Marketing material
For global professional / qualified / institutional clients and wholesale / accredited investors.
Singapore: This is for the recipient's use only.
Strictly No Redistribution.
September 2026

Emerging markets fixed income

Diversification in an uncertain world

UBS

Key takeaways:

1. The EM debt market has evolved: Structural reforms and fiscal responsibility have created a far more resilient backdrop.

2. Global uncertainty is prompting a rethink of asset allocation: EM assets offer a valuable source of diversification.

3. EM countries have generated consistently strong growth: But this has been achieved with low levels of net debt.

4. Default rates have peaked: There have been no sovereign defaults since 2023 while ratings changes have been positive overall.

5. The outlook is bright: EM debt stands to benefit from improved policy credibility and strong sovereign balance sheets.

Authors:

Shamaila Khan
Head of Global Emerging Markets and Asia-Pacific Fixed Income

Sangram Jadhav
Global Emerging Markets Fixed Income

Over the past two decades, emerging-market (EM) fixed income has evolved from the volatility of the 1990s and early 2000s into an asset class characterized by strong fundamentals, disciplined policy mixes and effective structural reforms.

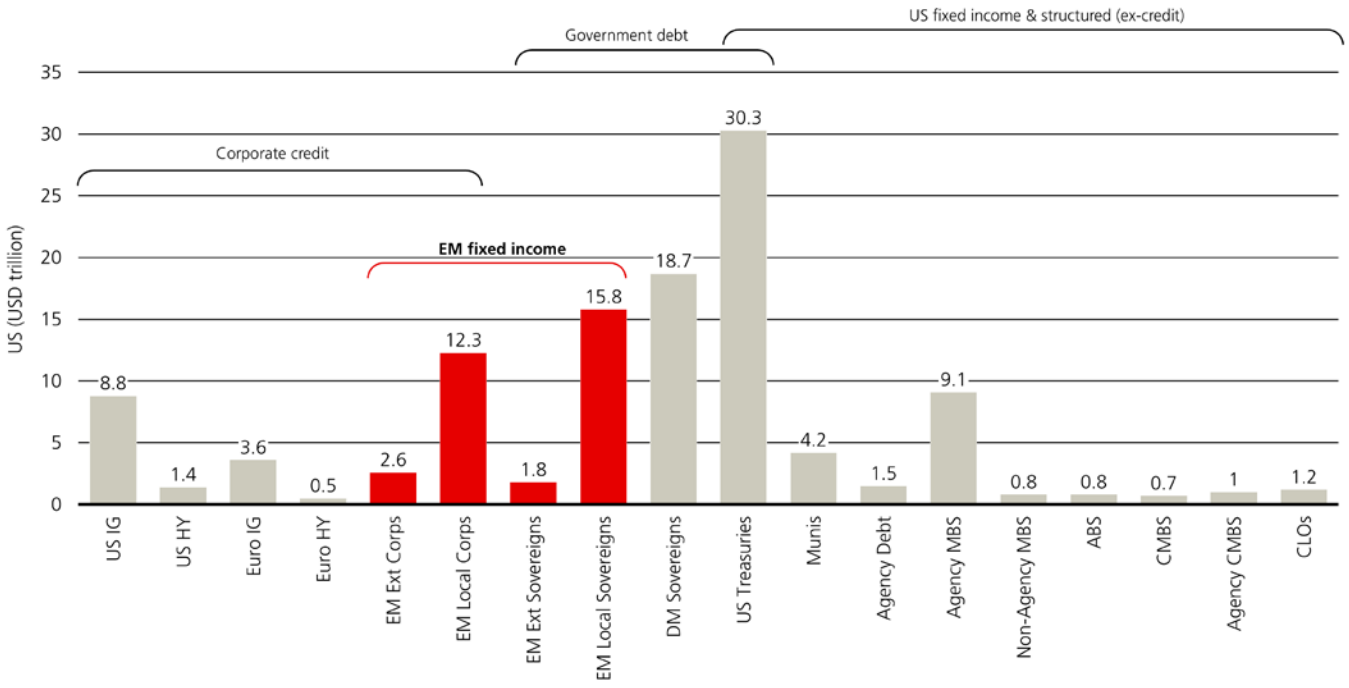
With uncertainty around company valuations as well as divergence in monetary policy and global business cycles, investors are rethinking their asset-allocation strategies – and EM debt markets offer a mixture of diversification and attractive return opportunities.

A dynamic asset class

Over the last 15 years, the size of the EM sovereign hard-currency debt market has more than doubled – from around USD 700 billion in the early 2010s to USD 1.8 trillion today, according to data from JPMorgan. EM corporate hard-currency debt has grown at an even faster rate and is now valued at USD 2.6 trillion – just over half of which is rated as investment grade.

Over the same time period, EM local-currency debt for sovereigns and corporates has grown to become the dominant segment of EM debt, as shown in Figure 1 below. JPMorgan GBI-EM Index (local-currency debt) has become more representative of the investment universe, with China and India being added in 2020 and 2024, respectively.

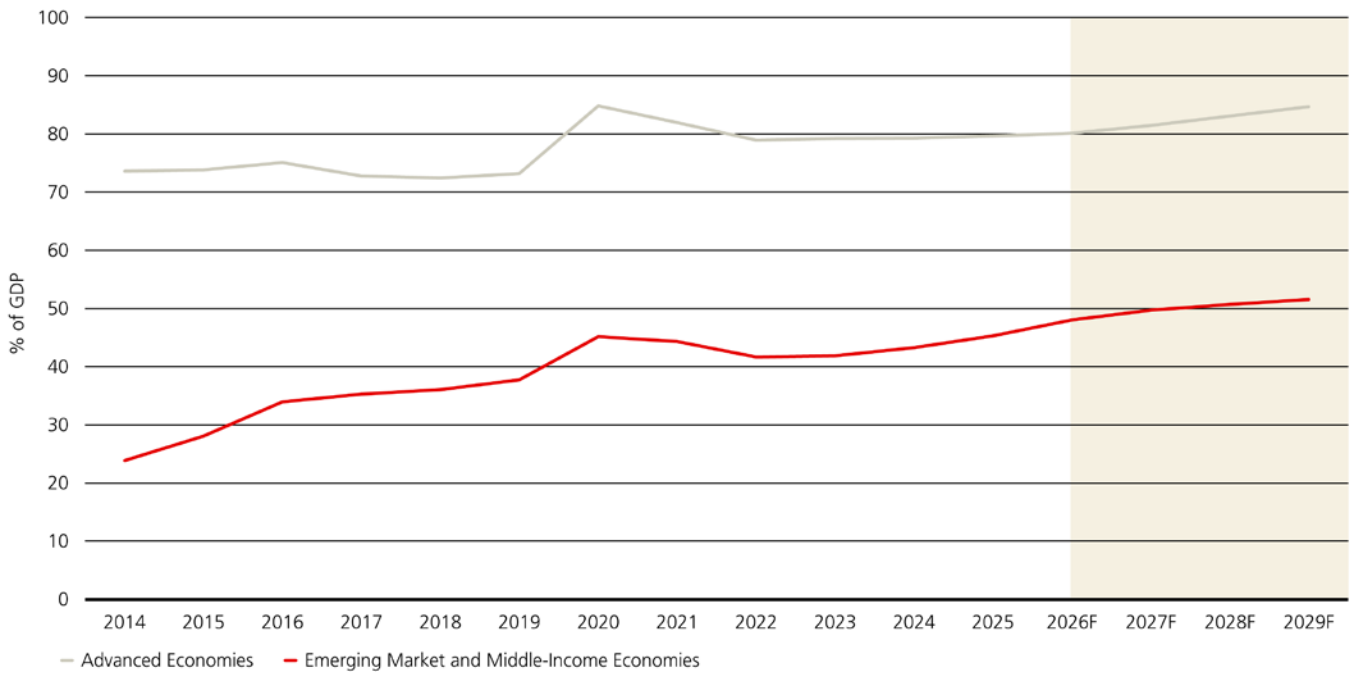
Figure 1: EM fixed income market



Source: JP Morgan, end of 2025

Through this period, emerging market economies including frontier countries have grown by more than 4% a year on average, and companies domiciled in these countries have generally benefited accordingly. This growth has not been achieved solely through increased spending. As per IMF data, net government debt on average for advanced economies is above 80%, while for emerging and middle-income economies it hovers close to 45% (see Figure 2 below).

Figure 2: Government net debt forecast



Source: IMF and Macrobond Data as of April 2026

Return of and return on capital

When looking at historical investment returns, it is helpful to look at the Sharpe ratio: this measures how much excess return investors receive for the volatility of holding a riskier asset, and is an objective metric for risk-reward. Using data from the 2003-25 period, the return profile for hard-currency emerging-market sovereign and corporate debt is significantly above that of sovereign debt issued by the US, other DM sovereigns and US investment-grade companies, even during a period that was marked by US exceptionalism and dollar appreciation.

Figure 3: Sharpe ratios

Asset Class	Return[1]	Risk[2]	Sharpe[3]
EMD IG Sovereign	5.11%	7.14%	0.71
EMD IG Corporate	5.12%	4.46%	1.15
US IG	4.49%	6.08%	0.74
EMD HY Sovereign	8.47%	10.25%	0.83
EMD HY Corporate	8.26%	7.88%	1.05
US HY	7.61%	7.54%	1.01
EMD Sovereign	6.85%	8.25%	0.83
EMD Corporate	5.99%	5.14%	1.16
EMD Local	5.86%	10.51%	0.56
EMD Local FX-Hedged	3.86%	3.58%	1.08
US Treasuries	2.87%	4.53%	0.63
Global Treasuries	2.63%	6.83%	0.38
S&P-500	12.16%	17.15%	0.71
MSCI World	8.81%	16.91%	0.52
MSCI EM Equities	8.88%	20.45%	0.43

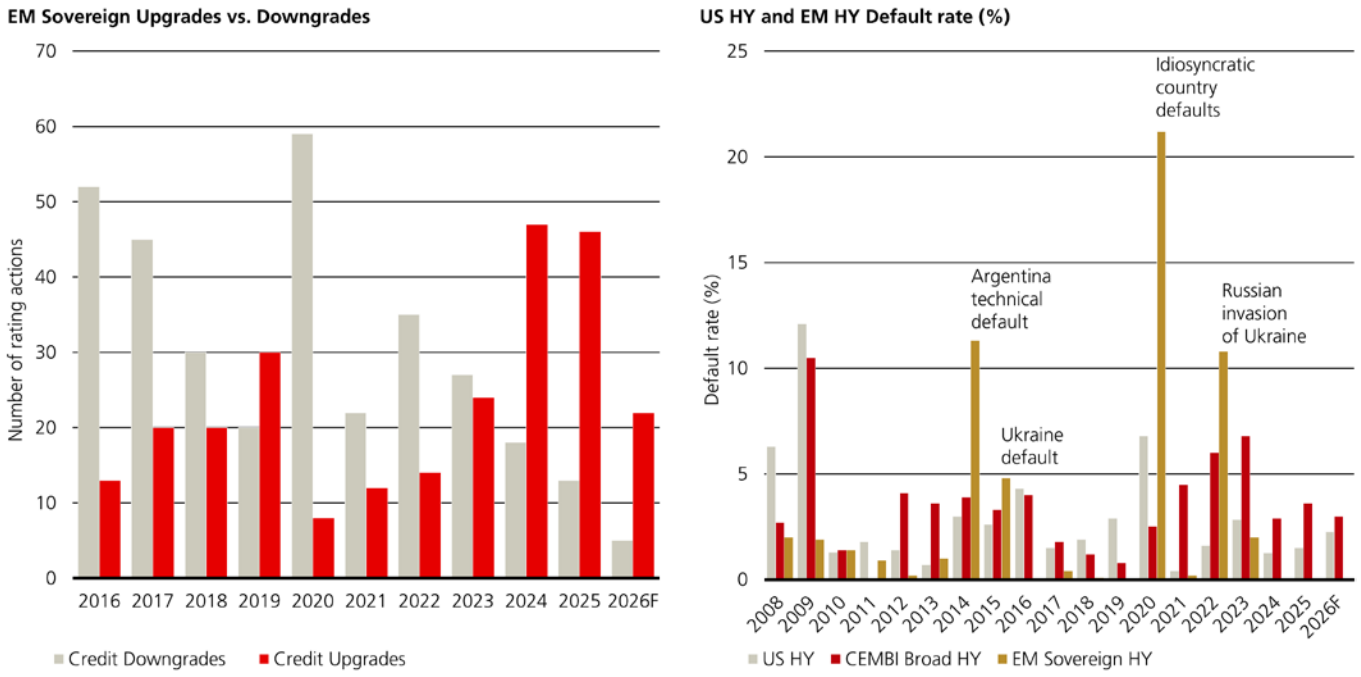
Source: Bloomberg Indices. EMD IG Sovereign: JPGCIG Index, EMD IG Corporate: JBCDIGIG Index, US IG: LUACTRUU Index, EMD HY Sovereign: JPGCHY Index, EMD HY Corporate: JBCDNOIG Index, US HY: LF98TRUU Index, EMD Sovereign: JPEIDIVR Index, EMD Corporate: JBCDCOMP Index, EMD Local: JGENVUUG Index, EMD Local FX-Hedged: JGENVHUG Index, S&P-500: SPTR Index, MSCI World: MXWO Index, MSCI EM Equities: MXEF Index, US Treasuries: LUATTRUU Index, Global Treasuries: LGTRTRUU Index. All indices are in US dollar terms.

1. Return calculated using Bloomberg indices. **2.** Measured by standard deviation. **3.** Ratio of return divided by risk. Past performance does not predict future performance. This does not constitute a guarantee by UBS Asset Management.

Positive market conditions

Default rates have peaked for EM sovereigns, which should be a tailwind for performance. The wave of defaults through the pandemic and in the wake of the Russian invasion of Ukraine is behind us; there have been no sovereign defaults since the end of 2023, and we do not anticipate any material sovereign defaults in 2026. Corporate defaults have also been decreasing over the last couple of years. The outlook from credit rating agencies with regard to EM debt has become increasingly positive, with ratings upgrades significantly exceeding downgrades (see Figure 4 below). At the same time, sovereign markets boast a number of 'rising stars': credits that are expected to receive investment-grade ratings from at least two of the three major rating agencies, with Oman and Azerbaijan being recent examples. A number of EM sovereigns have emerged from default over the last couple of years, including Ghana, Sri Lanka and Zambia.

Figure 4: Favorable credit ratings and fewer defaults



Source: UBS Asset Management, JPMorgan and Bloomberg as at August 2026

EM hard-currency debt has outperformed similarly rated US corporate debt on a year-to-date 2026 basis and over the course of 2025 as a whole, despite geopolitical turbulence and President Trump's tariff announcements. Emerging market central banks were more proactive after the Covid-19 pandemic and inflation came down much more rapidly in emerging markets than in developed economies. Furthermore, real rates are generally high in emerging markets: this provides EM central banks with significant leeway to cut rates aggressively in order to manage periods of weaker growth. Debt issued by Asian countries should generally be supported by their strong external positions.

EM sovereign and corporate debt indices, unlike equity indices, are constrained at the country level. As of the end of August 2026, Saudi Arabia had the largest weight in the JPMorgan EMBI Global Diversified Index at 5.20%, followed by Mexico at 5.15%. Equivalent country exposures for the JPMorgan CEMBI Broad Diversified Index stand at 5.95% for China and 5.19% for Hong Kong. This relatively low country concentration risk contrasts with global equity portfolios, many of which have significant exposure to US stocks, and global EM equity portfolios tracking the MSCI Emerging Markets Index – these have more than 80% exposure to stocks in China, Taiwan, India, South Korea and Brazil. Further, frontier countries such as Argentina, Egypt, Nigeria and Ukraine are already an important part of debt indices, accounting for almost 33% of the JPMorgan EM Sovereign Debt Index and a little over 13% in the JPMorgan EM Corporate Debt Index.

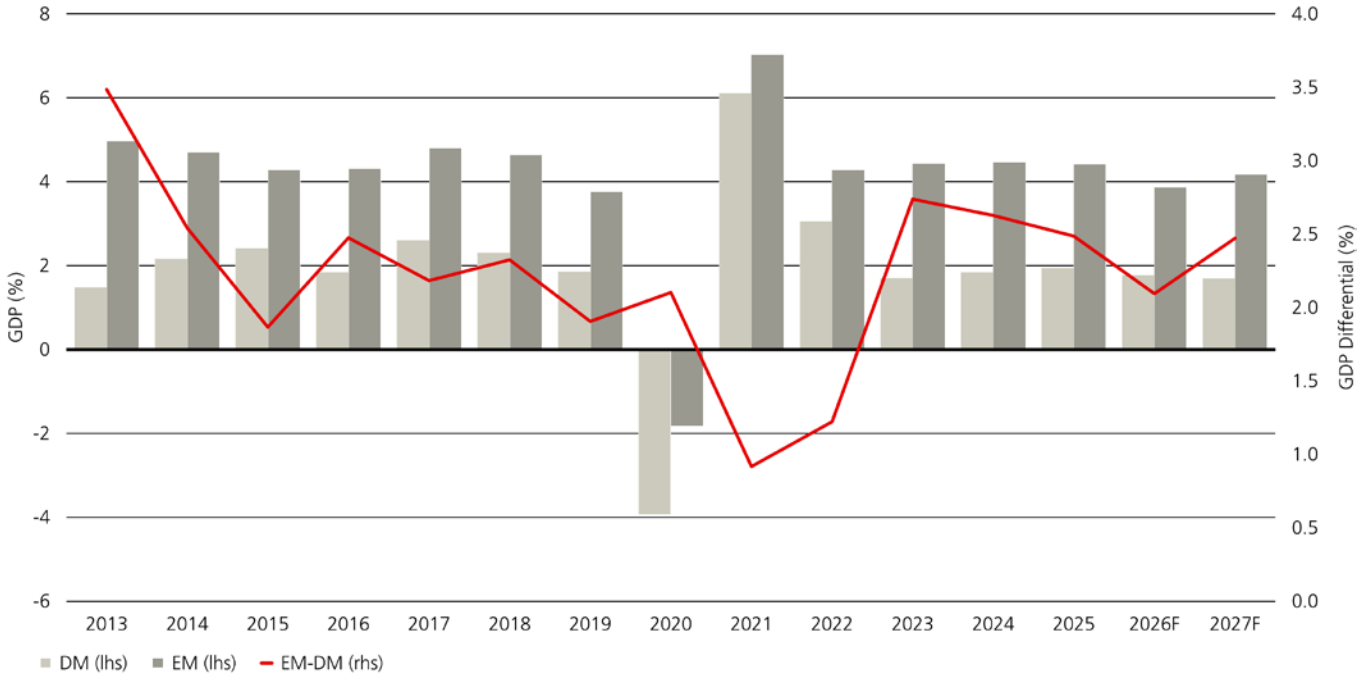
A favorable outlook

Emerging market fixed income remains attractively valued relative to other fixed income sectors, driving strong crossover demand and inflows that we expect to continue. Index yields are near the top of their 15-year range, while hard currency EM sovereign and corporate debt indices have delivered high single-digit annualized returns over the past three years. A stable or weaker US dollar would provide a significant tailwind for EM debt, a backdrop that has largely been absent over the last decade.

There are also several potential catalysts for further upside, including easing geopolitical tensions, ceasefire agreements and stabilization in China. In this environment, we believe the backdrop remains supportive for EM sovereign and corporate dollar-denominated debt. Local currency debt should also benefit over the long term, although periods of dollar strength could create short-term volatility.

Despite the uncertainty of potential tariffs, growth prospects for countries such as Mexico and Poland are likely to improve, led by a pick-up in near-shoring and friend-shoring activities as well as in foreign direct investment, as businesses adjust their global supply-chain strategies. As per IMF forecasts, annual growth in emerging markets is still expected to be stable around the 4% mark (see Figure 5 below), despite a projected slowdown in the US economy. China's growth has remained resilient despite trade tensions, and commodity prices have stayed elevated even during slower growth periods.

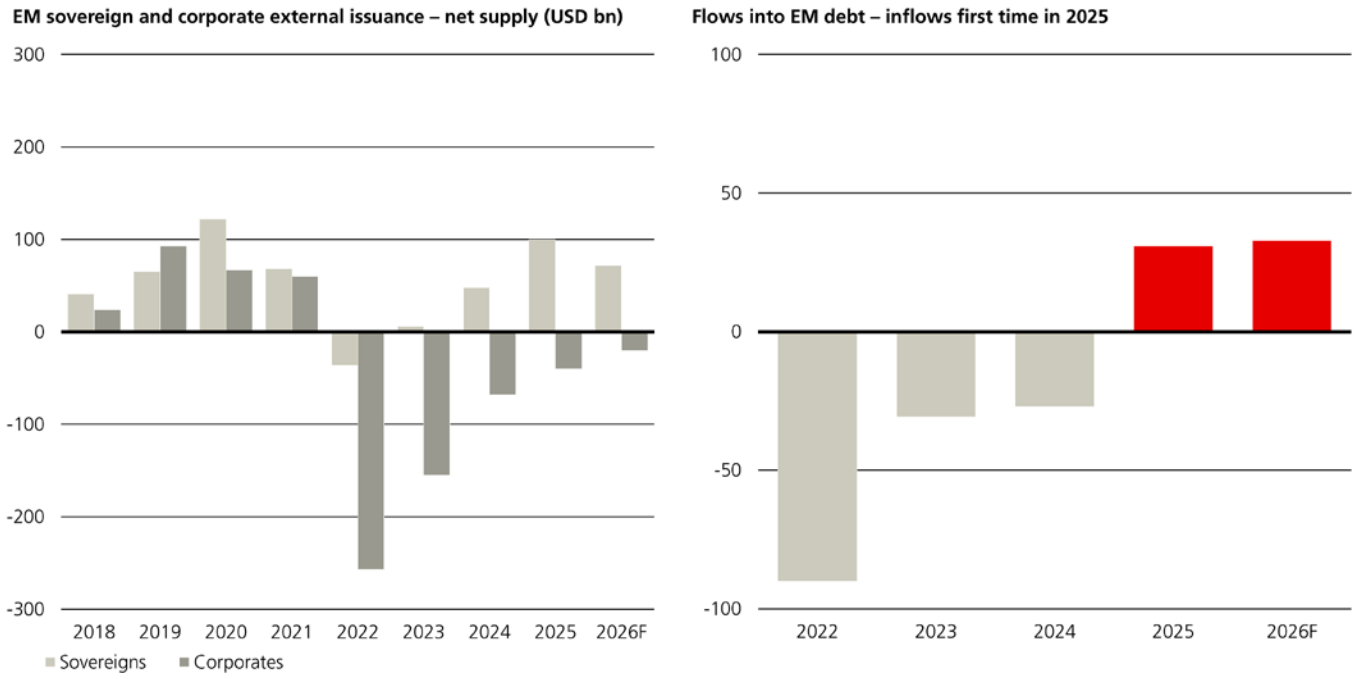
Figure 5: EM-DM growth differential



Source: IMF and Macrobond Data as of April 2026

Technical factors also remain supportive. US policy uncertainty has driven increased allocations to EM, with inflows reaching a four-year high in 2025 and a further USD 34 billion year-to-date in 2026. At the same time, net issuance of EM external debt is expected to remain constrained thereby, supporting bond prices. Investors remain underweight the asset class given the material outflows seen between 2022 and 2024, but interest and inflows are increasing globally, creating an additional tailwind for returns.

Figure 6: Positive technical factors for emerging market debt



Source: JP Morgan as at July 2026

Source: JP Morgan as at August 2026

EM debt has already demonstrated renewed leadership in 2025 and 2026, with a growing number of structural tailwinds aligning to support a regime change. Improved policy credibility, compelling real yields, stronger sovereign balance sheets and the potential for a weaker US dollar collectively provide a highly constructive backdrop for the asset class

For global professional / qualified / institutional clients and wholesale / accredited investors.
Singapore: This is for the recipient's use only.
Strictly No Redistribution.
This document does not replace portfolio and fund-specific materials. Commentary is at a macro or strategy level and is not with reference to any registered or other mutual funds.

Americas
The views expressed are a general guide to the views of UBS Asset Management as of March 2026. The information contained herein should not be considered a recommendation to purchase or sell securities or any particular strategy or fund. Commentary is at a macro level and is not with reference to any investment strategy, product or fund offered by UBS Asset Management. The information contained herein does not constitute investment research, has not been prepared in line with the requirements of any jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. All such information and opinions are subject to change without notice. Care has been taken to ensure its accuracy but no responsibility is accepted for any errors or omissions herein. A number of the comments in this document are based on current expectations and are considered "forward-looking statements." Actual future results, however, may prove to be different from expectations. The opinions expressed are a reflection of UBS Asset Management's best judgment at the time this document was compiled, and any obligation to update or alter for-ward-looking statements as a result of new information, future events or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual security, asset class or market generally, nor are they intended to predict the future performance of any UBS Asset Management account, portfolio or fund. This material is provided for informational purposes only and does not constitute investment advice, a recommendation, or an offer to buy or sell any financial instrument. All investments involve risk, including the possible loss of capital. Alternative investments involve a high degree of risk and are intended for sophisticated investors only. These investments may be speculative, illiquid, and involve the risk of loss of principal.

Canada
Canada Services to Canadian persons for any strategy herein are provided by UBS Asset Management (Canada) Inc., a Nova Scotia corporation and a member of the UBS Asset Management business division of UBS AG, a publicly traded Swiss bank (NYSE: UBS). UBS Asset Management (Canada) Inc. is an indirect wholly-owned subsidiary of UBS AG and is registered as a portfolio manager (in all provinces of Canada), exempt market dealer (in all provinces of Canada and Yukon), commodity trading manager (Ontario), adviser – commodity futures (Manitoba) and investment fund manager (Ontario, Quebec and Newfoundland), all pursuant to Canadian securities law. This document can be distributed in Canada to Accredited Investors who qualify as Permitted Clients only. Any investment or fund referred to in this document may be a connected or related issuer of UBS Asset Management (Canada) Inc. in connection with a distribution of the investment or fund to investors in Canada. **The information contained herein, while obtained from sources believed to be reliable, is not guaranteed as to its accuracy or completeness and confers no right to potential purchasers. This document has been prepared solely for informational purposes by or for UBS Asset Management (Canada) Inc. and its affiliates. This information is being provided for discussion purposes only and is superseded in its entirety by any applicable private placement memorandum and associated limited partnership agreement or organizational documentation (collectively "Offering Documentation"). Investors should carefully review applicable Offering Documentation prior to investing as information contained herein may differ from the information contained in the Offering Documentation.**

EMEA
For marketing and information purposes by UBS.
Before investing in a product please read the latest prospectus and key information document carefully and thoroughly. Any decision to invest should take into account all the characteristics or objectives of the fund as described in its prospectus, or similar legal documentation. Investors are acquiring units or shares in a fund, and not in a given underlying asset such as building or shares of a company. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith, but is not guaranteed as being accurate, nor is it a complete statement or summary of the securities, markets or developments referred to in the document. Members of the UBS Group may have a position in and may make a purchase and / or sale of any of the securities or other financial instruments mentioned in this document. Units of UBS funds mentioned herein may not be eligible for sale in all jurisdictions or to certain categories of investors and may not be offered, sold or delivered in the United States. The information mentioned herein is not intended to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not a reliable indicator of future results. The calculated performance takes all costs on the fund level into consideration (ongoing costs). The entry and exit costs, which would have a negative impact on the performance, are not taken into consideration. If whole or part of the total costs to be paid is different from your reference currency, the costs may increase or decrease as a result of currency and exchange rate fluctuations. Commissions and costs have a negative impact on the investment and on the expected returns. If the currency of a financial product or financial service is different from your reference currency, the return can increase or decrease as a result of currency and exchange rate fluctuations. This information pays no regard to the specific or future investment objectives, financial or tax situation or particular needs of any specific recipient. Future performance is subject to taxation which depends on the personal situation of each investor and which may change in the future. The details and opinions contained in this document are provided by UBS without any guarantee or warranty and are for the recipient's personal use and information purposes only. This document may not be reproduced, redistributed or republished for any purpose without the written permission of UBS Asset Management Switzerland AG or a local affiliated company. Source for all data and charts (if not indicated otherwise): UBS Asset Management. This document contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to our future business development. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. A summary of investor rights in English can be found online at: ubs.com/funds-regulatoryinformation. More explanations of financial terms can be found at ubs.com/am-glossary

Australia
Confidential. For Professional/Institutional Investors only. Not for Retail distribution. This document is intended to provide general information only and has been provided by UBS Asset Management (Australia) Ltd (ABN 31 003 146 290) (AFS Licence No. 222605). For professional/ institutional investors only. This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in any jurisdiction. This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in any jurisdiction. No repre-sentations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of any jurisdiction. Using, copying, redistributing or republishing any part of this document without prior written permission from UBS Asset Management is prohibited. Any statements made regarding investment performance objectives, risk and/or return targets shall not constitute a representation or warranty that such objectives or expectations will be achieved or risks are fully disclosed. The information and opinion contained in this document is based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any misrepresentation, errors or omissions. All such information and opinions are subject to change without notice. A number of comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results may prove to be different from expectations and any unforeseen risk or event may arise in the future. The opinions expressed are a reflection of UBS Asset Management's judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. You are advised to exercise caution in relation to this document. The information in this document does not constitute advice and does not take into consideration your investment objectives, legal, financial or tax situation or particular needs in any other respect. Investors should be aware that past performance of investment is not necessarily indicative of future performance. Potential for profit is accompanied by possibility of loss. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Source for all data and charts (if not indicated otherwise): UBS Asset Management.

Singapore
This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in any jurisdiction. This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in any jurisdiction. No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of any jurisdiction. Using, copying, redistributing or republishing any part of this document without prior written permission from UBS Asset Management (Singapore) Ltd. is prohibited. Any statements made regarding investment performance objectives, risk and/or return targets shall not constitute a representation or warranty that such objectives or expectations will be achieved or risks are fully disclosed. The information and opinions contained in this document is based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any misrepresentation, errors or omissions. All such information and opinions are subject to change without notice. A number of comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results may prove to be different from expectations and any unforeseen risk or event may arise in the future. The opinions expressed are a reflection of UBS Asset Management (Singapore) Ltd's judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. You are advised to exercise caution in relation to this document. The information in this document does not constitute advice and does not take into consideration your investment objectives, le-gal, financial or tax situation or particular needs in any other respect. Investors should be aware that past performance of investment is not necessarily indicative of future performance. Potential for profit is accompanied by possibility of loss. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.
Source for all data and charts (if not indicated otherwise): UBS Asset Management (Singapore) Ltd. (UEN 199308367C)

China
For eligible investors under the relevant laws and regulations of the People's Republic of China ("PRC") only. This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in the PRC. This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in the PRC. No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of the PRC. Using, copying, redistributing or republishing any part of this document without prior written permission from UBS Asset Management is prohibited. Any statements made regarding investment performance objectives, risk and/or return targets shall not constitute a representation or warranty that such objectives or expectations will be achieved or risks are fully disclosed. The information and opinions contained in this document is based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any misrepresentation, errors or omissions. All such information and opinions are subject to change without notice. A number of comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results may prove to be different from expectations and any unforeseen risk or event may arise in the future. The opinions expressed are a reflection of UBS Asset Management's judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. You are advised to exercise caution in relation to this document. The information in this document does not constitute advice and does not take into consideration your investment objectives, legal, financial or tax situation or particular needs in any other respect. Investors should be aware that past performance of investment is not necessarily indicative of future performance. Potential for profit is accompanied by possibility of loss. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. Source for all data and charts (if not indicated otherwise): UBS Asset Management. The securities or products mentioned herein may only be permitted to be offered to approved PRC investors and/or eligible investors under the relevant PRC laws and regulations. The relevant PRC investors shall obtain applicable approvals/licenses/registrations from the relevant authorities (if applicable), and comply with the relevant laws and regulations.

Hong Kong
This document and its contents have not been reviewed by, delivered to or registered with any regulatory or other relevant authority in any jurisdiction. This document is for informational purposes and should not be construed as an offer or invitation to the public, direct or

indirect, to buy or sell securities. This document is intended for limited distribution and only to the extent permitted under applicable laws in any jurisdiction. No representations are made with respect to the eligibility of any recipients of this document to acquire interests in securities under the laws of any jurisdiction. Using, copying, redistributing or republishing any part of this document without prior written permission from UBS Asset Management is prohibited. Any statements made regarding investment performance objectives, risk and/or return targets shall not constitute a representation or warranty that such objectives or expectations will be achieved or risks are fully disclosed. The information and opinions contained in this document is based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any misrepresentation, errors or omissions. All such information and opinions are subject to change without notice. A number of comments in this document are based on current expectations and are considered "forward-looking statements". Actual future results may prove to be different from expectations and any unforeseen risk or event may arise in the future. The opinions expressed are a reflection of UBS Asset Management's judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. You are advised to exercise caution in relation to this document. The information in this document does not constitute advice and does not take into consideration your investment objectives, legal, financial or tax situation or particular needs in any other respect. Investors should be aware that past performance of investment is not necessarily indicative of future performance. Potential for profit is accompanied by possibility of loss. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Source for all data and charts (if not indicated otherwise): UBS Asset Management. © UBS 2026. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

UBS Asset Management is a large-scale asset manager, with a presence in more than 20 countries worldwide. We take a globally connected approach to find the answers to our clients' investment challenges and draw on the best ideas and capabilities of our global set-up. To provide you with first class solutions, UBS Asset Management may outsource business areas and services to (other) business divisions of UBS Group AG, affiliated companies of UBS Group AG and carefully selected third party service providers on a global level. This applies both with respect to different services provided to you as a prospect and as a client, such as analyzing and providing investment solutions, negotiations regarding our future relationship, onboarding, as well as to ongoing know-your-client due diligence, transactions, processing of securities and other financial instruments, compliance, risk management and monitoring, data processing, and IT and back- and middle-office services. Such a global approach may require transmitting client data to affiliated companies and carefully selected third party service providers. This might include entities that are not subject to banking secrecy (if applicable at all) and or that are not subject to the data protection laws applicable in your location, the location of the UBS Asset Management entity you are in contact with, or to your future relationship with UBS Asset Management. This global approach also may require storing client data in global IT systems. UBS Asset Management is subject to statutory obligations regarding the confidentiality of data relating to the business relationship with its clients.

You can rely on UBS Asset Management and its affiliated companies treating all data with strictest confidentiality; third party service providers are carefully selected and contractually bound to strictest confidentiality obligations in line with highest UBS standards.

M-006953

ubs.com/am-linkedin

© UBS 2026. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

www.ubs.com/am