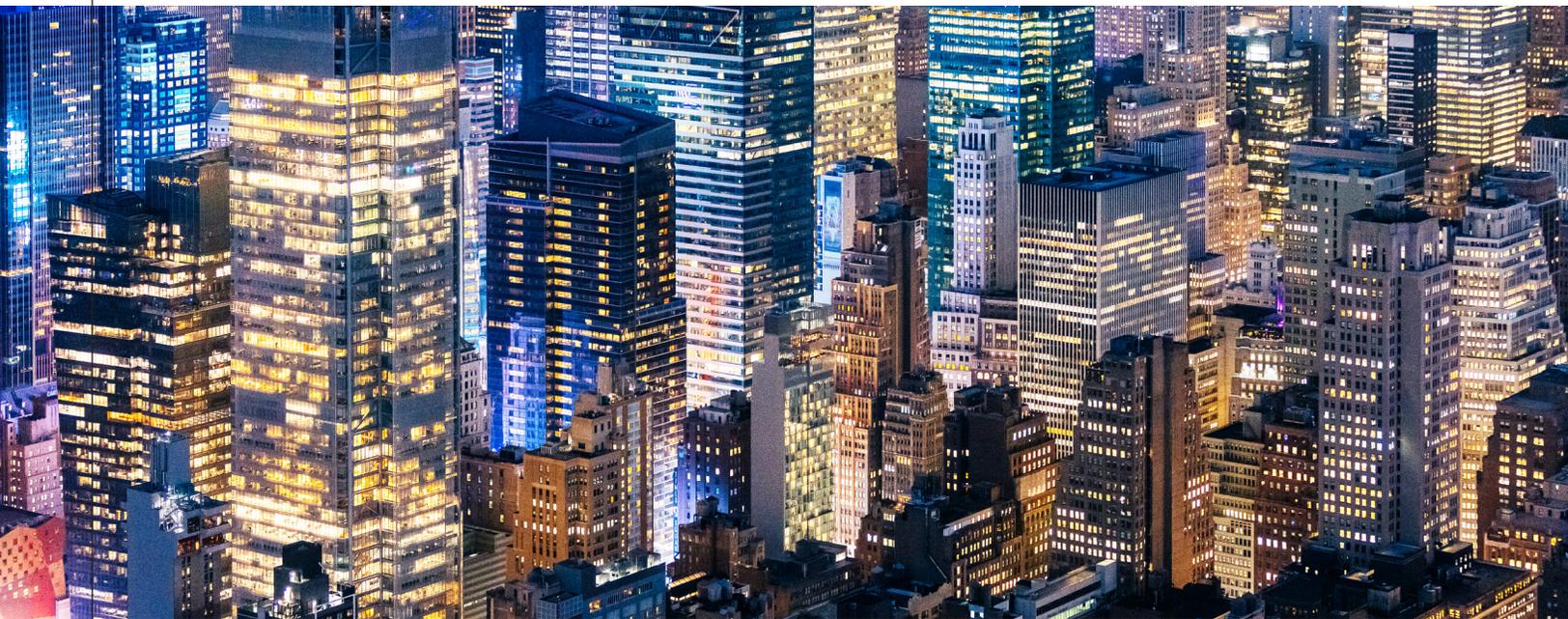


EM Corporate Debt: 5 Themes to Watch in 2026



After delivering another year of solid performance in 2025, emerging markets (EM) corporate credit appears poised for another solid year in 2026. The asset class outperformed developed market (DM) peers across most rating categories, supported by resilient fundamentals, attractive yields, and a broadening opportunity set. While index spreads sit near the lower end of historical ranges, yield levels remain compelling, underscoring both the opportunities and the need for selectivity. We examine five key themes shaping the evolving EM corporate debt landscape and outline how investors can navigate risks and identify potential investment opportunities.

March 2026

Portfolio Manager
Luis Olguin, CFA

EM Corporate Debt: 5 Themes to Watch in 2026

In 2025, EM corporate credit delivered another solid year, with index returns of 8.7%. The asset class outperformed DM corporate credit across all ratings except CCCs, although it underperformed an exceptional year in EM sovereign debt.

This year is off to a good start as well. Index level spreads are on the lower end of historical ranges while overall yields still appear attractive. The diversity of the EM corporate universe continues to offer potential attractive returns in all market environments.

We highlight five themes we believe must be evaluated to better navigate the EM corporate debt universe in the coming year.

Theme 1: The Commodities Opportunity Set in EM Corporate Debt

The significant rally in metals, particularly precious, continues to grab headlines, while crude oil markets remain volatile as they price the uncertain impacts of geopolitical events. When we invest in commodity issuers, it is

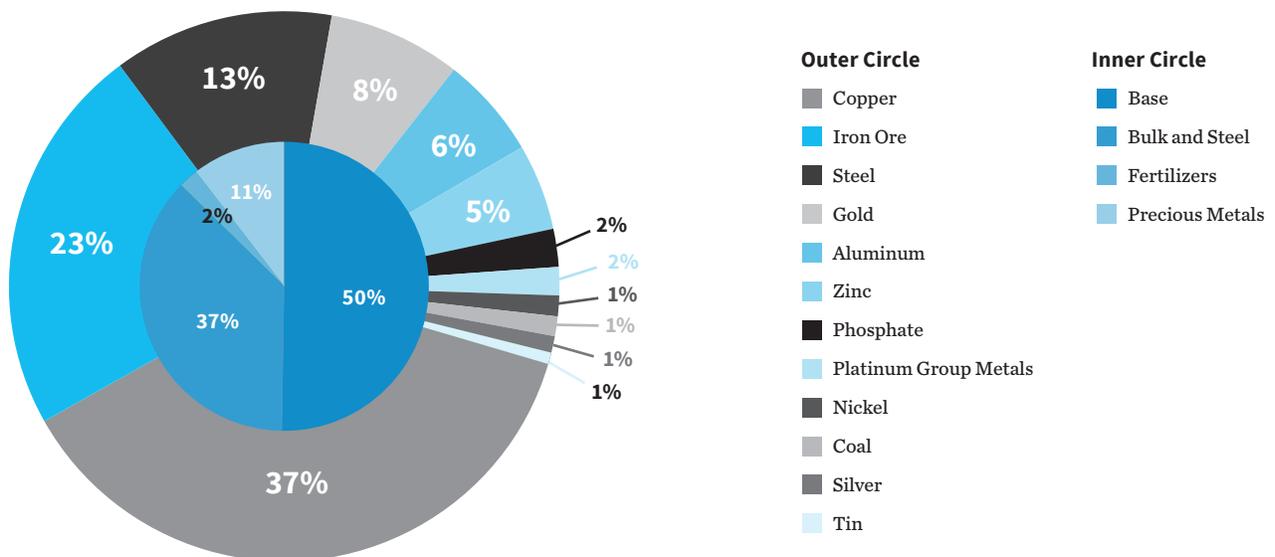
important to understand what our universe offers and how commodity prices actually affect a company's credit quality and its bond valuations.

The metals and mining sector accounts for 6% of the J.P. Morgan Corporate Emerging Market Bond Index (CEMBI) Broad Diversified (BD) across 40 issuers in 17 countries, with three-quarters of the index weight in Latin America (50%) and Africa (25%). The largest single-country exposure is Brazil followed by South Africa. This sector includes large-cap, integrated, multi-metal, multi-mine issuers as well as smaller companies that are less diversified by product and asset base. One can get exposure to mature, world-class mining operations but also to growing businesses with smaller footprints. Parsing the sector by metal is nuanced as mines often market and bundle byproducts within their core operations.

Our internal analysis uncovers that 50% of the index is levered to base metals, 38% to bulk and steel, 10% to precious metals, and 2% to fertilizers. By metal, copper accounts for about 37% of index exposure, iron ore and steel 36%, gold 8%, and all others 19%.

EXHIBIT 1

Metals and Mining Sector Breakdown In CEMBI BD



Sources: J.P. Morgan CEMBI BD and William Blair, as of December 31, 2025.

EM Corporate Debt: 5 Themes to Watch in 2026 (continued)

A breakdown of the oil and gas sector reveals a universe not purely driven by volatility in oil prices. Almost two-thirds of the 11% sector weight in the index can be classified as integrated oil companies. These are large issuers that operate across the hydrocarbon value chain, not only exploring and producing oil and natural gas but also transporting it, refining it, producing petrochemicals, and distributing fuels.

Every step in this value chain balances the direct oil-price risk, creating a more stable sector than headline prices would indicate. In addition, 18% of the sector is involved directly in oil and gas exploration and production, 8% in refining, 5% in drilling, and 5% in pipelines and other. Across 63 issuers, the sector has exposure in 23 countries, the largest being Saudi Arabia, Brazil, Colombia, and Argentina.

Commodity prices are the top-line input into an issuer's financial profile, but just like in a pinball machine, the path to credit quality is not direct. High commodity prices undoubtedly grow revenues, but it is the issuer's usage of cash flows that needs to be analyzed. Does management

use this windfall to expand, thus entering a higher-leverage period with a more uncertain commodity price in the future? Does management use this opportunity to pay down debt while shareholders demand higher returns?

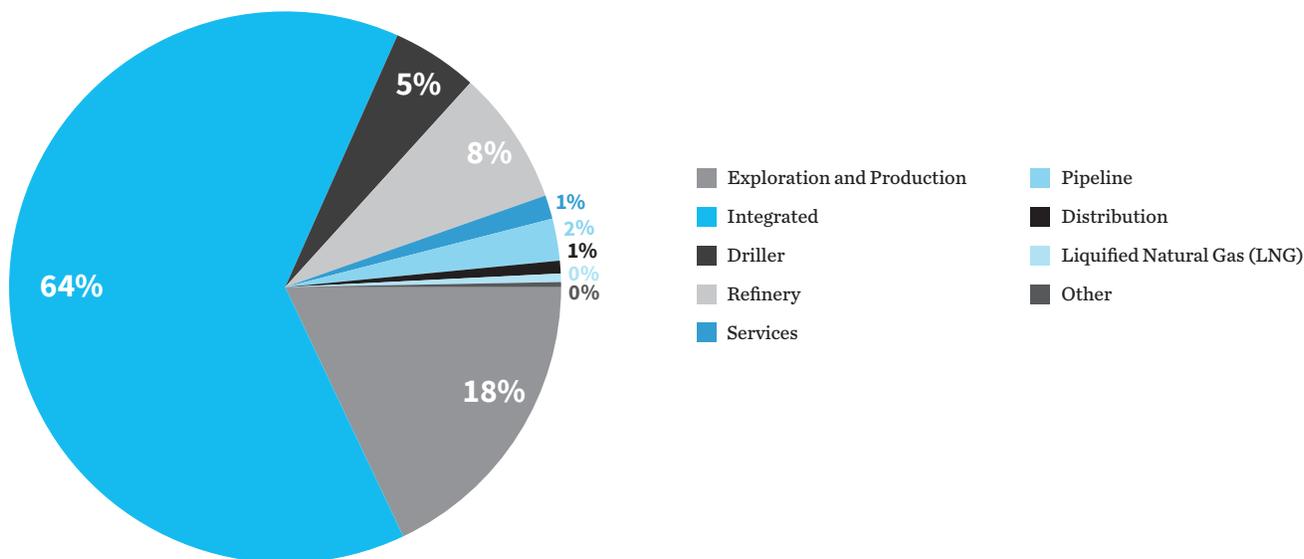
It is also worth noting that a majority of the upside in commodity prices accrues to the shareholders' equity while bond spread returns can be bounded by relative value considerations. This is not to say that high commodity prices don't tend to improve the credit quality of issuers, but rather that it is up to diligent investors to understand the ultimate impact on credit risk.

Conversely, bond prices have more convexity¹ as prices slide. This mostly occurs when oil prices hit the perceived full-cycle cost² of the issuer and viability of operations is questioned. A company's flexibility to withstand lower price periods—through diversity of operations, adjusting production, cost structure, versatility in capital expenditures (capex), and preventive hedging and/or

- 1 A nonlinear curved relationship between two variables that denotes acceleration.
- 2 Full-cycle cost includes finding and development costs, operating expenses, royalties, taxes, cost of capital, and overhead.

EXHIBIT 2

Oil and Gas Sector Breakdown In CEMBI BD



Sources: J.P. Morgan CEMBI BD and William Blair, as of December 31, 2025.

EM Corporate Debt: 5 Themes to Watch in 2026 (continued)

temporary higher leverage—ultimately defines where on the credit quality spectrum the pin ball ultimately lands.

We believe understanding this opportunity set, as well as the reality of how commodity prices affect individual issuers, is crucial to our positioning in commodity corporate credit investments. Credit fundamentals, commodity prices, and bond prices are not always fully correlated. Understanding this creates potential opportunities for outperformance.

Theme 2: Private Issuers in EM Corporate Debt

Lately, growth in private credit has garnered considerable interest in the markets. Adding a different source of capital for issuers is positive, yet headline-grabbing defaults, significant fund markdowns, and comments suggesting weak underwriting standards can put a dent in the perceived low volatility of these investments. The periodic nature of pricing can also mask increases in credit risk and lead to stepwise (sometimes shocking) adjustments, while the ability to renegotiate agreements in times of credit stress could muffle underlying default trends.

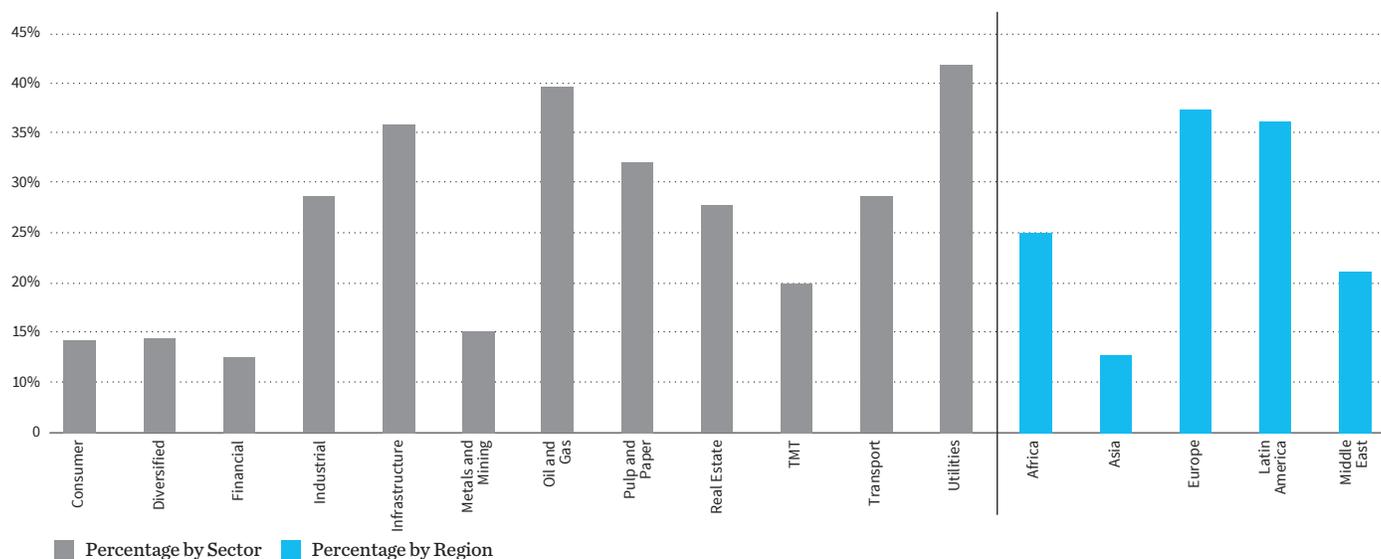
We see two potential paths in private credit: one where investors are essentially company insiders, with deeper and more timely access to information than public investors, leading to improved diligence and thus not posing a macro risk to markets; and another where private credit has become a way for issuers to access deep, fast, and less demanding pools of capital, where concerns about the state of the asset class are then warranted.

Private credit in EMs is still nascent, with the *Financial Times* reporting last December that \$18 billion was deployed in 2025,³ which is only a small fraction of public issuance and of the overall global private credit market.

Extracting the use of private credit by EM issuers is complex, so we take a different approach. By analyzing private issuers in the index, we can get a sense of the risk of private markets in EM corporate debt. Major categories of private issuers in our universe can be defined as privately held issuers, unconsolidated (solo or joint) ventures of public companies, and project finance special purpose vehicles.

EXHIBIT 3

Percentage of Private Issuers Across EM Corporate Credit



Sources: J.P. Morgan CEMBI BD and William Blair, as of December 31, 2025.

EM Corporate Debt: 5 Themes to Watch in 2026 (continued)

Our analysis suggests almost a quarter of issuers by issuer count are private, with the utilities and oil and gas sectors having the highest at 43% and financials the lowest at 12%. By region, Asia has the lowest count at 12%, with Latin America and emerging Europe at 36% and 37%, respectively.

When private issuers access public markets, they can be perceived as less transparent, although they must abide by the same disclosures and requirements as public issuances.

Over time, if engaging appropriately with the investment community, private issuers can overcome this perception, creating a potential opportunity for investors. In our experience, some do, but others do not, and we believe those that do not should trade at a discount to account for higher analytical risks.

We believe analytical access and company transparency is indispensable for appropriate investment diligence, and we engage with issuers to encourage them down this path.

Theme 3: The Global Rise of Technology Sector Issuance

The hype surrounding AI not only affects corporate credit markets through the impact on an issuer's productivity and operations but also the financing needed for its growth. Hyperscaler capex estimates rose throughout 2025, with expectations of more than \$600 billion in 2026 across the major firms⁴ and further future growth. In addition, supply estimates for 2026 are upward of \$220 billion, or about 12% of total U.S. investment-grade (IG) issuance forecasts.

Massive cash generation from these companies will likely cover the majority of investment needs and shareholder returns (such as dividends and buybacks), yet it is prudent to consider what effects this issuance growth could have on our universe. We see three potential impacts affecting EM corporates: relative value, marginal crossover investor interest, and growth in EM technology issuance.

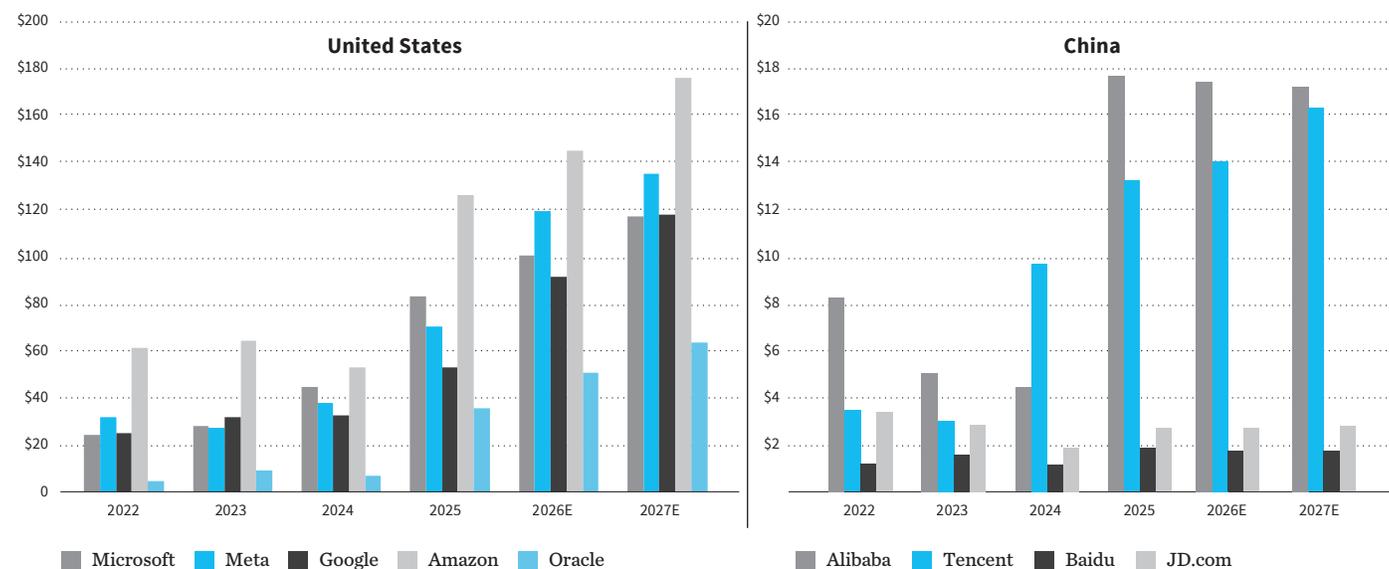
First, fixed-income valuation and portfolio management rely on the concept of relative value, where one instrument's cash

³ Source: *Financial Times*.

⁴ Includes Bloomberg estimates for Microsoft, Meta, Google, Amazon, and Oracle.

EXHIBIT 4

AI Is Driving Higher Technology Sector Capex (In Billions)



Sources: Bloomberg and William Blair, as of January 30, 2026.

flow stream (coupons and principal), plus the uncertainty/volatility of this stream, is compared to another. External ratings are a common way to advance this comparison, although experienced investors should anticipate ratings changes and understand the nuances of this evaluation. If a significant amount of high-rated technology sector debt is issued, causing spreads to widen, then it is likely that other high-rated sectors will be affected by relative value comparisons, creating a waterfall of spread adjustments across ratings categories.

Second, crossover investors are market participants that typically invest in an asset class, but for a myriad of reasons will tactically or strategically allocate capital to another, crossing over into nondedicated areas. It is possible that significant U.S. technology sector issuance could make these investors reconsider allocations to some EMs. At this point, technology sector issuance seems absorbable, and it would ultimately be up to each fund manager to decide how to fund investments in the sector.

Lastly, while capex from large Chinese technology issuers (such as Alibaba, Tencent, Baidu, and JD.com) in our universe is mildly increasing, their funding models look quite different compared to the United States. Chinese tech firms have much lower capex intensity for now and rely heavily on domestic onshore Chinese renminbi (CNY) markets, convertible bonds, banks, and policy lenders for funding. Our analysis suggests Chinese tech issuance is unlikely to experience a surge similar to that of the U.S. sector, and diversified domestic markets can absorb it.

Theme 4: Index Evolution and How Change Matters Over Time

Officially launched in 2007 (but backfilled to 2001), the CEMBI family of indices provides a widely used investment universe and performance benchmarks for EM corporate debt investors.

While the majority of peer funds are benchmarked to the J.P. Morgan CEMBI BD, which caps country weights at 10% and rebalances weights, the investable universe is better defined using the J.P. Morgan CEMBI Broad, which currently comprises 729 issuers across 52 countries, with \$1.2 trillion in market value. When looking at this index, its evolution is evident.

One can look at this progression from several angles. On a ratings basis, the high-yield (HY) component of the index peaked in 2018 at 44%. Since then, HY-rated issuer weights have declined to 34%, implying the IG component is now 66%. This ratings evolution should be considered for accurate historical spread and yield comparisons. It is the A-rated component that has experienced the largest growth (now at 29% of the index), while both BBs and Bs have declined more than 5% from their peak to 20% and 9%, respectively.

Of note, the percentage of not-rated issues have been between 3% and 5% and counts within the HY weight. Deeper analysis of these issuers' fundamentals and trading yields suggests their credit risk is more comparable to IG than HY, implying the IG weight could be understated. This improvement in index ratings should be considered for appropriate historical analysis.

Country weights, and therefore regional weights, have also changed over time. The biggest outlier is the decline in Asia, which peaked at 62% at index inception and is now at 44%. Latin America also declined, having peaked at 44% in 2011, and is currently 27% of the index.

Of note, emerging Europe is now only 5% of the index, peaking at almost 25% in 2008, with the decrease predominantly driven by Russia's exit from the index in 2022. Offsetting these declines is the rise of the Middle East, now 20% of the index, more than doubling in the last 10 years. The most notable weight change by country has been China. China's weight in the index peaked at 27% in mid-2021 and has fallen to 14%. Greater China, which includes Hong Kong and Macau, was 36% of the index and is presently 26% as issuance from Hong Kong has offset some of the decline in China.

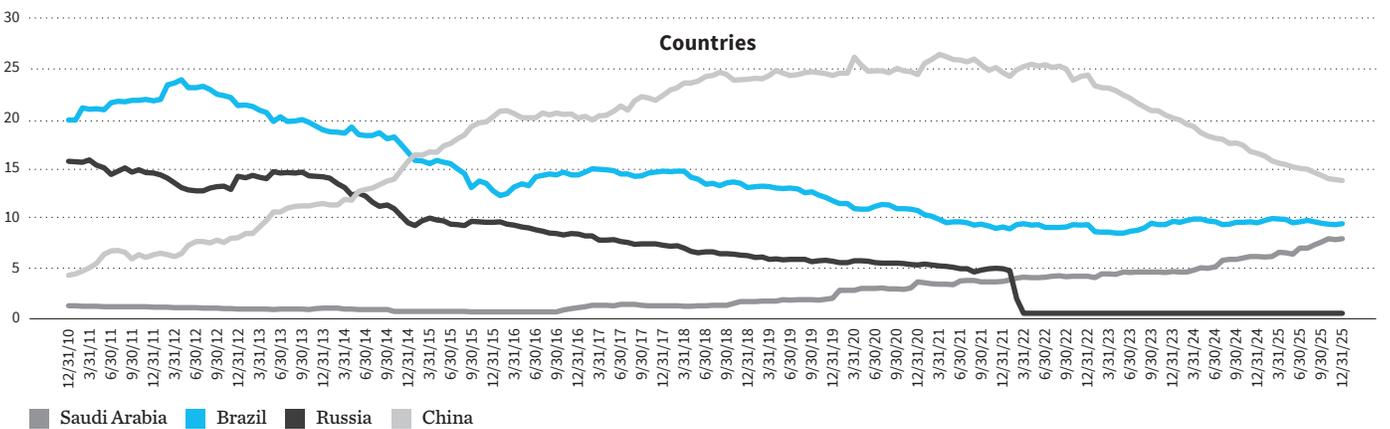
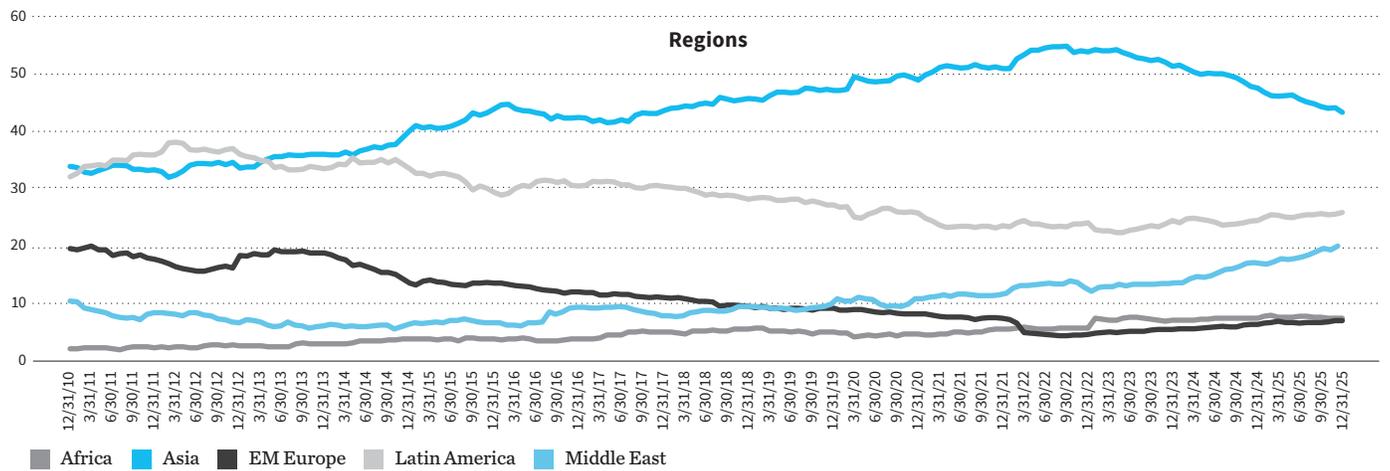
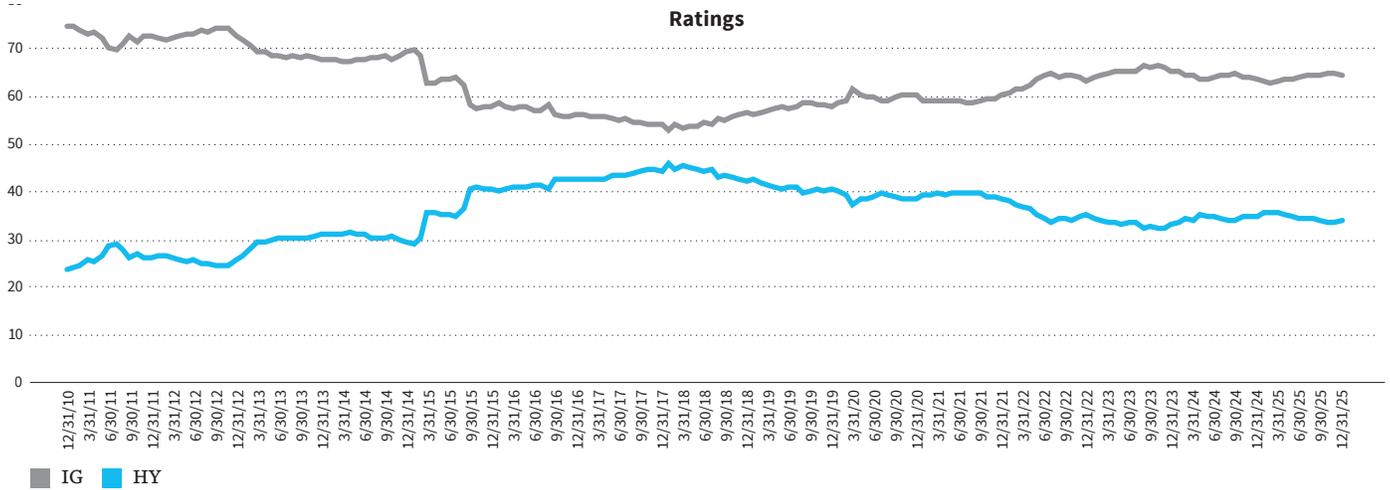
And in Latin America, Brazil's debt boom in 2012 took the country weight to 25% but has been relatively stable at almost 10% since 2020.

Index weights are driven by relative issuance and can be a sign of risk as a slice of an index outgrows others or of comparable scarcity as weights decline. When doing historical spread and yield analysis, we are keenly aware of index evolution and make the appropriate adjustments.

EM Corporate Debt: 5 Themes to Watch in 2026 (continued)

EXHIBIT 5

CEMBI Index Evolution



Sources: J.P. Morgan CEMBI Broad and William Blair, as of December 31, 2025.

EM Corporate Debt: 5 Themes to Watch in 2026 (continued)

Understanding our investable universe and its evolution is key to generating potential outperformance.

Theme 5: Valuation and Dispersion of Returns

As we begin 2026, index level spreads appear historically low, suggesting low-risk premia in EM corporate credit and lower forward-looking returns. Further analysis is warranted.

Total returns in fixed income can be divided into two components: the risk-free return and the spread return. Since inception, returns for the U.S. dollar asset class have been approximately 6%, evenly split between risk-free (or Treasury rate) and excess return (or spread return).

With the duration of the asset class at four years, we currently see the risk-free yield at 3.8% and the spread at over 200 basis points (bps) for an index yield of 5.8%. While yield is an anchor and good forecaster of returns when instruments are held to maturity, shorter-term return expectations will be driven by rates and spread movements.

The breadth of instruments in the EM corporate credit asset class provides significant dispersion around average yearly returns. Exhibit 6 shows the range of returns with the index across time. We further analyze and rank returns by issuer and decile.

Higher dispersion shows the true potential for active managers such as William Blair to outperform. A manager that can consistently achieve the average of the 3rd to 5th decile outperformed the index in 8 of the last 10 years. In 2025, that 3rd to 5th decile cohort outperformed the index by close to 50 bps while the 1st to 5th decile (top half of returns) average did so by almost 250 bps.

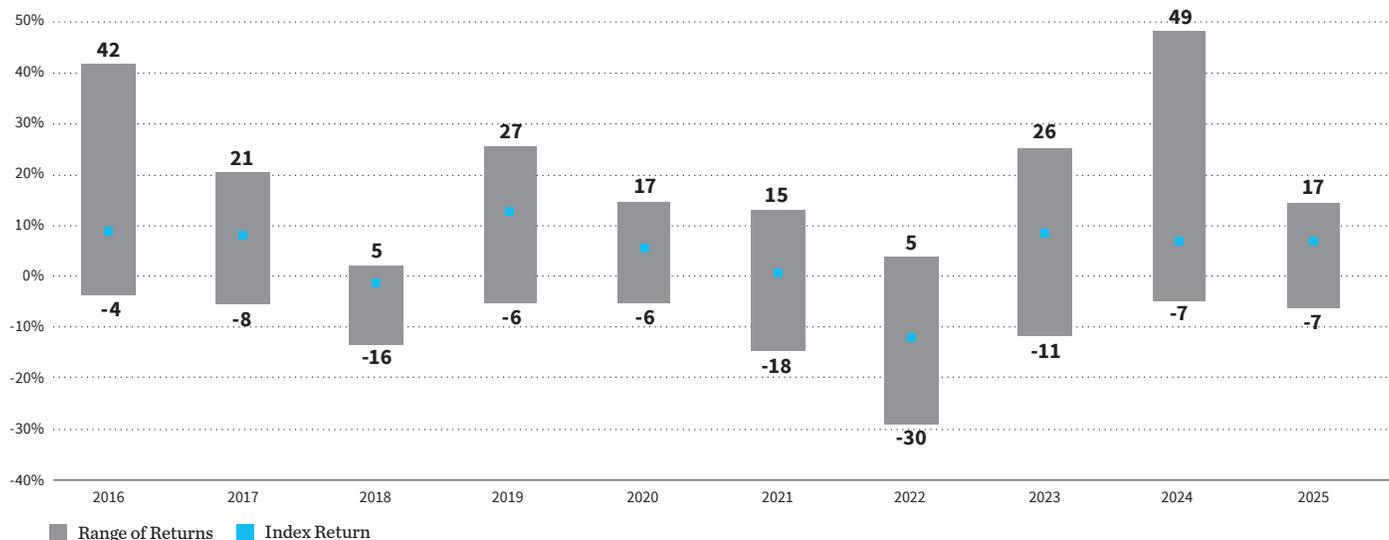
This return dispersion allows for true active management to add value above the beta of an asset class, and the larger the range the more opportunity for active management.

It is evident that almost half of index issuers began 2026 with a yield below 5%. But it is also evident that there is a significant opportunity set of issuers yielding between 5% and 9%. Appropriately, navigating this still plentiful space could provide potential above-index returns without taking on excessive credit or unnecessary idiosyncratic risks.

EM Corporate Debt: 5 Themes to Watch in 2026 (continued)

EXHIBIT 6

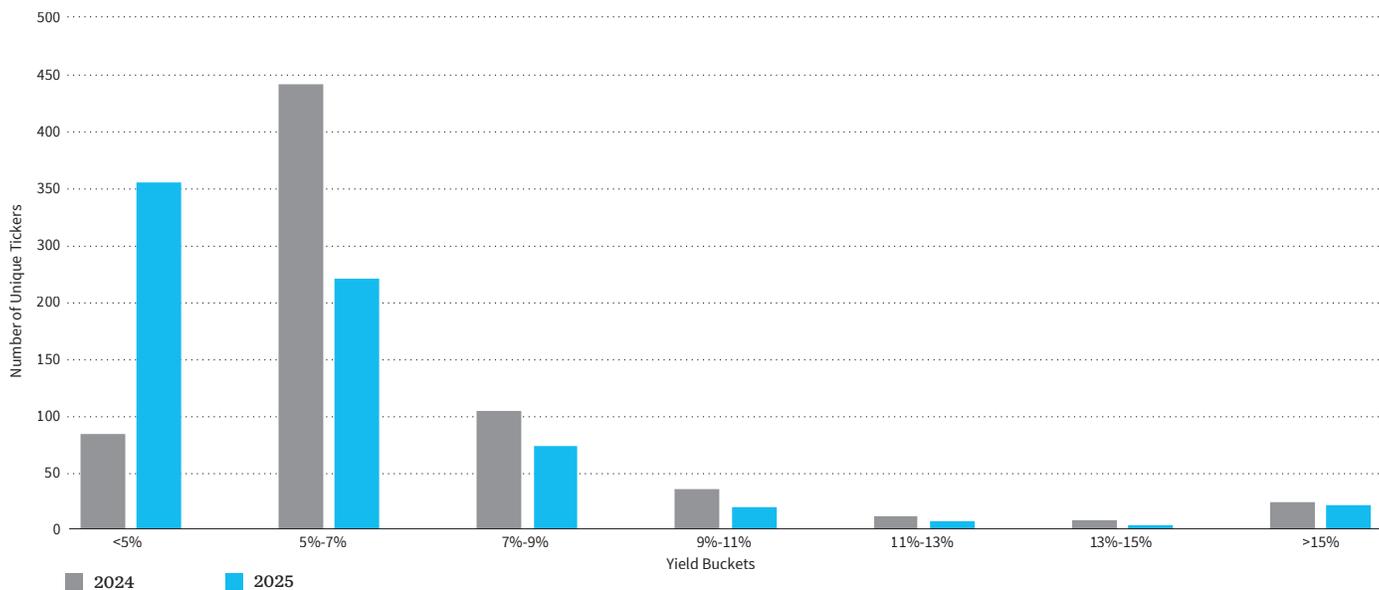
Decile Return Dispersion In EM Corporate Credit



Sources: J.P. Morgan CEMBI BD and William Blair, as of December 31, 2025. Range of returns, with top and bottom decile average return highlighted.

EXHIBIT 7

Comparing Yield Dispersion In 2024 and 2025



Sources: J.P. Morgan CEMBI BD and William Blair, as of December 31, 2025.

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