Emerging market weekly update

Performance for the week ending 25 April 2025

Summary

Risk markets bounced sharply this week on hopes of a softening in trade tensions. The S&P 500 gained +4.6%, while the Euro Stoxx 50 and emerging-market (EM) equities made +4.4% and +2.8%, respectively. The US rates curve twist steepened, with 2-year yields 3 basis points (bps) lower and 30-year yields 1bp higher. Meanwhile, US real yields moved 12bps lower in the 10-year point, to end the week at 1.97%.

In EM credit markets, spreads were 8bps tighter in corporates and 12bps tighter in sovereigns while total returns were +0.8% for corporates and +1.3% for sovereigns. In EM corporates, outperformance came from the transport and metals and mining sectors, while the financials sector lagged. In the sovereign space, high-yield names continued to rebound, with parts of Africa performing well, alongside Argentina.

In EM local markets, total returns were +1.2%, with both foreign exchange (FX) and rates contributing. In terms of regional performance, FX in Latin America was particularly solid. In the rates space, South Africa and Colombia were standout performers.

Market highlights

- The Spring Meetings of the International Monetary Fund (IMF) were held in Washington D.C. last week, with the key top-down discussions focused on the uncertainties created by US policymaking and its impact on global growth and inflation. There was also discussion of the US dollar's reserve currency status, implications for US funding costs and Federal Reserve policy and how this could impact EMs. Discussions at the individual country level also took place, with Argentina standing out as a positive story given the recently agreed IMF programme, while newsflow was mixed elsewhere but generally had a supportive tone.

Market outlook

While risk markets bounced aggressively last week as President Trump showed a willingness to soften his rhetoric towards trade and tariffs (in response to feedback from multiple sources including CEOs of Fortune 500 as well as the markets themselves), his erratic style of policymaking has clearly dented market confidence and will inevitably result in slower growth, as already evidenced by the recent US GDP print for the first quarter of 2025, which fell 0.3% annualised. At the same time, the core personalised consumption expenditures (PCE) price index rose by an annualised 3.5%, compared with expectations of a 3.1% rise. These are the sorts of numbers that are likely to weigh on risk markets over the coming weeks as the US economy struggles under the weight of not only tariffs but also the environment of uncertainty that is surely curtailing capital spending decisions in the corporate sector.

For EM fixed income, performance to start this year has been positive, with local markets leading the way as a weaker US dollar theme has provided a tailwind to EM FX. We now see an increasingly strong argument for allocating to EM local rates markets in the current environment, as investors search for fixed income assets that can act to diversify their portfolios, particularly given still-elevated levels of real rates in many places. In EM credit markets, spreads have recovered over the last couple of weeks, although the most levered capital structures as well as those related to the oil sector are still struggling to retrace much of the widening sustained in early April. The recent IMF meetings in Washington have also served to underline this narrative of differentiation within credit markets given the more complicated macroeconomic backdrop.

Appendix: Index review – weekly market snapshot as at 25/04/2025

	Total return			Spread / yield change (bps)				
	Weekly	MTD	YTD	Weekly	MTD	YTD	Spread (bps)	Yield (%)
Hard Currency Sovereign	1.28%	-0.09%	2.15%	-12	7	30	356	7.88
Hard Currency Corporate	0.83%	-0.60%	1.81%	-8	23	46	281	6.95
Local Currency Sovereign	1.15%	2.53%	6.95%	-6	-17	-26		6.13

Source: Bloomberg, JPMorgan

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