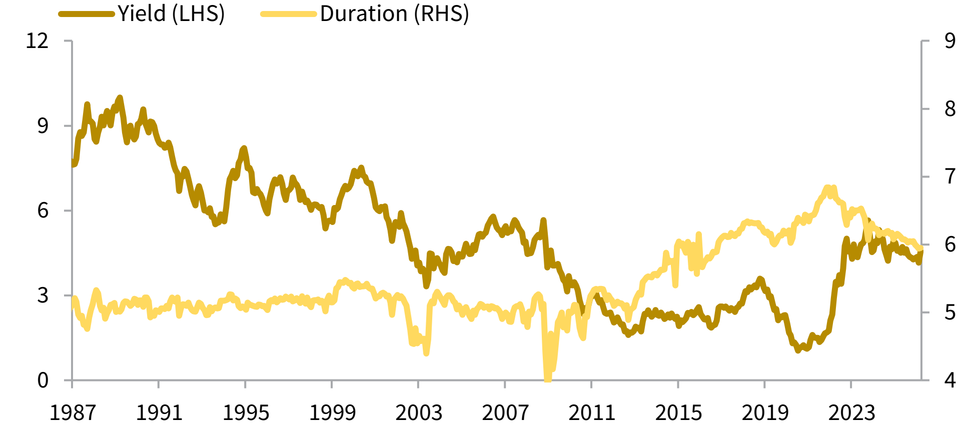
— The Fed's trajectory is uncertain amid two-way risks. Labor market data is softening, but growth and inflation are supported by AI-driven investment and resilient consumer spending, while the outcome of the Iran War remains unclear.

— Credit fundamentals remain strong. US IG corporates continue to show healthy balance sheets and low leverage, and over 70% of the Agg index is rated AA or higher—much of it direct or indirect US government obligations—offering downside protection if growth slows. However, credit spreads for riskier segments like IG corporates offer little cushion if volatility rises.

— The six-year duration of the Bloomberg US Aggregate Index has come down but remains elevated, which leaves it vulnerable if inflation concerns or persistently large deficits push long-term yields higher.

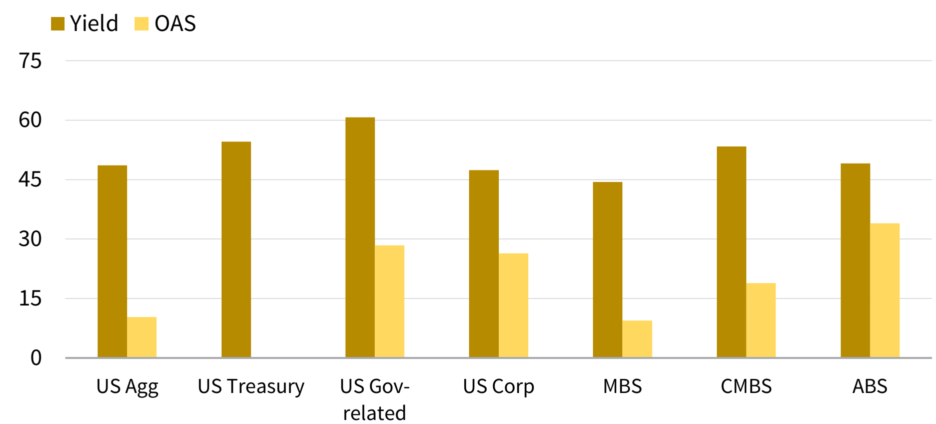
Yield vs duration: BBG US aggregate bond index

Jan 31, 1987 – Mar 31, 2026



Current Percentile: Yield and OAS for selcted US bond indexes

Jan 31, 1990 – Mar 31, 2026



Notes: Data are monthly. Asset class values represented by the Bloomberg US Aggregate Index (US Agg), Bloomberg US Treasury Index (US Treasury), Bloomberg U.S. Aggregate: Government-Related Index (US Gov-related), Bloomberg US Corporate Investment Grade Index (US Corp), Bloomberg US MBS Index (MBS), Bloomberg CMBS Investmen Grade (CMBS), and Bloomberg US Asset-Backed Securities Index (ABS).

US Treasuries

Facts & Figures First Quarter 2026

US Treasuries returned -0.04% in 1Q, following a 6.3% return in 2025. Yields backed up in March after the US-Israel attack on Iran amid concerns that the war would keep both inflation and policy rates elevated.

— US Treasury valuations aren't overly compelling, with ten-year yields at 4.3% as of March 31. While they remain well above the 20-year median (2.7%), they are down from 4.6% at the start of 2025 and nearly half a standard deviation below the implied fair value of 4.7%, which has been steadily rising given stronger US nominal GDP growth.

— Yields declined last year amid growing concerns about US economic activity tied to tariffs and a notable softening in the labor market. This environment allowed the Fed to resume rate cuts in the second half of the year, with the target policy rate moving 75 bps lower to 3.75%.

— However, the Iran War has complicated the outlook. Consensus forecasters have lowered their 2026 US real GDP growth projections by 0.2 ppts to 2.3% and raised 2026 headline CPI projections by 0.3 ppts to 3.0%. This environment may limit how much further the Fed can cut rates, with the Fed projected to keep the median target policy rate at 3.625% for the remainder of the year.

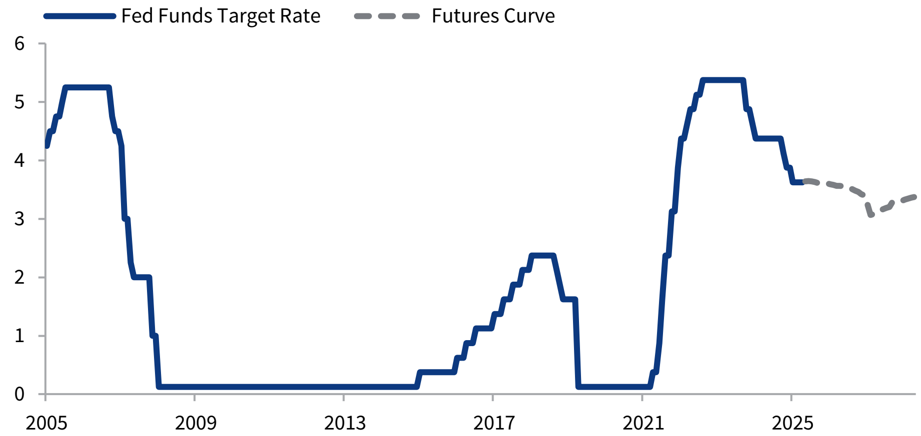
— As result, ten-year US Treasury yields rose 12 bps in 1Q, and the yield curve has flattened—the ten-year/two-year spread narrowed from 71 bps to 51 bps over the past three months—lowering the opportunity cost of reducing duration risk.

— In addition to elevated macro and policy uncertainty, fiscal dynamics have also likely been a headwind for Treasuries. The One Big Beautiful Bill will keep the US deficit at 6%–7% of GDP—well above the historical average of 4%. The Iran War could further expand fiscal spending, adding to supply/demand challenges as more Treasury issuance must be absorbed by more price-sensitive buyers.

— Reflecting these challenges, the estimated term premium for holding bonds over cash is 0.6%, which is elevated compared to recent years.

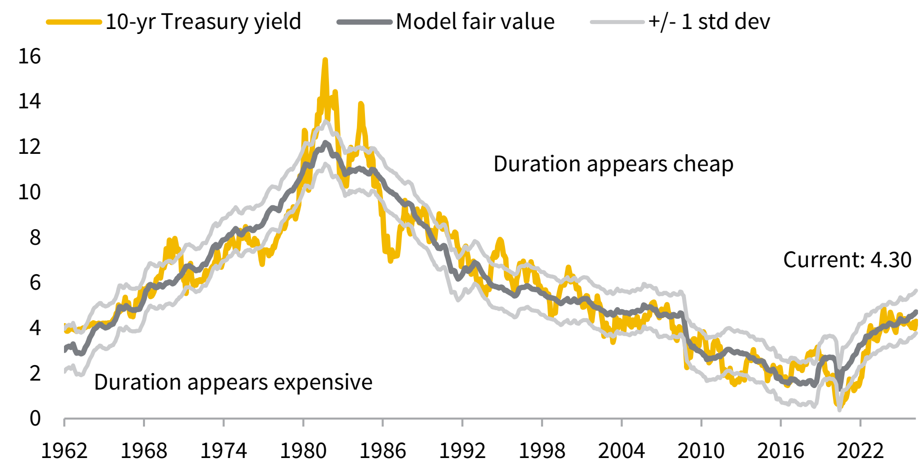
Fed funds target rate and future curve

Dec 31, 2005 – Mar 31, 2029 • Percent (%)



Valuations: 10-yr Treasury

Jan 31, 1962 – Mar 31, 2026 • Percent (%)



Sources: Chicago Board of Trade, Federal Reserve, and Thomson Reuters Datastream.

Notes: The Model Fair Value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and CPI change. CPI data are as of March 31, 2026.

US Corporate Bonds

Facts & Figures First Quarter 2026

US investment-grade (IG) corporate bonds returned -0.5% in 1Q, following a 7.8% in 2025. Higher Treasury yields and wider credit spreads in March were headwinds, as the US-Israel attack on Iran contributed to great macro and policy uncertainty and market volatility.

— IG corporate bond yields and spreads both rose in 1Q, with yields rising 33 bps to 5.1% and spreads 11 bps wider at 89 bps.

— Still, valuations remain stretched. The OAS is in the 27th percentile and the index yield is in the 33rd percentile of historical observations. Despite this, IG yields remain above ten-year averages, which might continue to attract some investors.

— Economic conditions were supportive in 2025, as underlying Treasury yields moved lower and both inflation and growth moderated, allowing the Fed to resume easing.

— However, the Iran War has complicated the outlook. Consensus forecasters have lowered their 2026 US real GDP growth projections by 0.2 ppts to 2.3% and raised 2026 headline CPI projections by 0.3 ppts to 3.0%. This environment may limit how much further the Fed can cut rates, with the Fed projected to keep rates on hold through 2026.

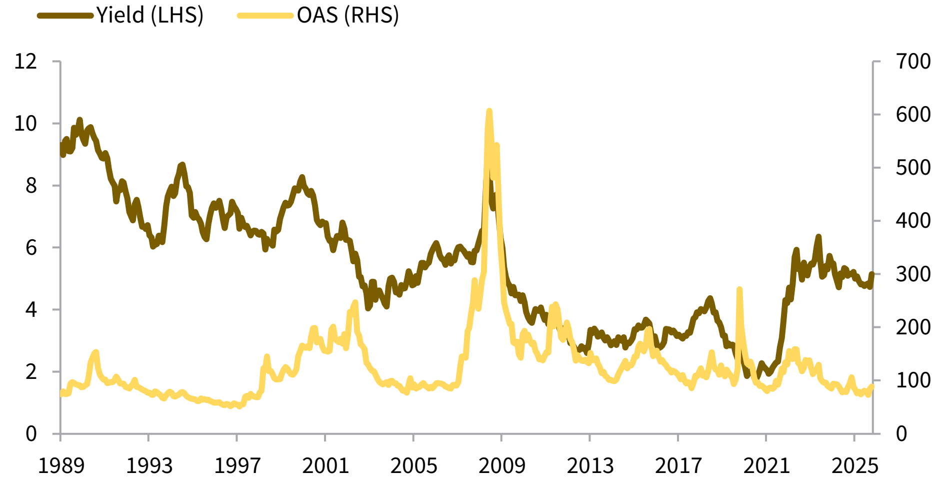
— IG corporate fundamentals are solid, offering a buffer if growth slows. Gross leverage has held steady near 2.3x EBITDA, median interest coverage is around 10.2x, and while annual EBITDA growth slowed to 5% in 2025, a rebound toward 10% is expected in 2026.

— Issuance is a potential headwind. The credit cycle is accelerating, with an expected surge in high-quality supply driven by tech/AI capex. Morgan Stanley projects IG net issuance to rise by $1T in 2026, about 10% of the index's starting level.

— Overall, this points to a slightly less supportive environment for credit spreads than in the previous two years, especially with valuations remaining close to multi-year lows.

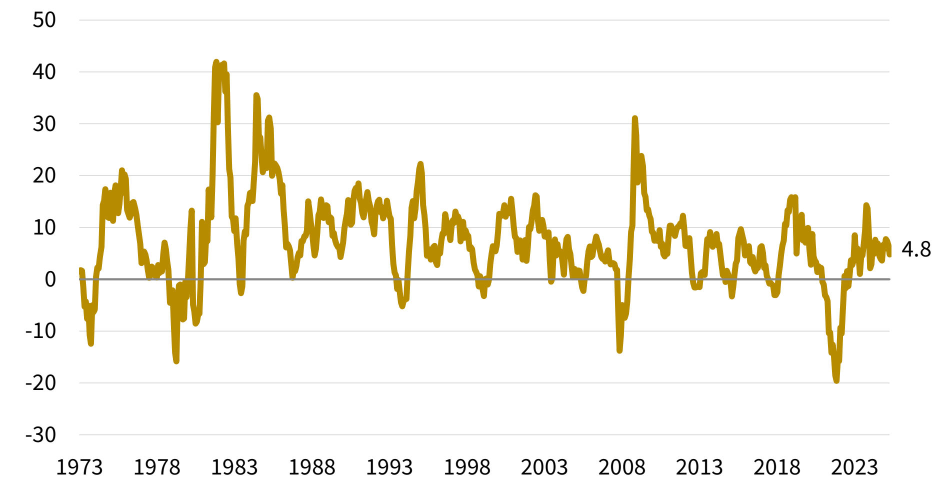
Yield and option-adjusted spread: US investment-grade corporates

Jun 30, 1989 – Mar 31, 2026 • Percent (%)



Trailing 12-month return: US investment-grade corporates

Dec 31, 1973 – Mar 31, 2026 • Percent (%)



Sources: Bloomberg Index Services Limited and Thomson Reuters Datastream.

US Tax-Exempt Bonds
Facts & Figures First Quarter 2026

US tax-exempt municipal bonds (munis) returned -0.2% in 1Q before taxes, following a 4.2% return in 2025. Munis struggled amid the broader bond sell-off as higher Treasury yields reflected rising inflation and policy expectations tied to the Iran War, though they held up relatively well versus Treasuries.

— Ten-year munis finished 1Q with yields about 30 bps above where they were to start the year, at 3.5%. While yields remain above the 20-year median of 2.8%, muni valuations are not overly compelling before taking taxes into account. Yields are nearly 1 standard deviation below their implied fair value of 4.1% based on trailing ten-year nominal GDP growth adjusted for the average muni/Tsy yield ratio.

— Munis also appear rich versus Treasuries before considering taxes. The muni/Tsy yield ratio is currently 0.82 (36th percentile), down from a recent high of 0.92 (70th percentile).

— However, neither of these metrics take munis tax advantage into account. For high tax bracket individuals, ten-year munis still offer a significant yield advantage over taxable-equivalents after taxes (184 bps vs Treasuries and 84 bps vs corporates).

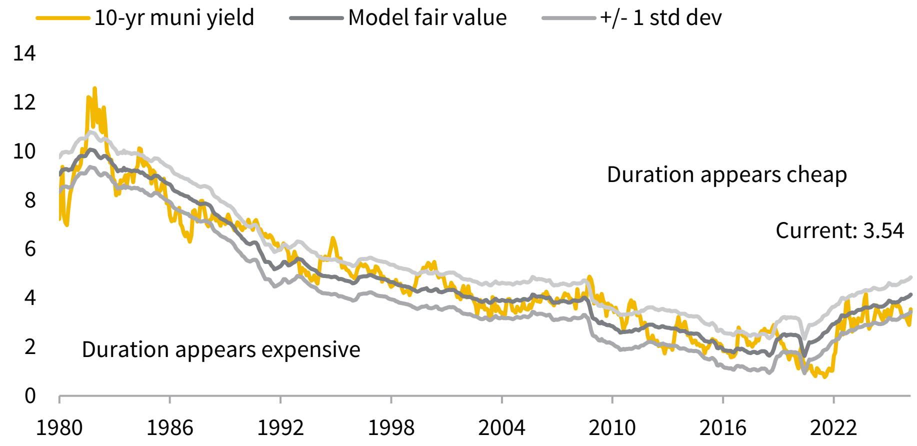
— Recent fiscal policy changes have been a headwind, with the Trump Administration targeting federal support for states and other sectors. Still, the broader municipal credit picture remains in good shape.

— The pullback in federal funds is, however, putting upward pressure on issuance, and supply is likely to remain elevated as municipalities seek to fund growing capital needs.

— Despite these challenges, attractive after-tax yields, sound fundamentals, a healthy macro backdrop should continue to support robust demand. Inflows into mutual funds accelerated in the second half of 2025, nearing $13B for the full year, and flows in 1Q ($17B) outpaced total flows for all of 2025 despite the rise in market volatility.

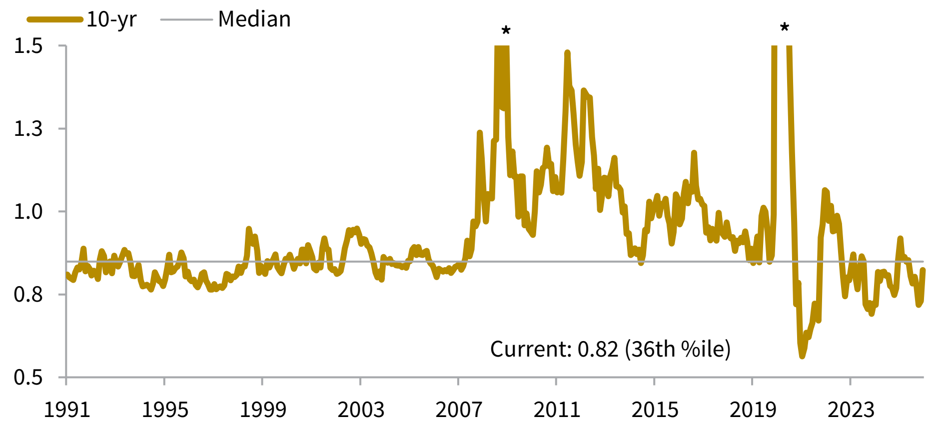
Valuations: 10-yr muni

Jan 31, 1980 – Mar 31, 2026 • Percent (%)



Ratio of 10-yr muni yields to Treasury yields

Apr 30, 1991 – Mar 31, 2026



* Axis is capped for scaling purposes. Ratio hit a high of 3.16 on 4/30/2020.

Sources: Bloomberg Index Services Limited and Thomson Reuters Datastream.

Notes: The Model Fair Value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and CPI change. CPI data are as of March 31, 2026.

Global Inflation-Linked Bonds

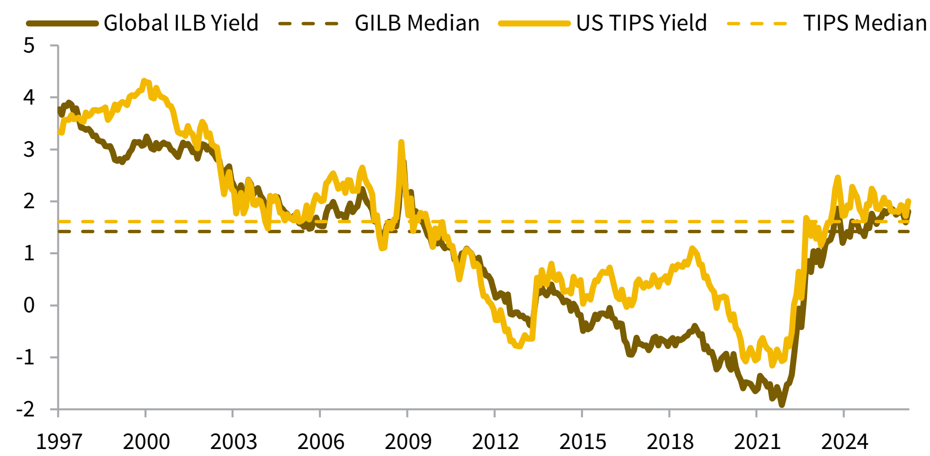
Facts & Figures First Quarter 2026

Global linkers returned -0.2% in 1Q, following an 8.8% return in 2025, while US TIPS returned 0.3% (7.0% in 2025). Inflation-linked bonds outperformed nominal bonds in 1Q as the Iran War pushed both real rates and short-term inflation expectations higher in March.

- Real yields for both the global and US index changed little during 1Q, but they rose sharply in March by 20-30 bps to 1.8% and 2.0%, above both their respective long-term medians of 1.4% and 1.6% and implied fair value of 0.7% and 1.4% based on the trend in real GDP growth.
- Similarly, breakeven inflation expectations also rose across major regions in 1Q, particularly in Europe, with ten-year UK breakeven rates surging more than 60 bps during the quarter. Breakeven inflation rates remain above central bank targets in most regions.
- These moves were largely triggered by the Iran War, which has pushed up energy prices and led to both higher inflation and rate expectations across most regions. These dynamics have been more acute for net energy importers in Europe and Asia, while net commodity exporters, such as the US and Australia, have experienced more limited effects.
- This is reflected in consensus economic forecasts, which are projecting headline CPI to rise back above 3% for both the US and across DMs broadly, while real GDP growth projections have been revised down slightly across major regions in March.
- Additionally, most major central banks are expected to maintain a more restrictive policy stance for the remainder of the year, with most central bankers expected to hike rates, while the Fed will likely remain on hold.
- Linkers, which are inflation-linked and less liquid than nominals, tend to underperform when inflation falls or during market stress. However, they offer protection against unexpectedly high inflation and may continue to provide complimentary diversification benefits to nominal bonds if inflation remains elevated, given attractive real yields.

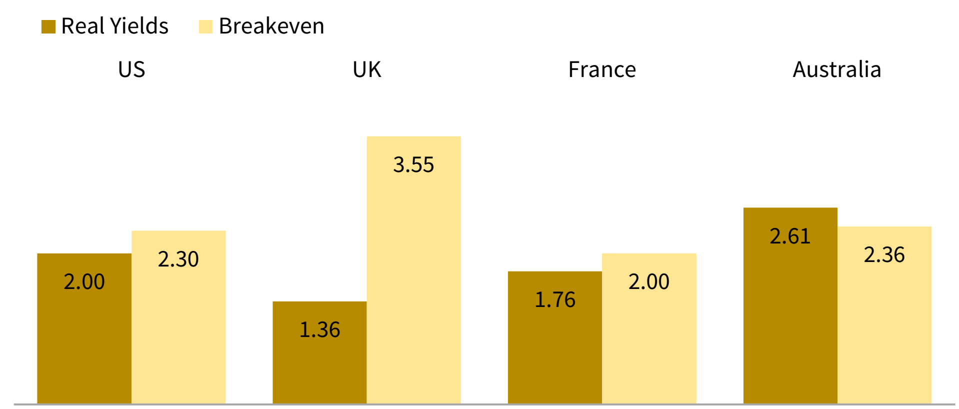
Historical index yield: BBG global linkers

Jan 31, 1997 – Mar 31, 2026 • Percent (%)



10-yr real yields and breakeven inflation

As of Mar 31, 2026 • Percent (%)



Sources: Bloomberg Index Services Limited and Thomson Reuters Datastream.
Notes: France data are based on the underlying securities within the Bloomberg Global Agg Treasuries and Bloomberg World Govt Inflation-Linked indexes. All other data are based on the Bloomberg real yield and breakeven series.

UK Gilts

Facts & Figures First Quarter 2026

UK gilts underperformed in 1Q, returning -2.0% in LC terms, with the UK particularly exposed to external supply shocks, such as the Iran War. The trailing 12-month return was 4.9% in USD terms and 2.4% in GBP terms.

— UK gilt valuations remain cheap among major markets, with ten-year yields at 4.92% as of March 31 (moving 44 bps higher on the quarter). The ten-year yield hit its highest level since 2008 in 1Q —well above the 20-year median of 2.6% and more than 1 standard deviation above the implied fair value of 3.1%, based on nominal GDP growth.

— The Iran War has increased inflation expectations for the UK given its status as a net energy importer. Consensus forecasts project 2026 inflation at 2.7%. That environment has increased expectation for interest rate hikes by the Bank of England, with between one and two 25-bp hikes expected by markets in 2026. Prior to the war, market pricing had implied two cuts for 2026.

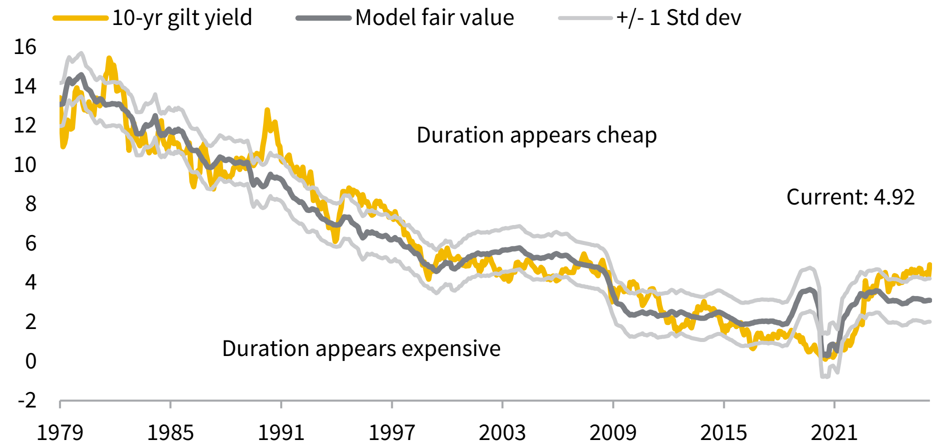
— Domestically, the UK economy showcased further signs of weak demand in 1Q. There have been continued signs of economic slack, with January unemployment remaining at 5.2%, its highest level since 2020, and GDP printing below expectations. Consensus forecasts project UK real GDP growth at 1.0% 2026, falling 0.2% on the quarter. That provides a notably different economic backdrop compared to Russia's invasion of Ukraine.

— The yield curve has flattened slightly, reflecting increased expectations of BOE rate hikes in response to the Iran War—the ten-year/two-year gilt spread narrowed 22 bps to from 76 bps to 54 bps over 1Q.

— Fiscal dynamics remain a prominent theme in the market, with gilt issuance likely to stay elevated due to large public debt and interest expense. The government's self-imposed deficit rules are seen to limit the extent the government can spend to support cost-of-living initiatives because of higher energy prices.

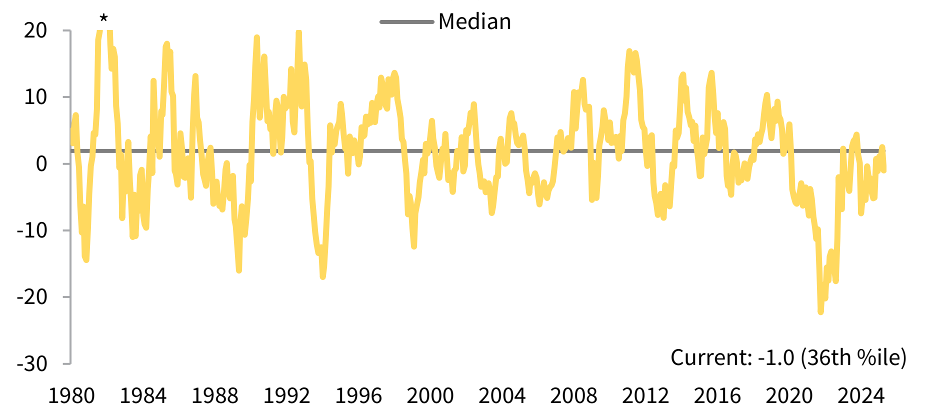
Valuations: 10-yr gilts

Jan 31, 1979 – Mar 31, 2026 • Percent (%)



12-month price momentum: 10-yr gilts

Dec 31, 1980 – Mar 31, 2026 • Percent (%)



* Capped for scale purposes. The rolling 12-M Momentum was 44.5% in October 1982.

Source: Thomson Reuters Datastream.

Notes: The Model Fair Value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and RPI/CPI change. CPI data are as of February 28, 2026.

Euro Area Sovereign Bonds

Facts & Figures First Quarter 2026

Euro area sovereign bonds (German Bunds) returned -0.3% in 1Q in LC terms. A weaker euro caused underperformance in USD terms (-2.2% for 1Q vs 0.0% for US Treasuries). The euro area's status as a net energy importer meant greater inflationary impetus to rising oil & gas prices due to the Iran War than the United States.

— Valuations appear fair, with ten-year bunds yielding 3.0% as of March 31 (up from 2.9% at year-end 2025). Yields are above the 20-year median of 1.7%, but slightly below the implied fair value of 3.3% based on nominal GDP growth.

— The euro area is particularly exposed to higher energy prices, with most European countries importing over 90% of their oil & gas consumption. The OECD have updated their 2026 forecasts, downgrading euro area growth by 0.4 ppts to 0.8% and increasing the inflation estimate by 0.7 ppts to 2.6%.

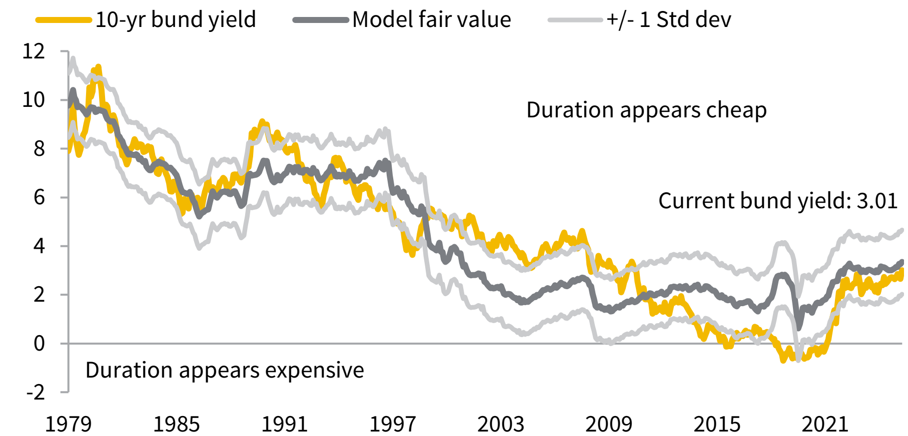
— Domestically, the euro area economy had been showing signs of a pickup in activity, supported by a recovery in manufacturing and services data.

— Given the outlook for renewed inflationary impetus, markets now view the ECB as likely to raise interest rates 50 bps over 2026. On the fiscal side, political pressure to implement cost-of-living spending initiatives has grown across the euro area. Together, those factors have seen rising yields across the curve, with the bund curve flattening 35 bps.

— European country yield spreads to bunds increased in March as investors move to relative safe-haven assets amid ongoing geopolitical uncertainty. The French OAT-bund yield spread was little changed on the quarter, however, with French government bonds rallying earlier in the quarter on news that the 2026 budget had passed through parliament. Without a fresh house or presidential election, accompanied by agreement for fiscal restraint, the French budget deficit will remain a concern for markets.

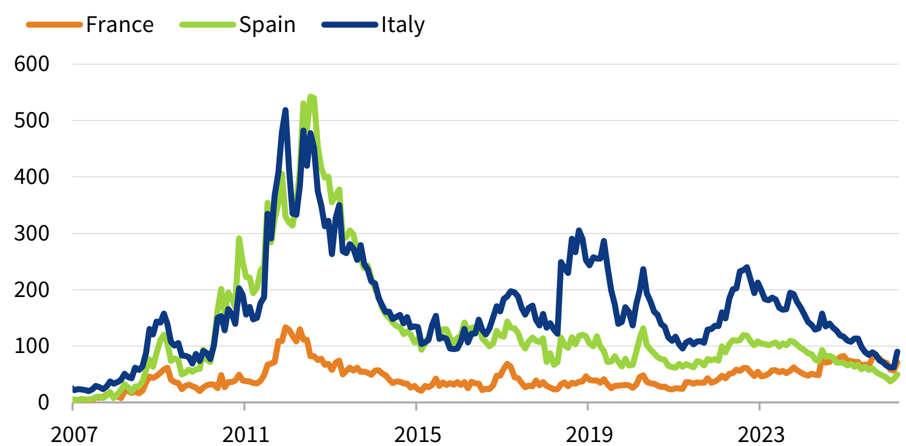
Valuations: 10-yr bunds

Dec 31, 1979 – Mar 31, 2026 • Percent (%)



Historical 10-yr spreads over bund yields

Jan 31, 2007 – Mar 31, 2026 • Basis points (bps)



Source: Thomson Reuters Datastream.

Note: The Model Fair Value is the predicted range of ten-year yields based on a multiple linear regression model that includes trailing ten-year real GDP and CPI change.

European Corporate Bonds

Facts & Figures First Quarter 2026

The Bloomberg Euro-Aggregate Corporate Index returned -1.0% in 1Q, as rising inflation expectations say bund yields and spreads move higher. The index returned 2.0% over a trailing 12-month period and 8.8% in USD terms. Valuations have fallen since the Iran War commenced, with the market seeing reduced supply and fund outflows in March.

— The Bloomberg Euro-Aggregate Corporate Index OAS rose to 97 bps—the largest quarterly increase since 2Q 2022. The yield increased 53 bps to 3.76%, becoming more attractive relative to longer-term averages.

— Higher commodity prices owing to the Iran War have challenged the macro backdrop. Most European countries are particularly exposed to higher energy prices as net importers, with the OECD downgrading their 2026 euro area growth forecast by 0.4 ppts to 0.8% and increasing the inflation estimate by 0.7 ppts to 2.6%. Higher input prices and refinancing rates, as well as weaker consumer confidence, have hit valuations.

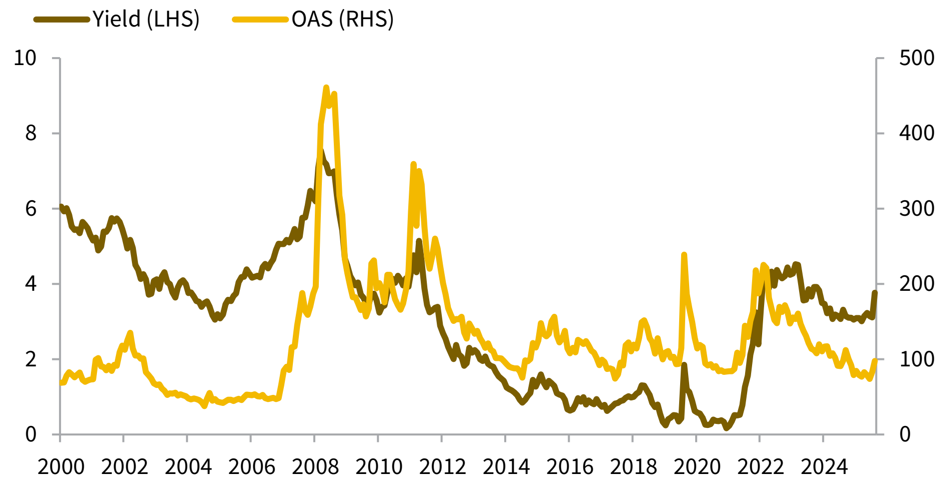
— Sterling IG valuations have fallen to a greater extent (primarily due to rising gilt yields), as the index yield rose 64 bps in 1Q. Economic growth data released in 1Q showed weak growth and above target inflation even prior to the onset of the Iran War. The BOE is now expected to hike interest rates once in 2026.

— Technicals were mixed in 1Q: net euro IG issuance totaled a strong €66B, although this was concentrated in January and February and in higher rated issuers. Net euro IG issuance was negative in March, reflecting heightened uncertainty and market volatility. Funds saw outflows in March but modest net inflows on the quarter overall.

— Fundamentals are stable, with net leverage for euro IG issuers at 2.8x at 4Q-end (toward the middle of the recent range). Earnings growth, however, contracted 2.3% QOQ. While the euro HY default rate (3.1%) remains above historic averages—mainly due to well-telegraphed struggles at some large issuers—there are signs it has stabilized.

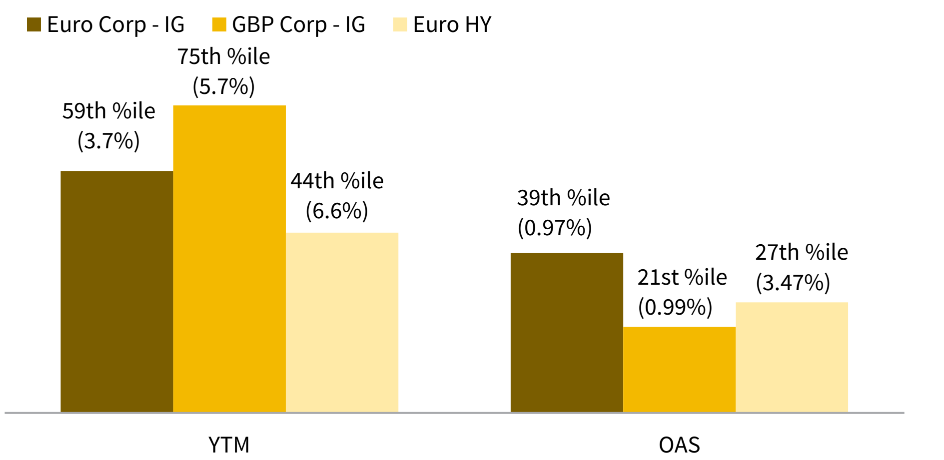
Yield and option-adjusted spread: European corporates

Aug 31, 2000 – Mar 31, 2026 • Percent (%)



Percentile Rank: European Corporates

Aug 31, 2000 – Mar 31, 2026

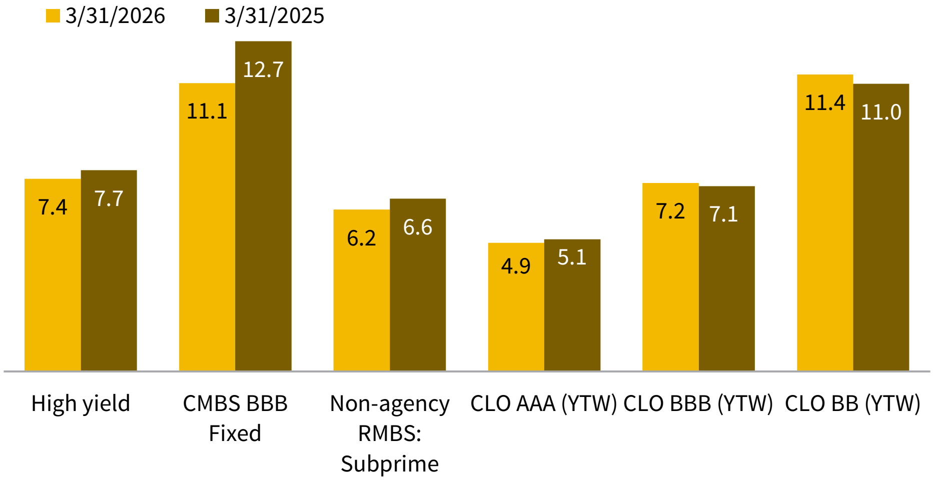


Source: Bloomberg Index Services Limited.

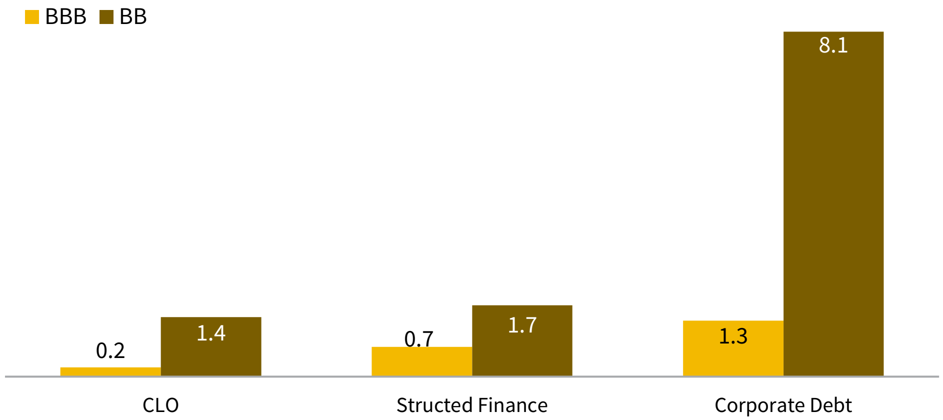
Structured credit markets saw cross-currents in 1Q. Some CLO indexes posted negative returns as underlying loans were hit by concerns over both software exposure and the Iran war's expected impact on growth and inflation. In contrast, real US estate-backed debt, driven more by domestic growth, posted healthier returns.

- Structured credit indexes posted mixed returns in 1Q. US CMBS BBB-rated bonds returned 0.5% for the quarter, lifting their trailing four-quarter return to 6.3%. In contrast, BBB and BB-rated CLO debt returns of -0.2% and -3.2%, respectively, for the period, lowered 12-month returns.
- Valuations remain reasonable, especially when looked at from the perspective of yields. For example, 7% yields on Alt-A non-agency US RMBS are around 66th percentile. BB-rated CLO yields, at 11.4%, look even more attractive at 77th percentile and have risen since the start of 2025 despite Fed rate cuts.
- The economic backdrop has been supportive, with recent GDP growth beating expectations and tariff-related uncertainty fading. The Iran War creates near-term headwinds but its lasting impact on inflation and growth is uncertain. Corporate fundamentals have been improving, though there are question about the impact on AI on sectors like software, to which CLOs have significant exposure.
- Defaults on structured credit assets remain low, both in absolute terms and relative to similarly rated corporate credit. However, many have indefinite maturities given amortizing loan pools, which limits the investor base and causes them to trade at wider spreads despite these stronger fundamentals.
- Some structured credit assets are less liquid than corporate equivalents and often require specialized systems to analyze. However, the launch of products such as CLO debt ETFs reflects improving liquidity and should help narrow their spread premiums relative to corporate bonds.

Yield: Select structured credits
Percent (%)



US Structured Finance: Default rate
As of December 31, 2024 • Percent (%) • Cumulative 5 year



Sources: Bloomberg Index Services Limited, ICE BofA Merrill Lynch, J.P. Morgan Securities, Inc., Guggenheim Investment, Morningstar DBRS and Thomson Reuters Datastream.
Note: Default rates represent five-year cumulative average aggregate rates, categorized by credit rating.

US High-Yield Bonds and Leveraged Loans

Facts & Figures First Quarter 2026

US high-yield (HY) bonds and leveraged loans posted minor losses in 1Q, as yields and spreads moved higher given concern that the Iran War would boost inflation and curb economic growth. Fundamentals remain healthy, however, and a quick resolution of the conflict could ease some concerns, though the impact of AI on software loans remains an open question.

— The Bloomberg High-Yield Index and UBS Leveraged Loan Index each returned -0.5% in 1Q. Over the trailing 12-months, HY bonds have returned 7.0%, outperforming loans (4.8%), which have been impacted by a higher allocation to the software sector.

— HY and loan valuations cheapened during the quarter though HY remains more expensive than leveraged loans. The HY index OAS rose to 317 bps but remains in the bottom 20% of observed values. Meanwhile, the loan index discount margin is 514 bps, around 40 bps above its historical median.

— The economic backdrop for higher yielding credit had been improving but the Iran War presents headwinds. While there are encouraging signs that a resolution may occur within weeks, there may be lingering inflation impacts and growth forecasts are being trimmed. Additional Fed cuts, should they occur, would lower coupons on loans but ease interest burdens.

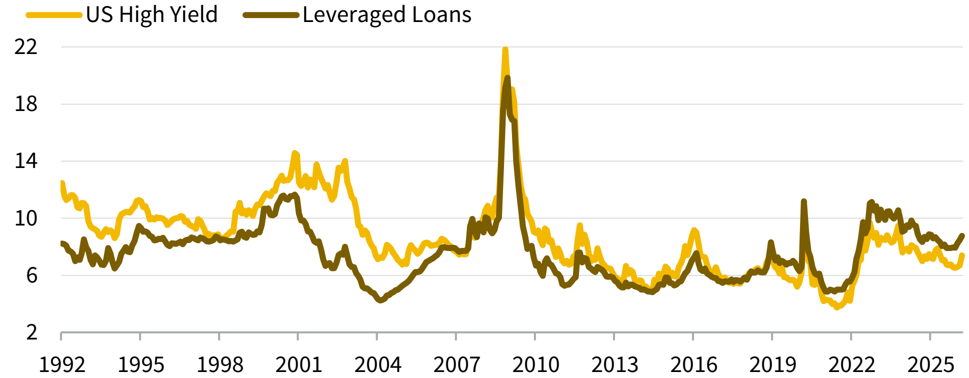
— Corporate fundamentals are solid. HY borrowers saw weak earnings growth in 2025, but their median interest coverage ratio is healthy at 4.7x EBITDA. Loan borrowers grew earnings at a faster pace and have seen metrics boosted by rate cuts; their median coverage ratio rose 0.5x YOY to 4.5x, according to Morgan Stanley.

— Default rates for both assets are well below historical averages. However, this masks the impact of liability management exercises, which, while preventing defaults, can reduce economics for investors.

— Technicals look supportive in the near term. US loan issuance fell 13% in 2025 to $439B, and volumes are down further in 1Q.

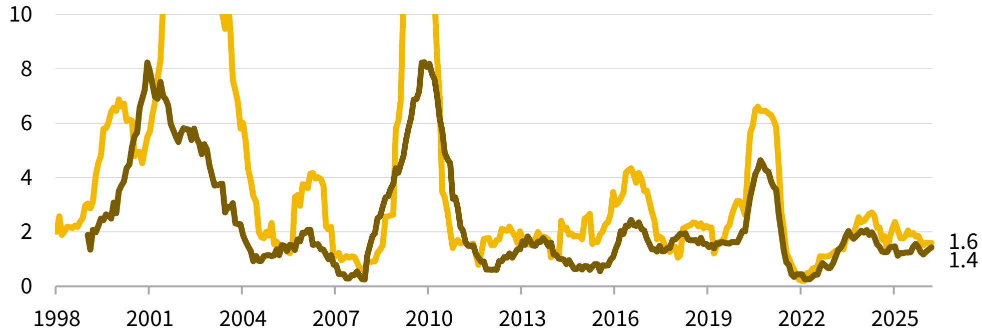
US high-yield and leveraged loan indexes: Yields

Jan 31, 1992 – Mar 31, 2026 • Percent (%)



US high-yield and leveraged loan indexes: Default rates

Jan 31, 1998 – Mar 31, 2026 • Percent (%) • TTM



Sources: Bloomberg Index Services Limited, Moody's Investors Service, PitchBook | LCD, Standard & Poor's and Thomson Reuters Datastream. Third-party data provided "as-is" without any express or implied warranties.

Notes: Data are monthly. High-yield data are represented by the yield-to-worst for the Bloomberg US Corporate High Yield Index. Leveraged loans are represented by the S&P UBS Leveraged Loan Index. Yields for leveraged loans are represented by 3-month Libor plus the 3-yr discount margin. The 3-yr discount margin combines the loans' yield with the price appreciation that would occur if the loans prepay at par in three years. Moody's default rates have been sourced directly and indirectly. US High Yield Default Rate is as February 28, 2026.

Insurance-Linked Securities
Facts & Figures First Quarter 2026

With no major natural catastrophe events globally in the first quarter of 2026, total insured losses were approximately $20 billion, significantly below the historical long-term average of $26 billion. Accordingly, broader ILS strategies generated positive returns in each of the first three months of 2026, with 1Q performance ranging from 1% to 3%, depending on liquidity and risk profile.

— As anticipated in 4Q 2025, ILS market premiums continue to move closer to long-term average levels. Compared with the beginning of 2025, the risk-adjusted premium environment has compressed by approximately 10% to 15%.

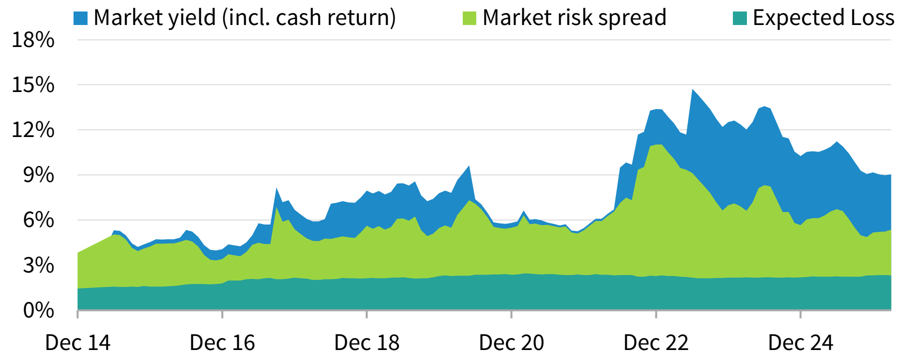
— For the reinsurance market and the ILS industry, the focus during the first quarter of the year is on incorporating year-end renewal transactions and adjusting portfolio profiles accordingly.

— In line with market conditions, expected returns for 2026 are down by roughly 10%, driven primarily by lower total yield potential. That said, the upcoming renewal seasons for Asian business in April 2026 and for US-exposed risks in June and July 2026 are expected to continue the premium softening trend observed at the beginning of the year.

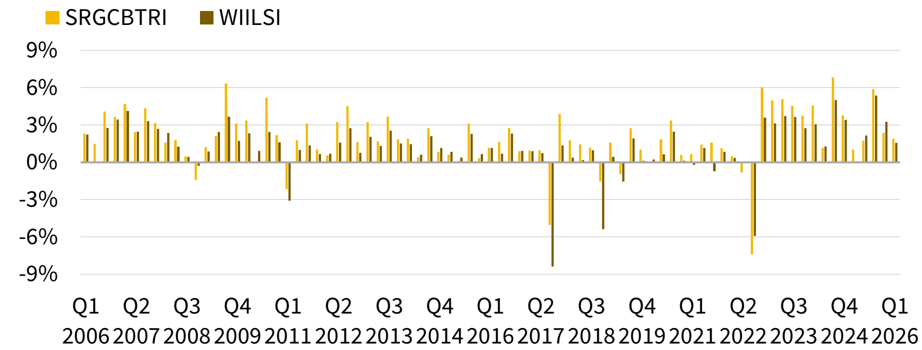
— At the same time, the catastrophe bond market—the most liquid segment of the ILS universe and often viewed as an early indicator of broader market conditions—saw spreads stabilize in the final weeks of the first quarter and into the start of the second quarter.

— Overall, the outlook for the industry remains attractive in 2026, particularly relative to historical averages.

Development of the risk premium and expected loss from Cat bonds
December 31, 2014 – March 31, 2026



Swiss Re Global Cat Bond Total Return Index (SRGCBTRI) & With Intelligence ILS Index (WIILSI) realized returns
First quarter 2016 – First quarter 2026 • US dollars



Sources: Artemis, Bloomberg L.P., and With Intelligence.
Notes: The SRGCBTRI is a synthetic benchmark designed to represent the performance of the outstanding catastrophe bond market. Its values do not incorporate bid-ask spreads, trading costs, management fees, or the cash drag typically present in actual funds. Additionally, the index assumes optimal allocation to new issuances, which is not achievable in practice due to the realities of book-building and subscription processes. The WIILSI is an equally weighted performance index designed to provide a broad measure of the performance of underlying funds who explicitly allocate to ILS and have at least 70% of their portfolio invested in natural catastrophe risks.

Emerging Markets Debt

Facts & Figures First Quarter 2026

EM debt markets struggled in 1Q following a strong 2025 amid the risk-off move in markets caused by the Iran War—the JPM EM-GBI Global Diversified (LC sovereign), JPM EMBI Global Diversified (USD sovereign), and CEMBI Broad Diversified (USD corporate) indexes returned -2.2%, -1.3%, and -0.2%, respectively.

— Strong performance in 2025 was supported by a decline in both yields and spreads—owing to cooling inflation, central bank rate cuts, and capital inflows—as well as the appreciation of EM currencies versus the US dollar, which support LC sovereign performance in dollar terms.

— This carried over into the first two months of 2026 but reversed in March with the Iran War. Yields rose roughly 30-50 bps across indexes in 1Q, to 6.4% for LC sovereign, 7.3% for USD sovereigns, and 6.7% for USD corporates, and spreads widened for USD-denominated debt.

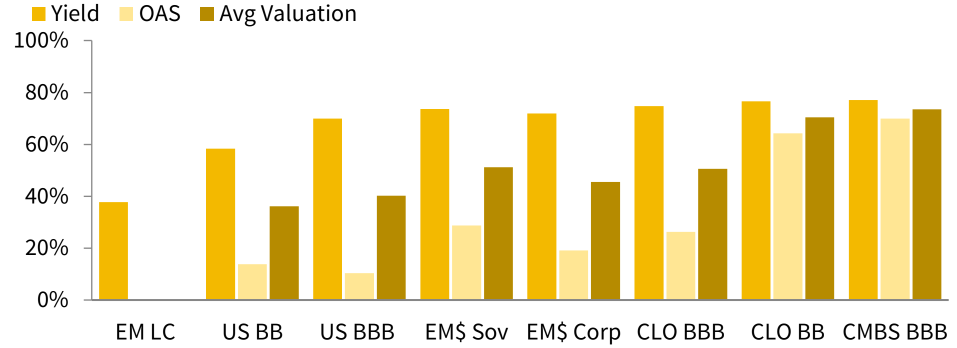
— EM debt valuations are mixed. EM USD debt yields are slightly elevated versus history, but spreads remain tight, mirroring trends across broader credit markets. While EM LC debt yields have risen to their highest level in over a year, they remain well below their long-term median, with the spread to global sovereigns still tight below 300 bps. Therefore, we still expect EM FX to be a big driver of returns.

— The economic backdrop has favored EM over the past year, but the Iran War has clouded the outlook, with the potential for higher inflation to limit how much some central banks can lower rates. Still, EM FX valuations remain cheap versus the USD and have room to rise further with a de-escalation in the war and if narrowing growth and rate differentials, along with improved global sentiment, pressure the USD as they did in 2025.

— Although most issuers in EM debt indexes are investment grade, the asset class carries unique risks, and index-level statistics can mask significant differences in fiscal health among borrowers. Given the wide dispersion in fundamentals and political outcomes, active management may be better positioned to capture opportunities and manage risks.

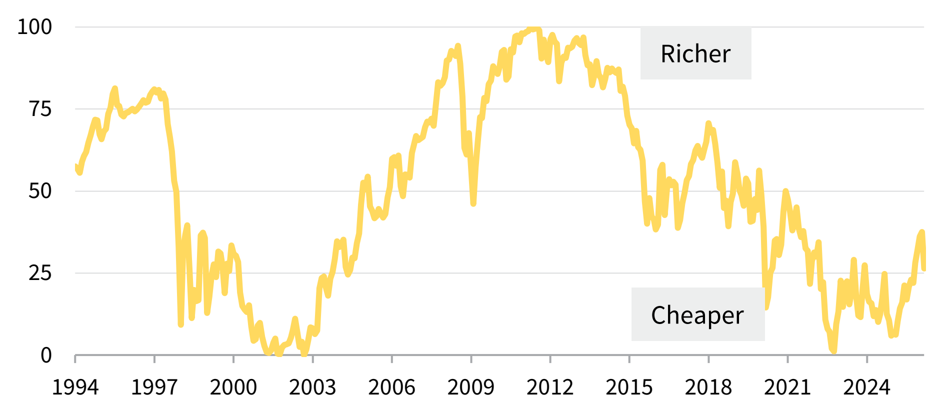
Percentile rank of various debt indexes

Dec 31, 2003 – Mar 31, 2026



FI-weighted EM real exchange rate vs US: Percentile

Jan 31, 1994 – Mar 31, 2026



Sources: Bloomberg Index Services Limited, International Monetary Fund, J.P. Morgan Securities, Inc., MSCI Inc., national sources, and Thomson Reuters Datastream. Third-party data are provided "as is," without any express or implied warranties.

Notes: Composite Valuation Indicator is the average of YTM percentile and spread percentile. Asset classes are represented by J.P. Morgan Emerging Market Global Diversified Government Bond Index (EM LC), J.P. Morgan Emerging Market Bond Index (EM$ Sov), J.P. Morgan Corporate Emerging Markets Bond Index (EM$ Corp), Bloomberg US Corporate Investment Grade BBB Index (US BBB), Bloomberg US High Yield BB Index (US BB), J.P. Morgan CLOIE BBB Index (CLO BBB), J.P. Morgan CLOIE BB Index (CLO BB), and Bloomberg US CMBS Baa Index (CMBS BBB).