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# Emerging Markets Debt Under Trump 2.0

## In 2016, emerging markets debt (EMD) investors responded negatively to Donald Trump's election as president of the U.S. This time has been different—so, what has changed, and will this resilience last through 2025?

So far, EMD has held up well since the U.S. election on November 5. At the time of writing, the JPMorgan EMBI Global Diversified Index of hard currency sovereign debt is up just over 1%. Back in 2016, it dropped by 4% in the week after Trump's election. The JPM GBI-EM Global Diversified Index of local currency debt is down about 1%, but that is better than the 7% drop it experienced last time and is largely a result of broad U.S. dollar strength; for example, euro-based investors in EMD local currency are up more than 2% since the election.

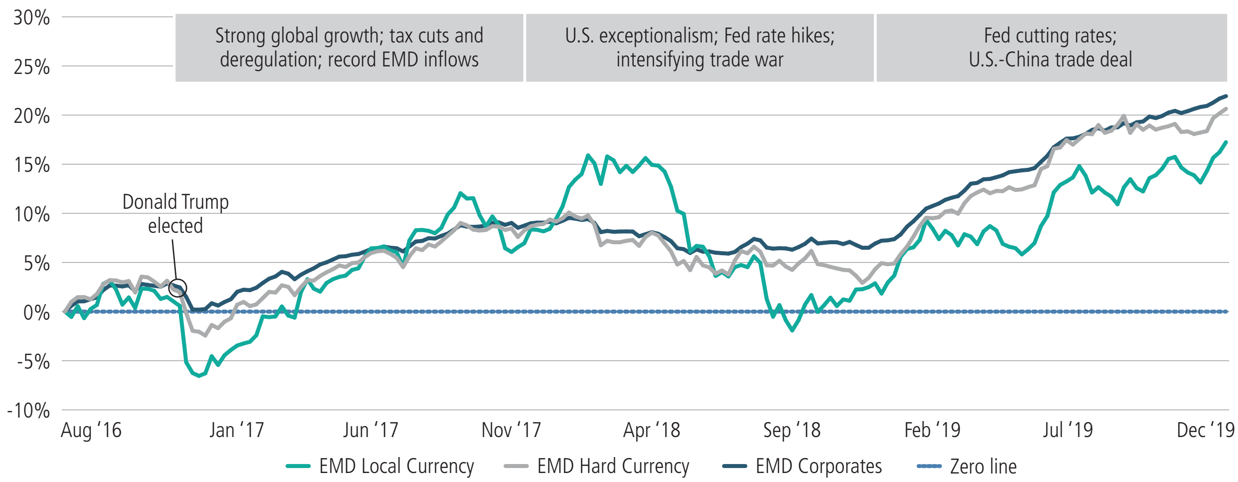
In our view, one reason for this stronger post-election performance is that a Trump win had better odds this time around and was partially priced in: emerging markets currencies had already dipped a little in October as the odds swung in the Republicans' favor and expectations rose for higher U.S. rates and a stronger dollar. But it is also the case that investors have more information on what to expect from a Trump administration than in 2016, and that EMD fundamentals are arguably stronger.

## Looking Back and Looking Forward

After the 2016 election result, EMD rebounded as the prospects of tax cuts and deregulation supported global growth and EMD portfolios saw record inflows. The asset class hit turbulence during 2018 when the U.S.-China trade war intensified and tightening financial conditions triggered crises in Turkey and Argentina. After those headwinds, however, another rally was fueled by fading trade tensions, renewed certainty from trade agreements, and the mid-2019 pivot to looser policy at the U.S. Federal Reserve (Fed). Overall, EMD delivered total returns in the 15 – 20% range over the first three years of office, before Covid-19 struck in 2020.

**FIGURE 1. EMERGING MARKETS DEBT DURING TRUMP 1.0, PRE-PANDEMIC**

Cumulative total returns, July 2016 to December 2019




Source: Bloomberg, JPMorgan. Indices used: JPM EMBIGD Index (EMD Hard Currency), JPM GBI-EM GD (EMD Local Currency), JPM CEMBID (EM Corporates). Historical trends do not imply, forecast or guarantee future results. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed. **Past performance is no guarantee of future results.**

As we head into 2025, should we anticipate the trade tussles and monetary tightening of 2018 or the animal spirits and accommodative policy of 2019?

We believe swifter action on the policy agenda is likely given that the Trump camp seems better prepared than in 2016. This could mean an earlier start of tariff increases on U.S. trade partners—day one, if recent pronouncements are anything to go by—with potential repercussions for currency markets. That risk made us more cautious on emerging markets currencies going into the elections, particularly the lower-yielding currencies of more open Asian economies such as China and Malaysia.

The risks for emerging markets currencies appear more balanced to us following the correction versus the dollar in October and November. Valuation metrics do not screen as expensive, and investor positioning appears very light. Still, we think it makes sense to maintain some dry powder in anticipation of potential pullbacks on upcoming trade policy news, while focusing on bottom-up relative value opportunities in currencies that should be less exposed to this policy uncertainty, such as the Brazilian real, the Turkish lira and select frontier market currencies.

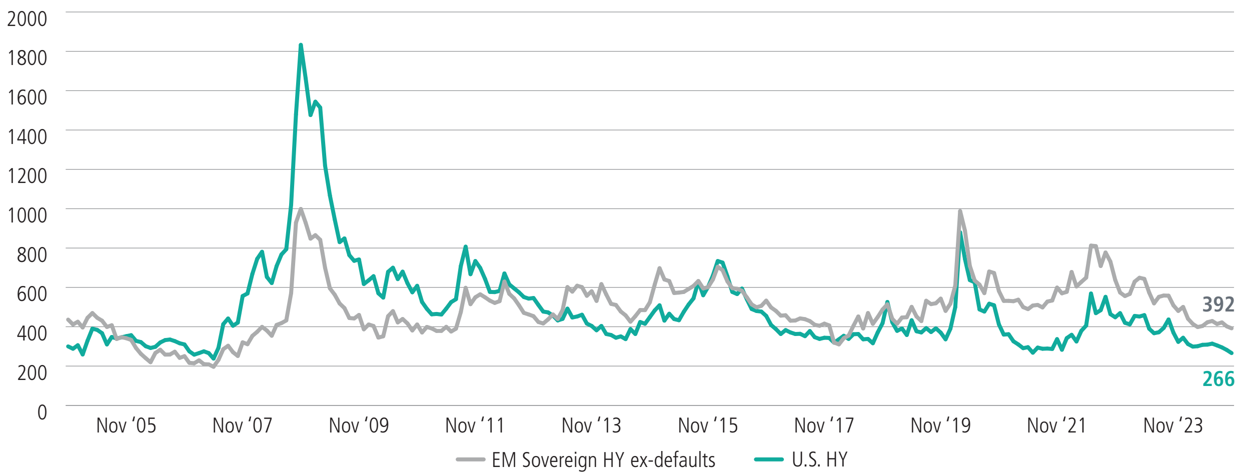
We also see value in local rates markets where lower inflation justifies policy easing, or where real rates are high, such as the Czech Republic, the Philippines and South Africa.

In hard currency EMD, we are cautious about longer duration investment grade debt, as spreads are already relatively tight and markets are raising questions about the length and durability of the rate-cutting cycle in the U.S.

High yield issuers with imminent market access needs and limited alternatives, such as International Monetary Fund (IMF) financing, are also likely to be exposed if U.S. rates end up higher than currently expected. That said, we see opportunities among BB rated high yielders that should be more resilient to these risks, such as Ivory Coast, Colombia and South Africa. We are also constructive on select lower-rated issuers with improving fundamentals such as Argentina, El Salvador, Ghana and Sri Lanka. Overall, EMD high yield sovereign spreads still offer more than 100 basis points of additional spread over the U.S. high yield market, where spreads are close to all-time tights.

**FIGURE 2. TIGHTER EMERGING MARKETS SPREADS REMAIN ATTRACTIVE RELATIVE TO U.S. HIGH YIELD**

Option-adjusted spreads, from November 2004 to November 2024




Source: JPMorgan, Bloomberg, Neuberger Berman. Data as of November 29, 2024. Indices used: JPM EMBI Global Diversified HY ex-default sub-index; Bloomberg U.S. High Yield Index. For illustrative and discussion purposes only. Historical trends do not imply, forecast or guarantee future results. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed. **Past performance is no guarantee of future results.**

## Strong and Improving Fundamentals

Finally, it is important to note that EMD credit fundamentals enter the Trump 2.0 era from a strong starting point.

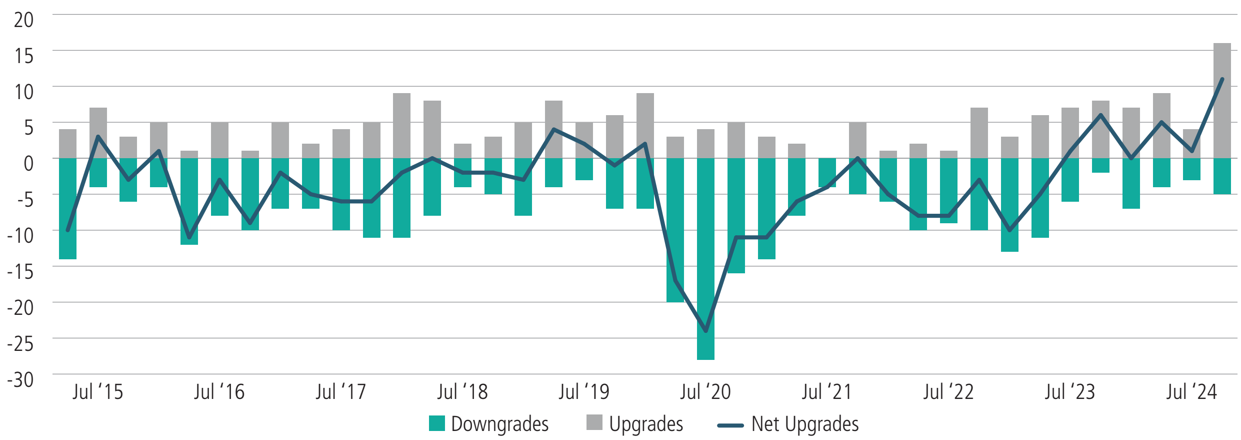
Following the emerging markets crisis period of 2020 – 2022, characterized by the pandemic, a surge in inflation and interest rates and Russia’s invasion of Ukraine, there has been a turnaround as governments responded by reducing fiscal deficits, implementing fundamental reforms, and seeking support from the IMF and other concessional financing sources. We see limited risk of major credit events among sovereign issuers in the coming year.

Among emerging markets corporate issuers, net leverage is near the lowest levels since the Global Financial Crisis while margins have been recovering against a backdrop of cooling inflation and robust growth. Default rates for EMD high-yield corporate bonds have declined from double-digit levels in 2022, to the pre-pandemic average of around 3%.

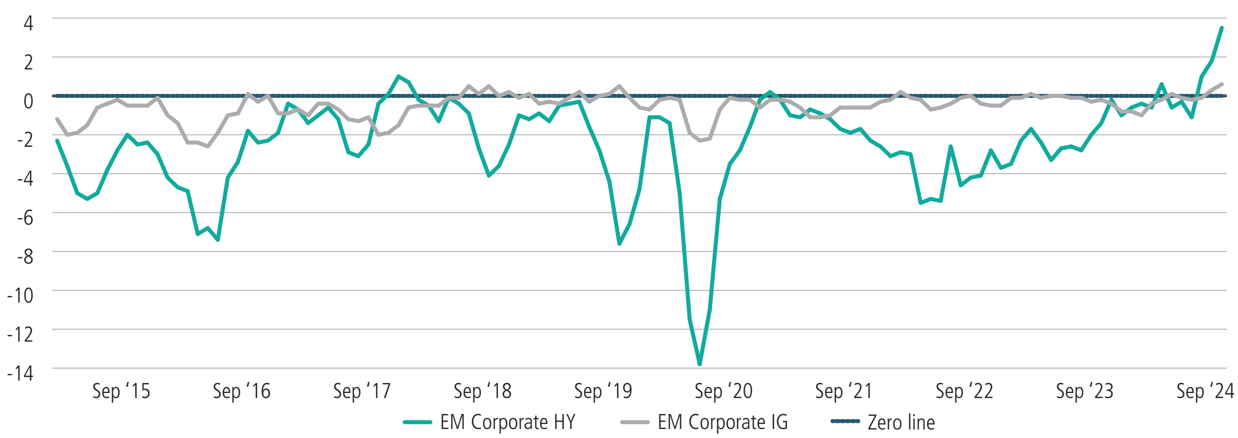
These improvements have been reflected in an upward trend in rating upgrades, which are now at a decade high across both sovereigns and corporates.

**FIGURE 3. STRONG AND IMPROVING FUNDAMENTALS**

Number of rating changes per quarter, EMBIGD sovereign issuer universe, March 2015 to September 2024




Trailing three-month net rating migration rate, emerging markets corporate bond issuers, January 2015 to September 2024




Source: Standard & Poor's, Moody's, Fitch Ratings, BlackRock Aladdin, JPMorgan (top). Counts changes in foreign currency rating by S&P, Moody's or Fitch, for sovereign issuers in the JPMorgan EMBIGD Index. Bank of America Merrill Lynch, Standard & Poor's, Moody's, Fitch Ratings (bottom). A +1 value is equivalent to 1% of issuers in the universe being upgraded by one notch by all three rating agencies; a +0.67 value is equivalent to 1% of issuers being upgraded by two of the three rating agencies. Data as of September 30, 2024. For illustrative and discussion purposes only. Historical trends do not imply, forecast or guarantee future results. Nothing herein constitutes a prediction or projection of future events or future market behavior. Due to a variety of factors, actual events or market behavior may differ significantly from any views expressed. **Past performance is no guarantee of future results.**

## Risks Ahead, but They Remain Manageable

There are risks to EMD associated with the return of Donald Trump to the White House. Higher and broader tariffs could disrupt the trade upon which the prosperity of many emerging countries is built and upon which many companies in the emerging world rely. The inflationary potential of some of the Trump administration's policy proposals could slow or even halt the Fed's rate-cutting cycle, pushing up an already strong U.S. dollar, weighing on emerging market currencies and raising repayment costs for dollar-denominated debt.

Balancing these risks is the potential for higher growth in the U.S. to raise growth prospects in other regions and stimulate investors' animal spirits. Just as important, we believe the strong and improving fundamentals of most EMD issuers will enable the asset class to weather these headwinds. At the same time, active managers can seek out investments that are less exposed to tariff, inflation and strong-dollar risks, creating abundant potential for outperformance over the coming year.

**Index Definitions**

The **JPMorgan Emerging Markets Bond Global Diversified (EMBI GD) Index** includes USD-denominated Brady bonds, Eurobonds and traded loans issued by sovereign and quasi-sovereign entities, with a 10% cap for each issuing country.

The **JPMorgan Emerging Government Bond Index—Emerging Markets Global Diversified (GBI-EM GD)** tracks the performance of bonds issued by emerging market governments and denominated in the local currency of the issuer, excluding countries with explicit capital controls and with a 10% cap for each issuing country.

The **JPMorgan Corporate Emerging Markets Bond Broad Diversified Index (CEMBID)** tracks liquid, USD-denominated emerging market fixed and floating-rate debt instruments issued by corporates.

The **JPMorgan Emerging Markets Bond Global Diversified High Yield Ex-Default Sub-Index** is a sub-index of the JPM EMBI GD Index that excludes the bonds of investment grade issuers and those that have defaulted.

The **Bloomberg U.S. High Yield Bond Index** measures the USD-denominated, high yield, fixed-rate bond market, rated BB or B by S&P or the equivalent rating by Fitch or Moody's.

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