



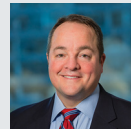
BARINGS

PUBLIC FIXED INCOME

EM Debt: The Case for a Blended Approach

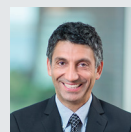
INSIGHTS

The EM debt universe is larger, more diverse and higher quality than many investors perceive, offering compelling opportunities today. Given the uncertainties ahead, investors may benefit from taking a blended approach.



Andrew Plunkett

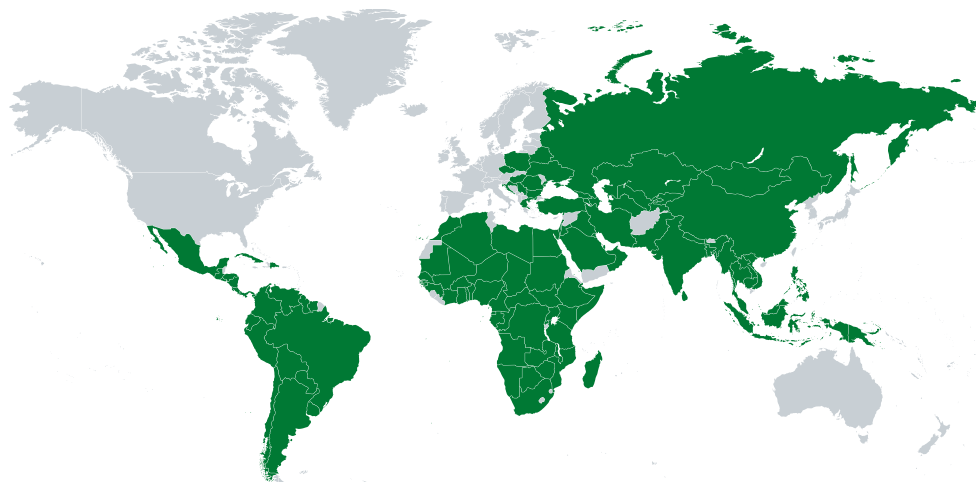
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Emerging markets (EM) debt is often viewed as a single, uniform asset class. In reality, it is a vast investment landscape offering a diverse range of opportunities. One of the simplest ways to define EM is that “EM equals 1 minus DM,” meaning the developed market (DM) world consists of roughly 20 countries, and everything else falls within EM.



Excluding Russia and China, emerging and developing economies account for approximately 23% of global GDP, with a combined AUM of roughly \$30 trillion.¹ EM issuers span over 90 countries and over 1,500 corporate issuers,² creating a broad opportunity set across four distinct segments: **sovereign hard currency debt, corporate credit, local interest rates and local currencies.**

Despite the breadth and depth of the opportunity, the asset class is still largely misunderstood. In this piece, we challenge several common misconceptions about EM debt and discuss why a blended approach to investing may be an effective way for many investors to access the asset class.

Unique Performance Drivers

SOVEREIGN HARD CURRENCY & CORPORATE DEBT

Each segment within the EM debt market is supported by unique characteristics and potential return drivers. For investors in EM sovereign hard currency and corporate debt, **returns are primarily driven by the assessment of credit risk.** Deep fundamental analysis of countries and companies is crucial, not only for developing strong conviction in an issuers' creditworthiness, but also for identifying relative value opportunities.

Many EM sovereign and corporate issuers offer attractive yields and the potential for capital appreciation via spread compression. When one considers the potential returns while recognizing that the broader EM debt universe has a much higher average quality rating and far fewer defaults than many investors assume, it is clear that there is plenty of value to offer.

1. Source: IMF WEO. As of April 2026. Excludes China and Russia.

2. Source: Barings. As of September 2026.

One common misconception is that EM sovereign and corporate debt consists primarily of **lower quality** issuers, leading some investors to assume these asset classes are riskier than they actually are. In reality, **nearly half of the EM sovereign hard currency and the majority of corporate debt markets are investment grade**. Of the debt rated below investment grade, a significant share is rated BB, placing it at the higher-quality end of the high yield spectrum (**Figure 1**).

Figure 1: Not All EM Debt is High Yield—Percentage of Asset Class Per Rating

	EM Sovereigns	EM Corporates
Investment Grade	47.2%	60.1%
High Yield	52.8%	39.9%
BB	25.3%	21.1%
B	20.3%	12.5%
< B	7.2%	6.2%

Source: JP Morgan. As of December 31, 2025. Sovereign and corporate figures shown are from the representative indices JP Morgan EMBI Global Diversified and JP Morgan CEMBI Broad Diversified, respectively.

The misconception that defaults are widespread across the EM debt universe is easily debunked. In reality, only 1.3% of the EM corporate debt universe has defaulted, on average, over the last decade (**Figure 2**). For comparison, this figure is lower than the 2.0% default figure in the U.S. high yield market. EM corporate HY defaults are 3.2% higher than U.S. HY, but offer higher yields and greater diversification.³

Figure 2: Historical Default Rates Across EM Corporate Debt, EM Sovereign Debt and U.S. High Yield

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Average
EM Sov	1.5	2.9	4.3	0.0	1.4	6.7	1.3	3.8	3.9	1.3	2.7
EM Corp HY	4.5	6.2	1.7	1.8	3.6	6.1	13.8	7.6	3.8	2.7	5.2
U.S. HY	3.6	1.3	1.8	2.6	6.2	0.3	0.8	2.1	0.4	1.0	2.0
Market Average	3.2	3.5	2.6	1.5	3.7	4.4	5.3	4.5	2.7	1.7	3.3

Source: JP Morgan. As of 2026. Within the EM corporate high yield segment, the default rate was 5.2% over the last 10 years. The higher default rate observed in recent years has been driven primarily by developments in a limited number of markets.

In the EM sovereign debt market, defaults have also been historically low. There was a modest increase in defaults following the pandemic, as some more fragile EM economies struggled to absorb economic shocks and maintain debt service. Since Covid, ten countries have defaulted, including Ukraine following Russia's invasion. Despite these post-pandemic challenges, only 2.7% of the full sovereign universe, which includes many lower quality sovereigns that are not in the benchmark, have defaulted.

3. Source: JP Morgan. As of September 10, 2026.

LOCAL RATES & CURRENCIES

For investors in local debt—or sovereign debt denominated in a country’s local currency—there are **two distinct sources of return and risk: interest rates and currencies**. Interest rate returns are driven primarily by a country’s economic cycle. Slowing economies can support local bond returns, as weaker growth often leads to lower interest rates, yield compression and therefore, capital appreciation. Currency returns, meanwhile, are driven by factors such as economic competitiveness and the demand for a nation’s currency.

Unlike sovereign hard currency and corporate debt, credit (or default) risk is not the primary concern for investors in local debt. Most countries that comprise the EM local space have deep and sophisticated markets, with roughly **80% of the asset class rated investment grade**.⁴

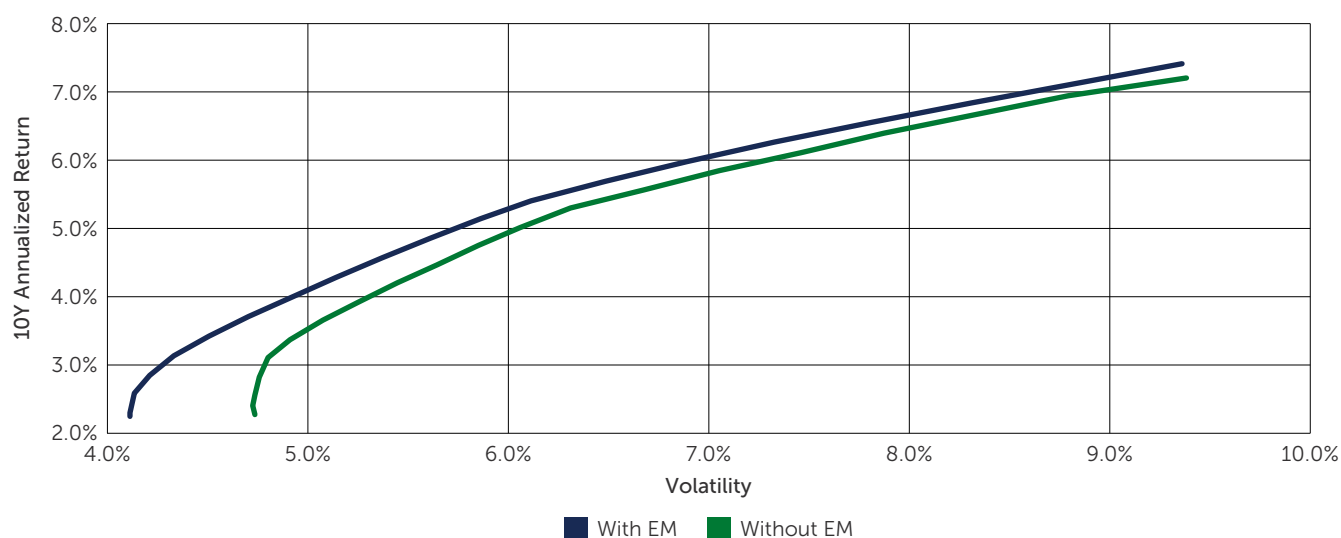
Value Creation, Diversification

The size of the EM debt market and the diversity of its return drivers underscore the importance of active management. Successfully navigating the nuances and idiosyncrasies that influence issuer performance requires rigorous research and deep expertise.

While global and regional economic trends can impact overall performance, the most attractive investment opportunities are often identified through country-by-country and credit-by-credit analysis. This level of scrutiny provides insight into a country’s or company’s current fundamentals, while also helping investors identify issuers on a positive trajectory. By recognizing strengthening credit profiles early, investors can position themselves to benefit from potentially strong performance.

The breadth of the EM debt market and the distinct drivers of each sub-asset class make it an effective portfolio diversifier. Each segment offers **the potential for attractive long-term returns, but with varying risk/return profiles**. When all three EMD asset classes are added to a diversified portfolio, it improves its risk-adjusted returns (**Figure 3**). An additional virtue of EM debt is that historically, it has exhibited **low correlations with developed market asset classes**, including equities, U.S. fixed income and global fixed income (**Figure 4**). We see these diversification benefits continuing to increase as emerging market countries with independent central banks and monetary policies become even less correlated with developed markets.

Figure 3: Effective Portfolio Diversifier



Source: JP Morgan. As of June 2026. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

4. Source: JP Morgan. As of September 10, 2026.

Figure 4: Low Correlations with DM Asset Classes

	EM Local	EM Hard	DM Sov Debt	EM Corporates	EM Equities	U.S. Equities	U.S. HY	U.S. IG	EM Rates	EM Currencies	EUR IG	EUR HY
EM Local	100%											
EM Hard	83%	100%										
DM Sov Debt	68%	65%	100%									
EM Corporates	78%	94%	56%	100%								
EM Equities	77%	73%	52%	70%	100%							
U.S. Equities	67%	76%	49%	68%	80%	100%						
U.S. HY	66%	86%	48%	83%	65%	83%	100%					
U.S. IG	54%	66%	89%	60%	42%	45%	51%	100%				
EM Rates	82%	77%	73%	76%	58%	51%	57%	70%	100%			
EM Currencies	94%	74%	67%	70%	79%	66%	59%	48%	72%	100%		
EUR IG	64%	82%	55%	81%	62%	76%	88%	58%	64%	54%	100%	
EUR HY	65%	81%	39%	85%	65%	73%	86%	40%	58%	56%	93%	100%
5Y Tsy	35%	39%	83%	33%	20%	18%	22%	91%	58%	33%	32%	10%

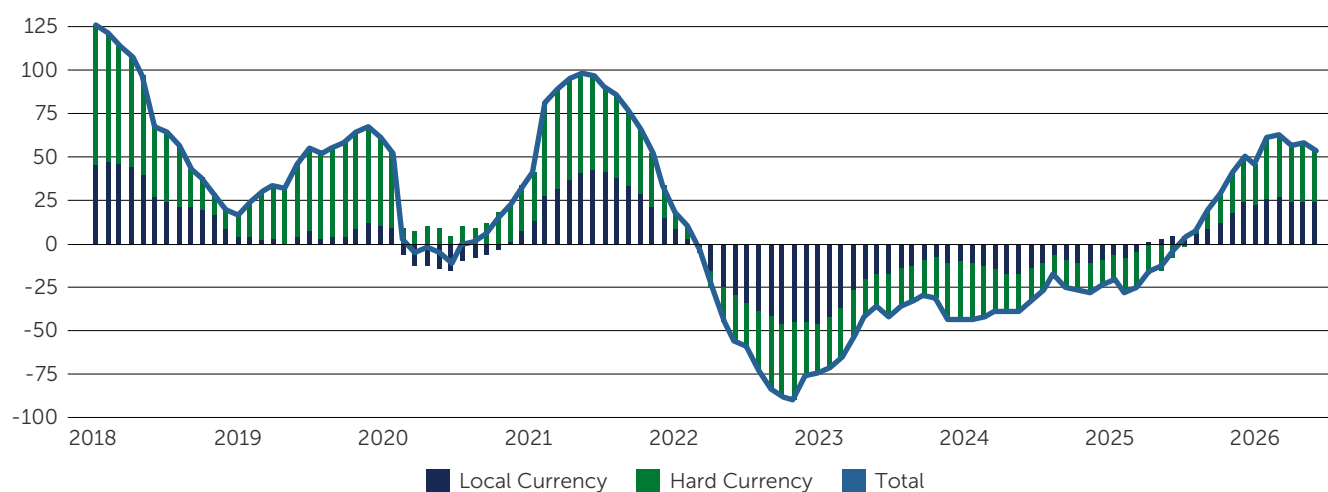
Source: JP Morgan; Barclays; MSCI; S&P; FTSE. As of June 2026.

The Benefits of a Blended Approach

As markets have absorbed a series of shocks over the last several years, including the pandemic, aggressive monetary policy tightening, a retreat from the neoliberal economic order, and, most recently, the oil shock due to the conflict in the Middle East, EM debt has proven far more resilient than many skeptics predicted.

That resilience, coupled with growing concerns about U.S. fiscal policy and persistent inflationary pressures, has prompted investors to seek greater diversification. As a result, many investors have increasingly looked beyond traditional developed markets when allocating a portion of their capital, a trend that has been evident since late 2025.

Figure 5: EM Blended Strategy Flows



Source: JP Morgan. As of August 2026.

In addition, the relentless appreciation of the U.S. dollar against EM currencies, which began in mid-2011 and has been a strong headwind for EM local bond returns, may have reversed starting in 2025. Although the conflict in the Middle East interrupted a 14-month slide in the dollar, we see many reasons it may resume when the conflict is ultimately resolved.

Against this shifting backdrop, a blended total return strategy that allows managers to allocate capital efficiently and dynamically between EM sovereign, corporate and local debt can be particularly beneficial. One key benefit of a blended strategy is that it enables investors to **delegate tactical investment decisions to managers with expertise across the full EM debt spectrum**. Because each EM debt sub-asset class has distinct characteristics and idiosyncratic performance drivers, countries, sectors, and issuers often outperform or underperform at different points in the market cycle. This variation in performance creates opportunities for active managers to invest where their conviction is greatest and where relative value appears most promising.

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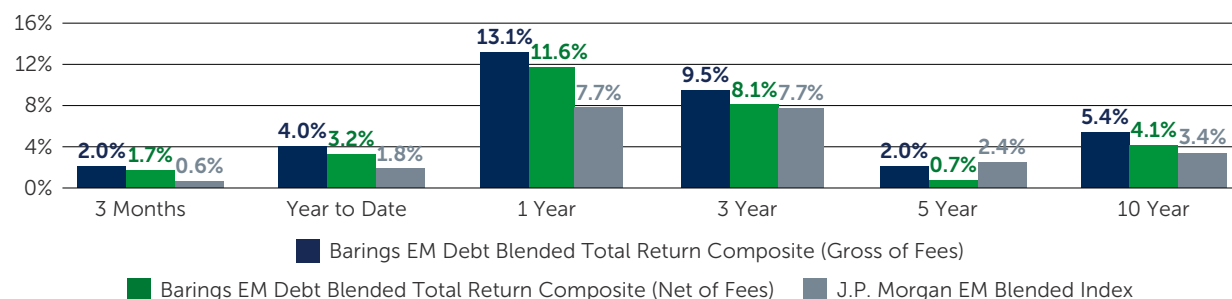
Barings’ Blended Total Return Strategy

Barings’ EM debt blended total return strategy seeks to achieve attractive risk-adjusted returns by investing across EM sovereign (hard and local currency) issuers, corporate issuers, and currencies. The strategy relies on rigorous, bottom-up analysis—rather than top-down asset allocation—to identify the best opportunities within the space. While the strategy can operate across every sub-segment of the market, it remains **highly selective within each segment**. A typical portfolio holds approximately 120 positions drawn from an opportunity set of over 800.

Moreover, the strategy is managed as a total return strategy, meaning although we provide a benchmark as a comparator, we are not constrained by its allocations.

Particularly in uncertain markets, the combination of high-conviction security selection and agile benchmark agnostic asset allocation can be key components in delivering strong performance.⁵ Our blended strategy has outperformed both an equal-weighted blend of the standard EM debt indices over the long run, as well as the return of each individual index (**Figure 6**).

Figure 6: Strong Performance Over Time

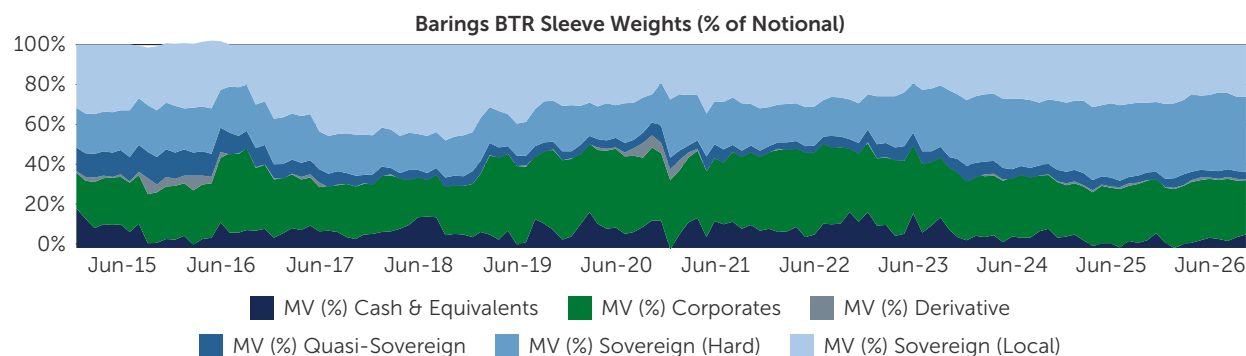


PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Gross performance is presented before the deduction of investment management fees and other applicable expenses. Net performance reflects the deduction of 1.3% which is the highest fee applicable to a retail audience. Source: Barings; JP Morgan. As of July 31, 2026. Barings BTR Composite = Emerging Markets Debt Blended Total Return. Blended Benchmark = Equal weights JP Morgan EMBIGD, JP Morgan CEMBIBD and JP Morgan GBIEMGD. Local Index = JP Morgan GBIEMGD Index. Sovereign Index = JP Morgan EMBIGD Index. Corporate Index = JP Morgan CEMBIBD Index. Please refer to the prospectus for further information. *Since inception performance starts from January 1, 2015.

The design of the strategy is intentionally flexible, with no strict guidelines on allocation to each of the sub-asset classes (although the portfolio is managed to soft internal guidelines to limit downside risk). Portfolio decisions are made dynamically, with **portfolio managers responsible for each sub-asset class regularly sharing their “best ideas”** with the rest of the portfolio management team. Following these discussions, the portfolio management team assesses the relative attractiveness of opportunities across the EM debt universe and determines where to increase or decrease exposures.

Importantly, the strategy is driven by **high-conviction country-by-country and credit-by-credit views** and avoids making top-down calls on sub-asset class relative views. While asset allocations do change, the changes occur over time and in response to changes in the underlying credit-by-credit and country-by-country convictions (**Figure 7**).

Figure 7: An Unconstrained Strategy Based on “Best Ideas”



Source: Barings. As of June 30, 2026. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. Please refer to the prospectus for further information.

5. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

Key Takeaway

Emerging markets debt is a vast and diverse asset class that provides access to a large opportunity set. Given the unique performance drivers that influence the key sub-segments of the market, certain credits and issuers tend to outperform or underperform at different times. For this reason, we see particular benefits to a blended approach.

At Barings, our blended total return strategy relies on country-by-country, credit-by-credit and currency-by-currency analysis. Because it is unconstrained by a benchmark, it gives us the flexibility to capitalize on our team's "best ideas" and execute timely allocations across geographies and asset classes in pursuit of strong risk-adjusted returns.

Key Risks

Investments in emerging markets debt are subject to risks including changes in economic conditions, interest rates, currency fluctuations, geopolitical events and issuer-specific credit deterioration. These factors can contribute to periods of heightened volatility and may adversely affect investment returns. Active management and rigorous country-by-country, credit-by-credit and currency-by-currency analysis are essential to navigating these risks.

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