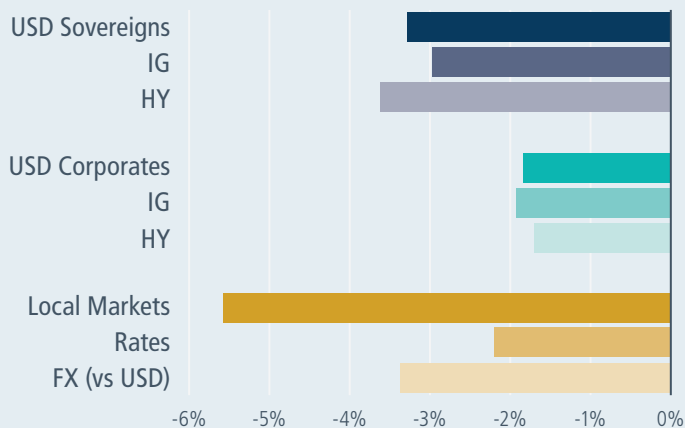


## MARKET REVIEW

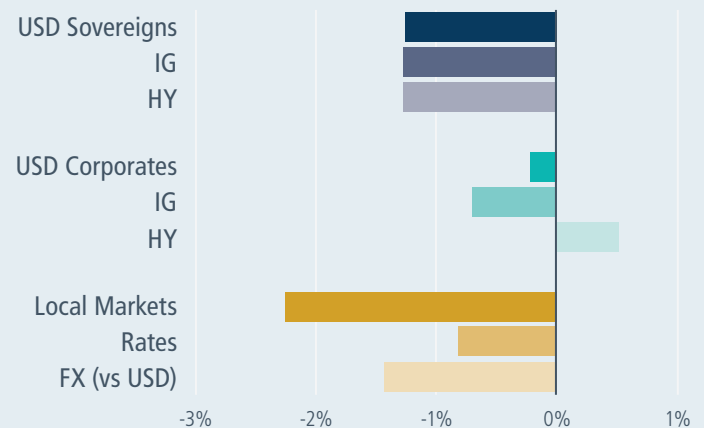
Emerging markets (“EM”) debt indices experienced negative returns amidst the market volatility generated by the U.S. and Israel’s military operation against Iran. Yields on hard-currency sovereign and corporate credit increased by 0.30% and 0.06%, respectively, relative to similar-maturity U.S.

Treasuries, which also moved higher during the month. Local markets underperformed hard-currency markets, as the US dollar strengthened against most global currencies and interest rates quickly shifted higher, reflecting the possible inflationary consequences of rising energy prices.

March 2026 EMD Returns



Year-to-Date 2026 EMD Returns



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

## Economic and Political Developments

- » March was defined by the dynamics surrounding the war initiated by the US and Israel against Iran. Despite suffering significant losses of leadership and numerous attacks against its military infrastructure, Iran managed to maintain steady retaliation against Israel and targets around the Persian Gulf, notably in the UAE, Kuwait, Qatar, Bahrain and Saudi Arabia, among other countries. The most impactful aspect of the war for markets has been the slowdown in shipping volumes through the Strait of Hormuz, for fear of an Iranian attack, which has pushed the cost of energy products, petrochemicals, aluminum and helium higher. The impact on emerging markets has varied by country, with several Asian economies facing the most direct near-term effects, given the greater share of products they import from the region. While the US and Iran are engaged in various forms of diplomacy, the disruption to energy markets is likely to remain a challenge until the sides reach a lasting resolution.
- » In Mexico, President Sheinbaum was unable to earn the support of smaller parties within the governing coalition to push forward constitutional changes that would impact the composition of Congress. These parties feared that the proposed changes would benefit Morena, Sheinbaum’s majority party, to the detriment of others. While the coalition government is likely to remain in place, Sheinbaum is expected to continue exploring reforms to enhance Morena’s electoral advantages as midterm elections approach in 2027.
- » April brings key EM political contests to the forefront. Elections in Hungary on April 12 will be closely watched, with Viktor Orbán’s sixteen-year run as Prime Minister in jeopardy. His Fidesz party is trailing meaningfully in the polls to TISZA (Respect and Freedom Party) and its political leader Péter Magyar. Following the removal of multiple presidents in recent years, Peru will hold general elections, also on April 12. The field of candidates running for president is crowded and lacks a clear front-runner, while the legislature is expected to remain fragmented. Assuming no presidential contender clears 50% in the first round, the top two candidates will proceed to a run-off on June 7.

## Central Bank Policy Highlights

- » The U.S. Federal Reserve is weighing the risks around inflation, which remains mildly above its target, and employment, which has shown signs of stagnation. In their March meeting, Fed officials voted to stay on hold at the 3.5-3.75% policy rate. With prospects for energy prices remaining elevated, markets have recently priced out near-term easing, with roughly one Fed rate cut priced for late 2026 or early 2027.
- » Despite the unfolding energy shock, three central banks proceeded with rate cuts. Brazil's cut was widely telegraphed, as the central bank had remained on hold for a considerable time to anchor inflation expectations. Against consensus they would stay on hold, Mexican officials maintained an easing bias, though the vote was split. Poland's central bank expressed a cautious outlook following its latest cut. Colombia was the sole notable central bank seen hiking rates, due to domestic considerations following a large increase in wages.

Country	Prior Rate	New Rate	Cut / Hold / Hike
Malaysia	2.75%	2.75%	Hold
Czechia	3.50%	3.50%	Hold
Poland	4.00%	3.75%	Cut
Peru	4.25%	4.25%	Hold
Philippines	4.25%	4.25%	Hold
Chile	4.50%	4.50%	Hold
Indonesia	4.75%	4.75%	Hold
Paraguay	5.50%	5.50%	Hold
Hungary	6.25%	6.25%	Hold
Mexico	7.00%	6.75%	Cut
South Africa	6.75%	6.75%	Hold
Colombia	10.25%	11.25%	Hike
Brazil	15.00%	14.75%	Cut
Kazakhstan	18.00%	18.00%	Hold
Turkey	37.00%	37.00%	Hold

Source: Bloomberg, Country Sources

## OUTLOOK

EM fundamentals began 2026 on solid footing. Coming into the U.S./Israel conflict with Iran, growth was steady, inflation was contained, real rates were firmly positive, and external accounts were in balance, underpinned by elevated foreign reserves. Financial conditions loosened materially over the past year, helped by strong equity returns and declining interest rates. Looking ahead, higher energy prices are likely to have implications for EM economies, to varying degrees. Under most reasonable scenarios, the economic implications for EM countries should be temporary and manageable.

EM central banks have been easing monetary policy, though most have remained prudent by maintaining a gap between policy rates and inflation. This should serve policymakers well as they navigate the energy price shock, and in most cases we expect central banks to keep rates on hold in the

near term. While energy prices will likely remain higher than before the conflict, we would anticipate prices moving lower in the latter half of the year. Adding this to our view that EM currencies should resume appreciation versus the U.S. dollar, we anticipate the inflationary impulse to be contained.

Over the long term, structural forces continue to benefit EM debt, including stronger growth prospects relative to developed markets and a widening set of investment opportunities across nearly 90 countries, spanning sovereign, corporate, and local market bonds. Renewed interest in diversification has been favorable for EM assets, and we expect inflows to resume as the dust settles after the current volatility. In our view, EM debt offers value as a strategic allocation, with attractive yields that can generate income over time.

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