EMERGING MARKETS

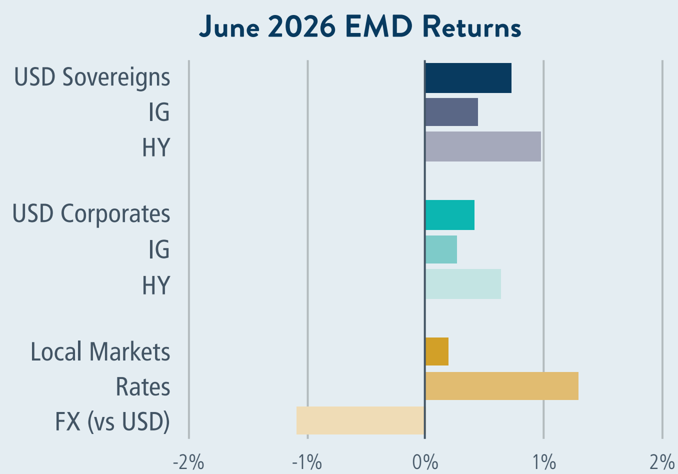
Payden&Rygel

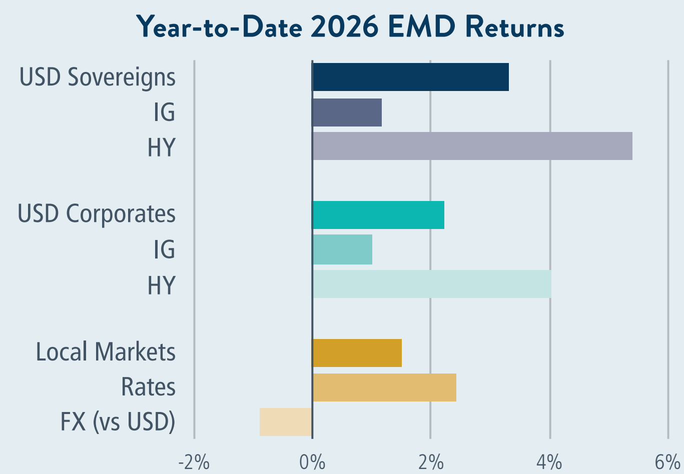
Monthly Commentary

June 2026

MARKET REVIEW

Emerging markets ("EM") debt indices experienced moderately positive returns in June. Performance balanced the benefits of the winding down of the U.S.-Iran war and lower energy prices with headwinds from hawkish Fed signaling and equity market volatility. Yields on hard currency sovereign and corporate credit declined slightly relative to similar-maturity U.S. Treasuries. In local currency bond markets, interest rates fell, though most EM currencies depreciated against a stronger U.S. dollar.





Source: JP Morgan Indices (EMBI Global Div, CEMBI Broad Div, GBI-EM Global Div), Bloomberg

Economic and Political Developments

» Colombia held second round presidential elections on June 21, where right-wing candidate and Trump ally Abelardo de la Espriella (known as DLE) defeated incumbent party leftist candidate Iván Cepeda. Although polling suggested a comfortable victory for DLE, in the end he won by a narrow margin of 49.7% to Cepeda's 48.7%. Cepeda conceded defeat, setting the stage for a handover from the current government under President Gustavo Petro on August 7. In his early days as president-elect, markets have responded positively to DLE's statements and appointments. In particular, investors will be looking to see how DLE will go about consolidating Colombia's difficult fiscal position.

» Like Colombia, Peru held a runoff presidential election in June, which was also tightly contested and resulted in another victory for the political right in Latin America. In Peru's case, Keiko Fujimori, daughter of former authoritarian President Alberto Fujimori, won the presidency on her fourth attempt, by fewer than 50,000 votes (less than 0.3% of the electorate). Fujimori defeated leftist candidate Roberto Sánchez and will be inaugurated on July 28. The election also marked the introduction of a bicameral legislature in Peru, which observers believe will break the cycle of recent presidential impeachments that have caused significant turnover. Similar to Colombia, markets responded favorably to the political change in Peru, though Fujimori's leadership in a polarized environment remains to be seen.

» Romanian politics continued to face challenges, as President Nicușor Dan struggled to find centrist/pro-Western parties willing to work together following the collapse of the four-party governing coalition in May. Thus far, Romania has made strides addressing its fiscal challenges, while creative governing solutions are still being explored. However, there are lingering concerns that prolonged political gridlock will impact policymaking and generate political momentum for the far-right, anti-EU Alliance for the Union of Romanians (AUR) opposition party.

Central Bank Policy Highlights

- Under the first policy meeting chaired by new Fed Governor Kevin Warsh, the Federal Open Market Committee kept the key rate on hold, but statements and data forecasts shifted more hawkish. Governor Warsh has ended the practice of forward guidance, leaving markets to take the lead on expectations, while announcing other changes that will play out in coming months. As of June, markets are pricing 1-2 rate hikes over the course of the next year.

- The policy path for EM central banks has diverged, as the global backdrop brings mixed country-level implications and policymakers respond to local economic conditions. Colombian officials hiked rates by 75 basis points in a 4-3 vote, where the minority preferred a smaller move. The central bank has been responding to above-target inflation, elevated inflation expectations and strong domestic demand, likely exacerbated by fiscal expansion. Bank Indonesia hiked by 50 basis points in two increments (one off-schedule), seeking to ensure rupiah stability after recent weakness. Hungary and Brazil cut rates in June, as they continue to gradually pare back from a more restrictive policy stance.

Country	Prior Rate	New Rate	Cut / Hold / Hike
Thailand	1.00%	1.00%	Hold
Czechia	3.50%	3.75%	Hike
Poland	3.75%	3.75%	Hold
Peru	4.25%	4.25%	Hold
Chile	4.50%	4.50%	Hold
Philippines	4.50%	4.75%	Hike
India	5.25%	5.25%	Hold
Indonesia	5.25%	5.75%	Hike
Hungary	6.25%	6.00%	Cut
Mexico	6.50%	6.50%	Hold
Colombia	11.25%	12.00%	Hike
Brazil	14.50%	14.25%	Cut
Kazakhstan	18.00%	17.00%	Cut
Turkey	37.00%	37.00%	Hold

Source: Bloomberg, Country Sources

OUTLOOK

While underlying geopolitical issues in the Middle East may not be fully resolved, energy supply risks have decreased following the memorandum of understanding signed between the U.S. and Iran. Assuming the March-May spike in energy prices proves temporary, EM fundamentals should remain sound, featuring resilient growth, contained inflation, firmly positive real interest rates, and limited external financing needs, supported by ample foreign-currency reserves. Sovereign credit rating upgrades have outpaced downgrades for the past three years.

EM central banks have been prudent, maintaining a gap between policy rates and inflation. This approach has served policymakers well; barring a few cases, most central banks have been able to take a measured approach to the recent energy shock. Given the moderation in energy prices and the resilience of most EM currencies, we anticipate that inflation should be manageable going forward. In the near term, greater uncertainty may stem from changes to the U.S. Fed's policy approach under the new chair.

Renewed interest in diversification has supported EM assets; investor flows and primary markets have remained steady despite bouts of geopolitical volatility. Over the long term, structural forces continue to benefit EM debt, including stronger growth prospects relative to developed markets and a widening opportunity set across nearly 90 countries, spanning sovereign, corporate, and local market bonds. In our view, EM debt offers value as a strategic allocation, with attractive yields that can generate income over time.

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