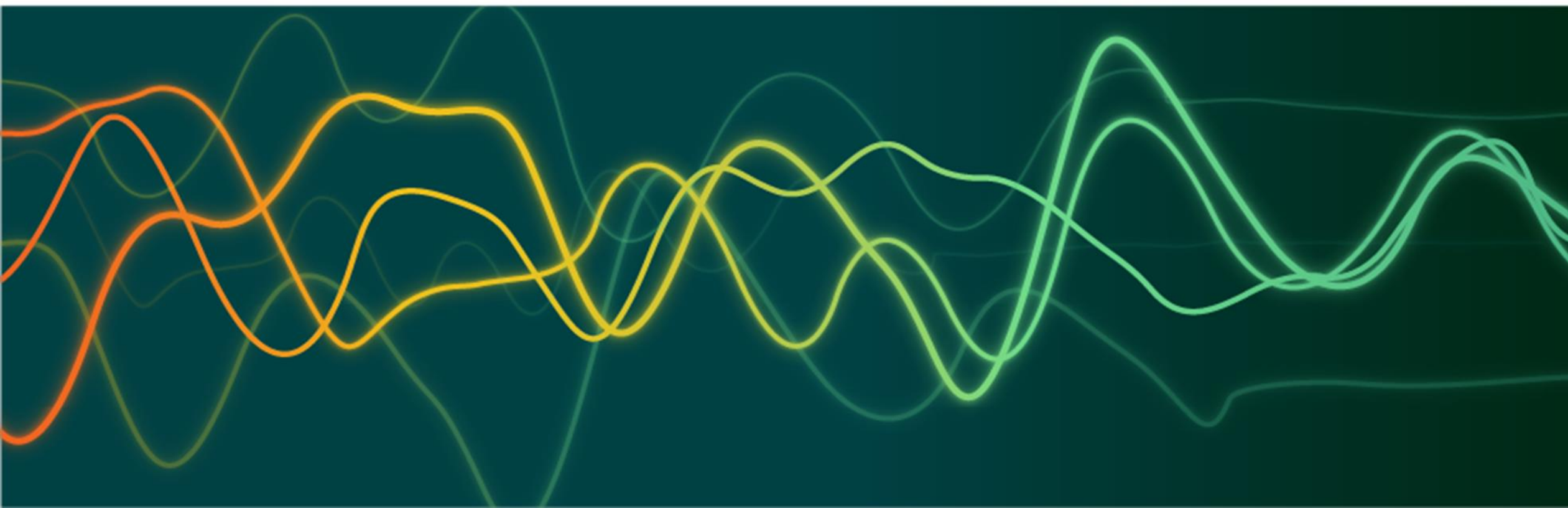


# Emerging Markets Debt Monitor

Emerging Markets Investment Team

Q1 2026



## Important Information and Disclosure

The views and opinions and/or analysis expressed are those of the author or the investment team as of the date of preparation of this material and are subject to change at any time without notice due to market or economic conditions and may not necessarily come to pass. Furthermore, the views will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing, or changes occurring, after the date of publication. The views expressed do not reflect the opinions of all investment personnel at Morgan Stanley Investment Management (MSIM) and its subsidiaries and affiliates (collectively “the Firm”) and may not be reflected in all the strategies and products that the Firm offers.

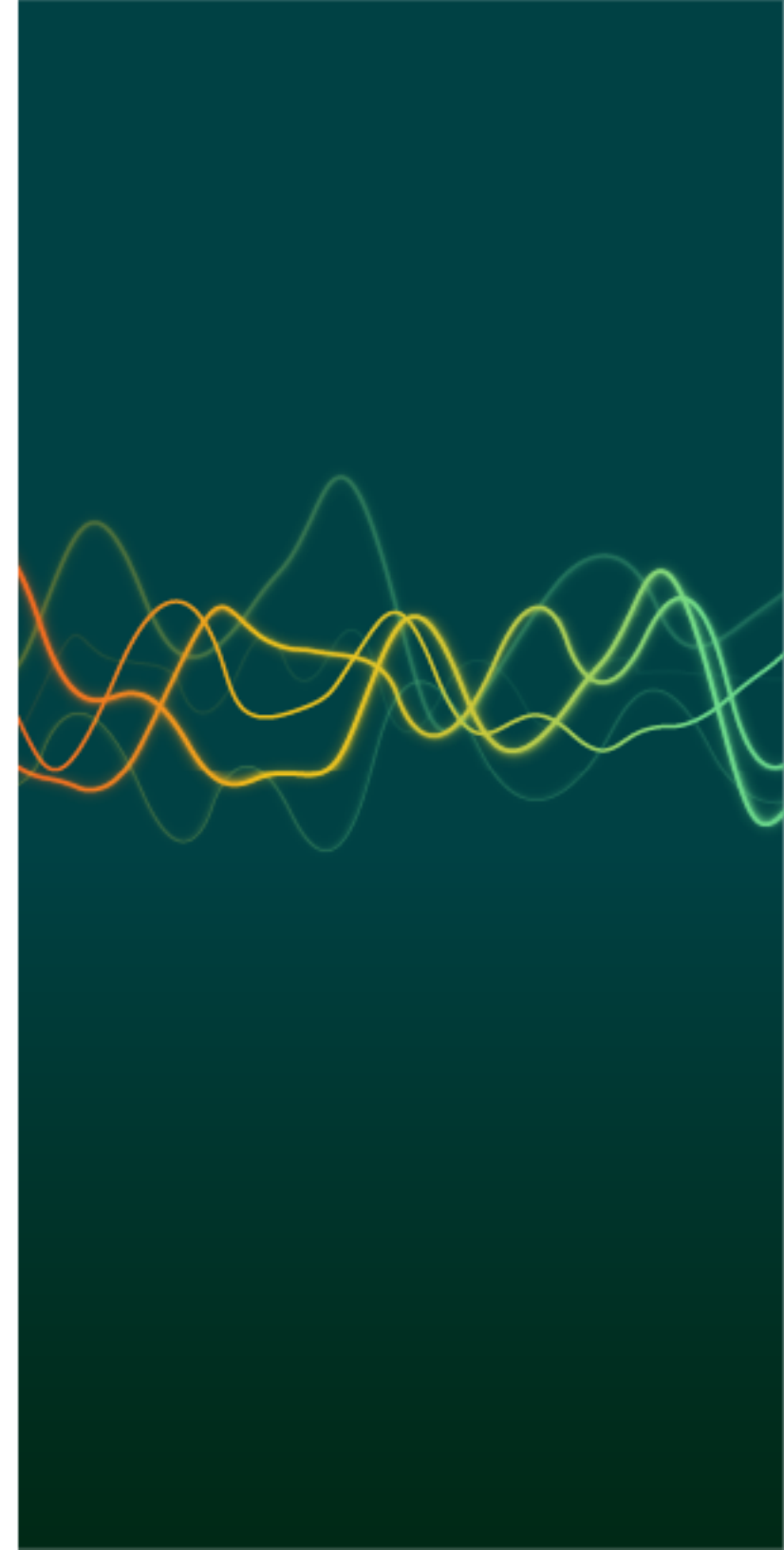
## Table of Contents

Q1 2026 RECAP  4	ROTATING TOPIC  11	Q2 2026 OUTLOOK  17	EM FX  20	EM INTEREST RATES  24
EM SOVEREIGN CREDIT  28	EM CORPORATE CREDIT  33			



If you are viewing this book on your computer or tablet, **click or tap on the title box to jump to the beginning of each section.**

# Q1 2026 Recap



## Q1 2026 RECAP

### Q1 2026 Recap

- The local and hard currency segments of the market ultimately delivered negative performance for the quarter. Performance was positive in both January and February as EM assets benefited from a weaker U.S. dollar, high real yields, spread tightening, and strong country level fundamentals. Following escalation of the conflict in Iran, most EM currencies weakened and local rates saw volatility and upward pressure. Spreads selectively widened across both sovereign and corporate credit as geopolitical risk intensified, reversing some of the compression seen previously. Negative performance in March was primarily driven by terms-of-trade deterioration for energy-importing economies and countries in regional proximity to the war.
- Following central bank rate cuts in Israel, Turkey, and Hungary in the earlier part of the quarter, central banks largely adopted a cautious “wait-and-see” approach in March as they looked to balance potentially higher inflation expectations due to higher energy prices with the potential for slowing growth. In March, there was limited policy action outside of selective easing in Mexico and Brazil. Developed market central banks such as ECB continued to lean hawkish while the BOE made a big policy shift from cutting expectations to signaling a readiness to hike if necessary.
- After months of ramped-up military pressure in the Caribbean and offshore Venezuela, on January 3<sup>rd</sup> U.S. special forces carried out a large-scale military operation to extract President Nicolás Maduro and his wife. Former Vice President Delcy Rodríguez assumed power as interim president and moved quickly to consolidate control by replacing much of the existing leadership. Following the transition, the government initiated rapid and wide-ranging reforms aimed at economic rebuilding including changes to mining laws and increased private sector participation in the oil industry. The market reaction was positive with Venezuelan bonds rallying sharply through the first quarter.
- On February 28<sup>th</sup>, the U.S. and Israel attacked Iran targeting military resources and top leadership ultimately killing Supreme Leader Ayatollah Ali Khamenei. Iran retaliated by attacking U.S. military stations and energy infrastructure across the Gulf region. The conflict escalated with Israel initiating attacks against Hezbollah in southern Lebanon and the effective closure of the Strait of Hormuz. The war increased regional geopolitical risk and created a significant oil price shock with crude oil prices spiking over \$100 a barrel on multiple occasions during the month.
- The asset class received consistent inflows for the first two months of the year for both hard and local currency funds. However, as market volatility increased investors started to shy away from the asset class in favor of traditional safe haven assets. Hard currency outflows, in particular, sharply increased resulting in net outflows of \$-2.2B for the month of March, but local currency funds fared better and held onto inflows for the month with \$0.5B.

## Q1 2026 RECAP

# Q1 2026 Recap, continued

### ASIA

- South Korea's economy was impacted by spillover effects from the Iran war. As a major energy importer and a key player in global manufacturing and semiconductors, the country is highly sensitive to rising input costs and weakening external demand. Currency pressure and investor outflows persisted as investors continued to seek USD assets.
- Policy responses, particularly in Southeast Asia, started to emerge in response to potential oil supply issues. Indonesia's decision to maintain fixed retail fuel prices could create a significant fiscal risk for the country. By absorbing the increase in oil prices through subsidies, the government has prevented an immediate price shock but at the cost of rising fiscal strain. This approach is increasingly viewed as unsustainable given weak revenue collection, a binding fiscal deficit cap, and ongoing social spending commitments.
- On March 6<sup>th</sup>, the U.S. waived Russian oil sanctions for India as oil prices increased and supply disruptions increased. India reduced its dependence on Russian oil last year to help secure a more favorable trade agreement with the U.S. India heavily depends on the Gulf for fertilizer imports so supply disruption could be a major second order effect for the country's agricultural heavy economy.

### CEEMEA

- Mozambique is one of Africa's most distressed sovereign credits and continued to weaken due to FX shortages and fiscal strains. In March, the government fully paid off outstanding IMF obligations clearing accumulated arrears. While this is viewed as positive, major fiscal reforms are needed to gain stability.
- Following the strikes in Iran, Hezbollah launched attacks toward Israel reigniting active conflict between the two parties. Israel responded with counter attacks in the southern part of the Lebanon. The proximity of the strikes has led to significant displacement for Lebanese people in the southern region of the country.
- Angola returned to capital markets with a \$2.5billion Eurobond issuance and this was paired with a tender offer to repurchase 2028 notes. Angola's economy is heavily dependent on oil exports so higher crude prices aided market sentiment. While increased oil prices were also positive for Gabon, assets rallied in response to the country formally requesting a new IMF program.

### LATAM

- Colombia entered a critical phase of its electoral cycle ahead of the May presidential election. The left-leaning candidate did better in polls than expected as a byproduct of the improved economic activity. Inflation is still elevated and central bank policy was tested during the March meeting with a rather unusual deeply split decision coupled with the Finance Minister walking out of the meeting in protest.
- Brazil saw a notable shift in its political landscape ahead of general elections this fall as election dynamics tightened considerably during the quarter. Lula's dominance faded, with a stronger challenge emerging from right-leaning candidates, increasing uncertainty around the policy outlook.
- Uruguay saw particularly strong currency appreciation YTD coupled with unexpectedly low inflation. Concerns regarding excessive currency strength and its detrimental impact on the export sector prompted the Central Bank of Uruguay to bring the February meeting forward to the end of January and cut rates by 100bps.

## Q1 2026 RECAP

# EM Corporate Credit – Q1 Update and Outlook

### HIGHLIGHTS DURING THE QUARTER AND YEAR:

The CEMBI index returned -0.21% of total returns for Q1 2026, driven by a -0.52% return from credit spreads, partially offset by returns of 0.31% from US rates. This compares with -2.25% and -1.26% returns for the EM local currency and hard currency sovereign indices, respectively. As has been the case for many years now, CEMBI remains a higher credit quality and lower duration index versus other EM indices, and hence tends to deliver returns with significantly lower levels of volatility.

Surprisingly, most of the negative spread returns for the quarter came from the investment grade portion of the index, which represents approximately 60% of the benchmark. About half of these negative returns were driven by spread moves in companies located in the GCC due to the US-Israel-Iran conflict. A majority of the remainder came from the unexpected sell-off of Raizen, Brazil's largest sugar and ethanol company, which is currently undergoing a financial restructuring of its capital structure. The high yield portion of the benchmark contributed approximately 8bps of positive spread return, driven primarily by Latin American corporates. Some specific highlights for the quarter include:

- Credit spread moves have been fairly well contained considering the US-Israel-Iran war contrast to other assets such as FX, rates and equities. While GCC corporate spreads did widen, they tend to be sovereign-related and have very strong credit profiles, and as such, investors are confident they will have the capacity to retain their financial health. The sector most impacted was the property developers in the UAE, which tend to be privately owned and more leveraged;
- Due to the Strait of Hormuz closing LNG, petrochemicals and fertilizer have also seen sharp price increases. The petrochemical sector in particular, which has been in a down cycle for the past couple of years, saw improving chemical spreads and better financial prospects to companies with plants far away from the conflict;
- Brazil corporates experienced a high bout of volatility during this period. This was catalyzed by the surprise announcement of Raizen, a large Brazilian IG-rated issuer, to pursue a financial restructuring of its debt. This issuer is widely held by global crossover and dedicated IG funds that were not prepared for such sharp drawdown. In sympathy with this news, other highly leveraged Brazilian corporates also sold off materially – most notably, CSN, a major iron ore, steel and cement producer;
- The Colombian independent oil & gas sector had some positive developments during the quarter. Consolidation deals were announced, which may help address the small scale and reserve replacement concerns of many independent upstream players in Colombia (such as Geopark, Frontera, etc.). These Colombian oil & gas players may also be well positioned to capitalize on profitable acquisition opportunities in Venezuela, should they come along;
- We entered 2026 expecting oil prices to remain weak this year due to the excess supply concerns in the physical market and higher risks of weakening OPEC+ coordination. Instead, the US-Israel-Iran war has created one of the biggest energy shocks the world has seen, and this has allowed issuers such as Kosmos, a pan-African oil company, who was largely underwater on its equity, to be given a new lease on life

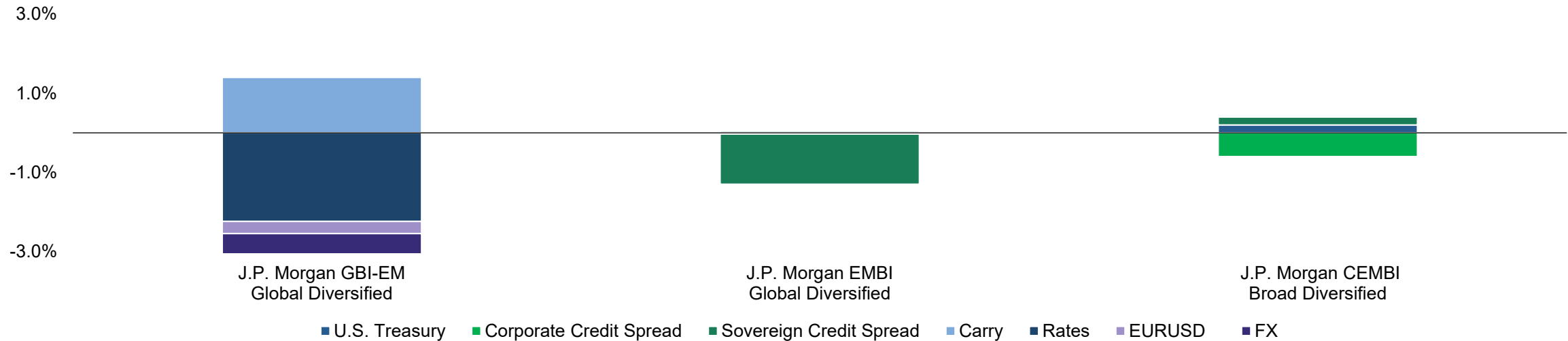
Absent a material negative event, we believe demand for fixed income will remain robust, and the more limited supply of new issuance will bode well for EM corporate credit spreads. Many credits remain useful diversifiers away from U.S. corporate debt, which is far more exposed to a slowdown in the U.S. economy. EM corporate issuers are generally less vulnerable to EM economic slowdowns, and fundamentals are relatively healthier.

Please reference page 2 "Important Information and Disclosure"

Q1 2026 RECAP

Index Performance Recap

Q1 2026



Index	FX	EurUsd Exchange Rate Move	Rates	Carry	Sovereign Credit Spread	Corporate Credit Spread	U.S. Treasury	Total Return
J.P. Morgan GBI-EM Global Diversified	-1.10%	-0.31%	-2.24%	1.40%	—	—	—	-2.25%
J.P. Morgan EMBI Global Diversified	—	—	—	—	-1.27%	-0.03%	0.04%	-1.26%
J.P. Morgan CEMBI Broad Diversified	—	—	—	—	0.20%	-0.60%	0.20%	-0.21%

Source: J.P. Morgan, Morgan Stanley Investment Management calculations. Corporate Credit Spread and Sovereign Credit Spread return attributions are modeled by decomposing the overall spread return to its two components: the sovereign spread and the corporate spread over the sovereign. It is not possible to invest directly in an index. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information. Please refer to page 39 for a description of each index.

## Q1 2026 RECAP

# Index Performance Recap

## Q1 2026

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J.P. Morgan EMBI Global Diversified	—	—	—	—	-1.27%	-0.03%	0.04%	<b>-1.26%</b>
J.P. Morgan CEMBI Broad Diversified	—	—	—	—	0.20%	-0.60%	0.20%	<b>-0.21%</b>

## 2025

Index	FX	EurUsd Exchange Rate Move	Rates	Carry	Sovereign Credit Spread	Corporate Credit Spread	U.S. Treasury	Total Return
J.P. Morgan GBI-EM Global Diversified	6.84%	2.47%	4.13%	5.82%	—	—	—	<b>19.26%</b>
J.P. Morgan EMBI Global Diversified	—	—	—	—	7.78%	0.02%	6.50%	<b>14.30%</b>
J.P. Morgan CEMBI Broad Diversified	—	—	—	—	3.03%	-0.34%	6.03%	<b>8.73%</b>

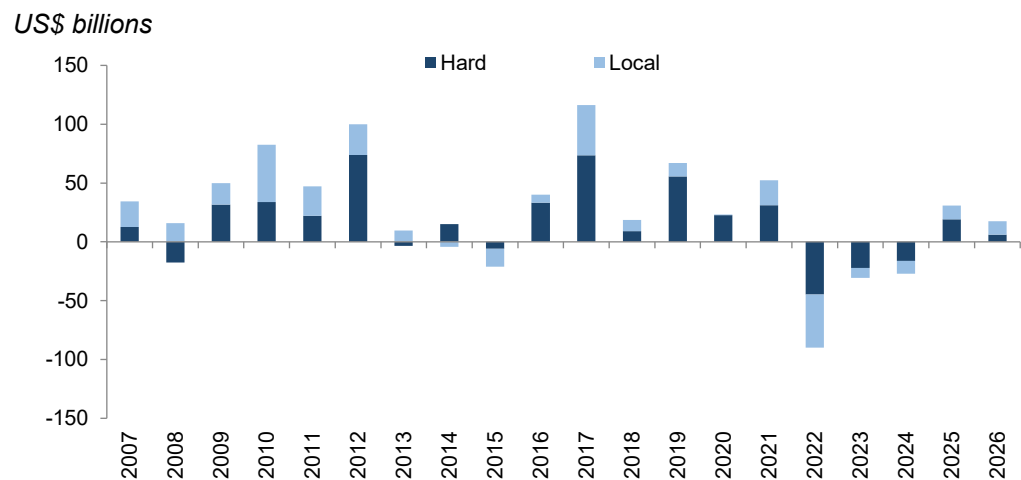
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Q1 2026 RECAP

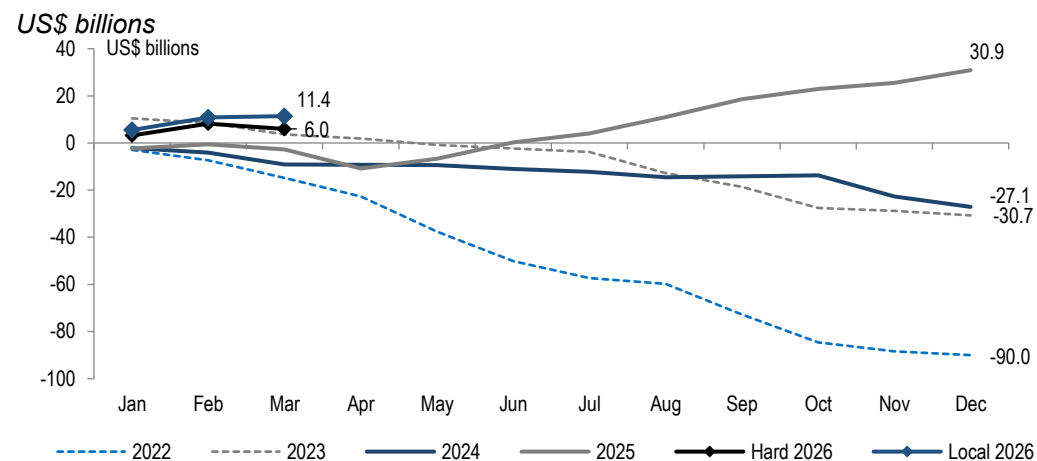
Technical: 2025 Flows

- Investors continued to flock to emerging markets debt for the first two months of the year continuing investor trends that started to pick up momentum in May 2025.
- A more cautious tone materialized in March as investors turned to traditional safe haven assets in light of heightened geopolitical risk. Despite the risk off activity in March, hard currency funds were net \$6B and local currency funds were net \$11.4B for inflows for the quarter.

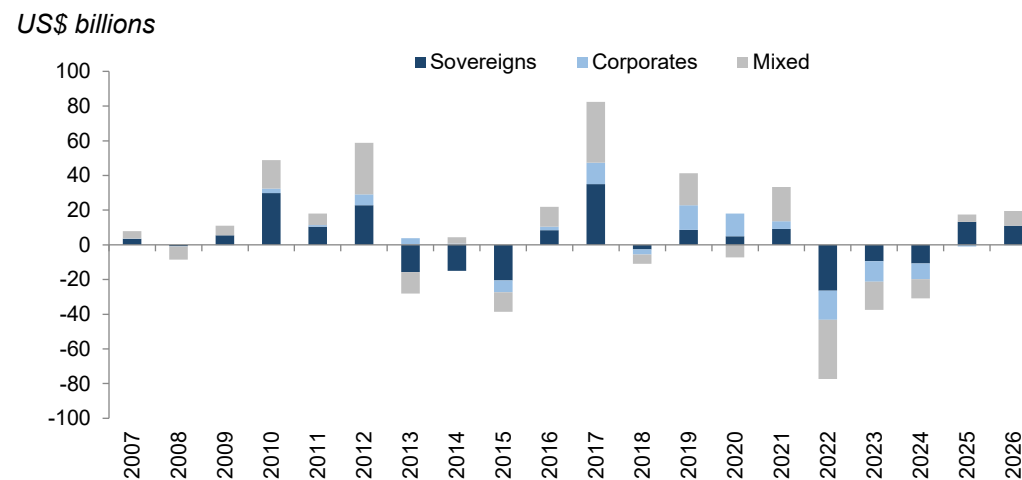
Annual Flows by Currency



Annual Cumulative Bond Flows



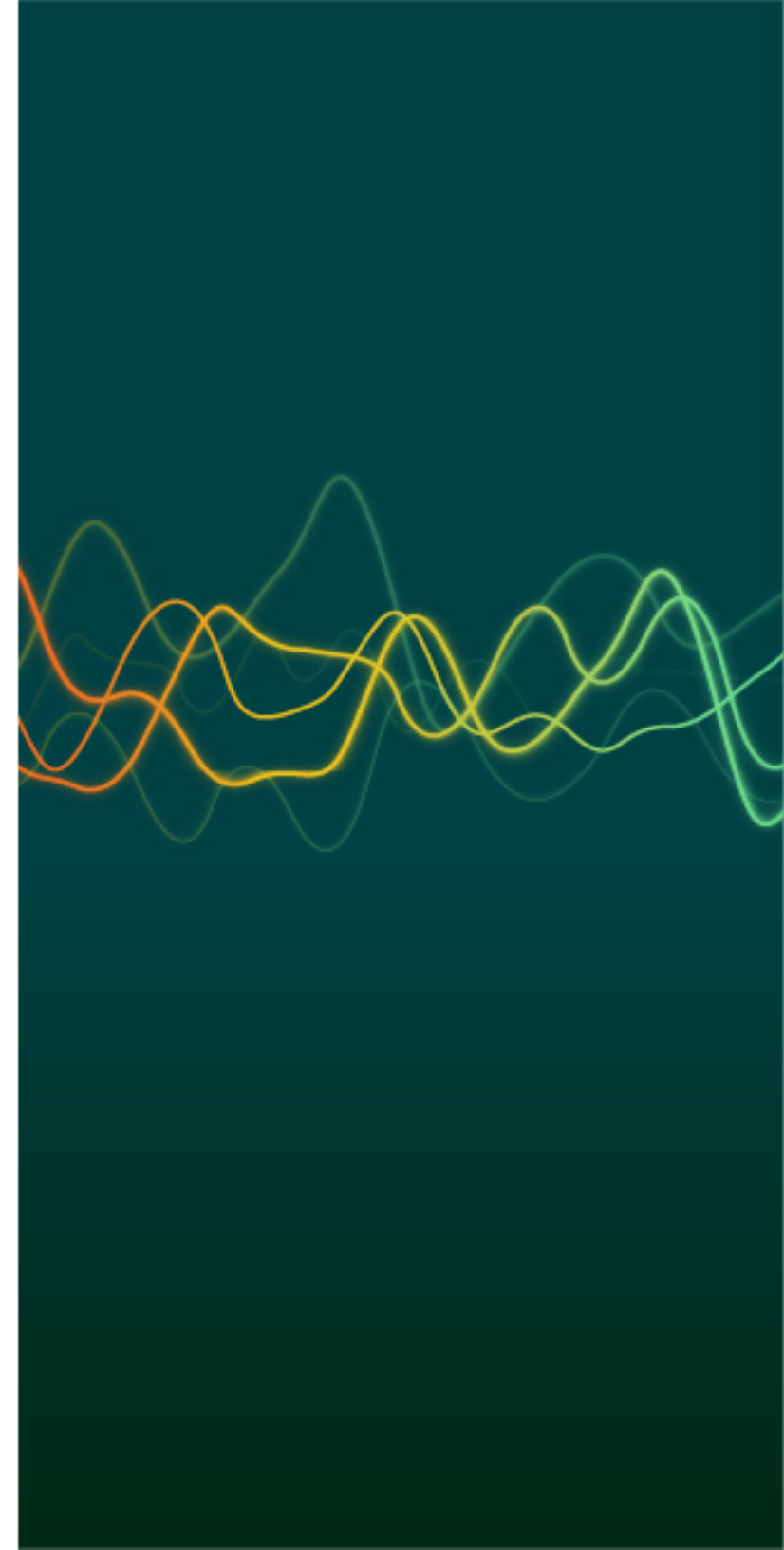
Annual Flows by Sovereign/Corporate/Mixed (Retail)



Source for all charts above: JPMorgan. All data as 3/31/2026. For illustrative purposes only. Past performance is no guarantee of future results.

# Rotating Topic

Iran Update



ROTATING TOPIC

Pre-War Framework

Variant View and Proactive De-Risking.

Our Edge: Information & Process

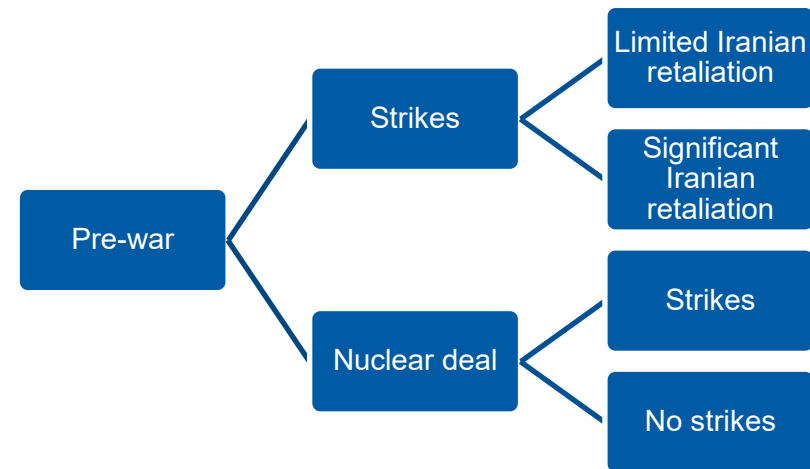
- Direct regional Intelligence
  - Team members based on Abu Dhabi and D.C. Boots on the ground
  - Regional exposure and a history of exposure: Ukraine and Israel/Lebanon
- Daily Iran monitoring + IRGC internal dynamics
- Attended 11 Iran / MENA Geopolitical events over January and February 2026
- Conducted 54 in-person meetings across eight Middle East / North Africa countries over January and February 2026
- Cross-asset + cross-region synthesis (LatAm, EM, geopolitics)
- Lessons from prior crises

Views Before the War – High Probability of Escalation

- Consensus was a limited US/Israel strike was likely and the reaction from the Iranian regime would be contained (most likely) – we thought differently.
- The twelve-day war in June 2025 left many issues unresolved. The day after the war, both Iran and Israel started preparing for a second round of war.
- The gap between the US and Iran in the nuclear negotiations was very large.
- There was a window of opportunity for Israel to attack given the destruction of Iranian missile defense systems in June 2025 and a pro-Israel Trump presidency

What We Were Watching

- Military signals: US asset repositioning, Iran hardening nuclear sites
- Political signals: widening negotiation gaps, rising tolerance for confrontation
- Critical chokepoint: Strait of Hormuz (~25% of global seaborne oil; ~33% fertilisers, ~30% helium)
- Market signals: mispricing of geopolitical risk, complacent oil/volatility



Source: Morgan Stanley Investment Management as of 3/31/2026. The views and opinions expressed are those of the Emerging Markets Debt Team at the time of the writing of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. **Past performance is no guarantee of future results.**

ROTATING TOPIC

# Escalation Framework

## Active Intelligence and Market Movements

### What We Were Doing

- Do not rely solely on sell-side or public commentary; organize your own information flow and stress-tested narratives in real time.
- Use AI tools to synthesize large volumes of notes, calls and local-language reporting.
- ~50 distinct calls and briefings between 1–25 March 2026, spanning Iran, Israel, U.S., Gulf, military/security, energy, macro and cross-asset specialists.
- Direct conversations with marine insurers underwriting Hormuz risk, rather than relying on media commentary.

### Second- and Third-Order Effects We Monitored

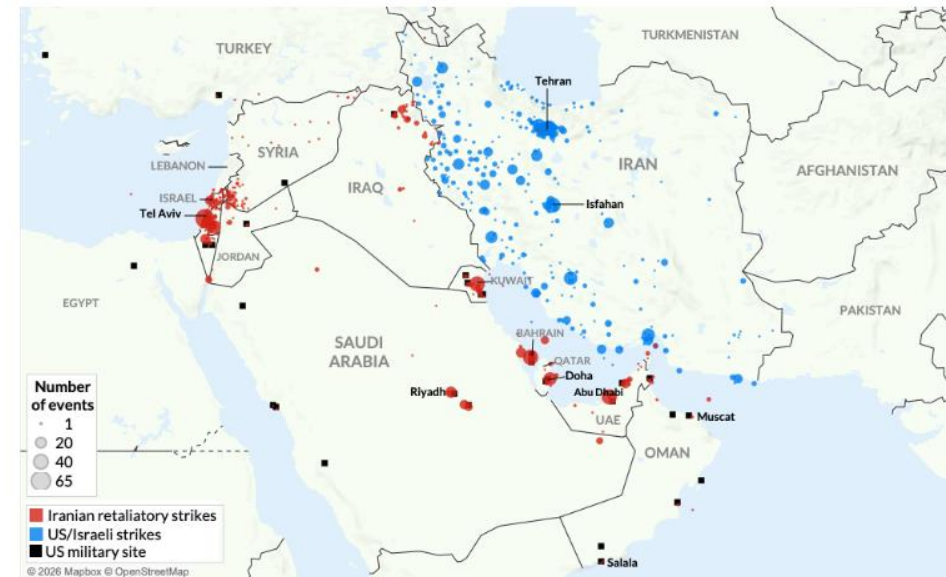
- Fertilizer flows, shipping insurance withdrawal, and capital mobility in the Gulf.
- Relative winners among export-capable energy producers (e.g., Kazakhstan, Nigeria).
- Spillovers into inflation, current accounts, and tourism-sensitive economies.

### Key Observations

- Iran continued to demonstrate military capability through sustained drone and missile activity, with command-and-control structures appearing resilient despite leadership changes
- Attacks on radar systems and energy infrastructure in Israel and Gulf countries suggest operational capacity remains intact
- The Strait of Hormuz is effectively constrained by insurance withdrawal, crew reluctance, mine and drone risk, and broader confidence effects

### Joint US-Israeli strikes and retaliatory Iranian actions

28 February - 22 March\* 2026



\*Data for 22 March are included through 10 a.m. CET only. Strikes include both successful and intercepted airstrikes, drone strikes, and missile attacks. This is made with our new daily crisis data. Information subject to verification and revision. Source for US military facilities: American Security Project.

Source: Morgan Stanley Investment Management, Bloomberg, and ACLED as of 3/31/2026. The views and opinions expressed are those of the Emerging Markets Debt Team at the time of the writing of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. **Past performance is no guarantee of future results.**

ROTATING TOPIC

# Escalation Framework

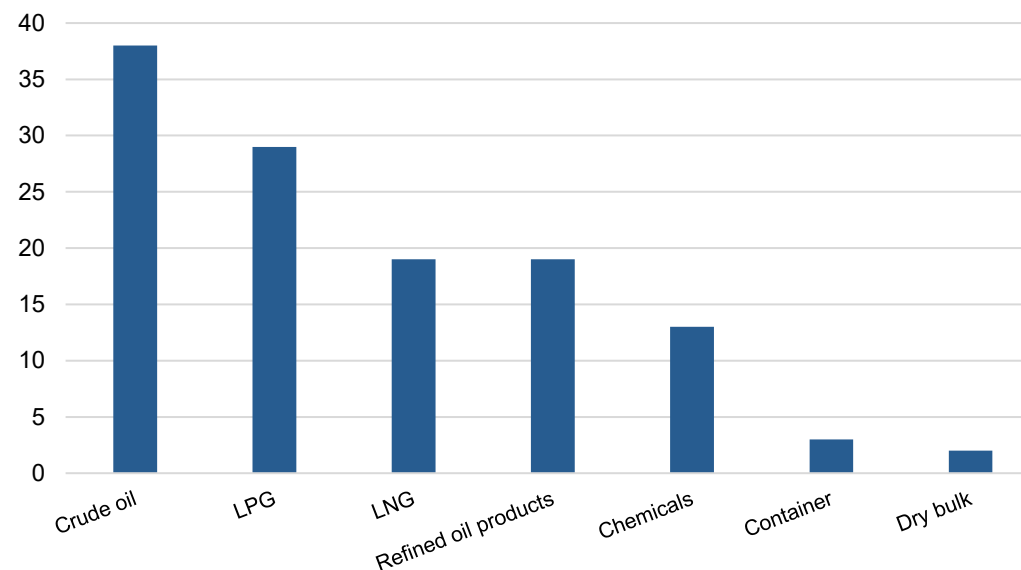
## Why Hormuz Matters

### The Strait

- Hormuz carries roughly 1/4 of global seaborne oil, ~19% of LNG, and ~38% of crude trade—making normalization slow even with ceasefire headlines.
- The Strait of Hormuz is effectively constrained by insurance withdrawal, crew reluctance, mine and drone risk, and broader confidence effects:
  - Daily transits fell ~95% vs pre-conflict.
  - On 24 March, zero oil, LPG or LNG transits were recorded.
- Energy prices repriced sharply:
  - Brent: \$68.02 (2025 avg) → \$100.96 (23 Mar 2026).
  - TTF gas: \$11.96 → \$20.93.
- **Even a ceasefire headline may not normalize trade quickly given logistical and insurance frictions.**



Share of global trade (%) passing through the Strait based on average flows the week before the war beginning on 28 February.



Source: UN Trade and Development, based on data provided by Clarksons Research 2026

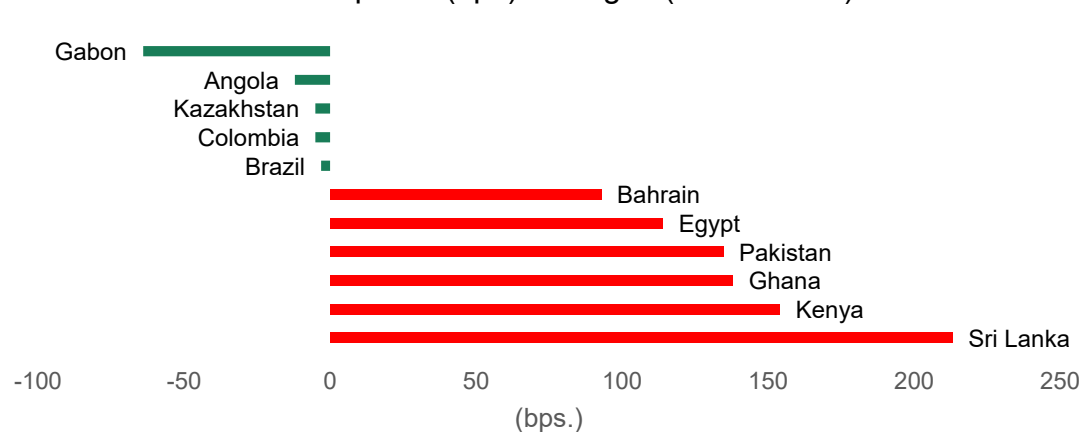
Source: Morgan Stanley Investment Management and Wikimedia Commons, Bloomberg as of 3/31/2026. The views and opinions expressed are those of the Emerging Markets Debt Team at the time of the writing of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. **Past performance is no guarantee of future results.**

ROTATING TOPIC

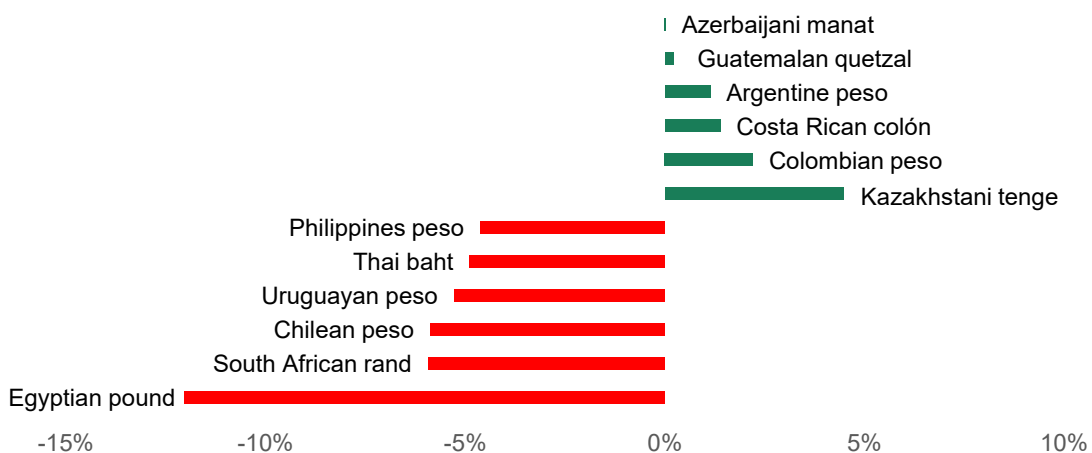
# Market Reaction

Market volatility stayed relatively contained rather than a broad macro risk off event. Proximity to conflict and energy supply/demand dynamics drove differentiation between winners and losers.

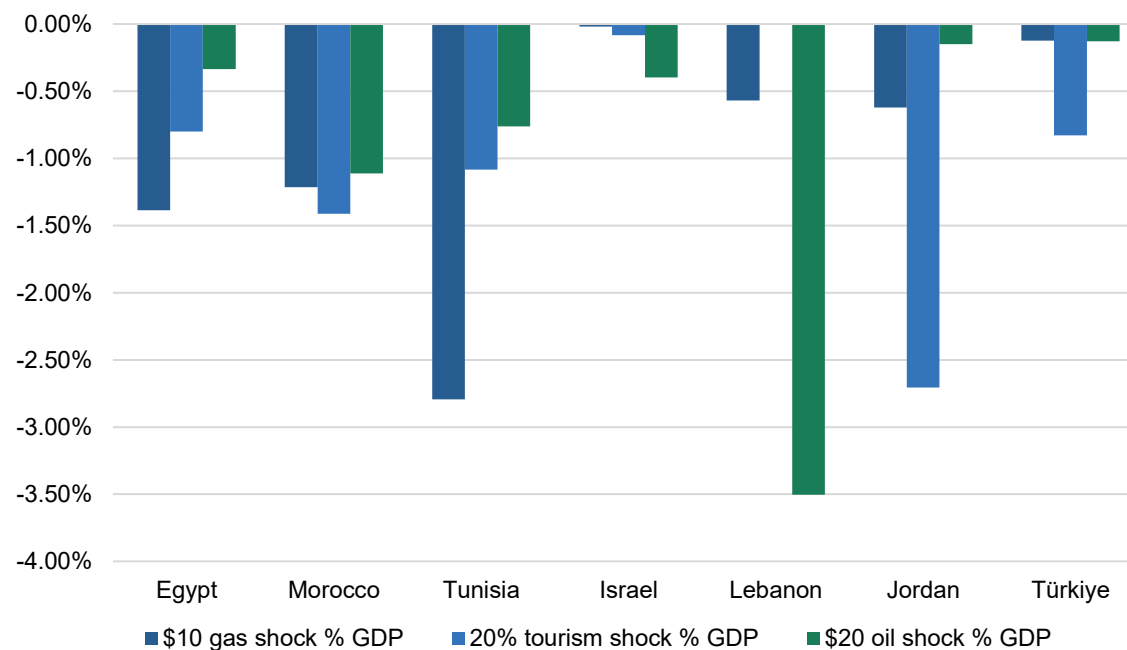
Credit Spread (bps) Changes (2/27 to 3/31)



FX % change (2/27 to 3/31)



Select Current Account Sensitivity to Oil, Gas and Tourism Shocks (% GDP)



Bars show the estimated direct current account impact of three separate shocks, expressed as a percent of 2024 GDP: a +\$20/bbl oil price shock, a +\$10/MMBtu gas price shock, and a 20% decline in tourism receipts. Oil and gas impacts are calculated by applying the price shock to each country's 2024 net trade balance in oil and gas, respectively. Tourism impact is calculated as the shock to travel credits, using 2024 tourism receipts.

	2025 average	Current (Mar 23, 2026)
Brent oil	68.02	100.96
Europe TTF gas	11.96	20.93

Source: Morgan Stanley Investment Management and Bloomberg as of 3/31/2026. The views and opinions expressed are those of the Emerging Markets Debt Team at the time of the writing of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. **Past performance is no guarantee of future results.**

## ROTATING TOPIC

# Looking Forward – Scenarios and Risks

### Base Case

- We expect the conflict to conclude once President Trump declares that core objectives have been achieved
- Most military assessments point to a 4–6-week duration as does the U.S. administration. This is driven primarily by political decision-making rather than battlefield constraints
- The Iranian regime is likely to remain in place, though weaker and more overtly militarized

### Escalation / De-Escalation Forces to Watch

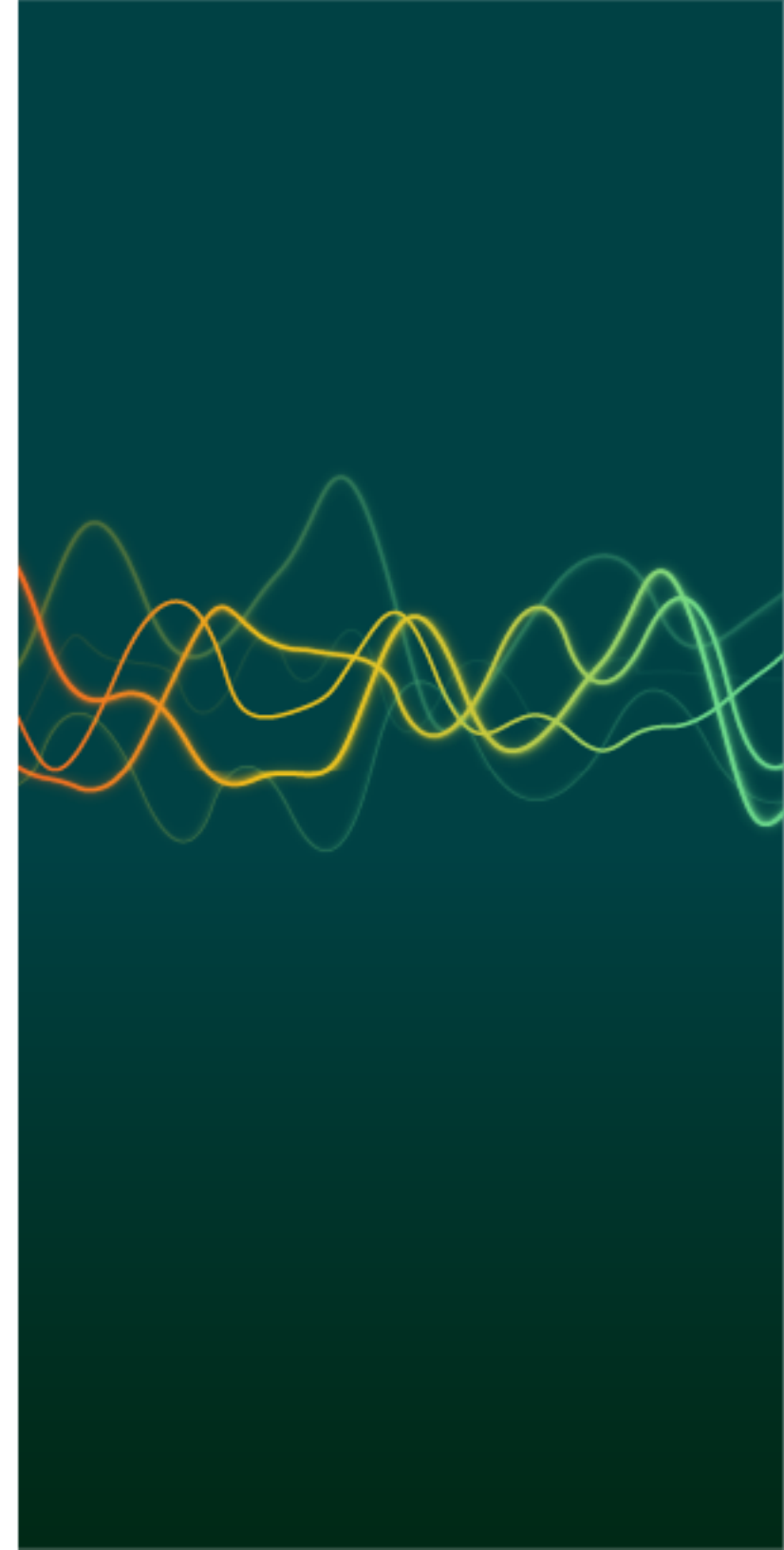
- Escalation risks: U.S. control of Kharg Island; Houthi involvement disrupting Red Sea traffic; intensified attacks on energy infrastructure
- De-escalation forces: High oil prices increasing political pressure on Trump; internal divisions within the MAGA coalition; reduced Iranian missile and drone activity

### Alternative Scenarios

- Shorter campaign and negotiated off-ramp: Continued strikes followed by a ceasefire/understanding via mediators. Trump/Israel declare objectives have been met. Iran claims victory via survival.
- Longer campaign and negotiated off-ramp: Similar end-point but length of the war is dragged out by ambiguity over what counts as enough to claim victory.
- Regime transition: Disruption yields a security-centric leadership that becomes more amendable to negotiation with the United States on nuclear issues and ballistic missiles. Potentially de-escalatory.
- Regime fragmentation: Fractionalization within Iran leads to uncoordinated decision-making and escalation including via mining attempts or attacks on critical infrastructure.

***The diversity of the emerging markets universe will include both winners and losers representing opportunity for those possessing the wherewithal to actively manage it.***

# Q2 2026 Outlook



## Q2 2026 OUTLOOK

### Q2 2026 Outlook

#### MACRO DRIVERS

- The U.S. Fed held rates at the January and March meetings. The pause in January raised questions about the pace of future cuts. The March meeting had a more cautious tone as the Fed balances potential inflationary pressures along with negative employment risks. In the near term, similar to many other countries a “wait-and-see” approach is likely but the new Federal Reserve Chair, Kevin Warch, is scheduled to take office in May.
- Geopolitical conflicts remain between Russia-Ukraine and Israel-Hamas. A U.S. backed ceasefire between Israel and Hamas moved into Phase 2 in mid-January, but volitions were ongoing and Hamas disbarment was a continued sticking point. Peace talks for Russia-Ukraine were largely stalled in March since the U.S. focus shifted to the Middle East. Oil infrastructure in Russia increasingly became a target while Russia’s momentum in Ukraine started to slow down as the period progressed.
- The tail risks of the Iran war including duration of the conflict and oil prices/supply remain uncertain. Prolonged volatility could create more long-lasting impacts from an economic and humanitarian perspective. Oil prices are likely to remain elevated for some time which will have ranging impacts on economies.

#### COUNTRY DRIVERS

- Country level policy responses to the oil supply shocks started to emerge just a couple weeks after the onset of the conflict. Select countries, particularly in Southeast Asia, proactively came out with policy responses which ranged from work from home initiatives to fuel quotas to shortened work weeks to fixed fuel prices. The sustainability and potential fiscal strain of these policies will be crucial to monitor.
- Many countries have key elections this year including presidential elections in Brazil, Colombia, and Peru. Additionally, Hungary has its parliamentary elections, and the U.S. has mid-term elections in November. Elections serve as a key inflection point for policy.
- While the landscape is very differentiated and geopolitical risks increased in select regions, individual country level fundamentals continue to improve lowering the sovereign risk premium. Bottom-up country level evaluation will continue to be key to uncover value.

The views expressed are those of the Strategy’s investment team and are current only through the date stated on the cover of this presentation. These views are subject to change at any time without notice based upon market or other conditions, and Morgan Stanley Investment Management disclaims any responsibility to update such views. Different views and opinions may be expressed by others. These views may not be relied upon as investment advice and, because investment decisions are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Morgan Stanley Investment Management strategy. Please see additional important information and disclosure contained in the Appendix.

Q2 2026 OUTLOOK

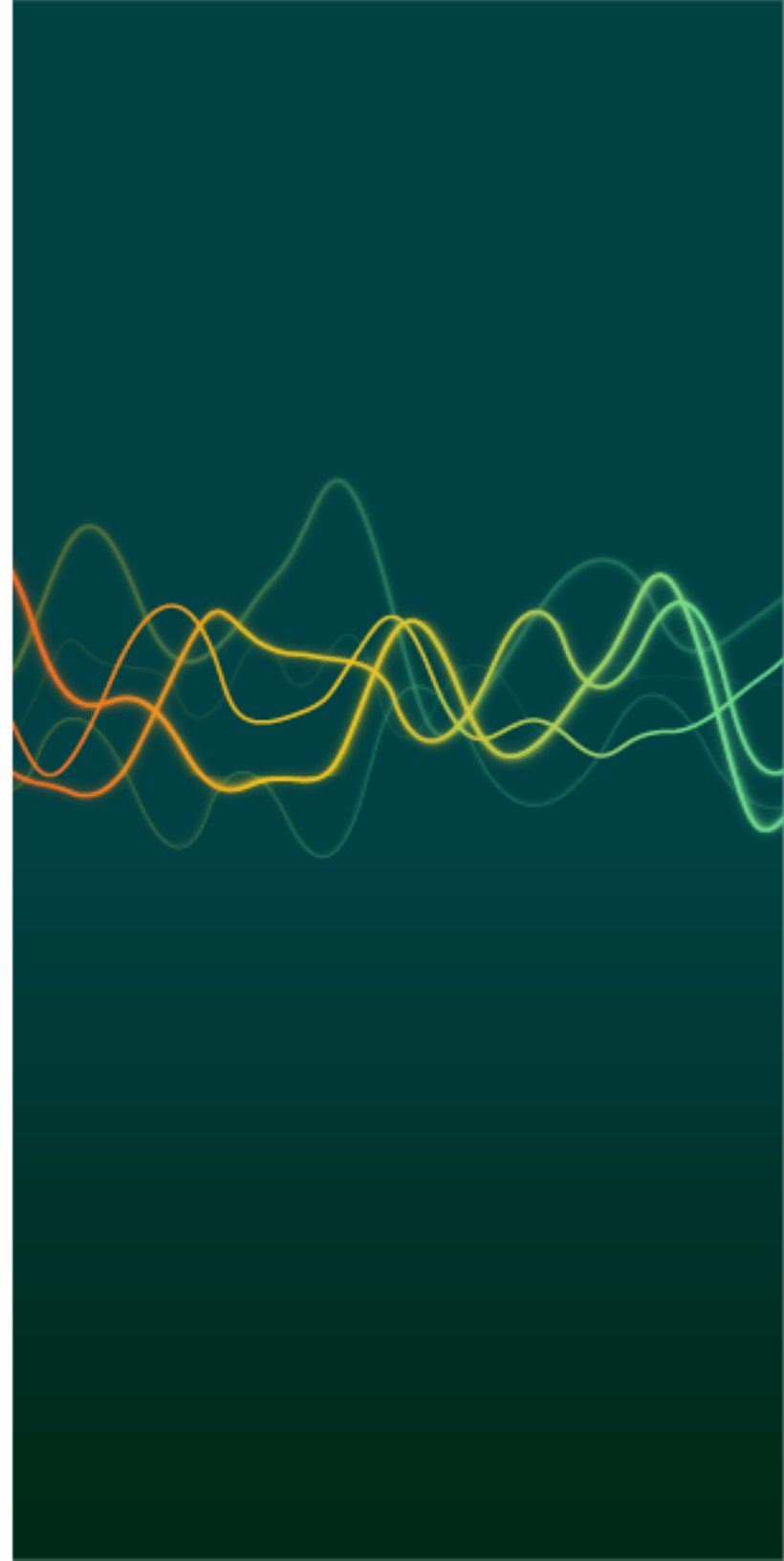
EMD Risk Factor Dashboard

Outlook and Summary

	Underweight	Moderate Underweight	Neutral	Moderate Overweight	Overweight	Summary
<b>Currency</b>			◆			We move currencies to neutral. Coming into the year, currencies were supported by the macro backdrop of a weaker USD, but many EM currencies saw volatility and downward pressure in March.
<b>Local Interest Rates</b>				◆		We keep local rates at moderate overweight. While yields experienced volatility and repriced higher in March, real-yield differentials remain wide between DM and EM.
<b>Sovereign Credit</b>			◆			We move sovereign credit to neutral. Credit spreads widened overall due to the increased geopolitical uncertainty but rather than a broad market selloff volatility was more concentrated to energy markets and countries in regional proximity.
<b>Corporate Credit</b>			◆			We move corporate credit to neutral. Distress in specific Brazilian issuers and increased risk from the US-Israel-Iran war has driven spreads wider. However, petrochemical producers outside of the GCC remain strategically important.
<b>EM Equity</b>			◆			We move EM equity to neutral. Valuations remain reasonably attractive, though stagflationary risks remain

For informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The tactical views expressed above are a broad reflection of our team's views and implementations, expressed for client communication purposes. Individual team allocations may differ. The information herein does not contend to address the financial objectives, situation or specific needs of any individual investor. The signals represent the Teams view on each asset class..

# EM FX



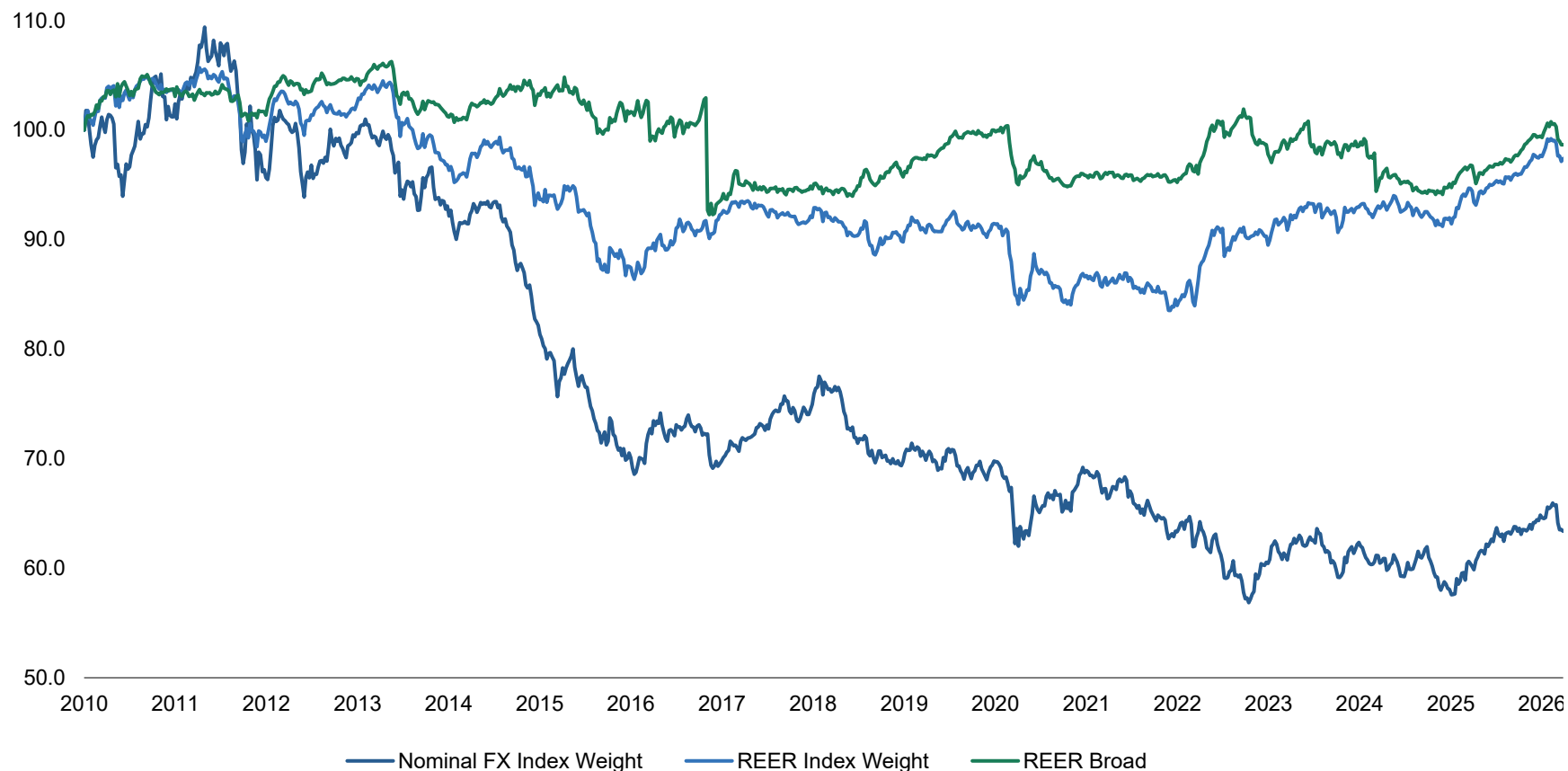
EM FX

EM currencies broadly strengthened in January and February but dipped sharply in March due to geopolitical volatility and U.S. dollar strength.

**Nominal FX Index Weight:** Nominal FX (in GBI-EM Index) has weakened significantly since 2018.

**REER Index Weight:** But looking at real effective exchange rate (REER) is a better way to get a sense of value. This shows less of a decline but still highlights recent volatility and current value.

**REER Broad:** If you broaden the universe beyond the GBI-EM benchmark it shows that FX is not as cheap by this measure but value remains.

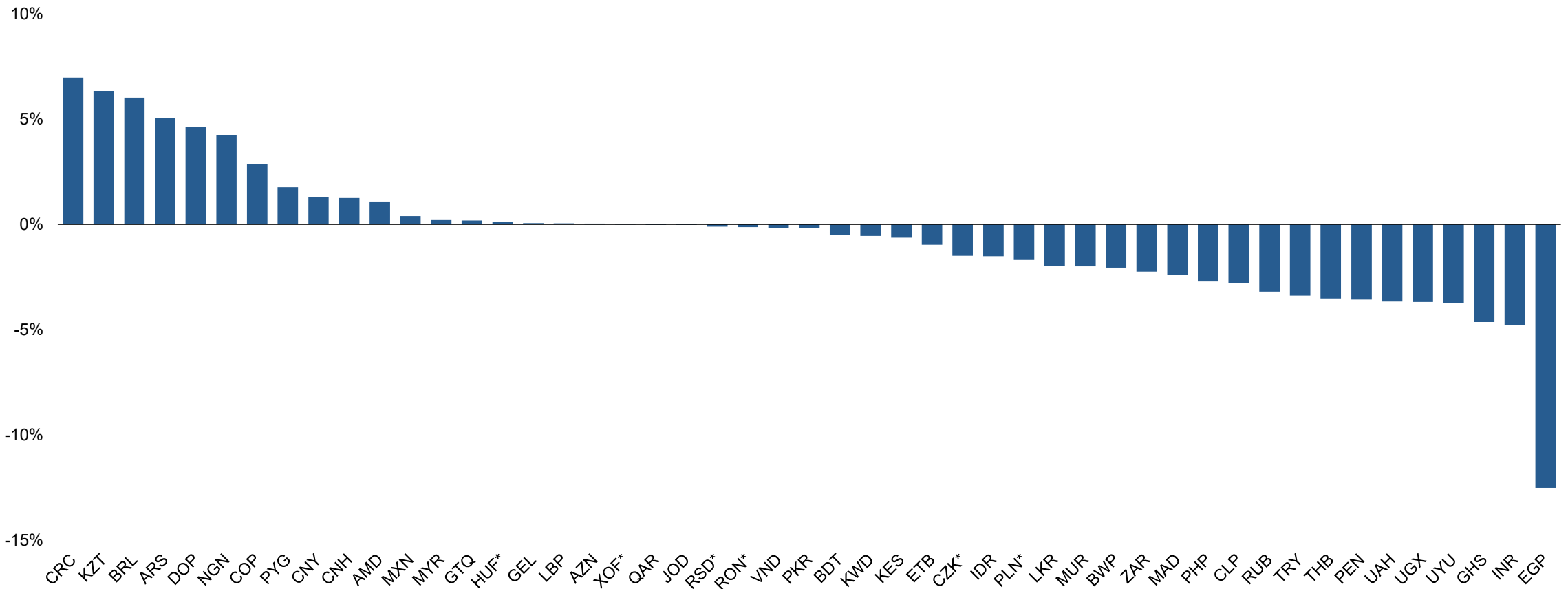


Source: J.P. Morgan, Barclays. Nominal FX Index Weight is the J.P. Morgan GBI-EM Global Diversified index currencies and weights. REER Index Weight is the Barclays real effective exchange rate data of the currencies in the J.P. Morgan GBI-EM GD. REER Broad uses Barclays real effective exchange rate data for the following countries equal weighted: Brazil, Chile, Colombia, Hungary, Indonesia, Malaysia, Mexico, Peru, Philippines, Poland, Romania, South Africa, Thailand, Turkey, China, India, Uruguay, Vietnam, Nigeria, Egypt. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

EM FX

Despite general EM currency weakness in March there were pockets strength. Oil exporters with shipping routes outside the Middle East such as Kazakhstan and Colombia saw FX rallies through March while Costa Rica relies primarily on renewable energy sources and imports most of its petroleum from the U.S.

FX QoQ Change vs USD

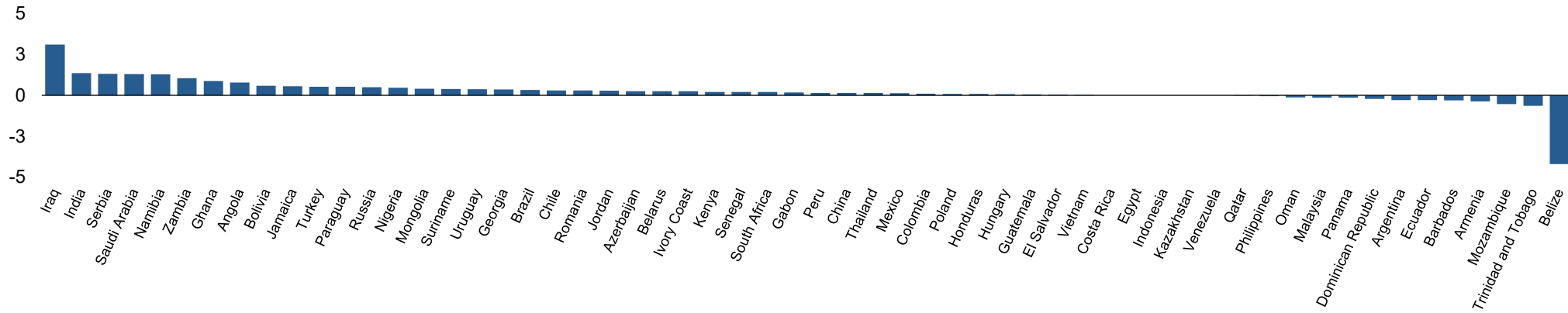


Source: Bloomberg, Morgan Stanley Investment Management. \*Versus euro. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

EM FX

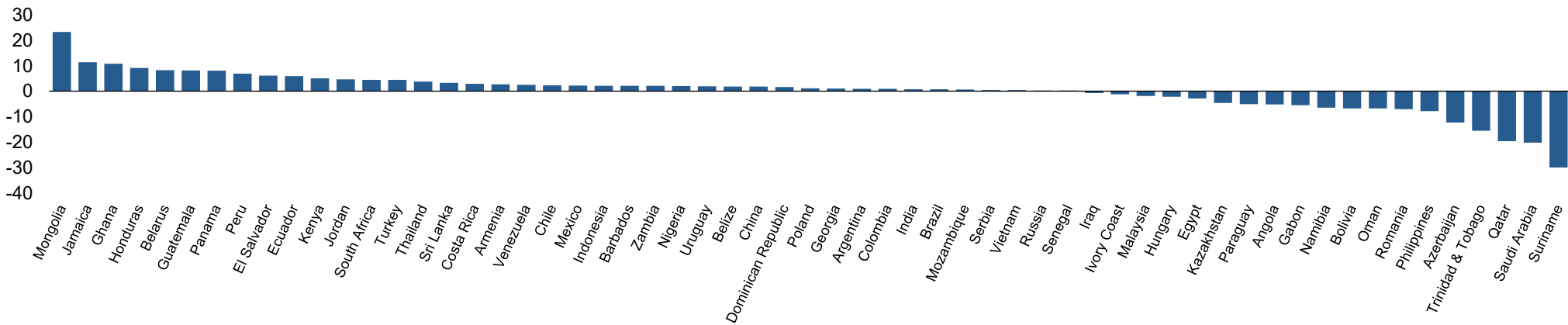
EM FX Likes Good Growth and Strong External Balance

% Change in IMF Growth Forecasts (From April 2024 WEO to October 2025 WEO)



Growth forecasts are generally muted compared to a year ago due to the uncertainty of tariffs

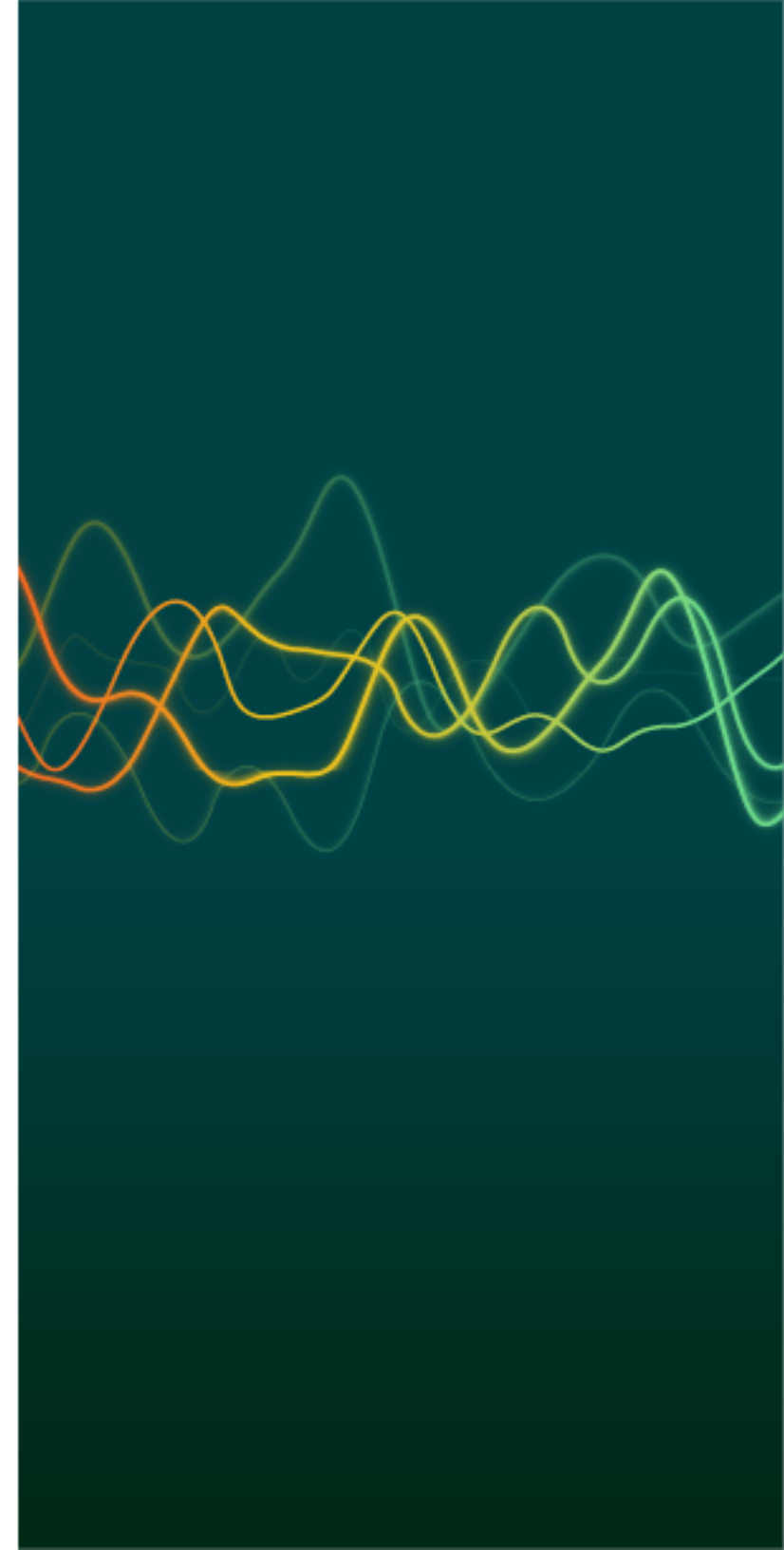
Current Account % Change as % of GDP (2013 to 2025 Estimates)



Current account adjustments have been mixed, but commodity exporters have also generally fared better than importers.

Source: IMF World Economic Outlook (WEO). Data provided is for informational use only. See end of report for important additional information.

# EM Interest Rates

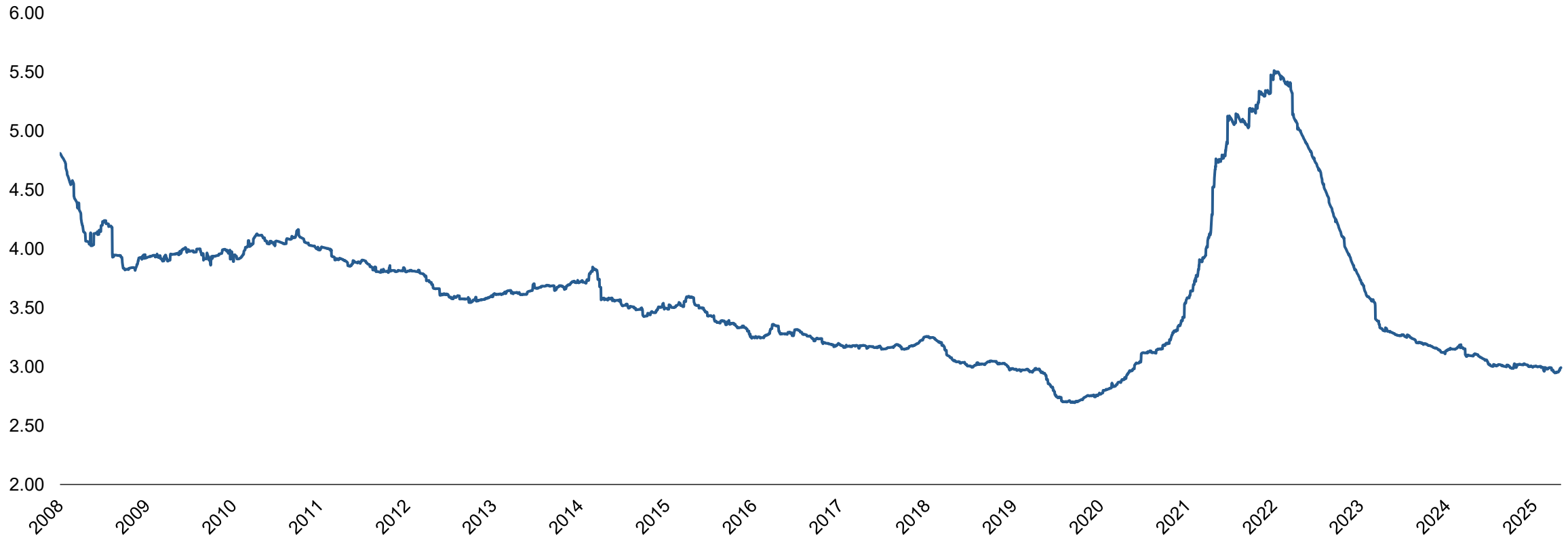


EM INTEREST RATES

Inflation expectations were relatively flat for the quarter. In January and February, rate cuts were still occurring albeit at a slower pace. The oil shocks in March could introduce future inflationary pressures.

EM Consensus CPI Expectations <sup>1</sup>

(% Change YOY)



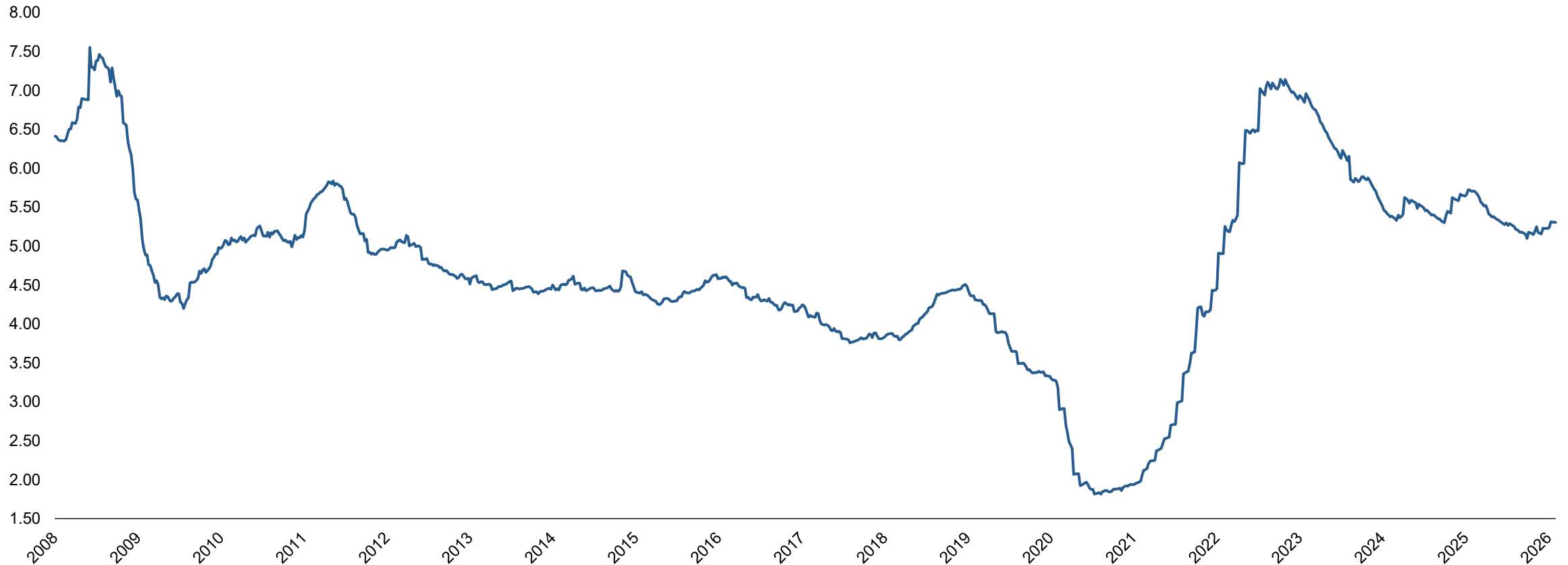
Source: Bloomberg, Morgan Stanley Investment Management. As of 3/31/2026.

1. Data is the equal weighted average of headline inflation expected in 18-30 months by economists surveyed by Bloomberg, which includes all countries in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

EM INTEREST RATES

A handful of EM countries cut rates during the quarter but by the end of the quarter cautious and even hawkish rhetoric started to emerge from selective developed and emerging markets central banks.

EM Consensus Policy Rate Expectations <sup>1</sup>



Source: Bloomberg, Morgan Stanley Investment Management. As of 3/31/2026.

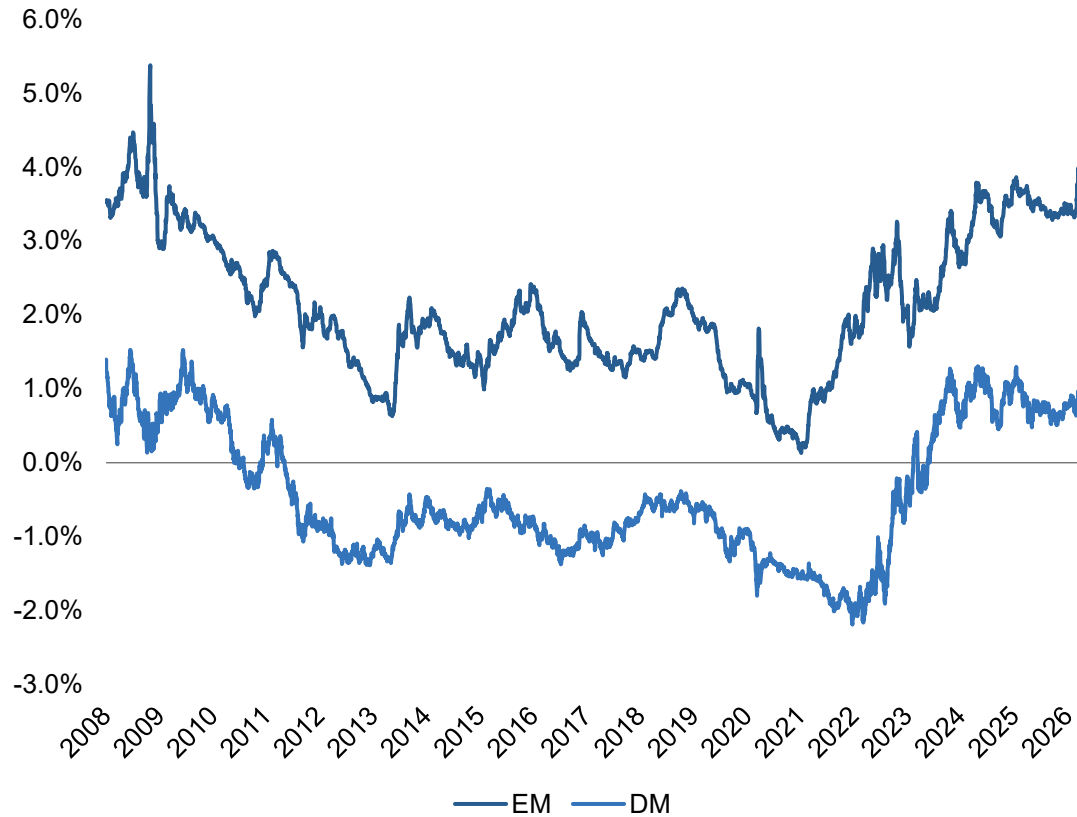
1. Data is the equal weighted average of expected policy rates in 12 months by economists surveyed by Bloomberg, which includes all countries in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

EM INTEREST RATES

Real yield differentials notably widened in March as spillover effects from the Iran war put an upward pressure on rates. Emerging markets felt outsized pressure compared to developed markets.

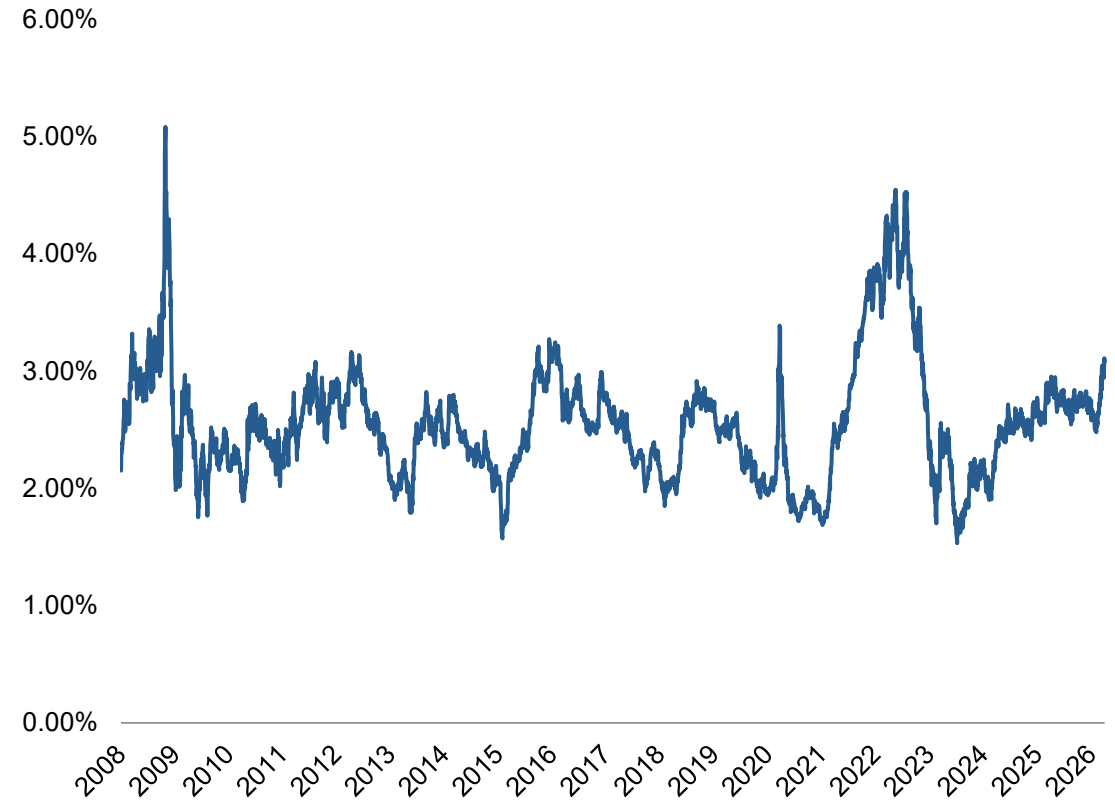
EM-DM Real Yields

(Using Inflation Forecasts)



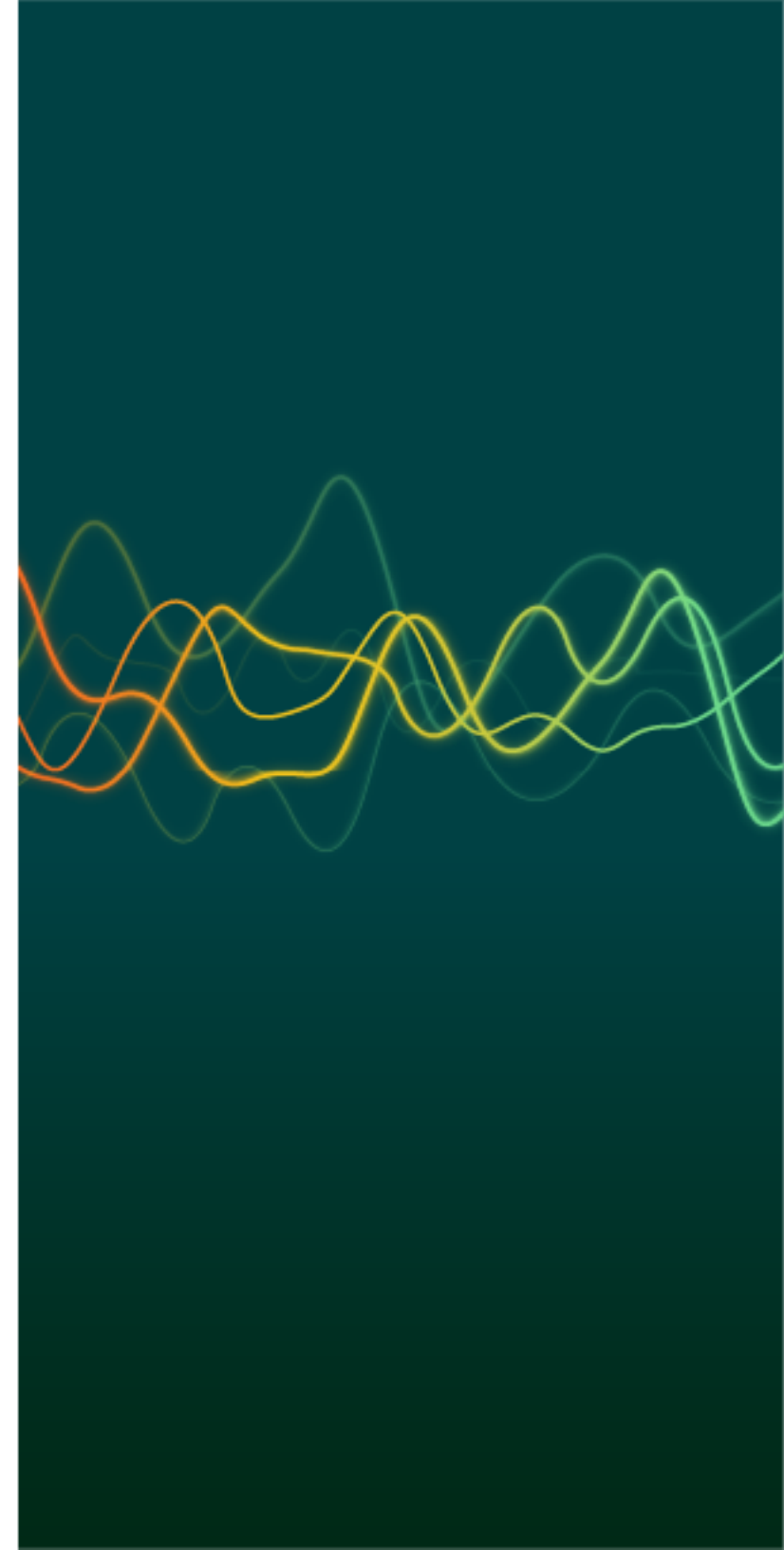
EM-DM Real Yield Differential

(Using Inflation Forecasts)



Source: Bloomberg, J.P. Morgan, Morgan Stanley Investment Management. As of 3/31/2026. Real yields are calculated as nominal yield minus headline inflation expected in 18-30 months by economists surveyed by Bloomberg. Excludes Argentina, Turkey, and Romania. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

# EM Sovereign Credit



EM SOVEREIGN CREDIT

- Spreads selectively widened following the onset of the war in Iran.
- Notable bifurcation remains in the market and even increased during the period as lower credit-quality countries broadly outperformed higher-credit quality countries
- Fundamentals remain mixed although broadly appear to be improving. Fiscal policy will be critical moving forward and is likely to vary significantly by country
- As always, idiosyncratic troubled spots remain as do opportunities and, as always, specific circumstances need to be analyzed country-by-country

5-Year Equal Weight Sovereign Spread

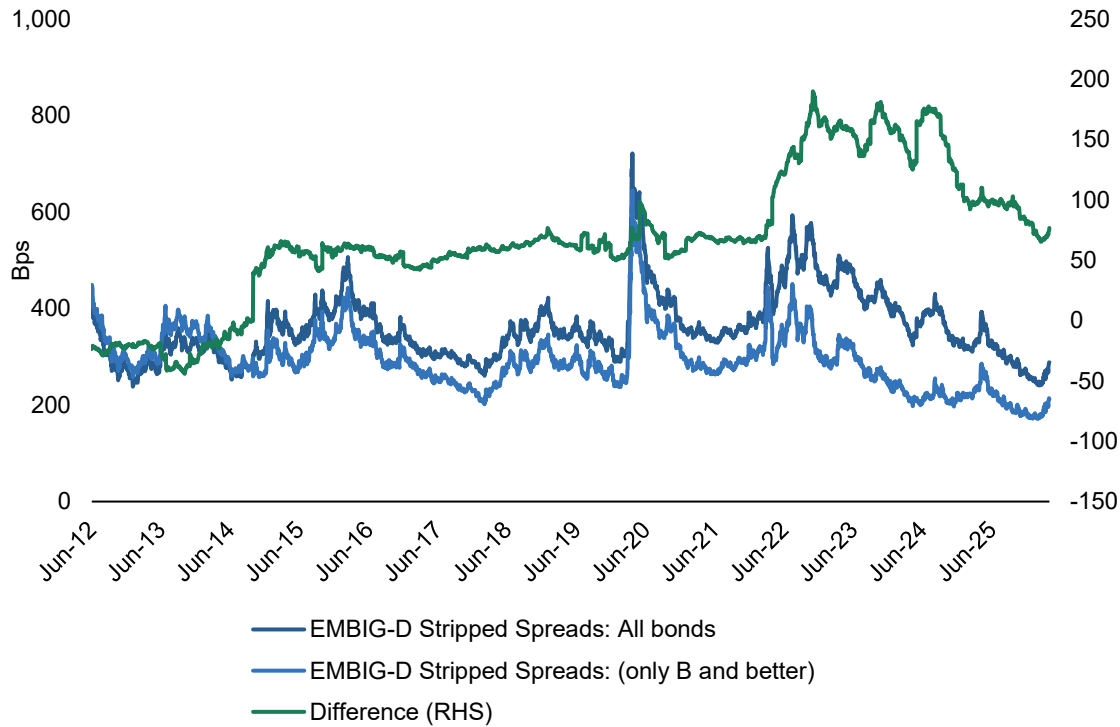
bps



Source: Morgan Stanley Investment Management proprietary data and calculations. As of 3/31/2026. Excludes Argentina. Underlying individual country spreads are capped at 3,000 bps. All spreads are modeled five year par equivalent spreads allowing for like comparisons across countries and time. This differs from EMBI data which is comprised of discount and premium bonds with different maturities. Data provided is for informational use only. Past performance is no guarantee of future results. See end of report for important additional information.

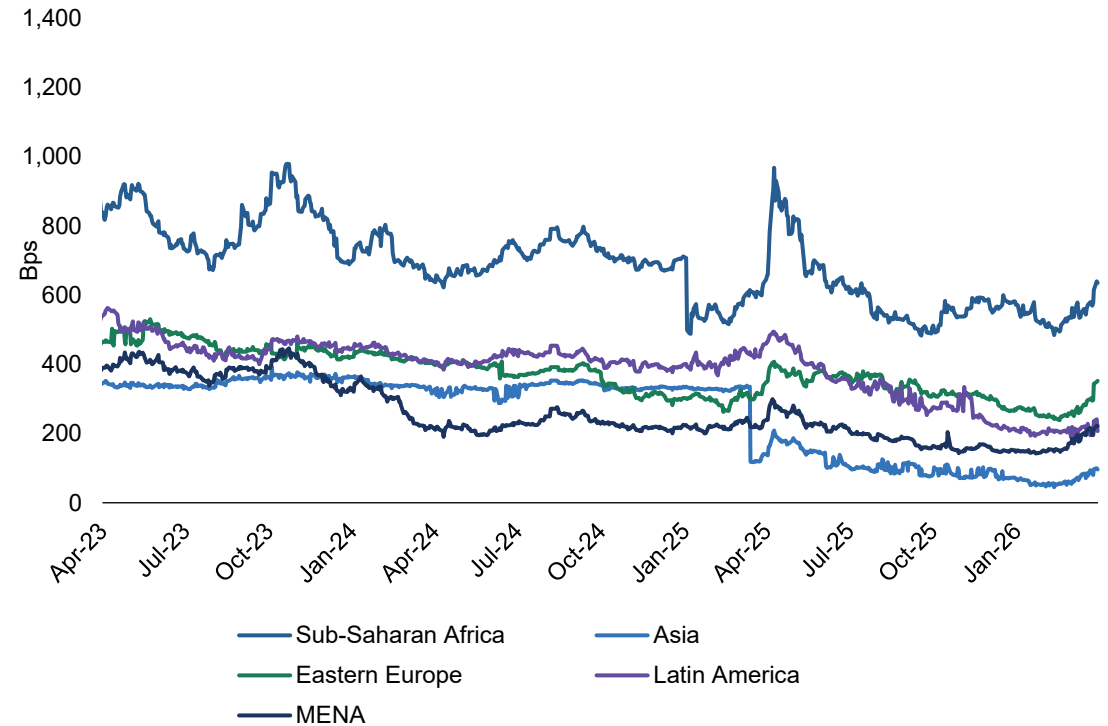
EM SOVEREIGN CREDIT

Spread levels widened for both investment grade and high yield issuers primarily in March.



Spreads regionally widened across the investment universe, but the MENA region saw relatively more volatility.

5-Year Equal Weight Sovereign Spread by Region

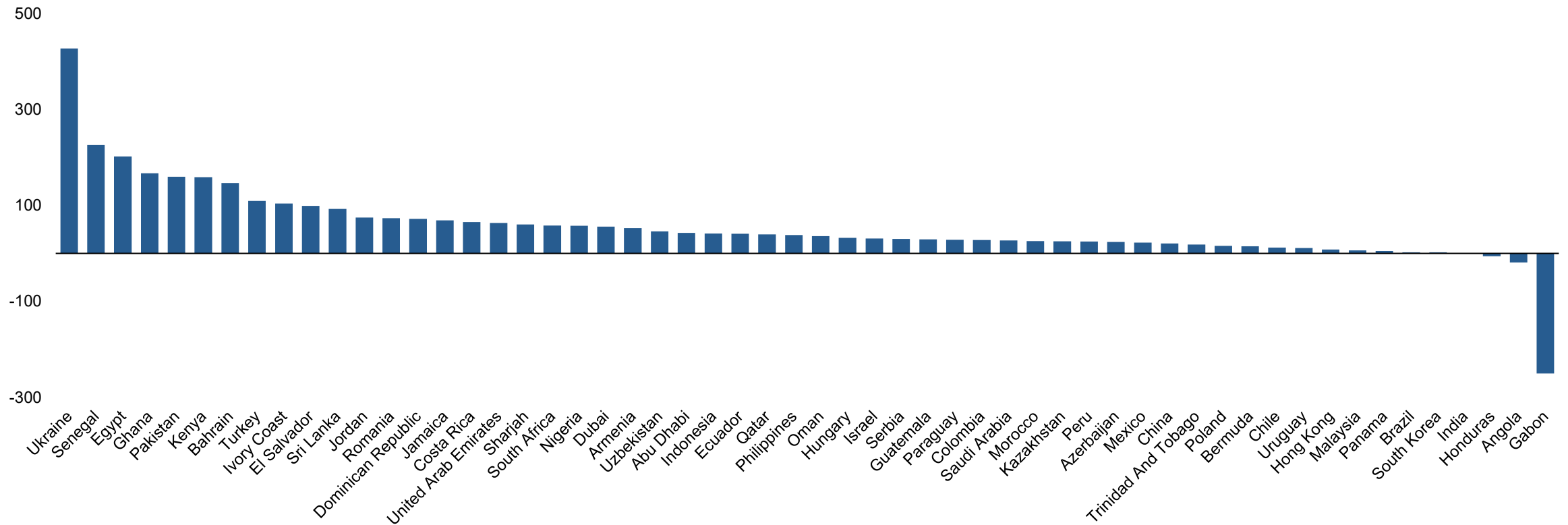


Source: Morgan Stanley Investment Management proprietary data and calculations. As of 3/31/2026. Excludes Argentina. Underlying individual country spreads are capped at 2,000 bps. All spreads are modeled five year par equivalent spreads allowing for like comparisons across countries and time. This differs from EMBI data which is comprised of discount and premium bonds with different maturities. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

EM SOVEREIGN CREDIT

Spreads broadly widened during the quarter due to idiosyncratic reasons and spillover impacts from the Iran war. Senegal’s debt sustainability and reliance on short term borrowing continued to worry investors. Ukrainian spreads widened due to continued volatility from the Russia-Ukraine war as it entered its fourth year during the quarter.

Q1 2026 Change in 5-Year Spread

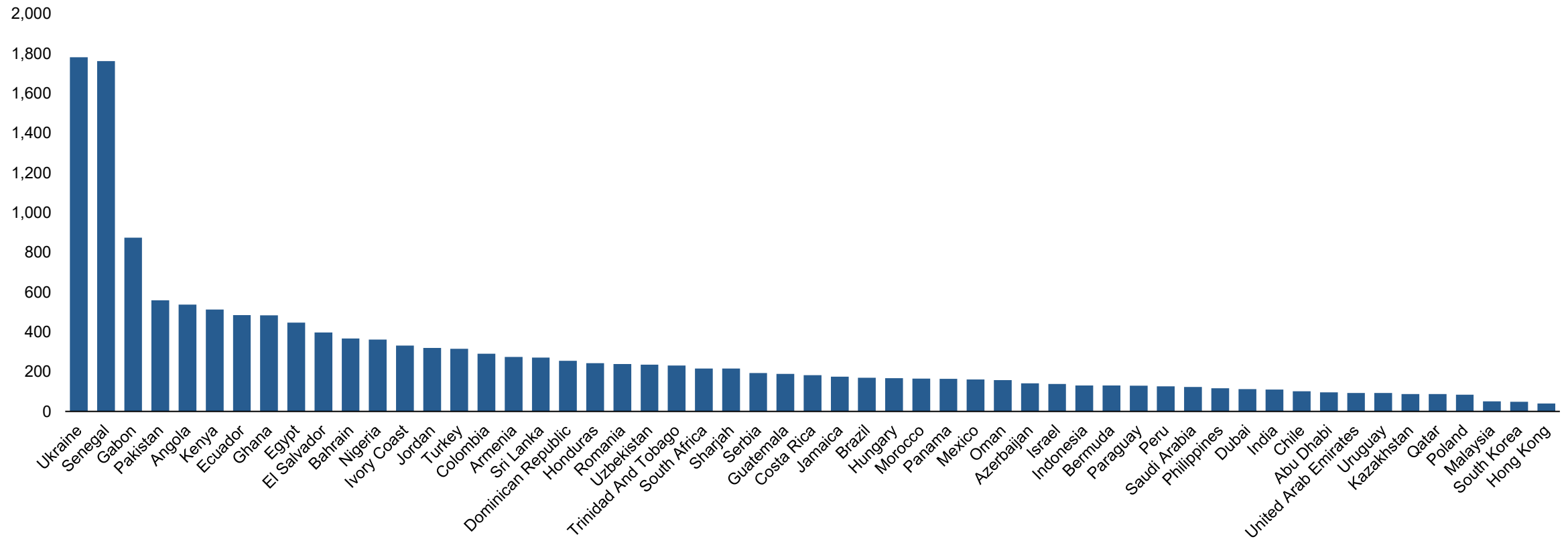


Underlying individual country spreads are capped at 2,000 bps. Source: Morgan Stanley Investment Management proprietary data and calculations. As of 3/31/2026. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

EM SOVEREIGN CREDIT

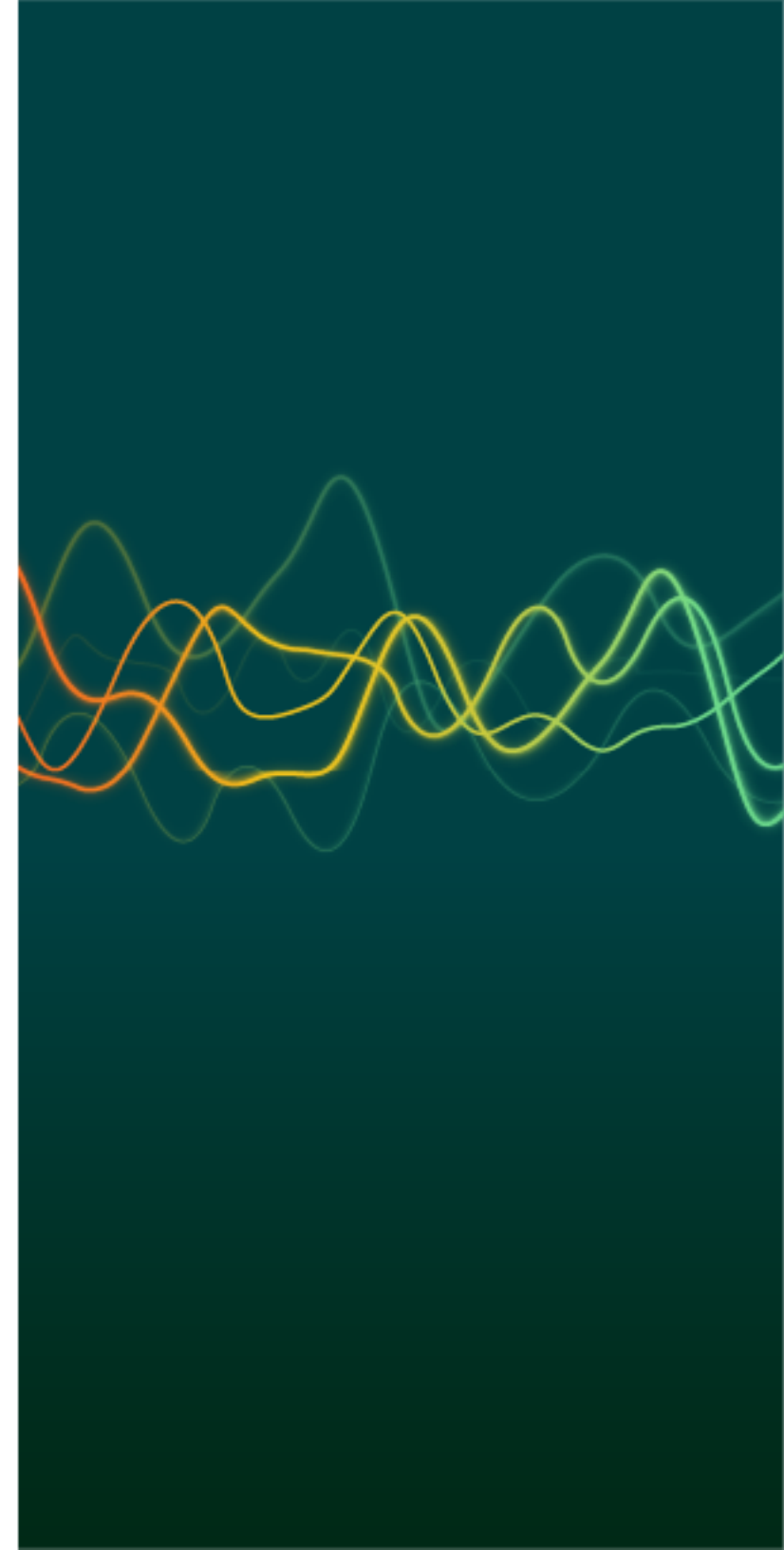
Variance among issuers increased while the bifurcation based on issuer credit quality remained notable.

5-Year Spreads



Underlying individual country spreads are capped at 2,000 bps. Source: Morgan Stanley Investment Management proprietary data and calculations. As of 3/31/2026. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

# EM Corporate Credit

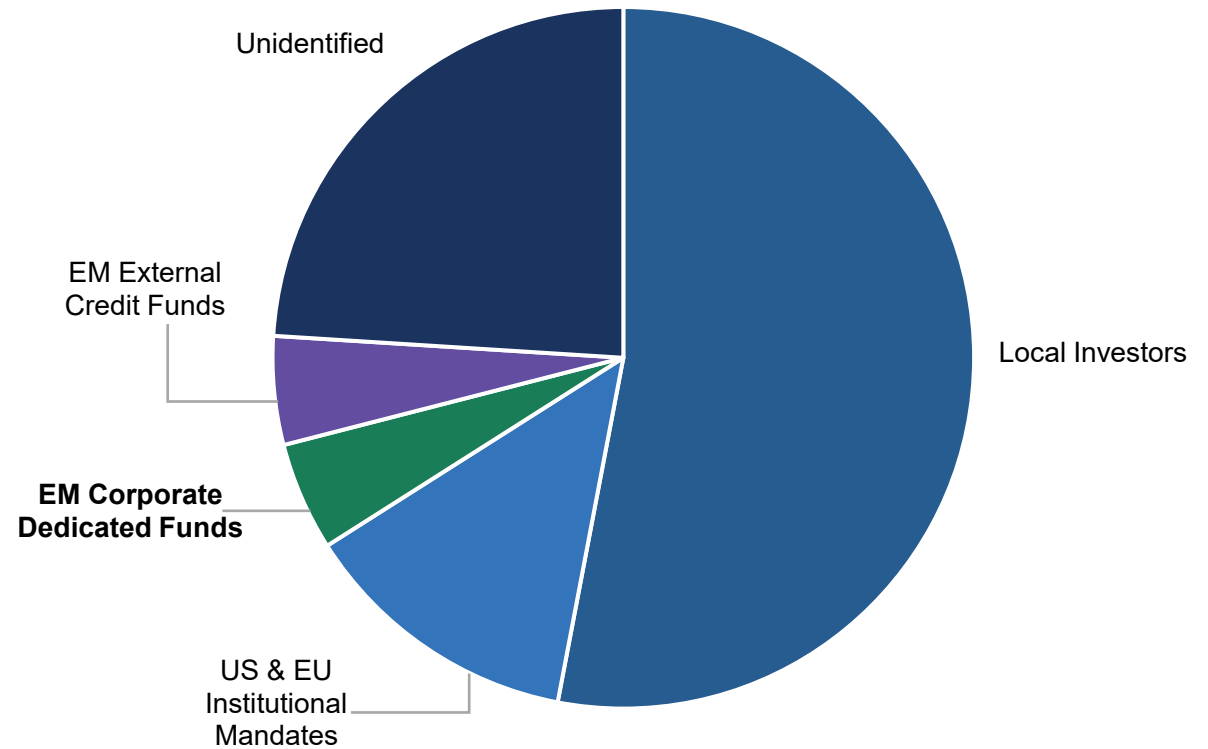


EM CORPORATE CREDIT

Investor Base

**EM Corporate Debt Market is Unique Because of its Disparate Buyer Base**

- The market attracts capital from a diverse mix of investors with various mandates from EM sovereign and global corporate strategies to local pension funds and private banks.
- While dedicated EM corporate debt managers are growing in number and in size, this group remains a small subset of the buyer universe.
- Our expertise in, and focus on conducting detailed bottoms-up analysis on company fundamentals combined with our world-class sovereign research capabilities uniquely positions us to identify mispriced securities in the marketplace.



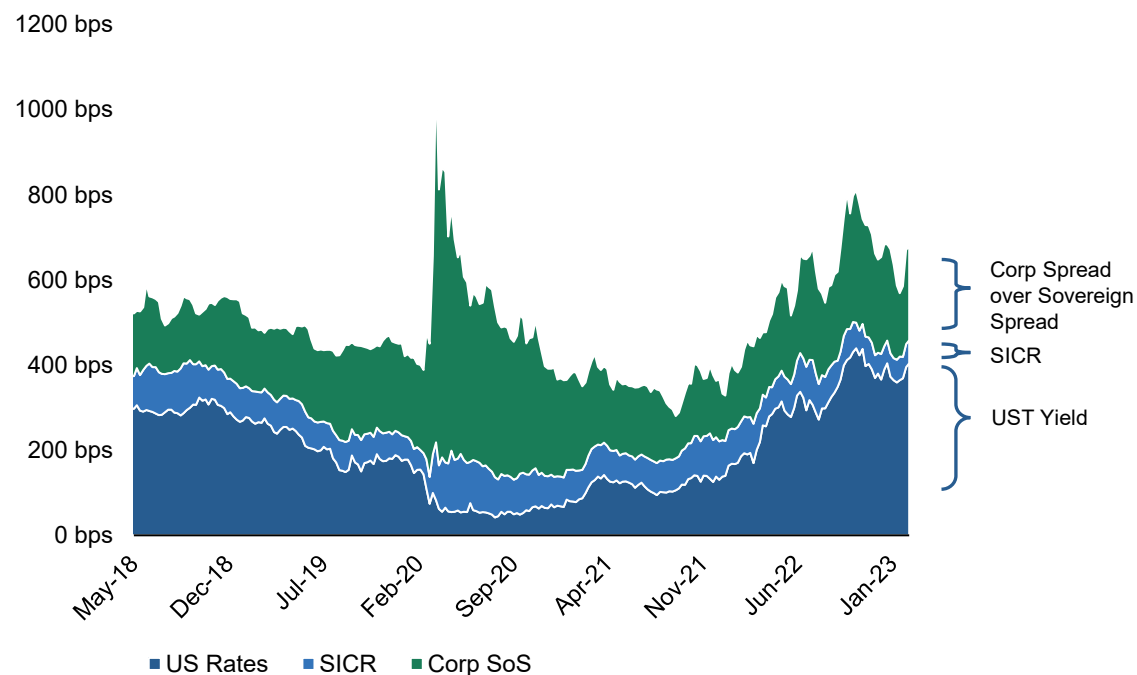
Source: JP Morgan Markets as of 12/31/2022. This represents how the portfolio management team generally implements its investment process under normal market conditions

EM CORPORATE CREDIT

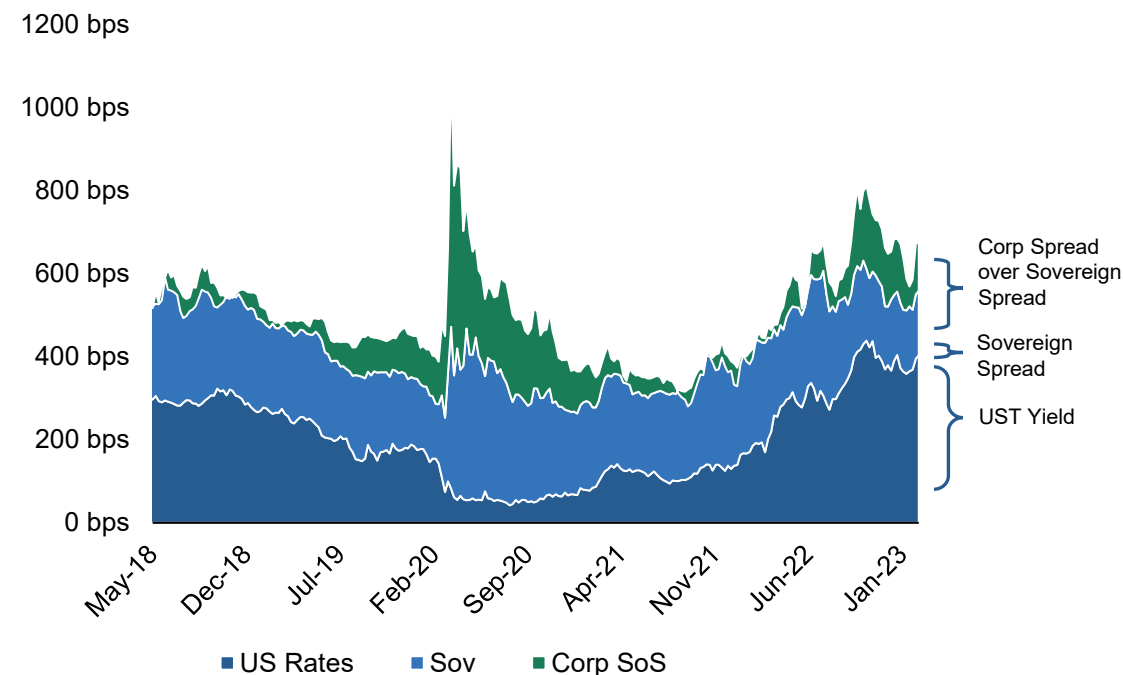
Our Approach

- We decompose risk premia into three components: **US treasury, sovereign-induced corporate credit (SICR), and corporate spread over sovereign spread.**
- We believe our proprietary SICR method most accurately isolates sovereign credit risk premium from corporate risk.
- $SICR = Probability(Sovereign\ default \cap Corporate\ default\ given\ sovereign\ default) \times (1 - Loss\ given\ default)$

South American Chemicals Company - Morgan Stanley's SICR Analysis



South American Chemicals Company – Traditional Analysis



Source: Morgan Stanley Investment Management proprietary data and calculations. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information. This represents how the portfolio management team generally implements its investment process under normal market conditions.

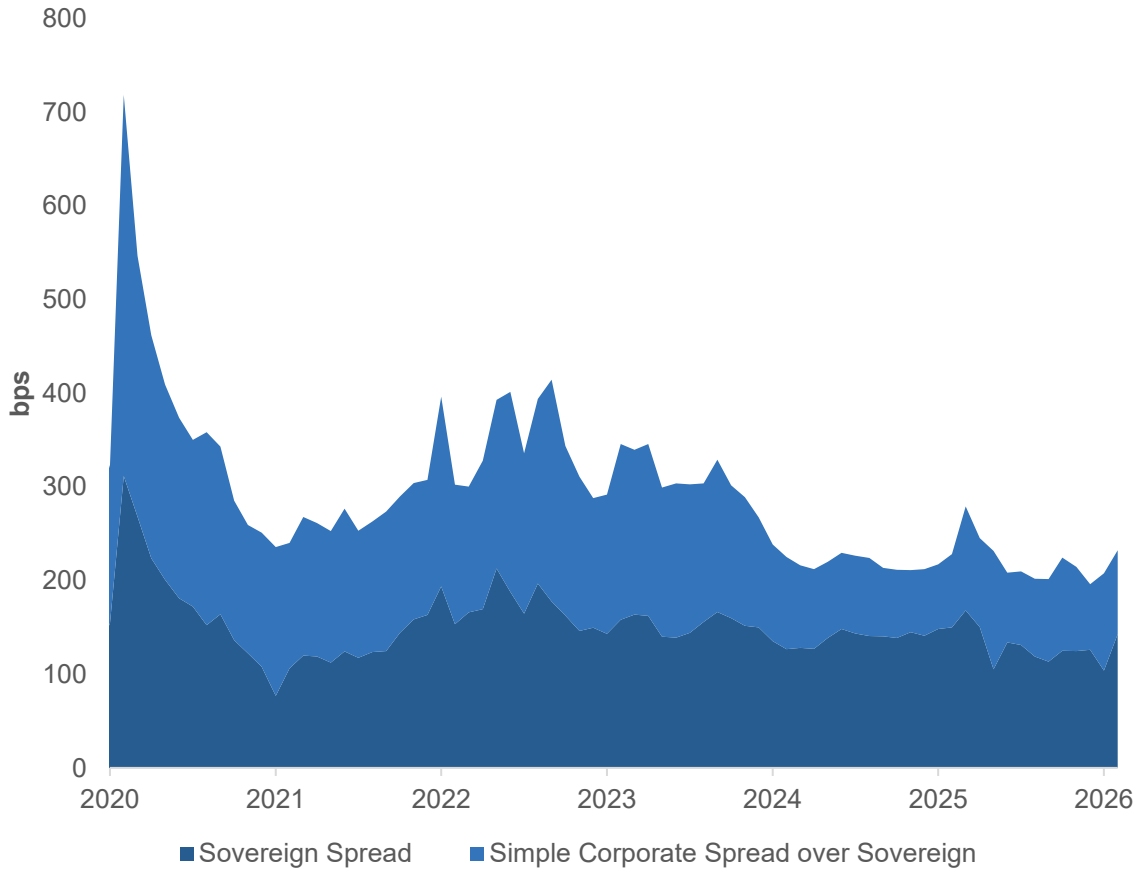
EM CORPORATE CREDIT

Valuations

Overall, credit spreads remained relatively contained despite geopolitical shocks, with strength in sovereign-linked GCC names and improving prospects in sectors like petrochemicals. Volatility was concentrated in idiosyncratic events (e.g. Brazil corporates), while select opportunities emerged in Turkey, Argentina, and energy-linked credits benefiting from higher oil prices –specifically in Colombia and Ghana.

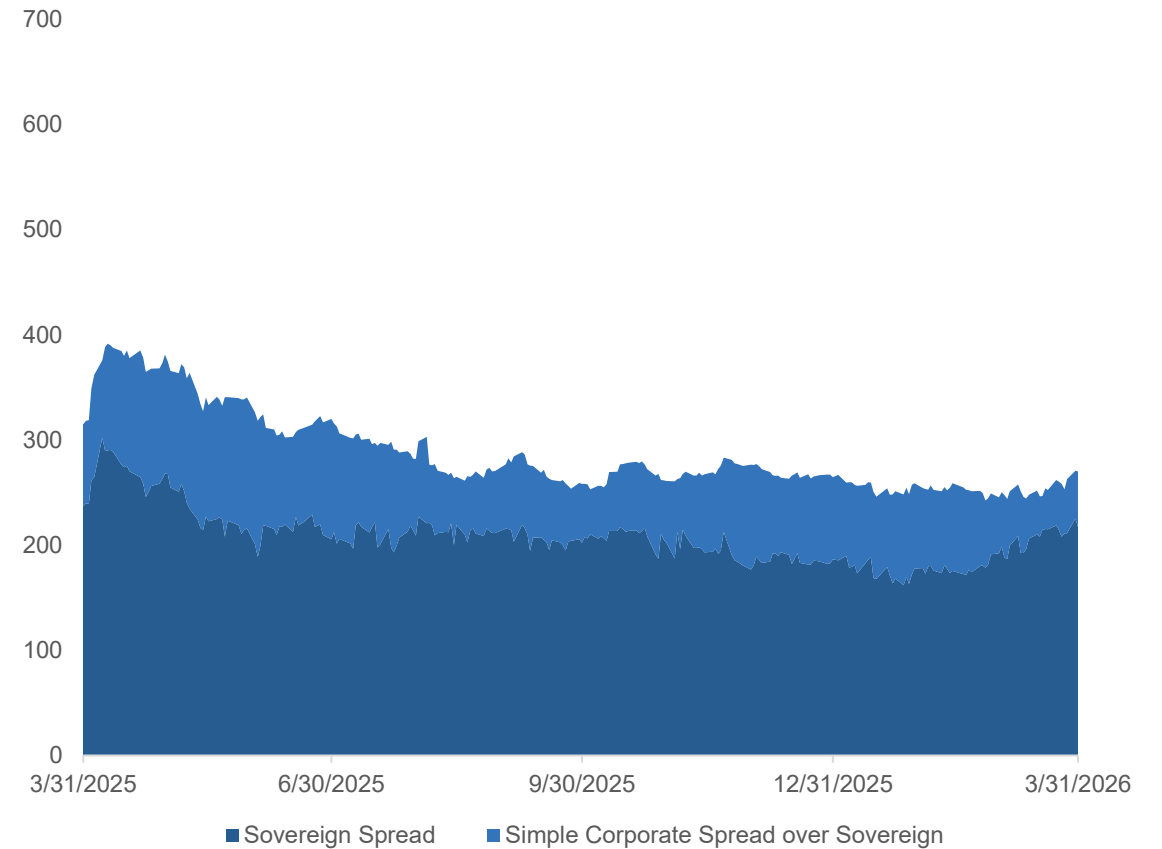
Spread Over Sovereign (CEMBI)

(5-Year Period)



Spread Over Sovereign (EV Universe)

(1-Year Period)



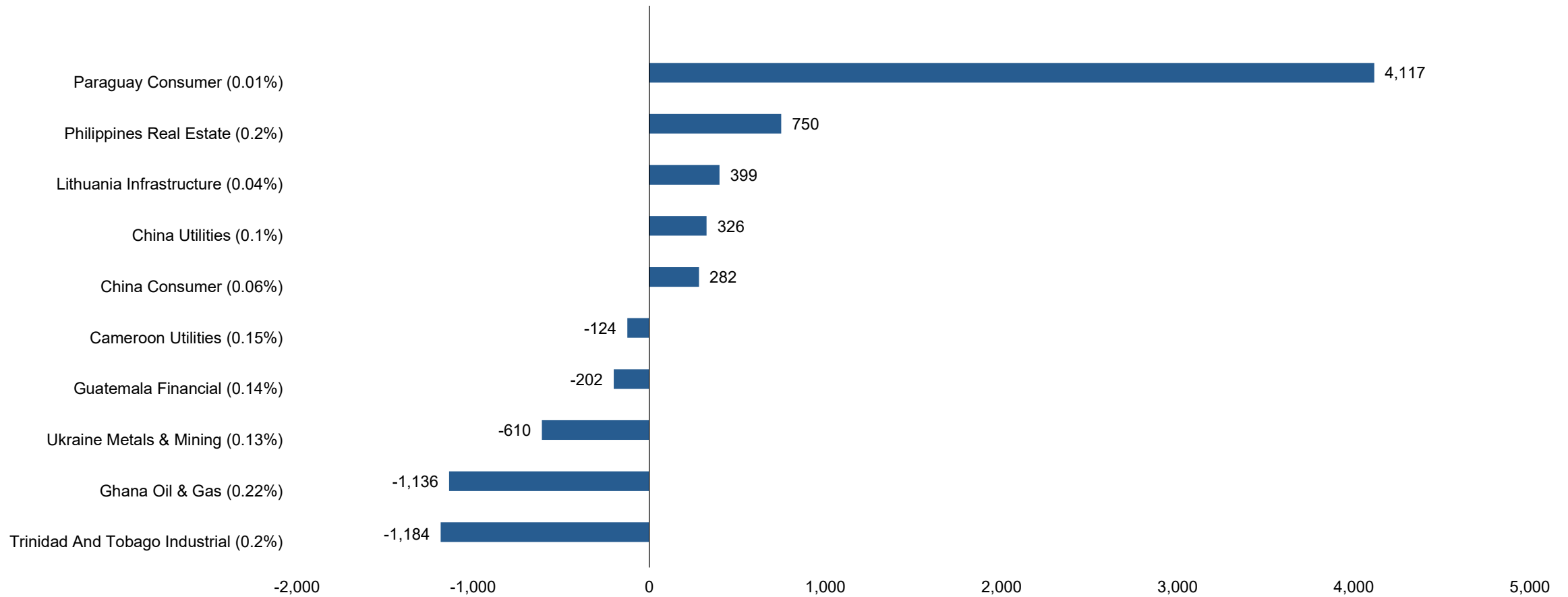
Source: Morgan Stanley Investment Management proprietary data and calculations. As of 3/31/2026. CEMBI bonds used in calculation. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

EM CORPORATE CREDIT

Sector Spread Changes

The chart below highlights spread moves within the corporate asset class bucketed by country-sector (weighting is in parenthesis)

Q1 Top Country-Sector Spread Changes



Source: JP Morgan. As of 3/31/2026

Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

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### Risk Considerations

#### RISK CONSIDERATIONS

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### Risk Considerations

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