Fixed Income

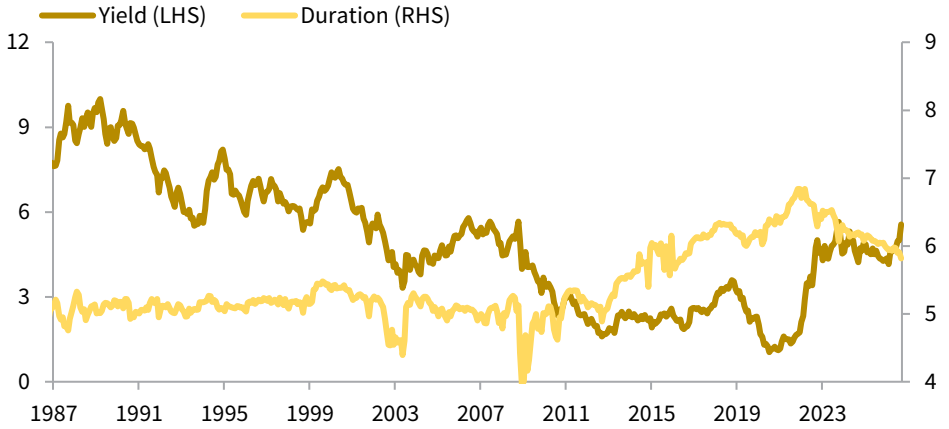
US Bonds
Facts & Figures Third Quarter 2026

Core US bonds returned -3.5% in 3Q and -1.8% over the trailing 12 months. A backup in Treasury yields remained a headwind in 3Q, while credit spreads widen modestly from tight levels due to elevated geopolitical tensions and AI-driven market volatility.

- The yield for the Bloomberg US Aggregate Index stands at 5.6%. Yields rose nearly 100 bps during the quarter and are back near their cyclical highs, but they are still below their post-1989 average of 6.2%.
- Valuations remain stretched. Spreads widened modestly in 3Q—the index OAS is 31 bps, which is its highest level in over a year but still in the bottom quartile of observations since the late 1990s. Spreads are tight across major sectors, excluding agency MBS (roughly 20% of the index) which are in the 40th percentile.
- Tight spreads have been supported by a resilient macro backdrop. Consensus forecasts for 2026 US real GDP growth have increased 0.2 ppts to 2.2%, while headline CPI projections have risen 0.6 ppts to 3.4%.
- Geopolitical tensions and sticky inflation have heightened rate volatility and expectations for tighter policy. The Fed's 25-bp September hike brought the target range to 3.75%–4.00% and the market now expects the Fed to hike rates three more times by the end of next year.
- 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 continue to push long-term yields higher.

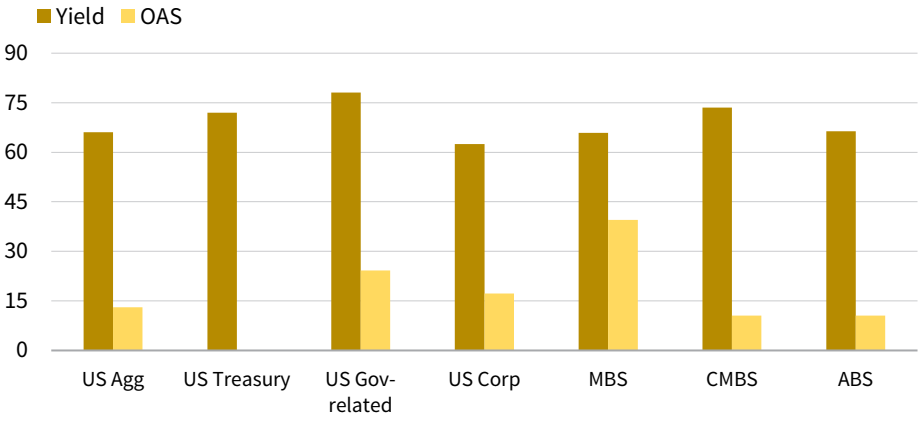
Yield vs duration: BBG US aggregate bond index

Jan 31, 1987 – Sep 30, 2026



Current Percentile: Yield and OAS for selcted US bond indexes

Jan 31, 1990 – Sep 30, 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).

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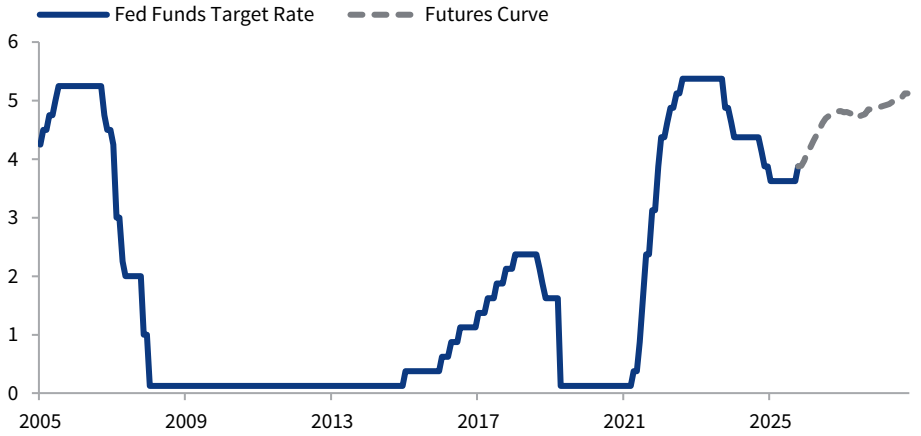
US Treasuries
Facts & Figures Third Quarter 2026

US Treasuries returned -3.0% in 3Q and -1.9% over the TTM. Yields rose sharply as economic activity has remained resilient despite the continuation of the Iran War, which has complicated the inflation and policy outlook.

- US ten-year Treasury yields rose 85 bps in 3Q to 5.3%, their highest level since 2001.
- Since the start of the year, consensus forecasters have raised 2026 US real GDP growth projections by 0.2 ppts to 2.2% and raised 2026 headline CPI projections by 0.6 ppts to 3.4%.
- Under Chair Kevin Warsh, the Fed has maintained a commitment to restoring price stability. The September meeting reinforced its hawkish stance, with policymakers raising the federal funds target range by 25 bps to 3.75%–4.00%, the first increase since 2023.
- Expectations have shifted toward further tightening, with markets anticipating another increase before year-end, increasingly viewed as likely in December rather than October.
- These dynamics have also contributed to a flatter yield curve. The ten-year/two-year spread narrowed from 71 bps to 41 bps so far this year—lowering the opportunity cost of reducing duration risk.
- Despite these pressures, Treasuries offer more value at current yields. Ten-year yields are nearly half a standard deviation above their implied fair value of 4. 8%, and well above the 20-year median (2.7%),
- Fiscal pressures and increased competition for capital are also likely adding to upward pressure on yields, at the margin. The US deficit is projected to remain around 6%–7% of GDP—well above the historical average of 4%—while investment-grade bond issuance is projected to top $2.0 trillion this year driven primarily by AI-capital expenditures.
- Reflecting these challenges, the estimated term premium for holding bonds over cash is 0.9%, which is elevated compared to recent years but closer to its long-run median of 1.4%.

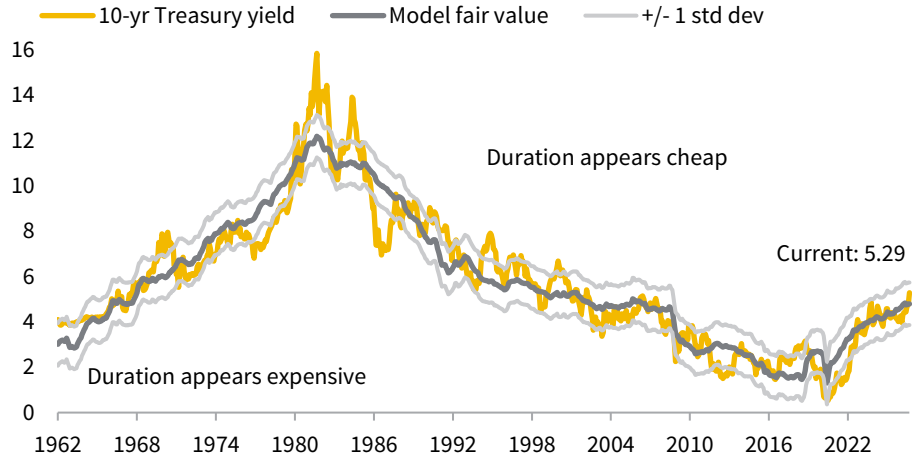
Fed funds target rate and future curve

Dec 31, 2005 – Sep 30, 2029 • Percent (%)



Valuations: 10-yr Treasury

Jan 31, 1962 – Sep 30, 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 August 31, 2026.

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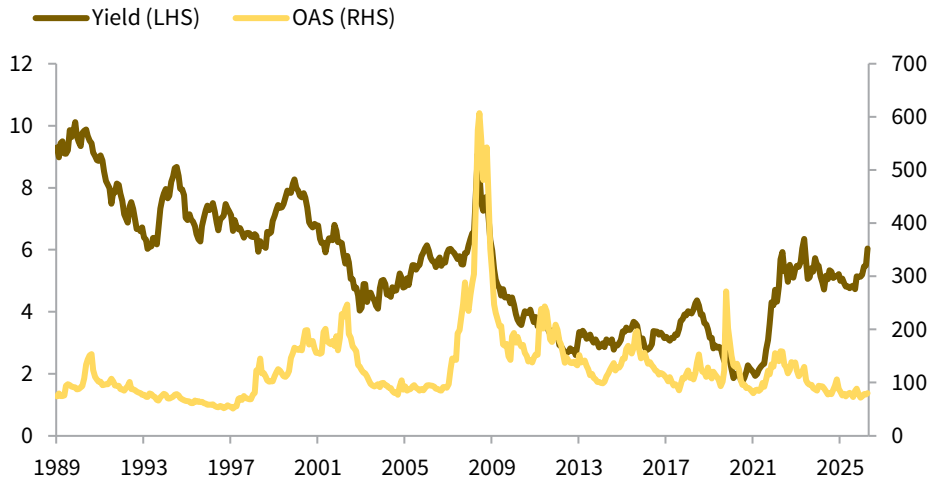
US Corporate Bonds
Facts & Figures Third Quarter 2026

US investment-grade (IG) corporate bonds returned -3,9% in 3Q and -2.3% over the trailing 12 months. A back-up in Treasury yields remained a headwind in 3Q, while credit spreads widened modestly from tight levels due to elevated geopolitical tensions and AI-driven market volatility.

- IG corporate bond yields ended 3Q at 6.0%. Yields rose more than 80 bps during the quarter and are back near their cyclical highs, but they are still below their long-term median of 6.6%.
- While all-in yields remain elevated compared to recent years, which might continue to attract some investors, valuations remain expensive. The OAS rose modestly in 3Q to 80 bps and remains near the bottom decile of historical observations.
- Tight spreads have been supported by a resilient macro backdrop. Consensus forecasts for 2026 US real GDP growth have increased 0.2 ppts to 2.2%, while headline CPI projections have risen 0.6 ppts to 3.4%.
- Geopolitical tensions and sticky inflation have heightened rate volatility and expectations for tighter policy. The Fed's 25-bp September hike brought the target range to 3.75%–4.00% and the market now expects the Fed to hike rates three more times by the end of next year.
- IG corporate fundamentals are solid, offering a potential buffer for tight spreads. EBITDA and leverage improved in 2Q. Median gross leverage has held between 2.2x–2.4x for 20 quarters, net leverage fell 0.1x to 1.7%, and median interest coverage improved 0.4x to 10.7x.
- Issuance is a potential headwind. The credit cycle is accelerating, with an expected surge in high-quality supply driven by tech/AI capex. According to Morgan Stanley, YTD issuance currently stands at $1,854B (+28% YOY), as of September.
- Overall, strong fundamentals but weaker technicals point to a slightly less supportive environment for credit spreads than in the previous two years, especially with valuations remaining close to multi-year lows.

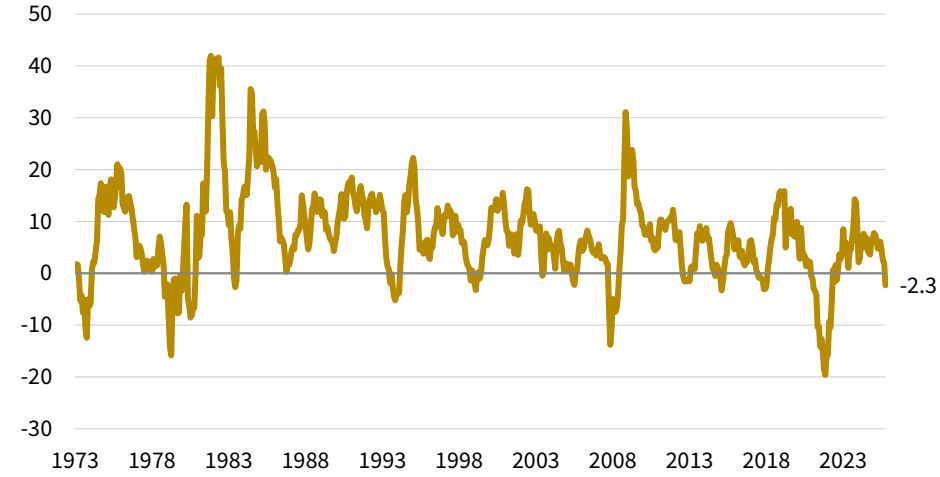
Yield and option-adjusted spread: US investment-grade corporates

Jun 30, 1989 – Sep 30, 2026 • Percent (%)



Trailing 12-month return: US investment-grade corporates

Dec 31, 1973 – Sep 30, 2026 • Percent (%)



Sources: Bloomberg Index Services Limited and Thomson Reuters Datastream.

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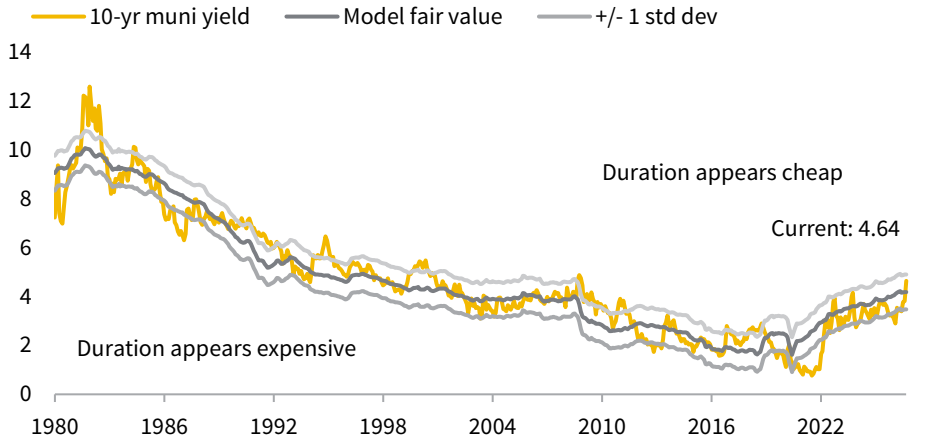
US Tax-Exempt Bonds
Facts & Figures Third Quarter 2026

US tax-exempt municipal bonds (munis) underperformed in 3Q, returning -6.3%, and are down 2.7 over the trailing 12 months. Munis performed poorly amid a sell-off in global bonds and higher interest rate volatility.

- Ten-year muni yields reached 4.6% at the end of 3Q, their highest level since 2008. Yields are now over half a standard deviation above their absolute implied fair value of 4.2%.
- The ratio of ten-year muni yields to Treasury yields increased 12 bps during the quarter, their widest level since April 2025. The muni/Tsy yield ratio is currently 0.88 (62nd percentile).
- For long-term, high tax bracket individuals, ten-year munis provide a compelling yield advantage over taxable-equivalents after taxes (155 bps vs Treasuries and 98 bps vs corporates).
- Retail demand has been strong this year. Year-to-date inflows into muni mutual funds totaled +$34B through September 18 and have remained relatively resilient amid the increased volatility in 3Q ($5.2B).
- Recent fiscal policy changes have created some uncertainty for some sectors, but municipal credit fundamentals remain sound overall. While the peak in credit quality is likely behind us, upgrades still outpace downgrades, defaults remain low, and state rainy-day reserves remain elevated.
- The pullback in federal funds is, however, putting upward pressure on issuance—year-to-date gross issuance was $463B through September. Supply is likely to remain elevated as municipalities seek to fund growing capital needs. Barclays expects 2026 issuance to exceed 2025's record issuance of $587B.
- Despite these challenges, attractive valuations and after-tax yields, sound fundamentals, and a relatively healthy macro backdrop should continue to support strong demand for munis.

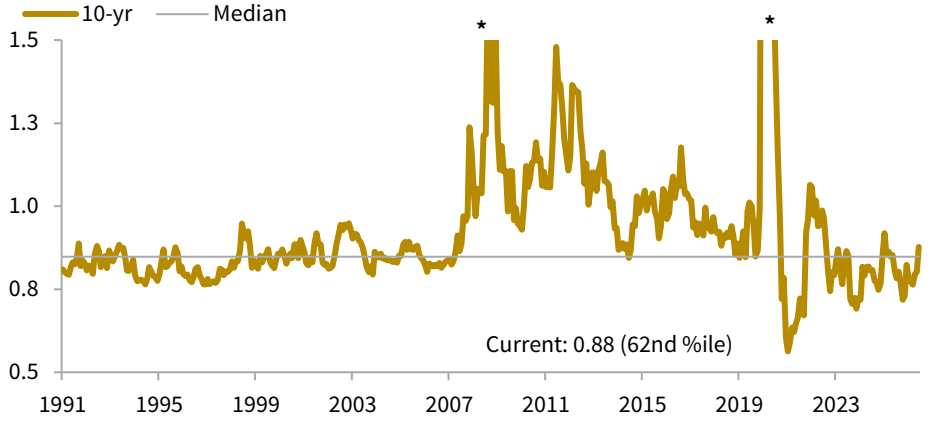
Valuations: 10-yr muni

Jan 31, 1980 – Sep 30, 2026 • Percent (%)



Ratio of 10-yr muni yields to Treasury yields

Apr 30, 1991 – Sep 30, 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 August 31, 2026.

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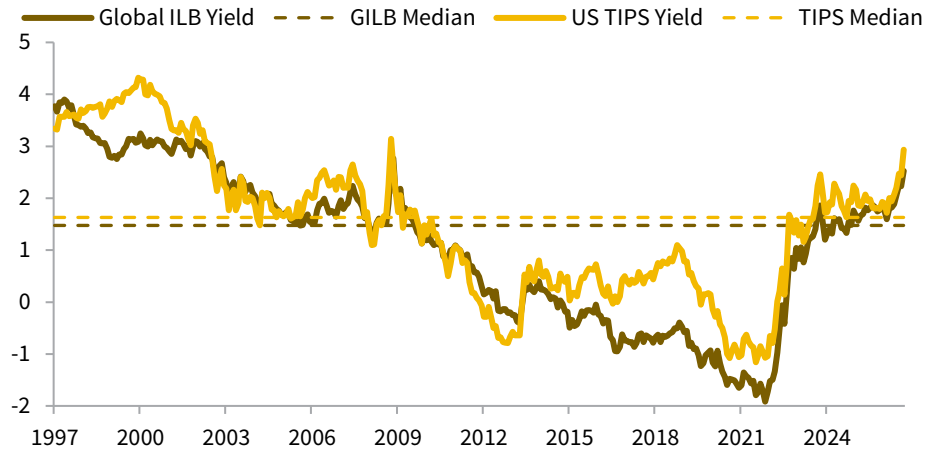
Global Inflation-Linked Bonds
Facts & Figures Third Quarter 2026

Global linkers returned -2.8% in 3Q and -0.7% over the trailing 12 months, while US TIPS declined -3.2% and -2.0%, respectively. Rising real yields weighed on performance, as expectations for further monetary tightening pushed yields higher.

- Global real yields increased nearly 50 bps to 2.5% in 3Q, while US real yields rose nearly 75 bps to 2.9%.
- Both have reached their highest point this cycle and are now well above their respective long-term medians of 1.5% and 1.6% and implied fair value of 0.7% and 1.5%, based on the trend in real GDP growth.
- Breakeven inflation rates (the spread between nominal and real yields) were less volatile than real yields, but they also increased to varying degrees across most regions and remain above central bank targets.
- These moves were driven primarily by a repricing in monetary policy expectations. Most major central banks have raised policy rates this year and are expected to maintain a more restrictive policy stance.
- This shift in policy is largely a response to the ongoing conflict in the Middle East, which has kept energy prices and inflation elevated, while economic activity has been more resilient than expected.
- This is reflected in consensus economic forecasts, which project headline CPI above 2% in the US and across DMs broadly through 2027, while real GDP projections have remained relatively stable.
- While these pressures have driven a sharp sell-off in inflation-linked bonds, they appear more attractive today given elevated real yields and relatively subdued inflation expectations for the current geopolitical environment.
- 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.

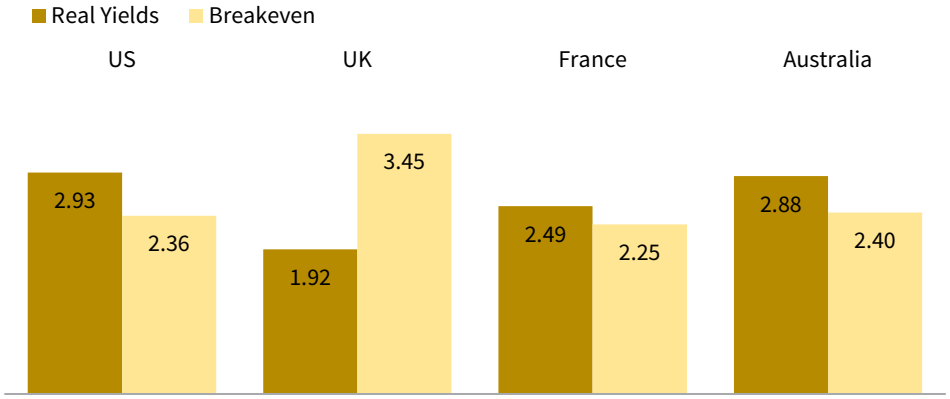
Historical index yield: BBG global linkers

Jan 31, 1997 – Sep 30, 2026 • Percent (%)



10-yr real yields and breakeven inflation

As of Sep 30, 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.

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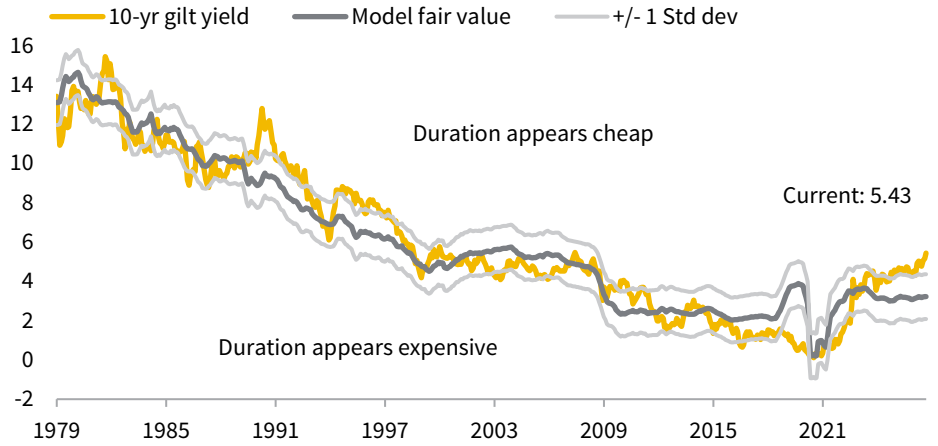
UK Gilts
Facts & Figures Third Quarter 2026

UK gilts returned -2.7% in local currency terms, as persistently high energy prices have increased expectations for further monetary policy tightening. The trailing 12-month return was -0.9% in USD terms and 0.4% in GBP terms.

- UK gilt valuations remain cheap among major markets, with ten-year yields at 5.43% as of September 30 (moving 67 bps higher on the quarter). The ten-year yield hit its highest level since 2007 in 3Q—well above the 20-year median of 2.6% and more than 1 standard deviation above the implied fair value of 3.2%, based on nominal GDP growth.
- The Iran War has increased inflation expectations for the UK given its status as a net energy importer, with consensus forecasts projecting 2026 inflation at 3.1%. With no end to hostilities in the Middle East in sight, expectations for hikes by the Bank of England (BOE) have risen, with markets now reflecting an expectation of four 25-bp hikes over the next year.
- The UK economy has proved more resilient to this year's energy price shock than previously expected. However, growth prospects for 2027 remain subdued relative to developed markets peers, with persistent labor market weakness indicating continued economic slack. Consensus forecasts project UK real GDP growth of 1.2% in both 2026 and 2027.
- The yield curve shape was little changed on the quarter, as changing expectations of BOE rate hikes in response to the Iran War was the main driver of yields across the curve—the ten-year/two-year gilt spread flattened 6 bps to 54 bps over 3Q.
- Fiscal dynamics came under greater scrutiny across developed markets in 3Q as yields reached multi-year highs. UK gilts performed well relative to some European peers, partly reflecting the government's commitment to its self-imposed fiscal rules. Nevertheless, gilt issuance will remain elevated given high public debt and debt-servicing costs.

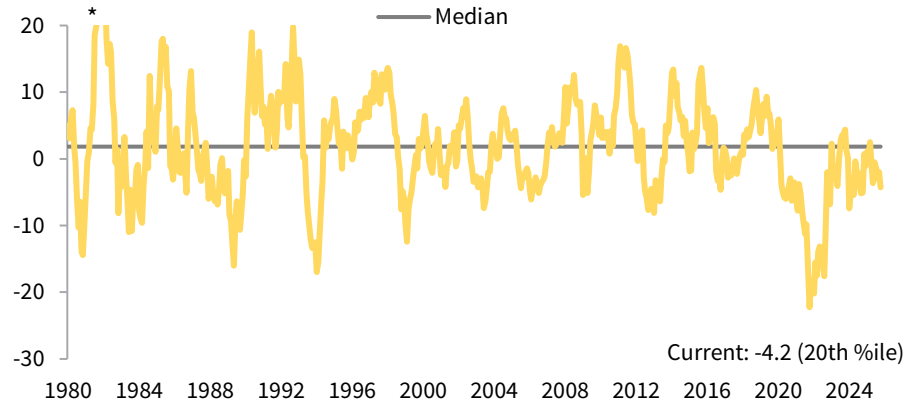
Valuations: 10-yr gilts

Jan 31, 1979 – Sep 30, 2026 • Percent (%)



12-month price momentum: 10-yr gilts

Dec 31, 1980 – Sep 30, 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 August 31, 2026.

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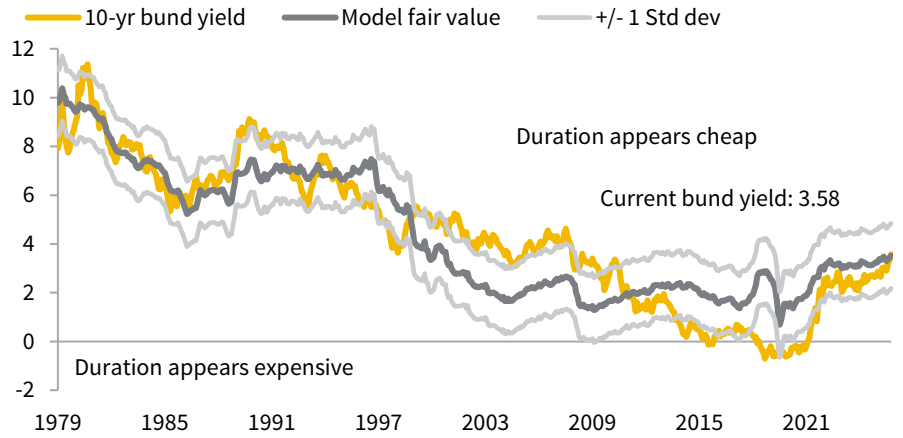
Euro Area Sovereign Bonds
Facts & Figures Third Quarter 2026

Euro area sovereign bonds (German Bunds) returned -3.2% in 3Q in local currency terms. A weaker euro dampened performance further in USD terms (-5.5% over 12 months versus -1.9% for US Treasuries). The ongoing Iran War has kept energy prices heightened, rising ECB hike expectations and bond yields.

- Valuations appear fair, with ten-year bunds yielding 3.58% as of September 30 (notably higher than 2.91% at the end of 2Q). Yields are above the 20-year median of 1.7% and in line with the implied fair value of 3.52% based on nominal GDP growth.
- The ECB increased its target policy rate in the quarter (Deposit Facility Rate rose to 2.5%) as the Iran War energy shock proved more persistent, seeking to prevent broader inflation spillovers. Consensus inflation expectations for the euro area remained heightened at 2.9% for 2026 and 2.5% for 2027, above the ECB's target. Markets now price two further ECB hikes by June 2027, taking the deposit rate to 3.0%, versus an expected 2.5% at the end of 2Q. This has been the main factor driving yields, with the curve shape largely unchanged.
- Economic growth has so far provided more resilient to the Iran War energy shock than previously expected. Consensus from forecasts suggests euro area 2026 growth is now expected at 0.9%, compared to 0.6% at the end of 2Q. Growth prospects remain subdued compared to developed markets, with most euro area nations particularly vulnerable to elevated energy price given their net importer status.
- Rising yields this quarter have increased focus on fiscal dynamics, particularly in France. The country's political gridlock has made high-budget deficits hard to reduce, with the OAT-bund yield spread moving 52 bps higher on the quarter (to 126 bps), back to levels last seen in the euro sovereign debt crisis in 2012. Euro area sovereign yield spreads have risen in other countries, albeit to a lesser extent than in France. The bund's status as a relative safe-haven asset aided the spread widening.

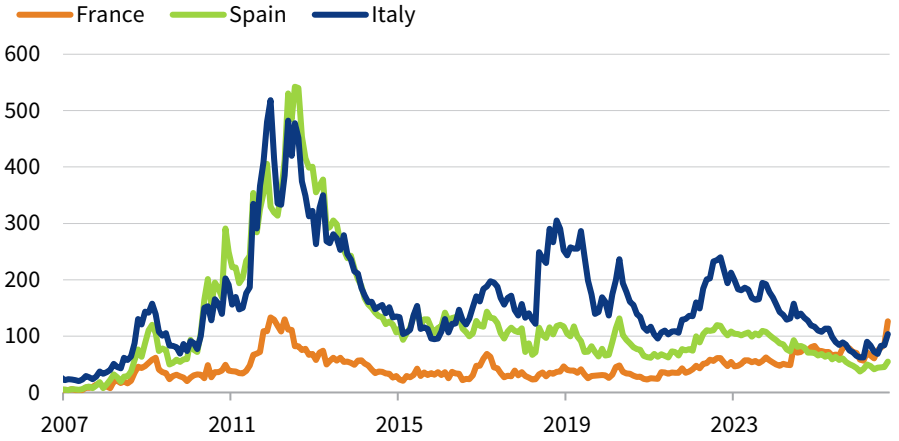
Valuations: 10-yr bunds

Dec 31, 1979 – Sep 30, 2026 • Percent (%)



Historical 10-yr spreads over bund yields

Jan 31, 2007 – Sep 30, 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.

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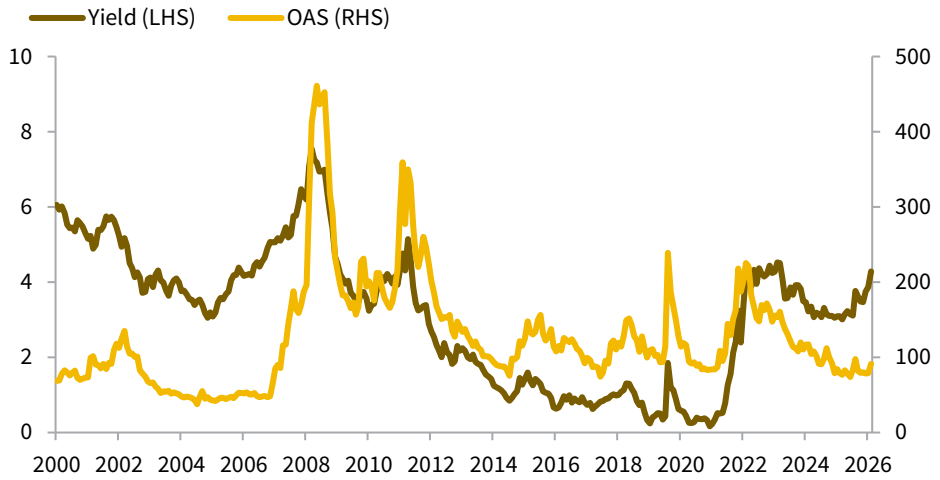
European Corporate Bonds
Facts & Figures Third Quarter 2026

The Bloomberg Euro-Aggregate Corporate Index returned -2.5% in 3Q, as benchmark yields rose on continued tensions in the Middle East. Spreads remained compressed. The index returned -0.9% over a trailing 12-month period and -4.2% in USD terms. Valuations now reflect a more persistent energy price shock and heightened monetary policy hike expectations.

- The yield on the Bloomberg Euro-Aggregate Corporate Index rose 82 bps on the quarter to 4.28%, its highest level since 2023, driven primarily by rising benchmark government bond yields. The OAS widened slightly to 91 bps from 80 bps—returning toward levels seen in the immediate reaction to the Iran War.
- The ongoing conflict in the Middle East, and the subsequent heightened energy prices, have increased inflation and reduced growth expectations for the eurozone (2.9% and 0.9%, respectively, for 2026) relative to pre-war levels.
- Sterling IG valuations have also fallen in 3Q, with the index yield 103 bps higher YTD, primarily due to higher gilt yields over 3Q (67 bps). Economic growth has been somewhat more resilient than previously expected, although weaker overall than pre-war expectations.
- Technicals remained mixed in 3Q. While gross euro IG issuance volumes was the highest 3Q on record, much of this was refinancing activity with net issuance of €174B YTD around average. The TMT sector has seen a 52% increase in issuance over the last year. Fund flows have been soft, with notable outflows in September as fixed income volatility and yields rose.
- Fundamentals are stable, with net leverage for euro IG issuers at 3.0x at the end of 2Q (toward the middle of the recent range). Earnings were strong, producing their largest YOY expansion since 2021, growing 17%, while EBITDA margins expanded to a new record 21.3%, driven in a large part by the energy sector. The euro HY default rate rose slightly to 1.9% in 3Q up from 1.4% in 1H.

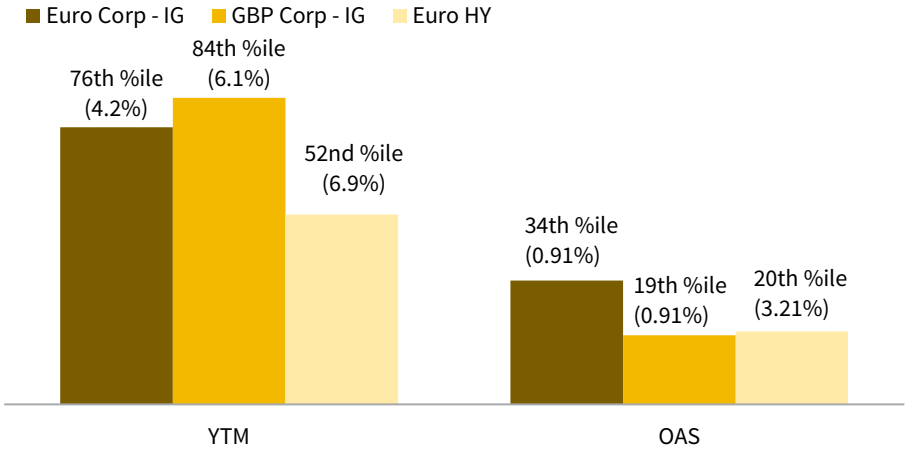
Yield and option-adjusted spread: European corporates

Aug 31, 2000 – Sep 30, 2026 • Percent (%)



Percentile Rank: European Corporates

Aug 31, 2000 – Sep 30, 2026



Source: Bloomberg Index Services Limited.

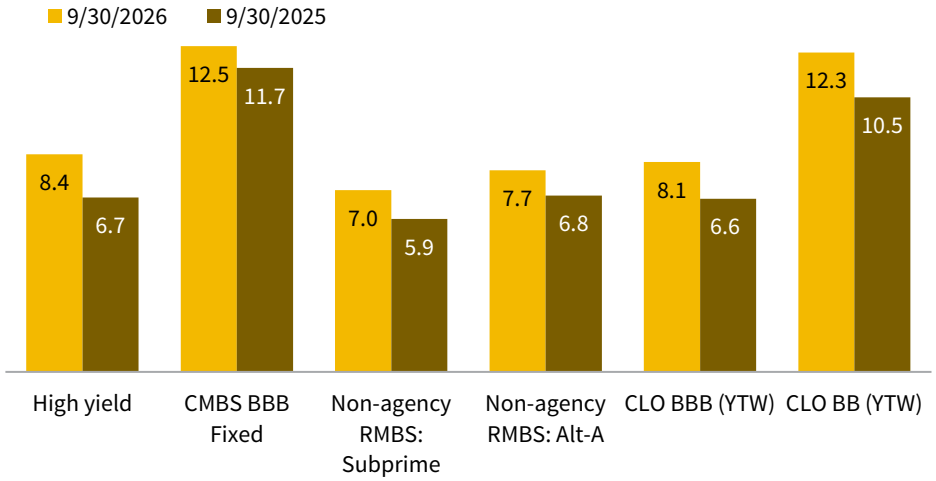
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Structured Finance
Facts & Figures Third Quarter 2026

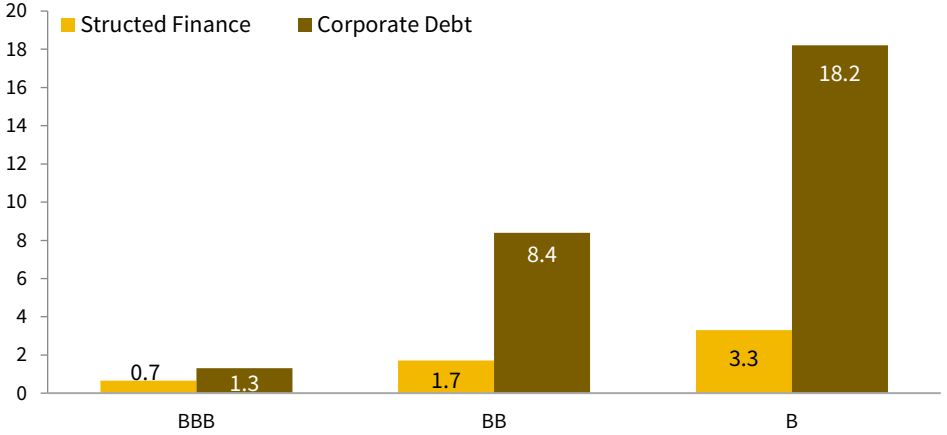
Structured credit markets posted mixed returns in 3Q. Geopolitical tensions and rate hikes weighed on some fixed-rate assets such as US real estate-backed bonds, though floating-rate assets like CLO indexes fared better.

- CLO indexes had another strong quarter in 3Q. BB-rated CLO debt returned 3.3%, lifting their YTD return to 5.1%; BBB-rated CLOs returned 2.1%. YTD high-quality CLO debt has significantly outperformed the Bloomberg Aggregate Bond Index, which is down nearly 3%.
- It was a different story in 3Q for fixed-rated bonds as the Fed hiked and yields sold off. US CMBS BBB-rated bonds returned -0.5% for the quarter and are now up just 1.2% YTD.
- The flipside of recent poor returns for fixed-rate assets is that yields look more attractive. For example, Alt-A non-agency US RMBS now yield around 7.7%, and BBB-rated CMBS yield 12.5%. Floating-rate CLO debt looks especially attractive given elevated spreads and benchmark rates, which are again rising. BB-rated CLO now yields 12.3%, around the 86th percentile of observed values.
- The economic backdrop has been supportive from a growth perspective, yet the Iran War is creating inflationary pressures and pushing rates higher, in turn weighing on real estate values. The Fed hiked by 25 bps in 3Q and is expected to hike again by the end of 2026.
- Corporate fundamentals have been improving, though there are questions about the impact of AI on sectors like software, to which a typical US CLO has around 12% exposure. Software loan prices have recovered in recent months, in turn boosting metrics like OC.
- 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.

Yield: Select structured credits
Percent (%)



US Structured Finance: Default rate
As of December 31, 2025 • 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.

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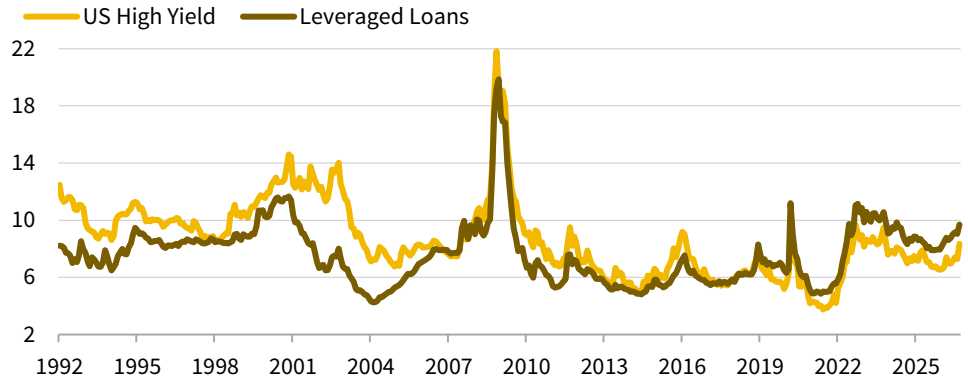
US High-Yield Bonds and Leveraged Loans
Facts & Figures Third Quarter 2026

US high-yield (HY) bonds and leveraged loans returns diverged in 3Q, as fixed-rate assets suffered from concerns that resilient growth and inflation would force central banks to embark on an extended hiking cycle. Fundamentals remain healthy, though the impact of AI on software loans remains an open question.

- The Bloomberg High-Yield Index and UBS Leveraged Loan Index returned -1.8% and 2.0%, respectively in 3Q. YTD, HY bonds have barely broken even (0.1%), trailing loans (3.4%) despite concerns for the latter over a higher allocation to the software sector.
- HY and loan spreads rose during the quarter. The HY index OAS of 311 bps still looks expensive (16th percentile) relative to its history, in part due to the higher credit quality of the index. Meanwhile, the loan index discount margin fell during the quarter but remains above its historical median at 461 bps.
- The economic backdrop for higher yielding credit had been improving as growth remains resilient. However, the Iran War presents challenges as high energy costs may translate into inflationary pressures across the economy. The Fed hiked in 3Q and is expected to do so again before the end of 2026.
- Corporate fundamentals are mostly solid. HY borrowers have seen their median interest coverage ratio grow steadily in recent quarters to 4.6x. The ratio for loan borrowers (4.1x) had been improving but will see headwinds from recent rate hikes.
- One open question for loan investors is the threat of AI to software loans. The sector sold off sharply earlier in the year but has recently regained much of those losses.
- 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.

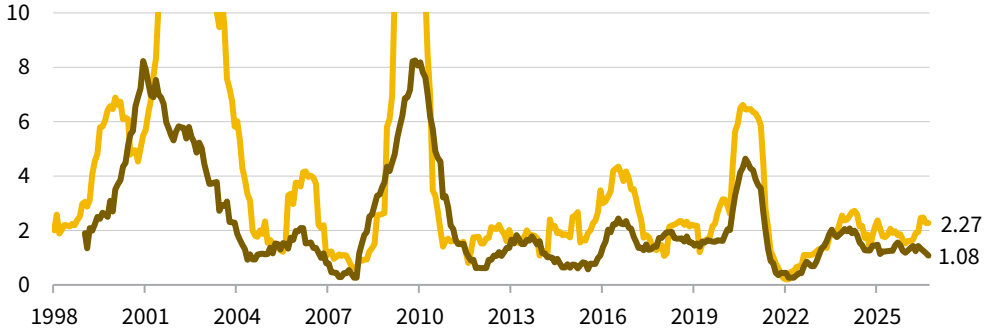
US high-yield and leveraged loan indexes: Yields

Jan 31, 1992 – Sep 30, 2026 • Percent (%)



US high-yield and leveraged loan indexes: Default rates

Jan 31, 1998 – Sep 30, 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. Yields for the S&P UBS Leveraged Loan Index are represented by 3-year swap SOFR rate 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. Leveraged loan default rate is represented by the Morningstar LSTA US Lev Loan Index. Moody's default rates have been sourced directly and indirectly. US High Yield Default Rate is as August 31, 2026.

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Insurance-Linked Securities
Facts & Figures Third Quarter 2026

ILS portfolios continued to generate positive returns in 3Q 2026, supported by a very benign North Atlantic hurricane season and steady premium income across both liquid cat bonds and private ILS transactions.

— The primary market for cat bonds remained typically very quiet during 3Q, as the formation of a major storm system significantly impacts the successful placement of a new cat bond transaction. Year-to-date, roughly $19B of new cat bonds were issued, representing a new record and bringing the outstanding market volume to close to $65B.

— The continued inflow of new capital into the cat bond market has led to a further normalization of spread levels from the exceptional environment seen after Hurricane Ian (2022).

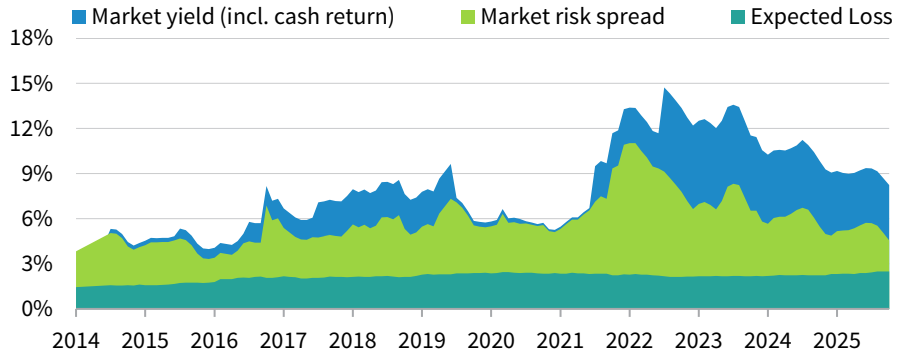
— The private ILS market (i.e., reinsurance and retrocession programs) has delivered strong returns during the peak season for US hurricanes especially in September and continues to exhibit a slightly higher-than-expected return than cat bonds.

— While reinsurance capital has strengthened significantly since 2022, demand for reinsurance cover in the form of cat bonds and private ILS transactions remains high, especially for peak zone risks such as tropical storms and earthquakes in the US, Europe, and Japan.

— Overall, return expectations for both cat bonds and private ILS transactions remain attractive for 2026 and into 2027, although manager selectivity and disciplined portfolio construction are becoming increasingly important as spreads and premiums move closer to long-term average levels.

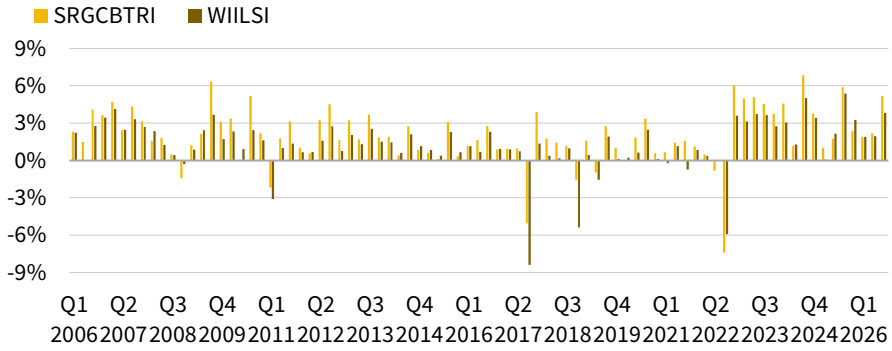
Development of the risk premium and expected loss from Cat bonds

December 31, 2014 – September 30, 2026



Swiss Re Global Cat Bond Total Return Index (SRGCBTRI) & With Intelligence ILS Index (WIILSI) realized returns

First quarter 2016 – Third 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.

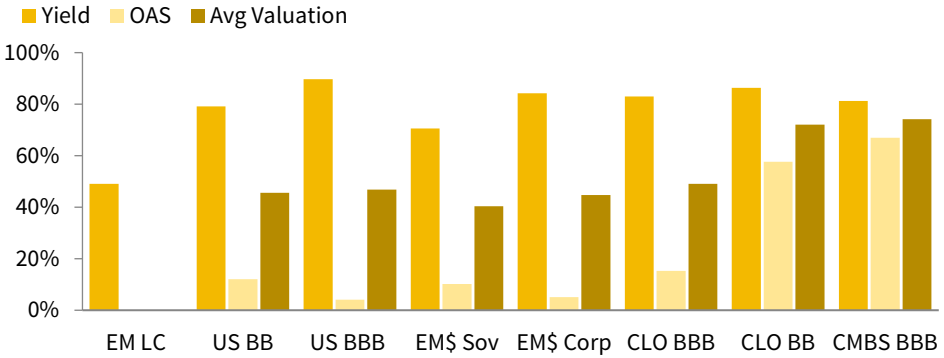
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Emerging Markets Debt
Facts & Figures Third Quarter 2026

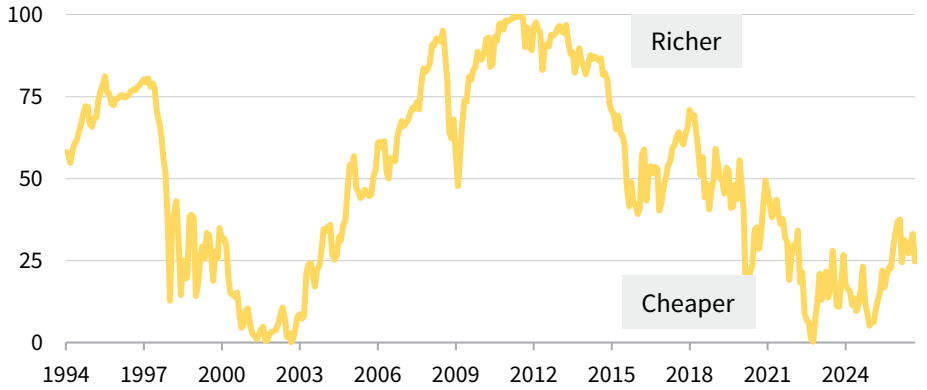
EM debt markets softened in 3Q, with the JPM EM-GBI Global Diversified (LC sovereign), JPM EMBI Global Diversified (USD sovereign), and CEMBI Broad Diversified (USD corporate) indexes returning -0.9%, -3.9%, and -1.8%, respectively, in 3Q.

- 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 early 2026 but was interrupted by the Iran War. Geopolitical concerns resurfaced in 3Q, adding to volatility in bond markets, which lifted both yields and spreads—though corporate spreads tightened.
- Yields ended 3Q at 6.5% for LC sovereign debt, 7.1% for USD sovereign debt, and 7.0% for USD corporate debt, with spreads between 180 bps to 250 bps for USD-denominated debt.
- EM debt valuations are mixed. EM USD debt yields are elevated versus history, but spreads remain tight, mirroring trends across broader credit markets. Despite the recent rise in EM LC debt yield, yields remain below their long-term median, and the spread to global sovereigns set another all-time low of 238 bps.
- The economic backdrop has favored EM over the past year, but the outlook remains mixed, with higher inflation and policy uncertainty potentially limiting how much some central banks can lower rates. Still, EM FX valuations remain cheap versus the USD (bottom quartile) and have room to rise if the USD weakens and global sentiment improves.
- 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 – Sep 30, 2026



FI-weighted EM real exchange rate vs US: Percentile
Jan 31, 1994 – Sep 30, 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).

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