RBC Global Asset Management

BlueBay Emerging Markets Debt Desk Note June 2025

Market review

- Risk markets were resilient over the month despite geopolitical volatility coupled with US fiscal and trade concerns. The S&P 500 ended the month up 4.96% after digesting a series of negative headlines on conflict in the Middle East, upcoming tariff deadlines, and the "big, beautiful bill". The calming of Middle East tensions allowed investors to recalibrate focus towards economic data and Fed decisions, with rate cut hopes as the driving catalyst. The 10-year Treasury yield ended the month 15bps tighter at 4.28%. Demand for Treasuries has endured, to the ire of deficit hawks, as foreign countries and investors continue to prop up America's ballooning debt. Meanwhile, the US dollar has continued its weakening trend, bearing the brunt of fiscal concerns. Elsewhere, Brent crude oil prices ended the month up 4.68% at $67.30/bbl after an exchange of airstrikes between Israel, Iran and the United States, and threats of closing the Strait of Hormuz sent the price surging over 6% mid-month.

- Emerging markets (EM) continue to show strength. EM stocks rallied 5.65% over the month and the EM local index notched its sixth consecutive positive month. EM FX continues to experience schadenfreude as the world's reserve currency buckles under its own fiscal weight, with mounting concerns of an ever-expanding deficit weighing heavily on the US economic outlook. Elsewhere, in the EM hard currency fixed income space, sovereign markets climbed 2.41% while corporate markets were up 1.36%, with spreads 12bps and 5bps tighter respectively. In the sovereign space, high yield, higher beta names outperformed versus investment grade, with frontiers such as Maldives and Suriname outperforming heavily on spread terms. Ecuador also saw strong performance after posting its largest trade surplus on record and reaching an agreement with the IMF for funding support. Senegal's sovereign debt was the worst performing for the month as fiscal deficit and GDP revisions stoked fears of a potential delay in IMF negotiations. In the corporate space, high yield names continued to outperform versus investment grade. The consumer and metals and mining sectors had the strongest performance for the month, while the transport sector suffered.

Emerging Markets News

- Tensions erupted in the Middle East with Israel attacking Iran's missile launch sites in order to establish air superiority which subsequently allowed them to attack and degrade Iran's uranium enrichment facilities. Iran countered with missile strikes on Israel. The US launched "bunker-busting" bombs on three of Iran's key nuclear sites and Iran responded by attacking the US military base in Qatar. A peace deal was brokered shortly afterwards, calming markets.

- In South Korea, opposition leader and human rights lawyer Lee Jae-myung won the snap election to become the President, signalling a potential return to political stability after the previous leader's declaration of martial law marred the country in turmoil.

- In Colombia, a potential presidential candidate, Miguel Uribe, was shot at a campaign rally in Bogota. This highlights the security concerns that will be a key focus in the election campaign that will come to a head in March 2026. Meanwhile, there has been increasing talk that the government may look to suspend the fiscal rule as it seeks more room for spending this year and this has been weighing particularly heavily on the Colombian local market.

- In Romania, the new government, led by newly appointed centrist prime minister Ilie Bolojan, won a widely supported vote of confidence in parliament. The new agenda includes promises to reduce the deficit through tax increases and spending cuts.

Outlook

- A recent easing of geopolitical tensions in the Middle East has allowed investors to refocus on broader market drivers, which, in the near term, continue to support positive momentum. Several headwinds are beginning to fade, most notably the removal of Section 899 from the US fiscal bill, alongside incremental progress in global trade negotiations and tariffs. The ceasefire in the Middle East, which has thus far held, has also added to a sense of relief in markets, with the result being a notable short squeeze. The next key determinant will be the trajectory of economic data, which has so far proven more robust than anticipated. This resilience supports the growing expectation that the Federal Reserve may adopt a more dovish stance. While current guidance still points to two rate cuts this year, the asymmetry likely leans toward more easing rather than less.

- From the perspective of EM fixed income, the most supportive development is the continued weakening of the US dollar which has bolstered EM currencies. This is a powerful theme in that it helps with inflation trends as well as providing cover for EM central banks to cut interest rates from what are punitively high levels of real rates in certain cases. Looser monetary conditions in turn support growth and improve domestic funding environments. These dynamics are also attracting fresh inflows into EM assets, both in local currency bonds and in the credit space, creating a virtuous cycle for the asset class. While risks remain—including a potential downturn in global growth, a resurgence in inflation, or renewed geopolitical tensions—none of these have materialized meaningfully yet. Until they do, markets are likely to maintain a constructive tone. Overall, we see a supportive backdrop for EM fixed income in the weeks ahead.

Local Currency Sovereign	MTD Change (%)	QTD Change (%)	YTD Change (%)
GBI-EM Global Div Composite	2.79	7.62	12.26
Asia	1.04	5.10	6.67
Europe	4.23	10.24	16.57
Latin America	4.75	10.00	19.91
Mid-East Africa	3.89	9.59	13.07
Brazil	7.09	11.77	27.03
Chile	2.42	4.30	11.00
China	0.82	2.69	2.60
Colombia	2.82	6.06	13.00
Czech Republic	4.05	10.98	17.77
Dominican Republic	2.94	7.58	3.89
Hungary	5.09	12.50	19.19
Indonesia	1.51	5.45	4.67
Malaysia	1.37	7.97	10.27
Mexico	4.23	11.74	21.61
Peru	4.43	7.46	11.96
Poland	3.80	10.30	20.02
Romania	3.89	7.88	14.56
Serbia	4.06	9.47	15.29
South Africa	3.89	9.59	13.07
Thailand	2.95	7.78	11.15
Turkey	7.01	9.56	0.05

Hard Currency Corporate	MTD Change (%)	QTD Change (%)	YTD Change (%)
CEMBI Diversified	1.43	1.76	4.22
Investment Grade	1.38	1.67	4.19
Non-Investment Grade	1.50	1.87	4.25
Spreads (Δbps)	-5	1	24
IG Spreads (Δbps)	0	2	22
HY Spreads (Δbps)	-12	0	29
Africa	1.86	1.55	3.77
Asia	1.27	1.76	4.19
CEEMEA	1.27	1.65	3.83
Europe	1.65	2.22	4.56
Latin	1.96	1.92	4.87
Middle East	0.88	1.47	3.58
Consumer	1.71	2.10	4.65
Diversified	1.43	2.49	4.73
Financial	0.93	1.62	3.77
Industrial	1.39	1.60	4.27
Infrastructure	1.09	2.71	4.71
Metals & Mining	2.23	2.56	5.16
Oil & Gas	1.90	0.39	3.27
Pulp & Paper	2.52	1.66	4.75
Real Estate	1.87	1.15	4.78
TMT	1.46	2.28	4.58
Transport	2.03	2.56	4.16
Utilities	1.36	1.76	4.54
AA	1.08	1.68	4.37
A	1.10	1.51	3.83
BBB	1.58	1.75	4.39
BB	1.55	2.33	4.76
B	1.93	1.59	3.52
C	-1.14	0.51	4.60
Not Rated	1.39	0.54	2.76

Source: JPMorgan EMBI Global Diversified Index, JPMorgan GBI-EM Global Diversified Index, JPMorgan CEMBI Diversified Index, ICE BofA Diversified Local EM Non-Sovereign Index

Hard Currency Sovereign			
	MTD Change (%)	QTD Change (%)	YTD Change (%)
EMBI Global Diversified	2.41	3.33	5.64
Investment Grade	1.99	2.08	4.92
Non-Investment Grade	2.82	4.54	6.34
Spreads (Δbps)	-12	-27	-3
IG Spreads (Δbps)	-3	-16	-1
HY Spreads (Δbps)	-26	-48	-9
Africa	3.64	5.62	6.88
Asia	1.83	2.36	4.84
Europe	2.16	2.10	4.01
Latin	2.88	4.42	6.96
Middle East	1.54	1.88	4.72
Non Latin	2.17	2.77	4.98
AA	1.42	0.91	3.70
A	1.67	1.76	4.53
BBB	2.31	2.54	5.43
BB	2.06	2.75	5.09
B	3.19	4.86	6.06
C	4.51	10.19	10.48
Not Rated	2.41	-5.89	12.12

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