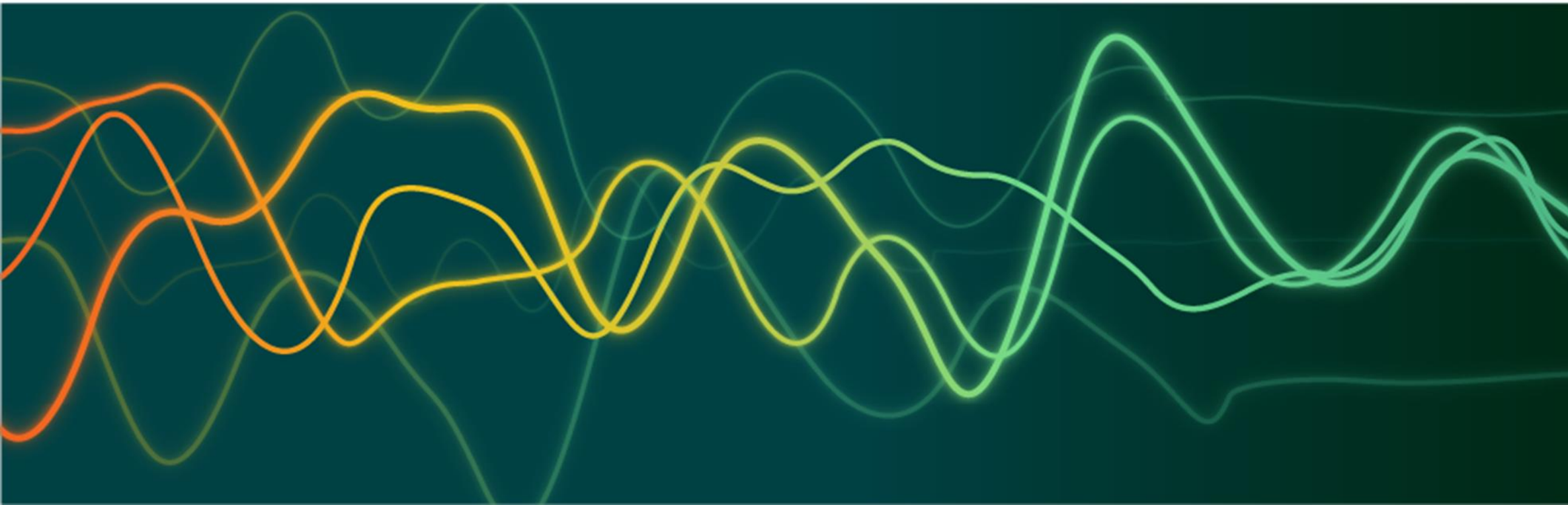
Morgan Stanley
INVESTMENT MANAGEMENT

Emerging Markets Debt Monitor

Emerging Markets Investment Team

Q2 2026



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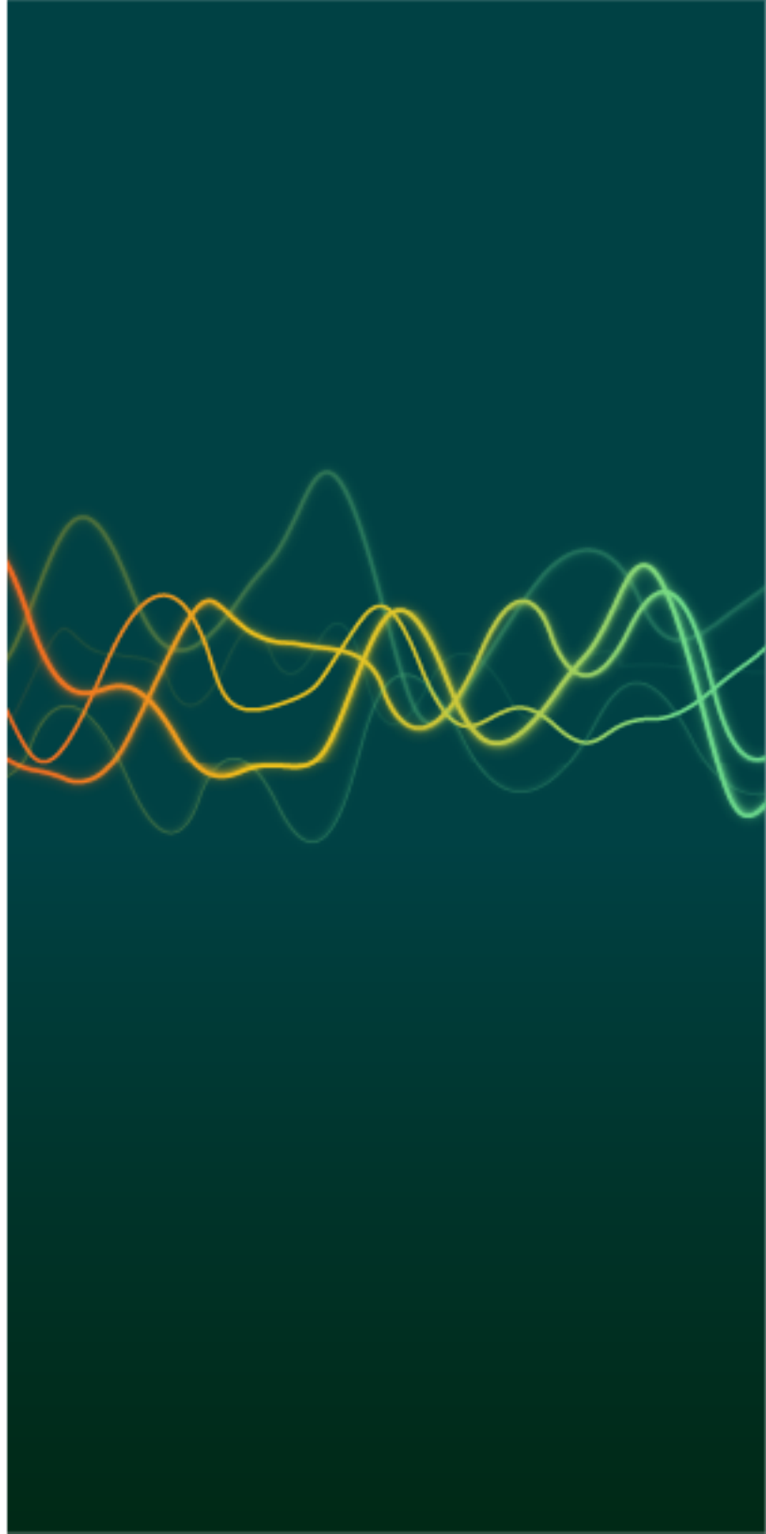
Q2 2026 Recap



Q2 2026 RECAP

Q2 2026 Recap

- Emerging markets debt delivered strong performance in the second quarter supported by resilient risk appetite, expectations that the Iran conflict would subside, and evidence that markets were adapting to energy and trade disruptions more quickly than initially feared. The USD weakened during April and the first half of May but started to strengthen in the back half of the quarter in reaction to the U.S. Fed's more hawkish tone combined with lingering geopolitical tensions boosted demand for U.S. assets. Broadly most EM currencies strengthened vs the USD but with pockets of weakness driven by country level policy. Both sovereign and corporate credit spreads tightened significantly during the quarter, reversing the brief widening seen in March.
- The quarter was heavily influenced by the Iran war and subsequent U.S.-Iran 14-point memorandum of understanding (MoU), which reduced tail risks around global energy supply and the Strait of Hormuz. The initial escalation drove volatility in oil prices and heightened concerns around supply disruptions, particularly for energy-importing emerging markets countries. Key commitments from the MoU include an immediate and permanent end to the war and military operations on all fronts (including Lebanon), a lift of the U.S. naval blockade and Iran's Hormuz blockade within one month, and U.S. waivers for Iranian crude oil exports. Both parties have up to 60 days to negotiate and reach a final agreement so this timeline will be important to monitor.
- Global central bank activity turned a corner this quarter and was notably dispersed. Kevin Warsh's first meeting as the new U.S. Fed Chair was more hawkish than previously expected, but this did coincidence with the U.S.-Iran MoU. Developed market central banks generally leaned more hawkish in response to acute energy supply shocks, while emerging markets central banks varied widely based on the degree of energy import exposure, central bank credibility, and subsequent fiscal support. Some markets, including Indonesia and Sri Lanka, tightened policy to defend currencies, while others such as Hungary and Mexico were able to cut rates.
- Elections were an important driver of performance during the quarter. In Hungary, the parliamentary election marked a decisive shift away from the Orbán government, raising expectations of stronger institutions, improved governance, and closer alignment with the EU, which could support EU funding. In Colombia, the victory of the right leaning candidate in a narrow runoff will likely bring more business-friendly policy and a renewed focus on security. In Peru, the right-wing candidate won by an extremely thin margin, but her victory will likely bring more market friendly policy, more efficient mining projects, and hopefully political continuity.
- Asset class flows returned to consistent inflows following a short-term period of outflows in March during the onset of the war in Iran. Investors were briefly cautious and risk off, but as it became evident that market volatility was relatively contained and many countries were able to absorb the external shocks well both local and hard currency funds received strong inflows. Hard currency funds received $9B and local currency funds received $4.4B in inflows bringing year-to-date net inflows for the asset class to $27.8B.

Please reference page 2 "Important Information and Disclosure"

Q2 2026 RECAP

Q2 2026 Recap, continued

ASIA

- Sri Lankan assets came under renewed pressure from higher oil prices as a dominant energy importer and from weaker tourism. The rupee considerably weakened but policymakers responded with an 100bps rate hike reinforcing policy credibility and raised fuel prices to phase out subsidies.
- Pakistan remained resilient despite higher global energy prices. Improved governance, tighter capital controls, and favorable geopolitical positioning by helping to mediate negotiations between the U.S.-Iran helped insulate the currency from broader regional FX pressures, distinguishing it from many other energy-importing economies.
- Ongoing structural and political policy issues remained problematic for Indonesia. The government announced the intention to control revenue from commodity producers which has the potential to invite corruption and distort the supply side. These measure weighed negatively on the rupiah, but the Bank of Indonesia did revert to more orthodox monetary policy and hiked rates.

CEEMEA

- The UzNIF IPO marked a significant milestone in Uzbekistan's privatization agenda. Ahead of the listing, several reforms aimed at enhancing the competitiveness of the portfolio companies had already been implemented, including energy tariff increases across the supply chain, with many additional reforms still in the pipeline.
- The UAE signaled a more assertive and autonomous policy stance by announcing its withdrawal from OPEC effective May 1, 2026. The decision was motivated by the UAE's strategic objective of reducing its reliance on the Strait of Hormuz while pursuing higher levels of domestic production.
- In Romania, the Social Democrat PSD party quit the governing coalition over disagreements over austerity measures. This led to political instability and an interim government with limited powers. Reform momentum for fiscal consolidation and structural reform of SOEs are at risk plus the risk of losing additional EU funding.

LATAM

- In late June, a devastating earthquake hit Venezuela resulting in notable causalities. The disaster is expected to weigh on the economy, which is in the process of recovery, although the full extent of the economic impact remains uncertain. Progress on mining reforms, renewed oil investment, and the appointment of financial advisors for sovereign debt restructuring supported the longer-term recovery narrative.
- Boliva returned to international markets and issued its first bond under its new government with a $1 billion USD-denominated issuance. Reform momentum has been slower than promised, but the government removed a 15-year dollar peg and adopted a flexible exchange rate. The new policy is in an effort to renew economic stability and work towards an IMF program.
- In Argentina, growth stalled during the quarter likely reflecting combined effects from fiscal austerity measures, uneven sector recovery, and tight financial conditions due to high rates. However, trade surpluses were strong and generated dollars plus President Milei’s cabinet chief resigned over corruption allegations which was a positive step to refocusing on reforms.

Please reference page 2 “Important Information and Disclosure”

Q2 2026 RECAP

EM Corporate Credit – Q2 Update and Outlook

HIGHLIGHTS DURING THE QUARTER AND YEAR:

The CEMBI diversified index returned 2.42% in Q2 2026, just over 200bps of which came from credit spread returns while US treasuries contributed 20bps to the total return. This compares with 3.96% for the emerging market hard currency sovereign index (EMBI) and 2.57% for the emerging markets local income index (GBIEM). The CEMBI index continues to deliver lower volatility versus the sovereign indices.

- The escalation of the U.S.-Iran conflict that began in March 2026 was the defining macro event for emerging markets during the second quarter. Its impact on the EM corporate debt asset class proved significantly more modest and short-lived than initially feared. In fact, given the sectoral make-up of the asset class, a number of corporates have experienced a step change in their earnings, including oil & gas and petrochemical corporates. The primary markets have been resilient through this period, with healthy levels of primary issuance and secondary market liquidity
- Some notable idiosyncratic developments this past quarter include:
  - A market-friendly political event in Colombia drove a re-rating in Colombian risk premia, including many of the corporates in the country. Investors expect a more supportive policy environment under Espriella's leadership which should boost investment in sectors such as energy and mining;
  - Brazil high yield corporates remain top of mind for many EM corporate investors. A string of idiosyncratic events such as Raizen, Braskem, Ambipar coupled with generally deteriorating cash flow cushion levels because of the high local interest rate environment continues to weigh on investor sentiment
    - A positive development is that Raizen successfully executed a Brazilian pre-packaged recapitalization (EJ restructuring) this past quarter. Creditors agreed to a deal that involved a large debt-to-equity swap. The company is expected to emerge from the restructuring in early 2027 with a largely fixed capital structure
    - Braskem is actively exploring a recapitalization of its balance sheet. The earnings power of the company has improved significantly in 2026 due to the US-Iran conflict that caused a disruption in the petrochemical supply chain. The duration of this step-change in chemical spreads remains a key diligence points for investors looking to identify value in Braskem's debt instruments
- Argentina assets continue to perform well. Fitch and S&P moved the country's credit rating to single-B from CCC, and this drove a re-rating in credit spreads for large corporate issuers as well. Also, locals continue to show strong demand for blue-chip Argentina corporate bonds, driving valuations close to fair value
- Indonesian assets have been pressured of late. There are concerns around President Prabowo's departure from orthodox fiscal and institutional policies that has underpinned the country's investment grade rating in the past. The President is embarking on an increasingly populist economic agenda

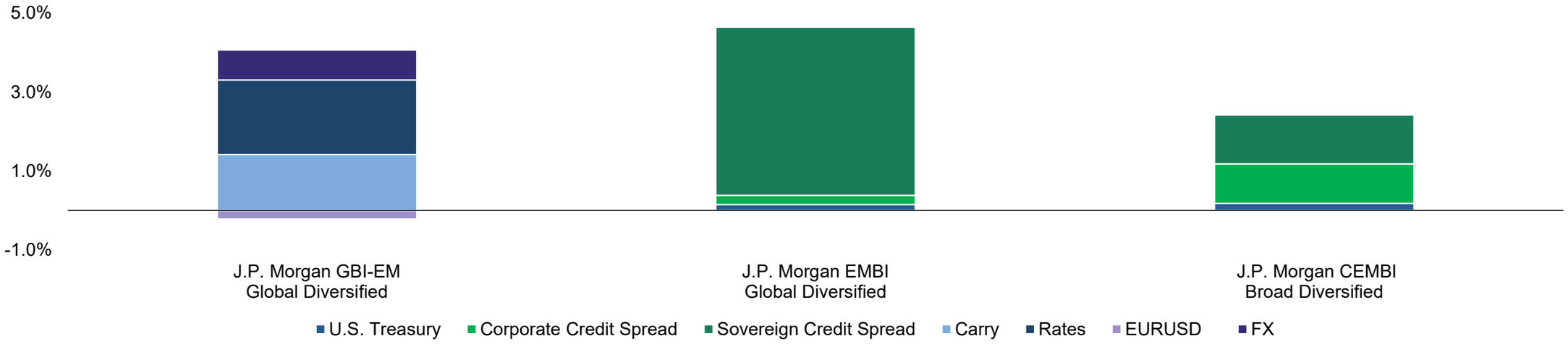
Broadly, credit spreads remain at historical tights and coupled with high local yields, many issuers are exploring tapping the international debt markets to raise new capital. Several of these issuers are coming to the market for the first time, and this is creating interesting investment opportunities for the team

Please reference page 2 "Important Information and Disclosure"

Q2 2026 RECAP

Index Performance Recap

Q2 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	0.76%	-0.22%	1.89%	1.42%	—	—	—	**3.85%**
J.P. Morgan EMBI Global Diversified	—	—	—	—	4.26%	0.23%	0.15%	**4.63%**
J.P. Morgan CEMBI Broad Diversified	—	—	—	—	1.24%	1.00%	0.18%	**2.42%**

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.

Q2 2026 RECAP

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YTD 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	-0.41%	-0.52%	-0.39%	2.84%	—	—	—	**1.52%**
J.P. Morgan EMBI Global Diversified	—	—	—	—	2.93%	0.20%	0.19%	**3.32%**
J.P. Morgan CEMBI Broad Diversified	—	—	—	—	1.45%	0.38%	0.38%	**2.21%**

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.

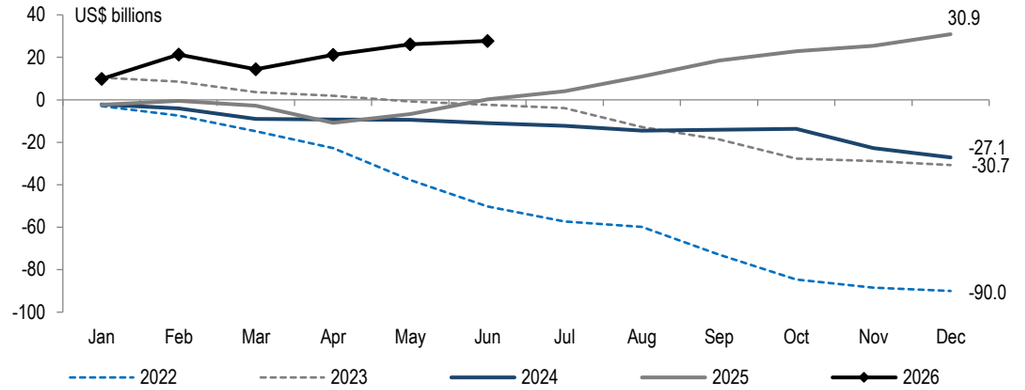
Q2 2026 RECAP

Technical: 2026 YTD Flows

- Inflows resumed for both hard and local currency funds following brief net outflows in March providing a supportive tailwind for the asset class.
- While fundamentals continue to improve across much of the investable universe, policy trajectories are deteriorating in a small number of countries, reinforcing the importance of active management. This is further evidenced by the dominance of non-ETF inflows over ETF flows during the quarter.

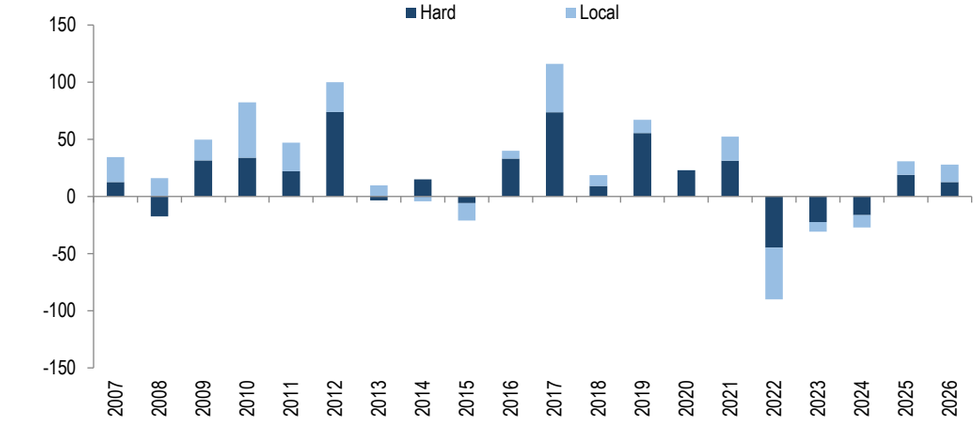
Annual Cumulative Bond Flows

US$ billions



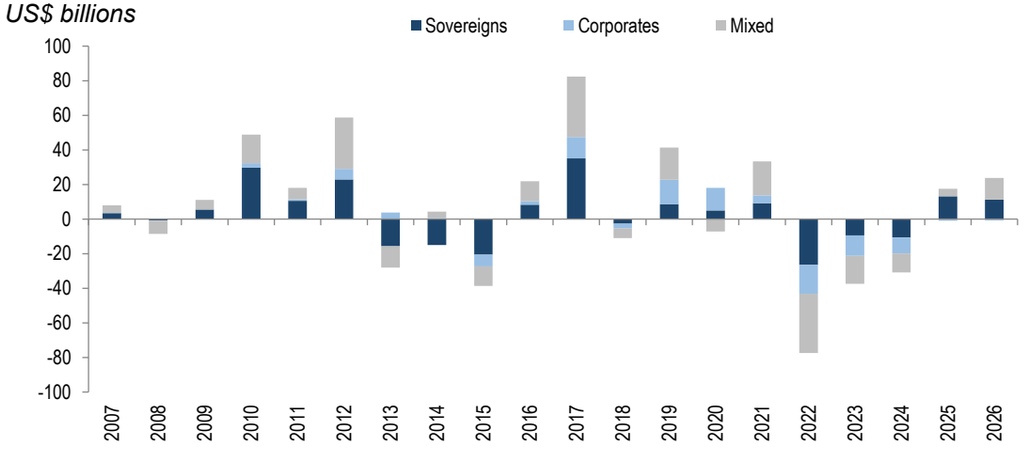
Annual Flows by Currency

US$ billions



Annual Flows by Sovereign/Corporate/Mixed (Retail)

US$ billions



Source for all charts above: JPMorgan. All data as 6/27/2026. For illustrative purposes only. **Past performance is no guarantee of future results.**

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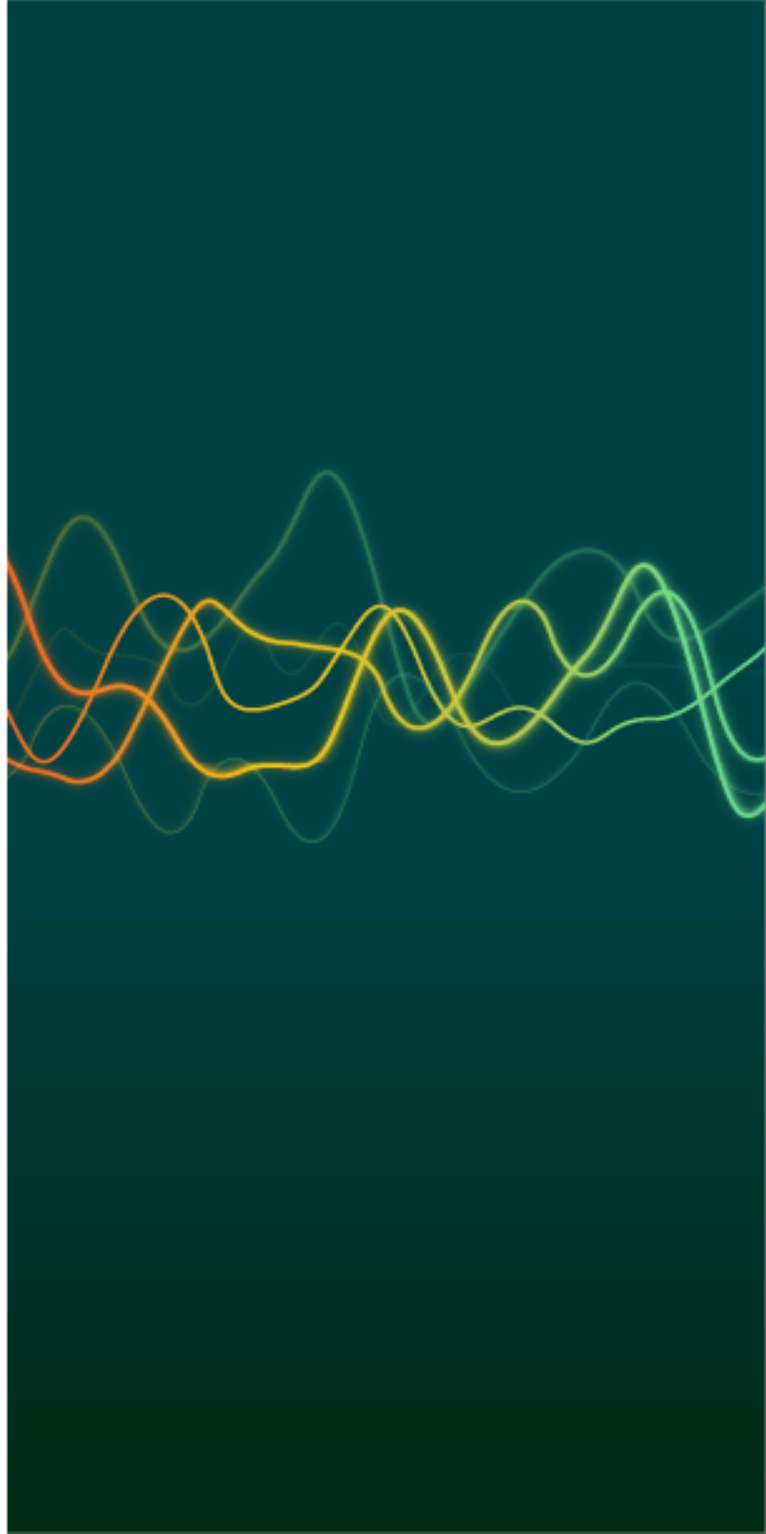
Rotating Topic

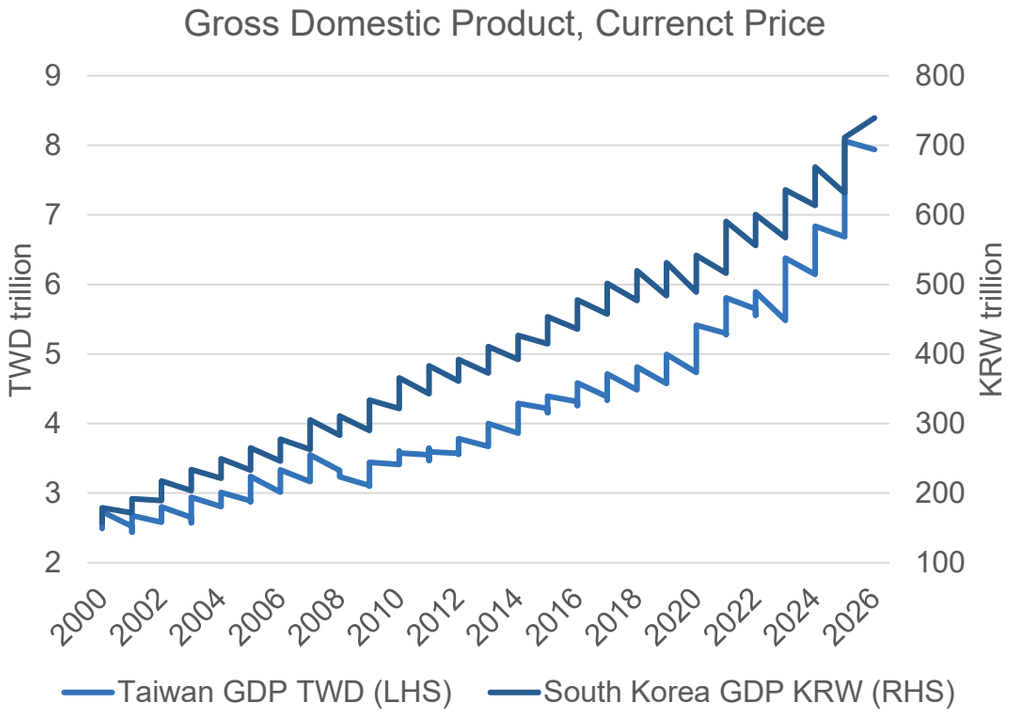
External Shock Dispersion in Asia



ROTATING TOPIC

South Korea and Taiwan Are Emerging as Major Winners of the A.I. Boom

Three companies, Samsung, SK Hynix, and TSMC, are generating rapid capex and earnings as global demand for semiconductors and memory chips that power A.I. systems has surged.



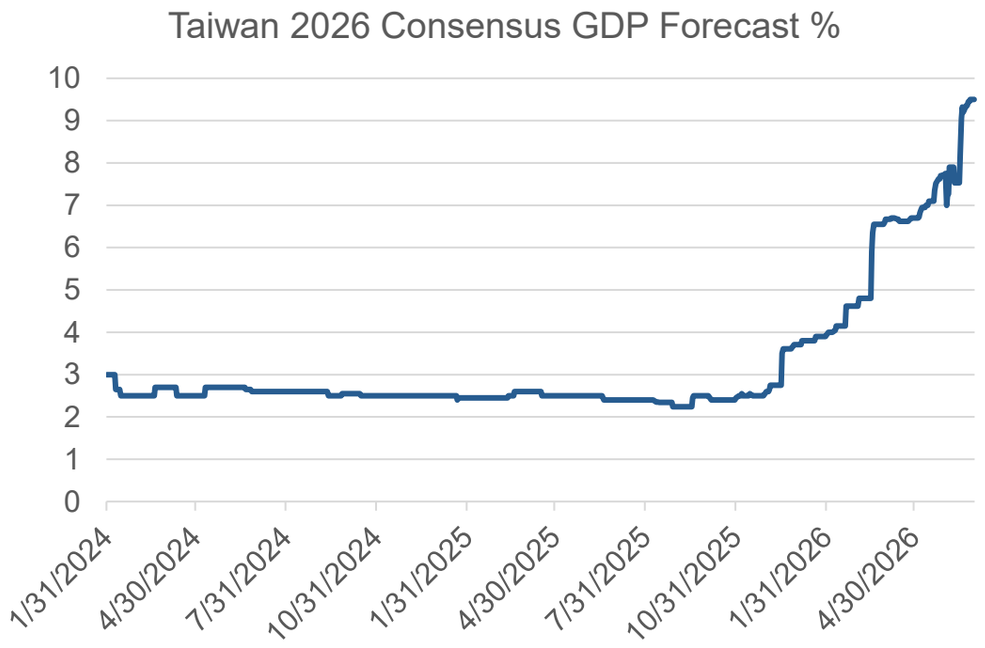
Taiwan and South Korea have long been global manufacturing powerhouses. Demand for high-performance chips are contributing to sharp increases in GDP and export demand.

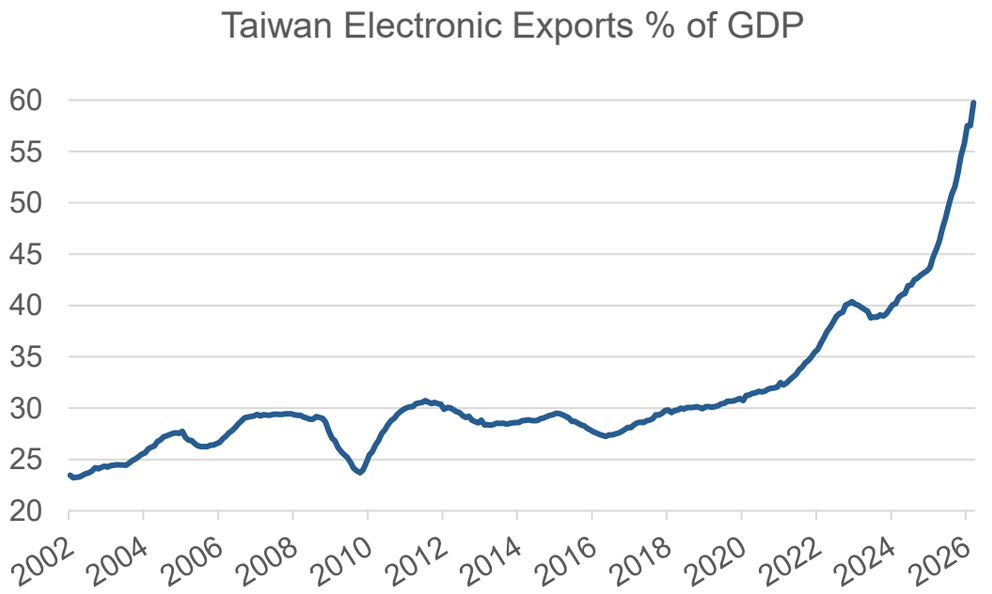
Source: Macrobond as of 6/30/2026. The views and opinions expressed are those of the Emerging Markets Debt Team at the time of the writing of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. Forecasts/estimates 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

A.I. Powers Taiwan's Next Growth Chapter

Taiwan's ICT sector is evolving from being a consumer electronics manufacturing hub into the backbone of global A.I. infrastructure



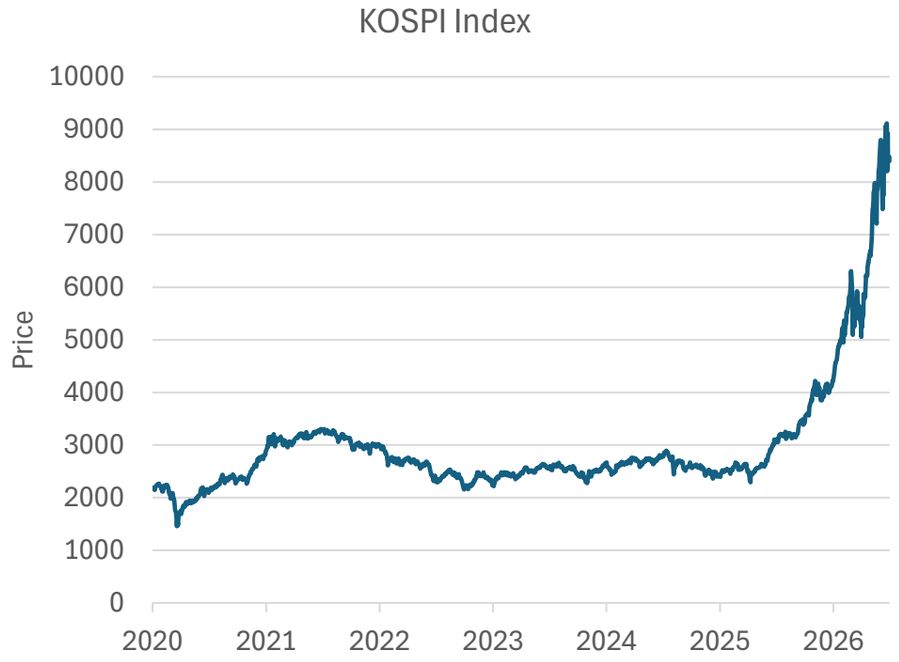


Source: Macrobond and Bloomberg L.P. as of 6/30/2026. The views and opinions expressed are those of the Emerging Markets Debt Team at the time of the writing of this presentation and are subject to change at any time due to market, economic, or other conditions, and may not necessarily come to pass. 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

External Shocks Weigh on Asian Currencies

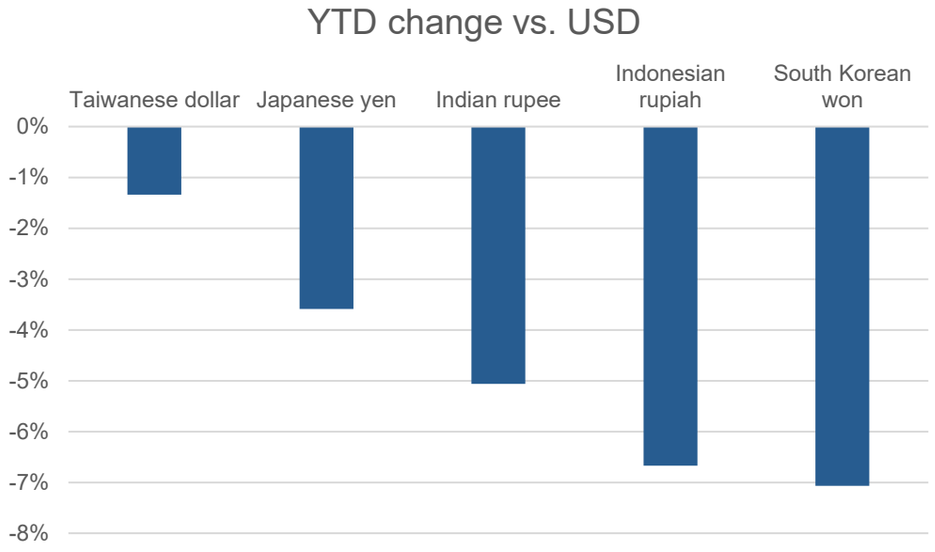
Broadly Asian currencies have weakened year-to-date due to external pressures including sustained capital flows into U.S. assets, higher energy prices, and geopolitical risk.



South Korea's stock market has been supported by strong A.I.-driven earnings and corporate reforms, but these earnings are being invested abroad primarily in U.S. assets adding to pressure on the won

Domestic policy responses to the external shocks have been varied and can help explain relative performance across countries

Example, Indonesia: stretched valuations prior to the energy shock, resource nationalism, independence issues at the central bank, and absorbed fuel price increases adding to fiscal burden



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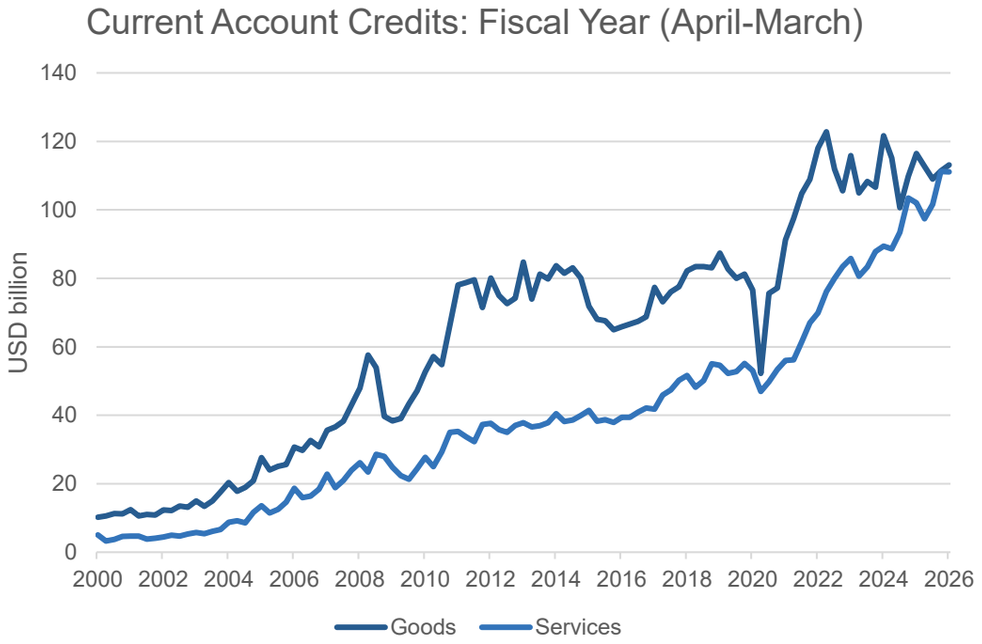
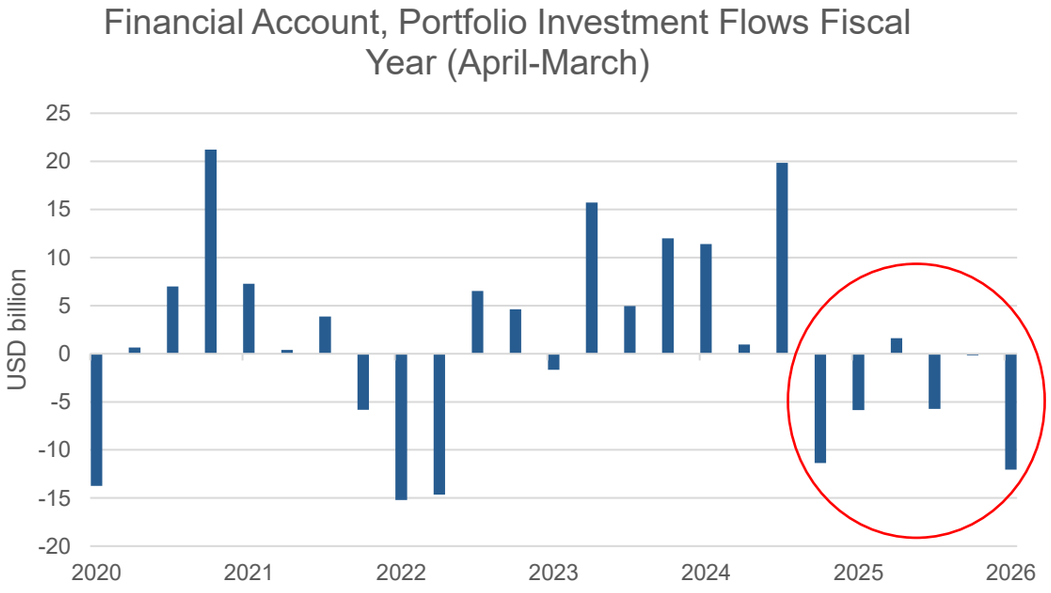
ROTATING TOPIC

India under pressure from external shocks

Despite generally sound policy and fundamentals, repeated external shocks from geopolitical conflict, U.S. tariff uncertainty and A.I.-related disruptions have made it difficult for growth to regain momentum.



Goods exports have largely plateaued, while services exports continue to grow rapidly. Manufacturing, and specifically A.I related manufacturing has not expanded as quickly as other countries in the region.



Despite the growth story, India has experienced financial outflows in recent years. Foreign investors selling their Indian securities is the main reason.

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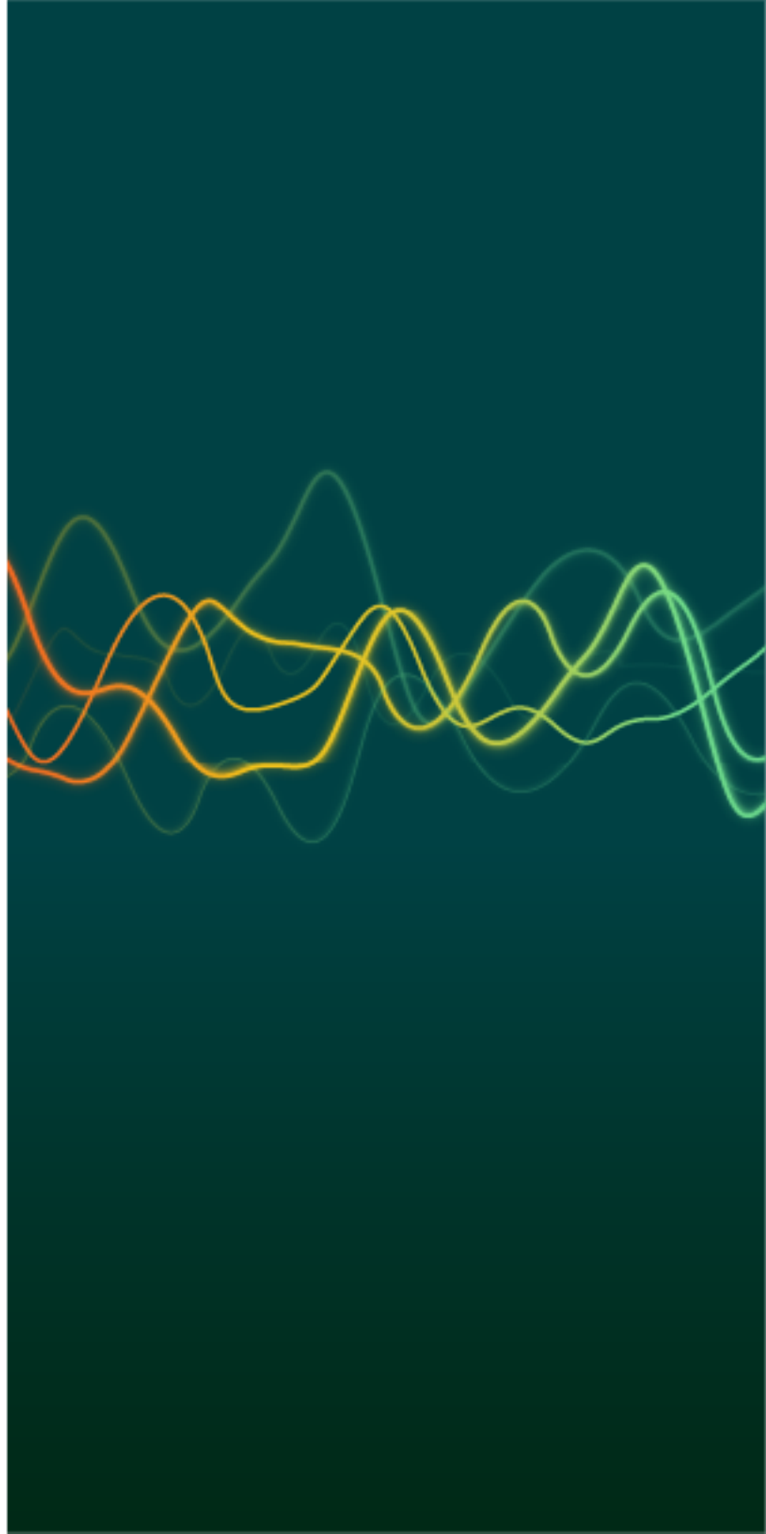
Q3 2026 Outlook



Q3 2026 OUTLOOK

Q3 2026 Outlook

MACRO DRIVERS

- Monetary policy became increasingly differentiated over the course of the quarter with developed markets generally hiking and EM markets with mixed policies. As countries continue to grapple with lingering supply shocks this divergence will likely continue. U.S. Fed Chair Kevin Warsh's first meeting was perceived to have more hawkish signals than initially anticipated by the market. However, Warsh launched five independent task forces to reevaluate central bank operations by the end of the year which could allow policymakers to defer policy decisions.
- The Russia–Ukraine war remained at a stalemate, with intense fighting continuing along the front lines despite renewed diplomatic efforts and proposals for direct talks yielding no breakthrough toward a ceasefire. In the Middle East, hostilities between the United States, Israel, and Iran had eased following a mid-June framework agreement and ceasefire, although the arrangement remains very fragile. While immediate fears of a broader regional conflict have receded, uncertainty remains without clear resolutions.
- Increased oil production, resumed activity through the Strait of Hormuz and reduced geopolitical risk from the U.S.-Iran MoU should lower oil price forecasts from Iran war peak levels. However, geopolitical risks remain elevated, and any renewed escalation in the Middle East or stronger-than-expected global demand could lead to renewed volatility.

COUNTRY DRIVERS

- Many countries continued to implement policies and intervened in response to higher energy costs. Going forward, the sustainability of these policies and their implications for fiscal balances will remain an important area of focus, particularly if energy prices become more volatile and inflationary pressures re-emerge.
- Upcoming elections in emerging markets and developed markets will be very important for the direction of policy. Brazil's Presidential election in October could have significant implications for fiscal policy. The United States mid-term elections could have spillover impacts for many emerging markets countries and will likely impact global risk sentiment.
- Country level fundamentals continue to improve across much of the emerging markets universe, though policy is deteriorating in select countries. This divergence reinforces the importance of bottom-up country analysis to identify both opportunities and risks.

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.

Q3 2026 OUTLOOK

EMD Risk Factor Dashboard

Outlook and Summary

	Underweight	Moderate Underweight	Neutral	Moderate Overweight	Overweight	Summary
Currency				◆		We upgrade currencies to moderate overweight. The macro backdrop should remain supportive, while country-specific fundamentals and policy will continue to drive relative performance across the diverse EM currency universe.
Local Interest Rates				◆		We keep local rates at moderate overweight. Real yield differentials versus DM have marginally decreased yet remain attractive. We expect inflation dynamics and evolving domestic policy paths to drive bottom-up performance as rate trajectories become more dispersed across EM.
Sovereign Credit		◆				We move sovereign credit to moderate underweight. Following modest widening due to volatility in March, spreads quickly resumed their tightening pattern. Spreads remain near historic lows. Select opportunities remain outside the benchmark.
Corporate Credit			◆			We keep corporate credit at neutral. The U.S.-Iran conflict had a more modest impact on the asset class than initially expected, but with a more direct impact on earnings for oil & gas and petrochemical companies. Credit spreads remain at historic lows, but local yields remain high
EM Equity			◆			We keep EM equity at neutral. Valuations remain reasonably attractive, though index level performance increasingly driven by industry concentration in semiconductor space.

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..

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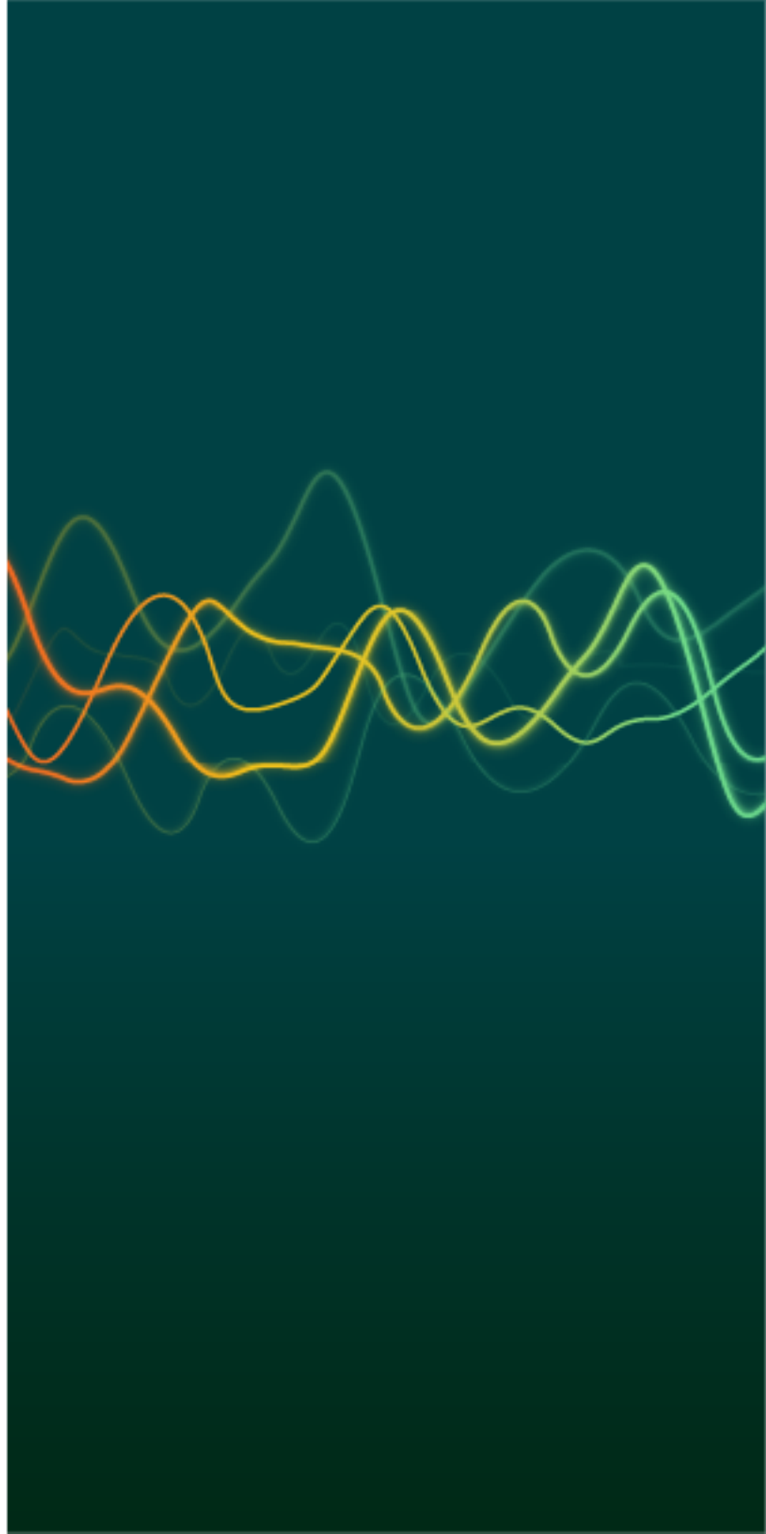
EM FX



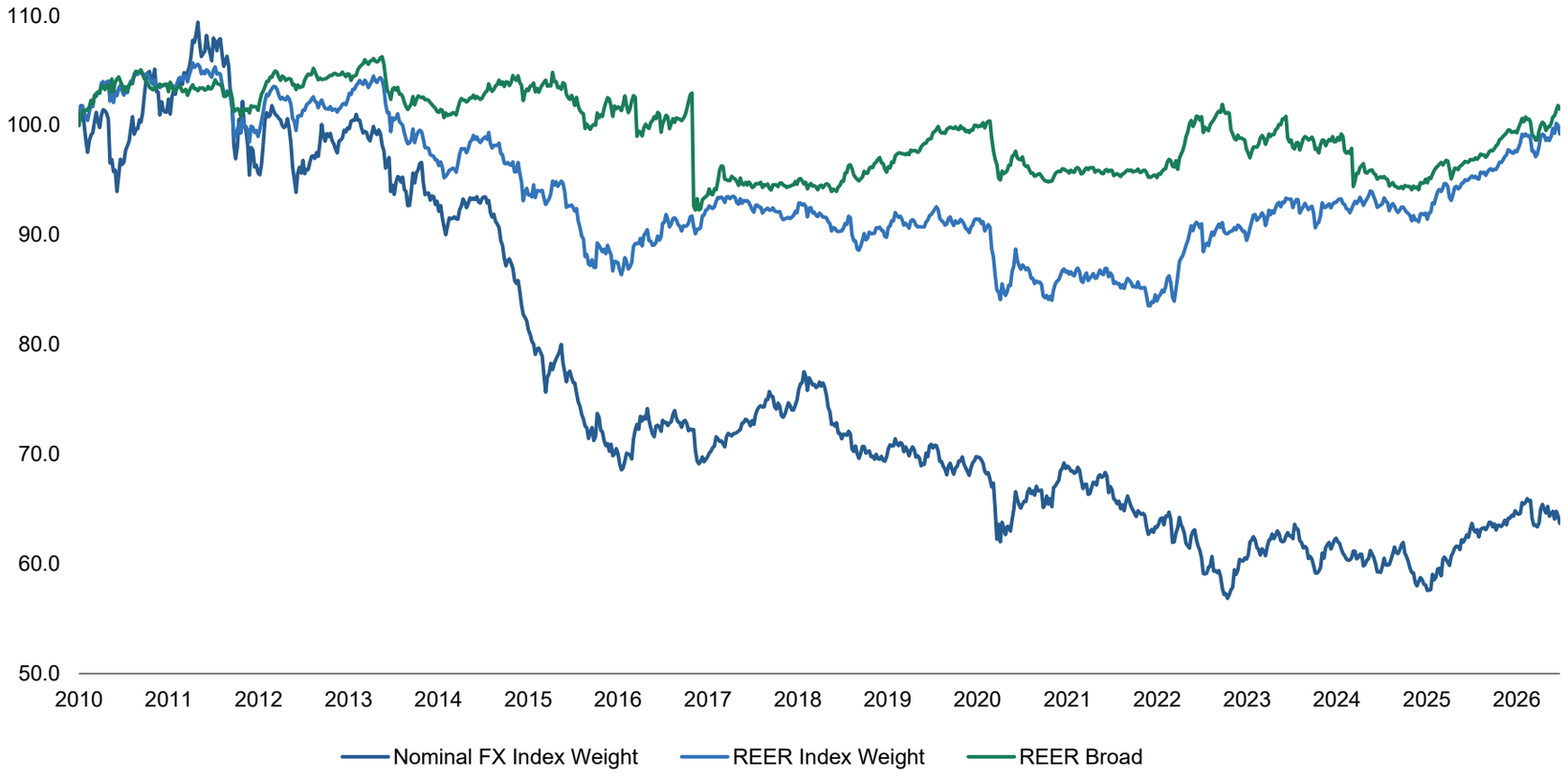
EM FX

Emerging market currencies broadly appreciated during the quarter, recovering from the weakness experienced in March as geopolitical tensions surrounding the Iran war gradually subsided.

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.

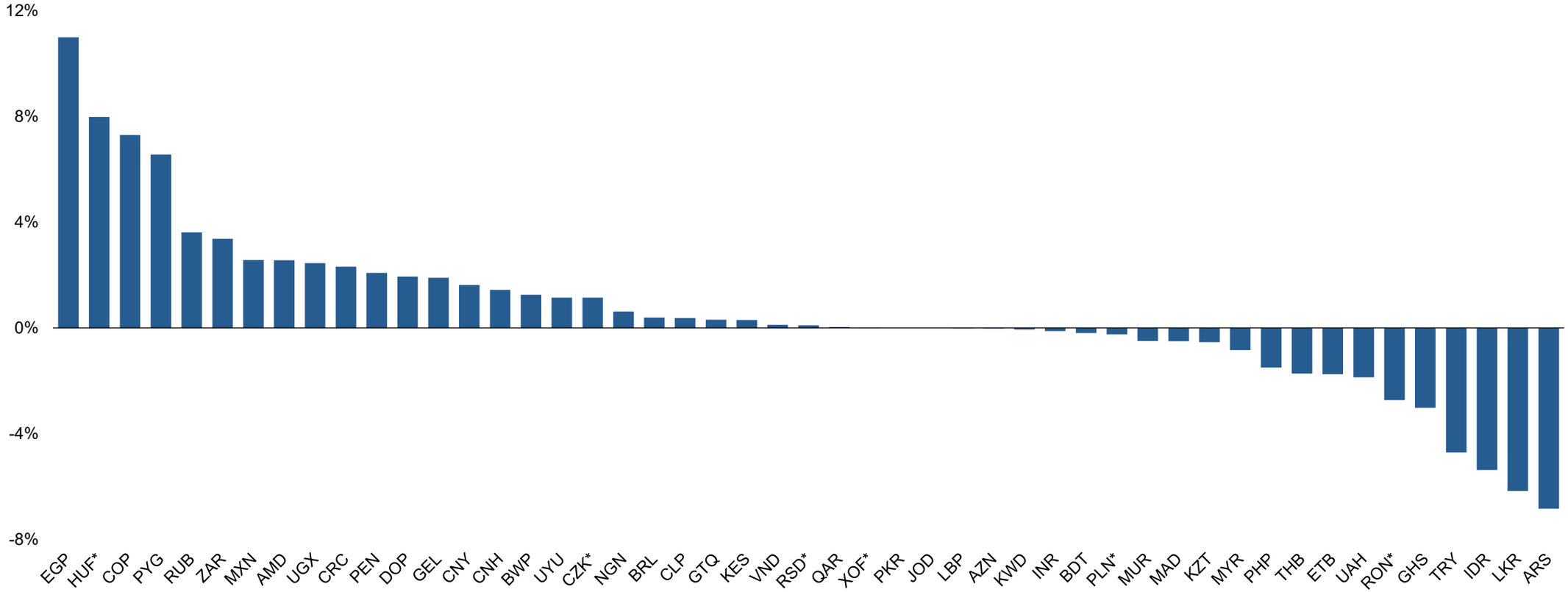


Source: J.P. Morgan, Barclays. Nominal FX Index Weight is the J.P. Morgan GBI-EM Global Diversified index currencies and weights. REER Index Weight is the Barclays real effective exchange rate data of the currencies in the J.P. Morgan GBI-EM GD. REER Broad uses Barclays real effective exchange rate data 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

EM currencies broadly appreciated during the quarter, with weakness confined to a handful of markets. The Hungarian forint strengthened due to an encouraging election outcome for reforms and economic support. The Romanian leu weakened as the government collapsed creating political instability and ongoing fiscal concerns.

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.

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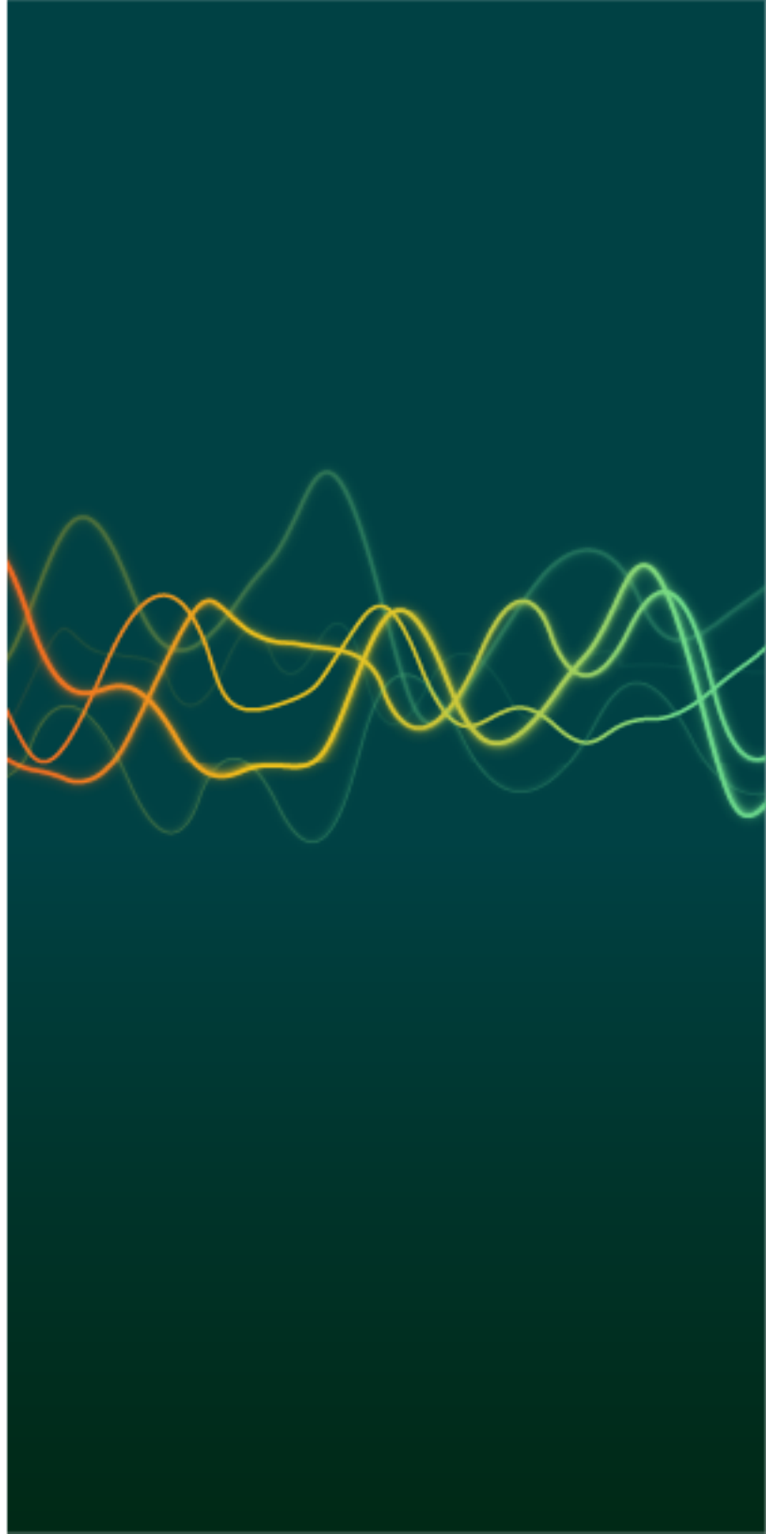
EM Interest Rates

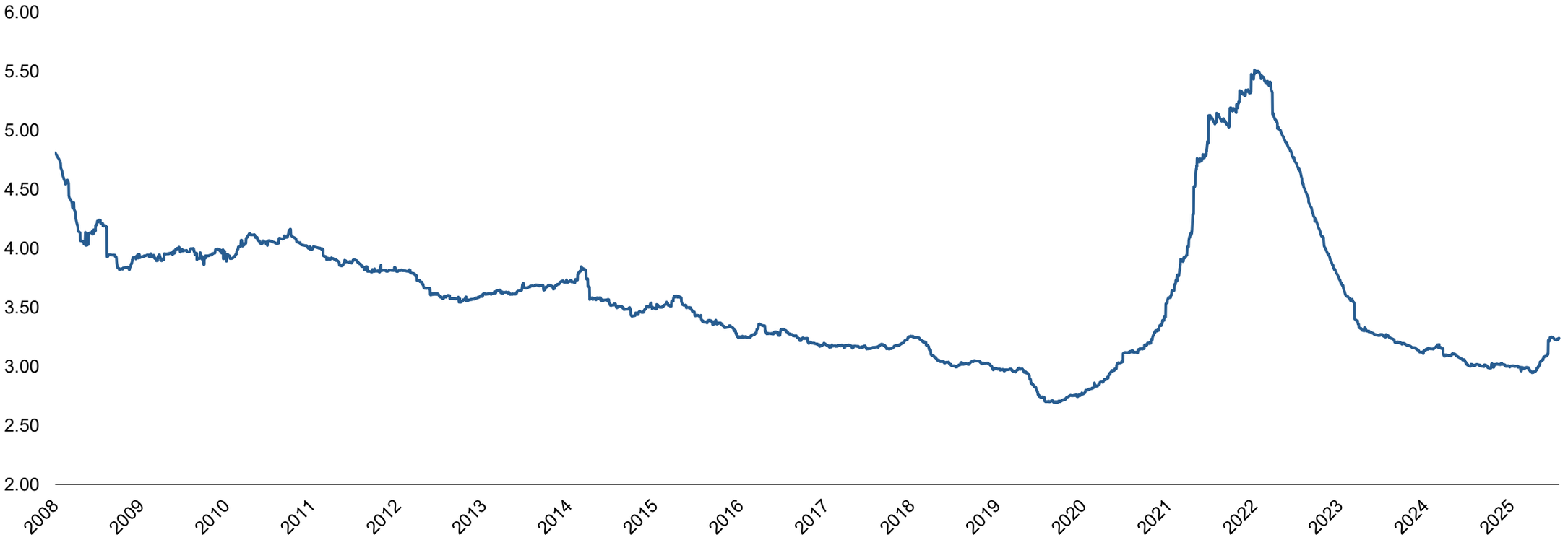


EM INTEREST RATES

Inflation expectations increased in April and May as oil prices remained elevated due to continued uncertainty from the Iran war and effective closure of the Strait of Hormuz. Expectations began to plateau at the onset of the MoU agreement.

EM Consensus CPI Expectations [1]

(% Change YOY)



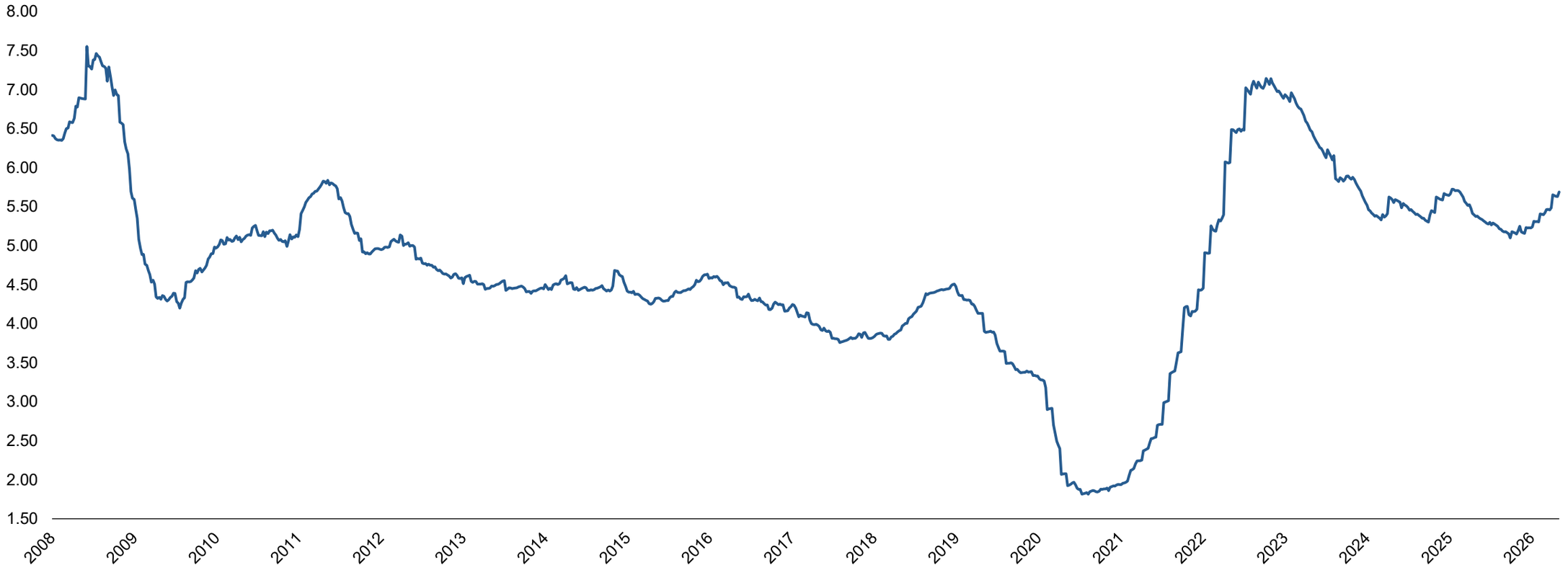
Source: Bloomberg, Morgan Stanley Investment Management. As of 6/30/2026.

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

Central bank policy across emerging markets became more differentiated during the quarter, with South Africa, Indonesia, the Czech Republic, and the Philippines raising policy rates to counter renewed inflationary pressures from higher energy prices and in select cases to support the currency.

EM Consensus Policy Rate Expectations [1]



Source: Bloomberg, Morgan Stanley Investment Management. As of 6/30/2026.

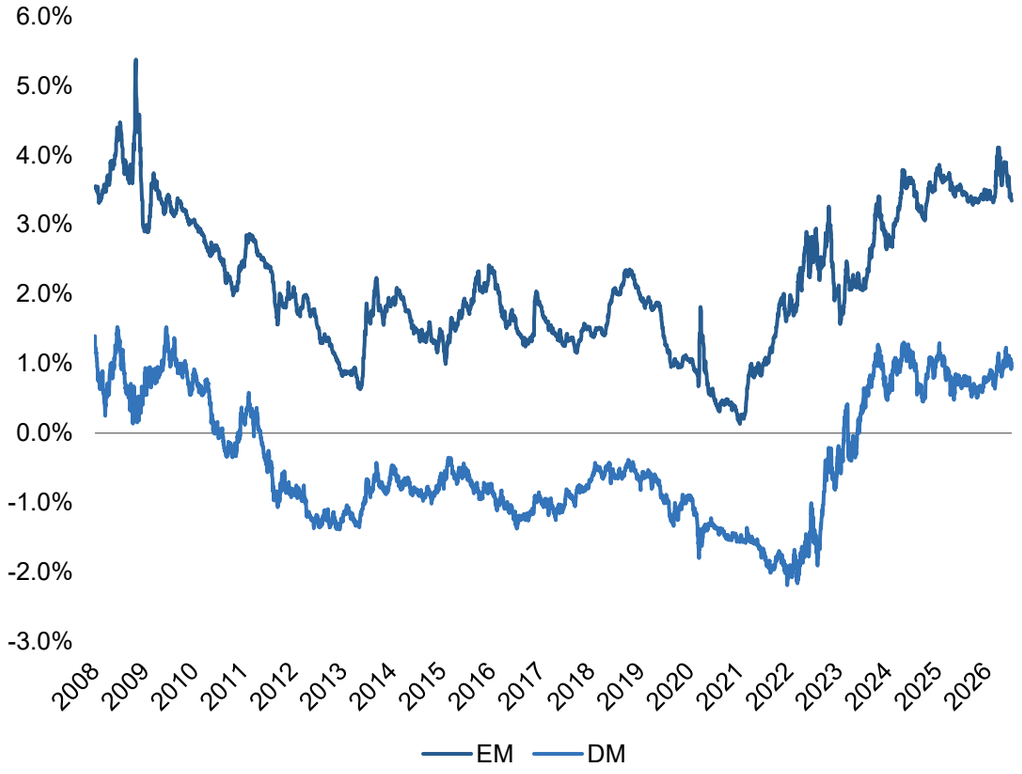
1. Data is the equal weighted average of expected policy rates in 12 months by economists surveyed by Bloomberg, which includes all countries in the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified. Forecasts/estimates are based on current market conditions, subject to change, 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, while still attractive, did slightly decrease during the quarter as emerging markets rates rallied, and many developed markets raised rates.

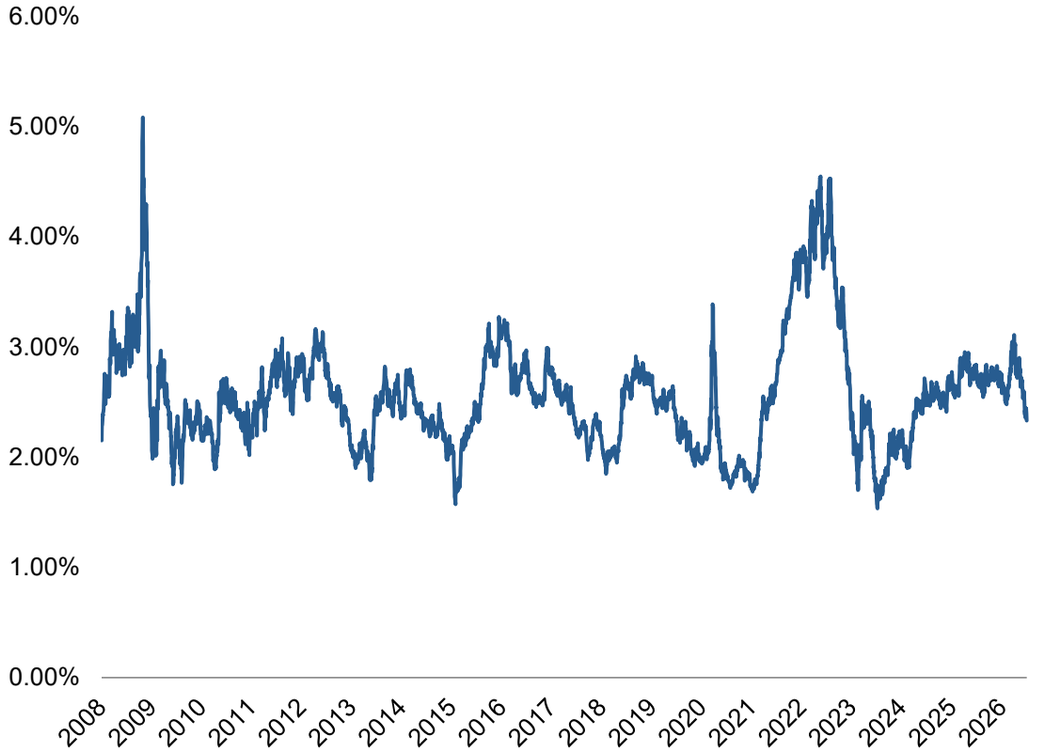
EM-DM Real Yields

(Using Inflation Forecasts)



EM-DM Real Yield Differential

(Using Inflation Forecasts)



Source: Bloomberg, J.P. Morgan, Morgan Stanley Investment Management. As of 6/30/2026. 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.

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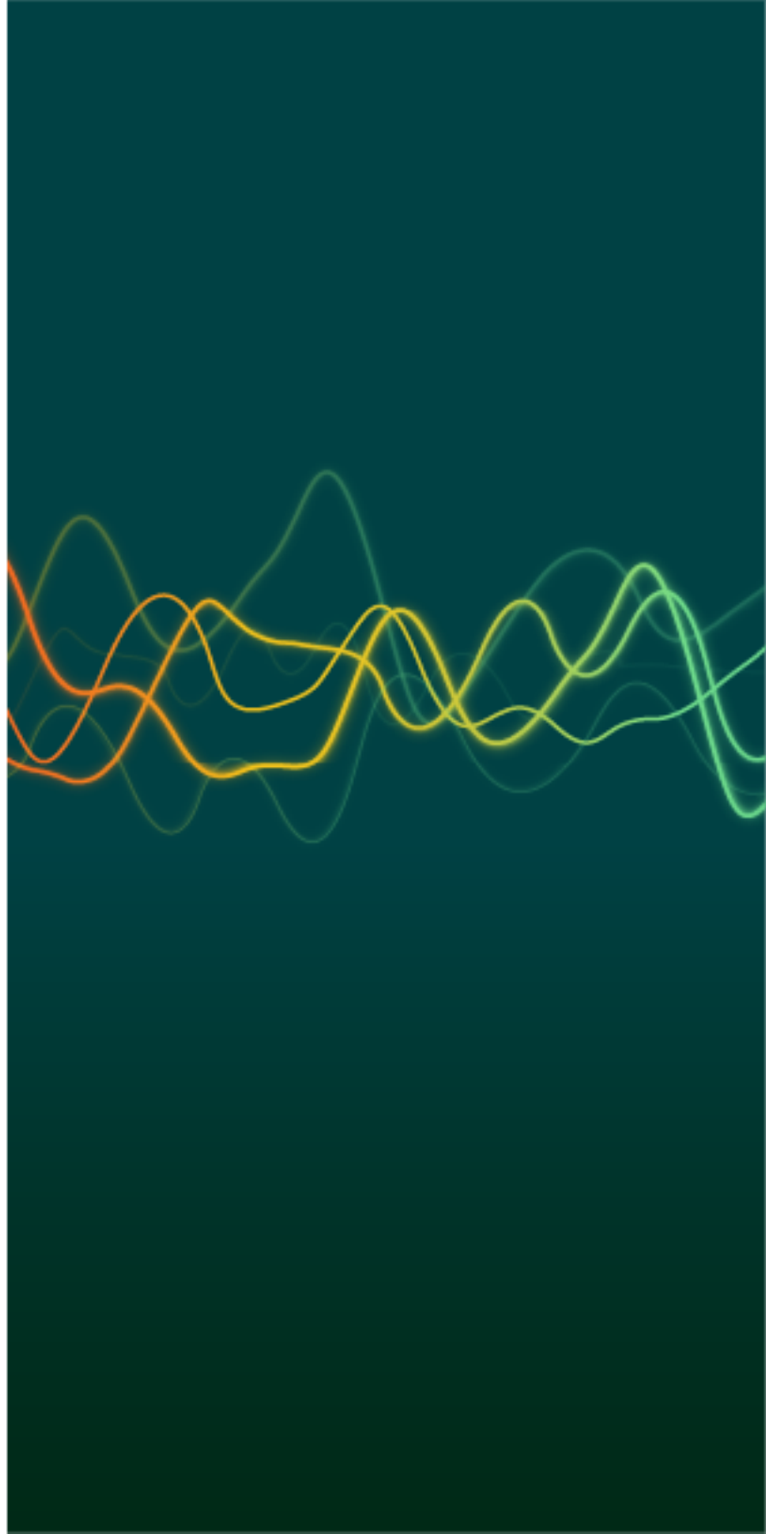
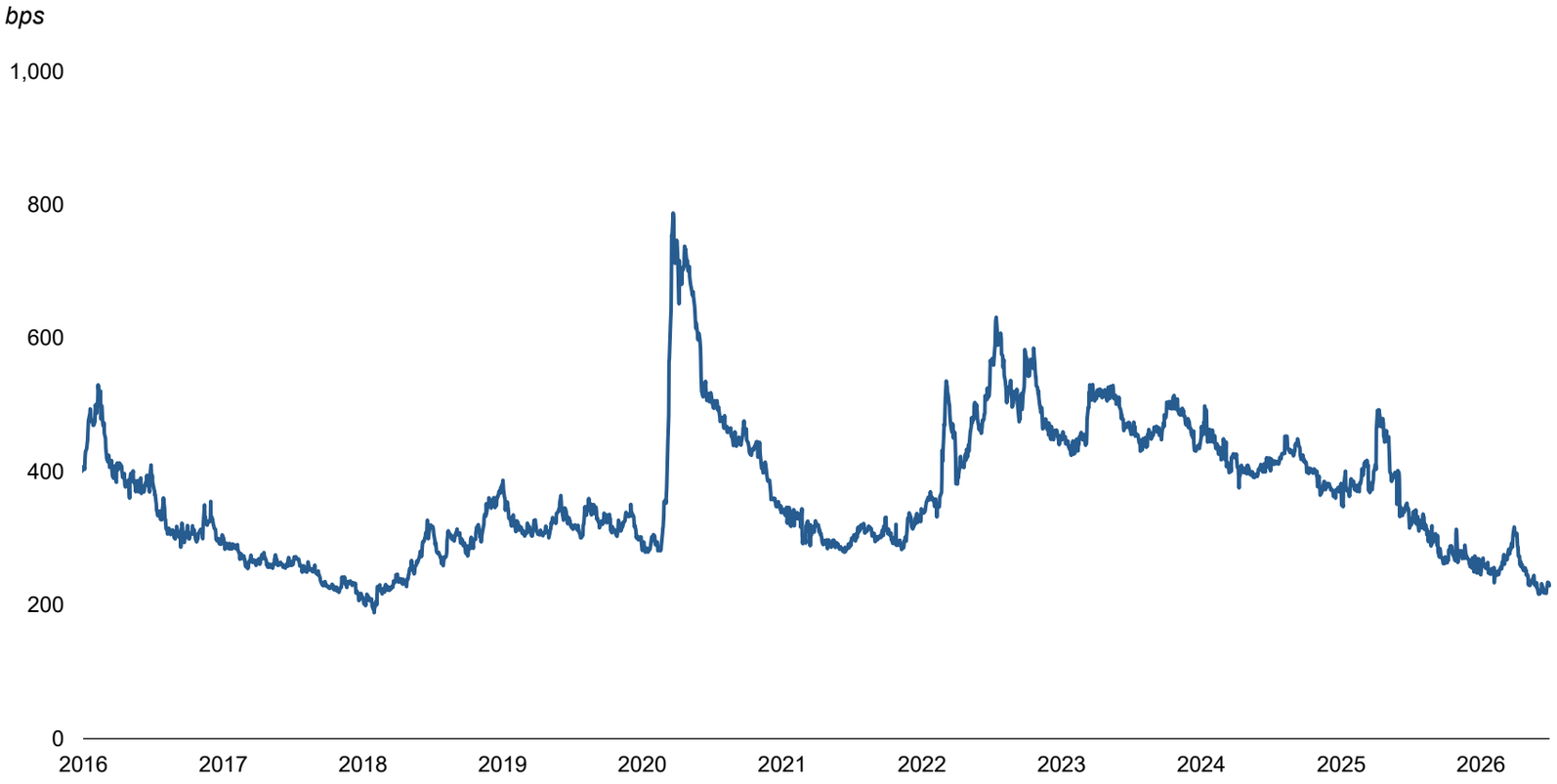
EM Sovereign Credit



EM SOVEREIGN CREDIT

- Following brief spread widening during the Iran war volatility in March, spreads returned to their tightening trend.
- 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

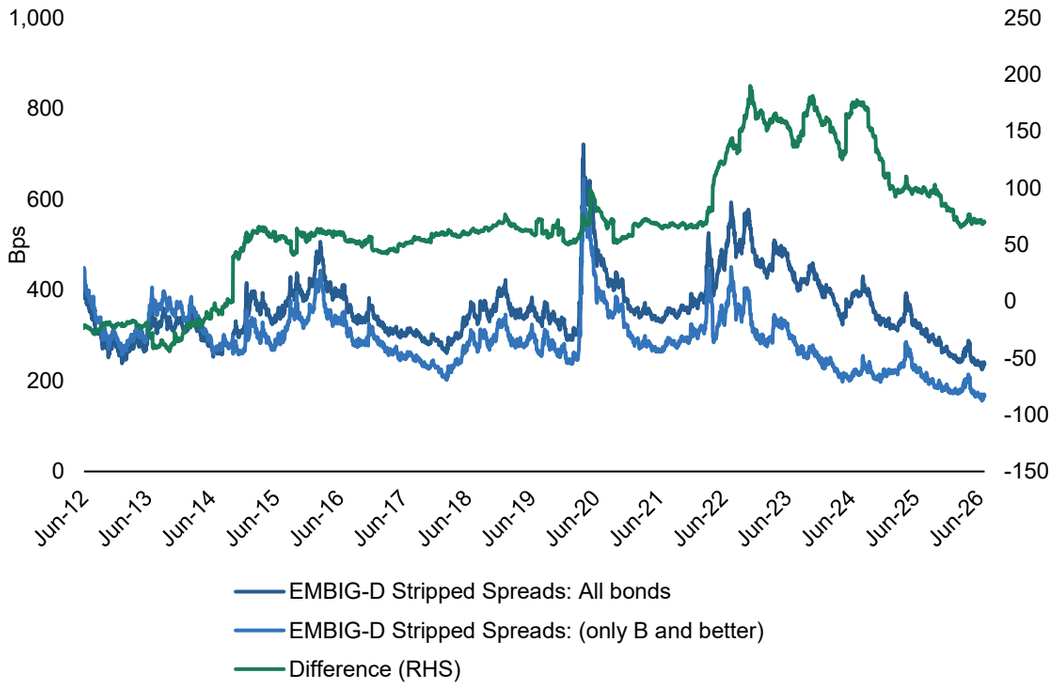
5-Year Equal Weight Sovereign Spread



Source: Morgan Stanley Investment Management proprietary data and calculations. As of 6/30/2026. 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.

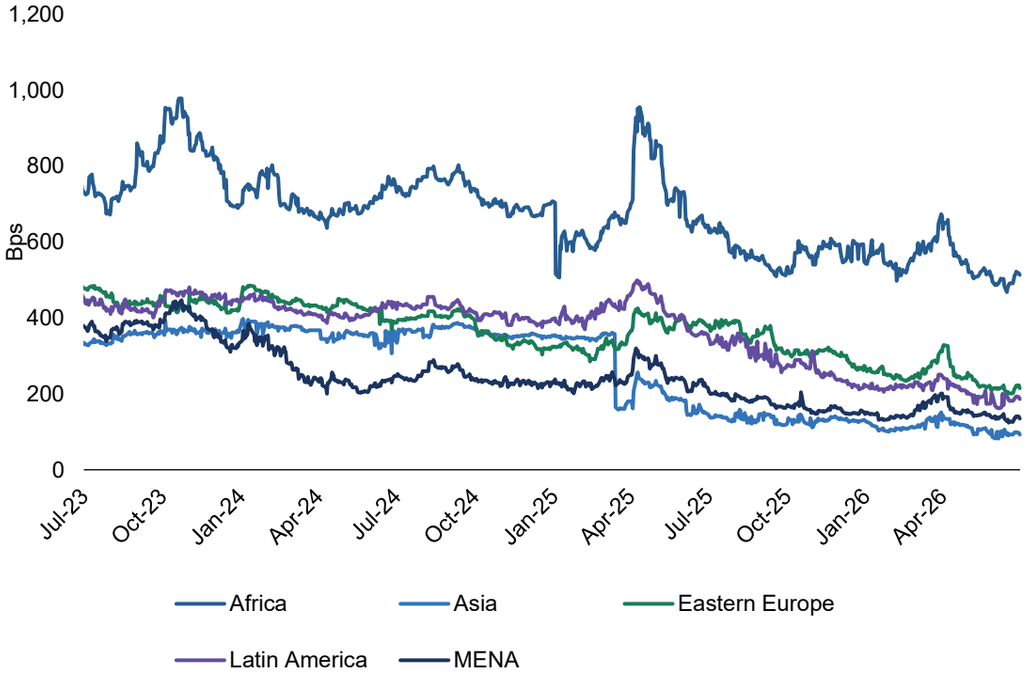
EM SOVEREIGN CREDIT

Spread levels tightened for both investment grade and high yield issuers following the brief widening period in March.



Spreads tightened from across the various regions with many regions reaching recent historical lows.

5-Year Equal Weight Sovereign Spread by Region

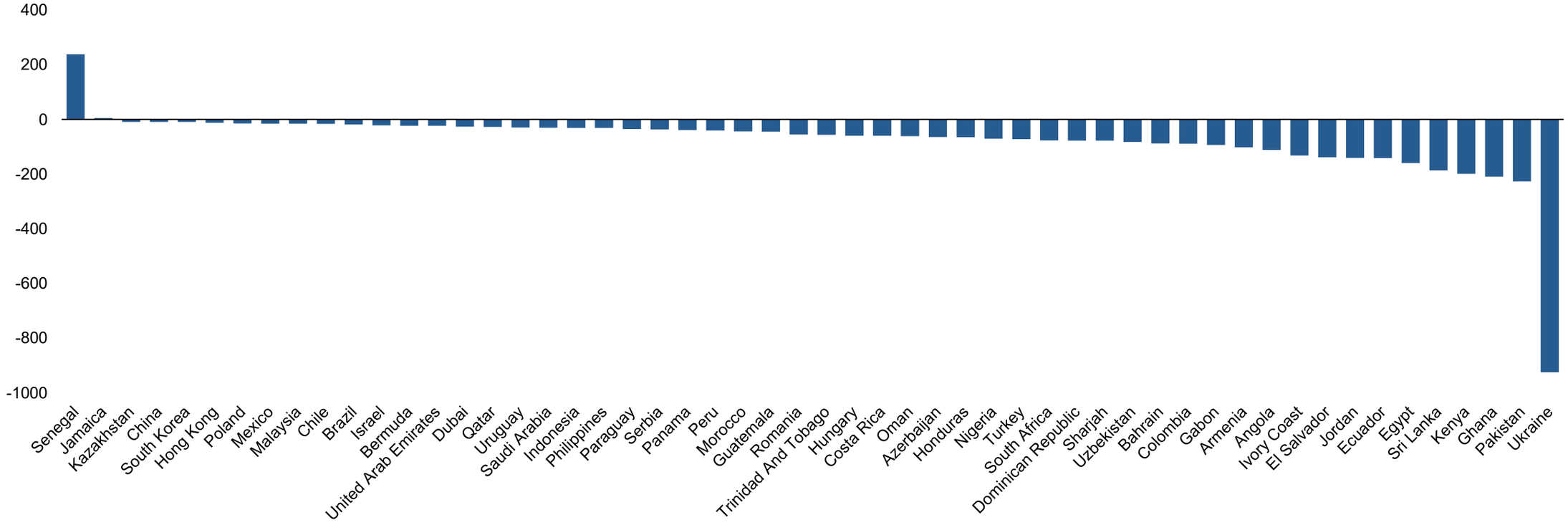


Source: Morgan Stanley Investment Management proprietary data and calculations. As of 6/30/2026. Excludes Argentina. Underlying individual country spreads are capped at 2,000 bps. All spreads are modeled five year par equivalent spreads allowing for like comparisons across countries and time. This differs 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

Credit spreads overwhelmingly tightened over the course of the quarter as volatility retreated and risk appetite returned. The exception was Senegal which continued to concern investors over fiscal sustainability issues and elevated debt servicing costs.

Q2 2026 Change in 5-Year Spread

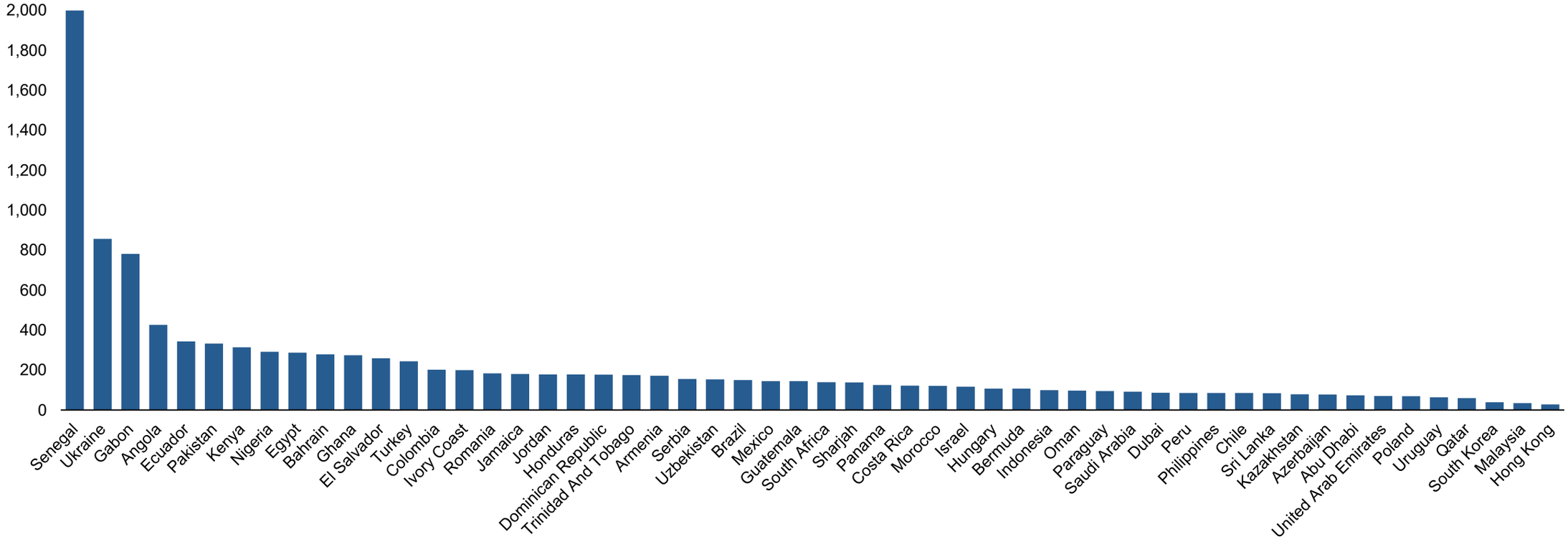


Underlying individual country spreads are capped at 2,000 bps. Source: Morgan Stanley Investment Management proprietary data and calculations. As of 3/31/2026. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional 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 6/30/2026. 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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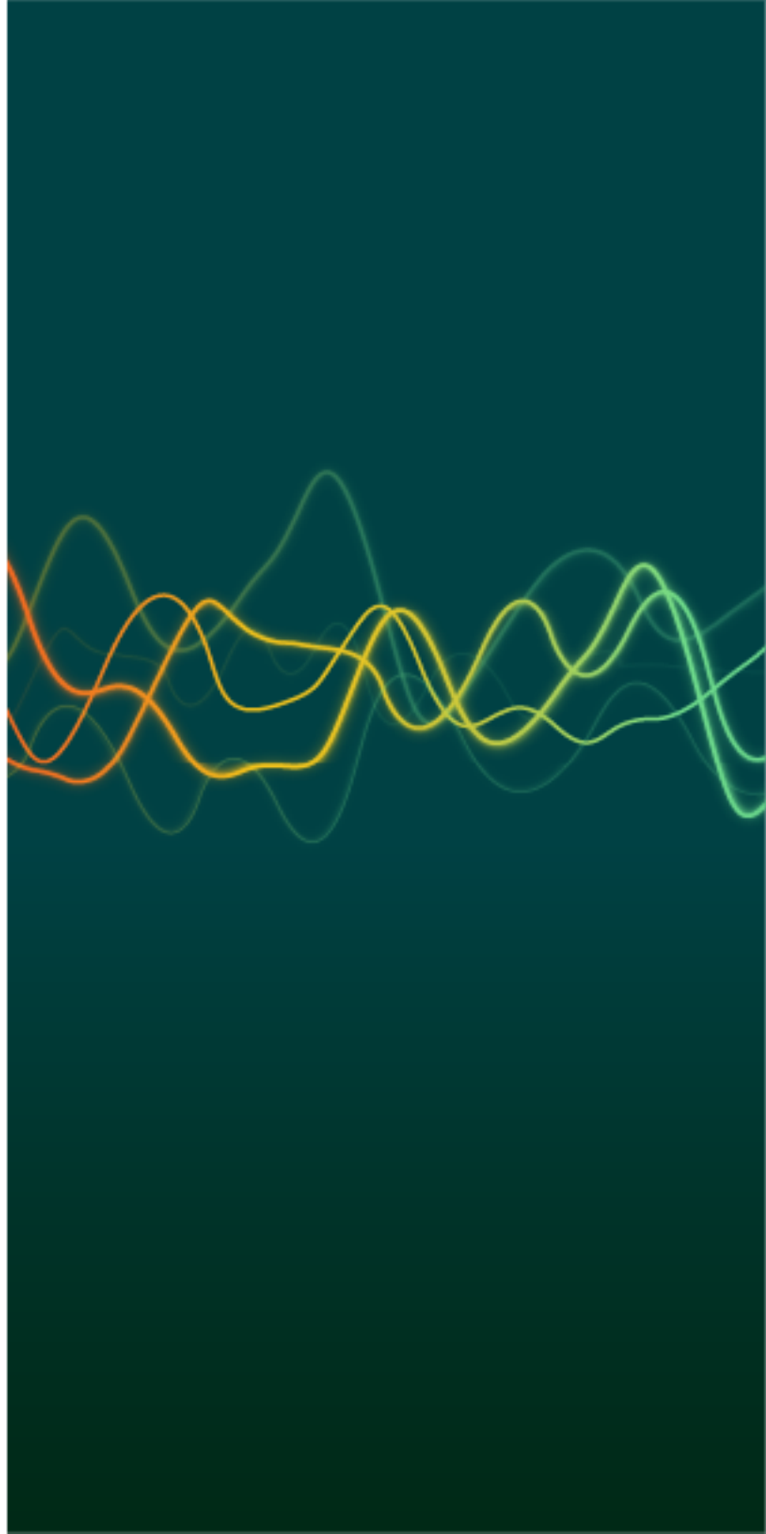
EM Corporate Credit

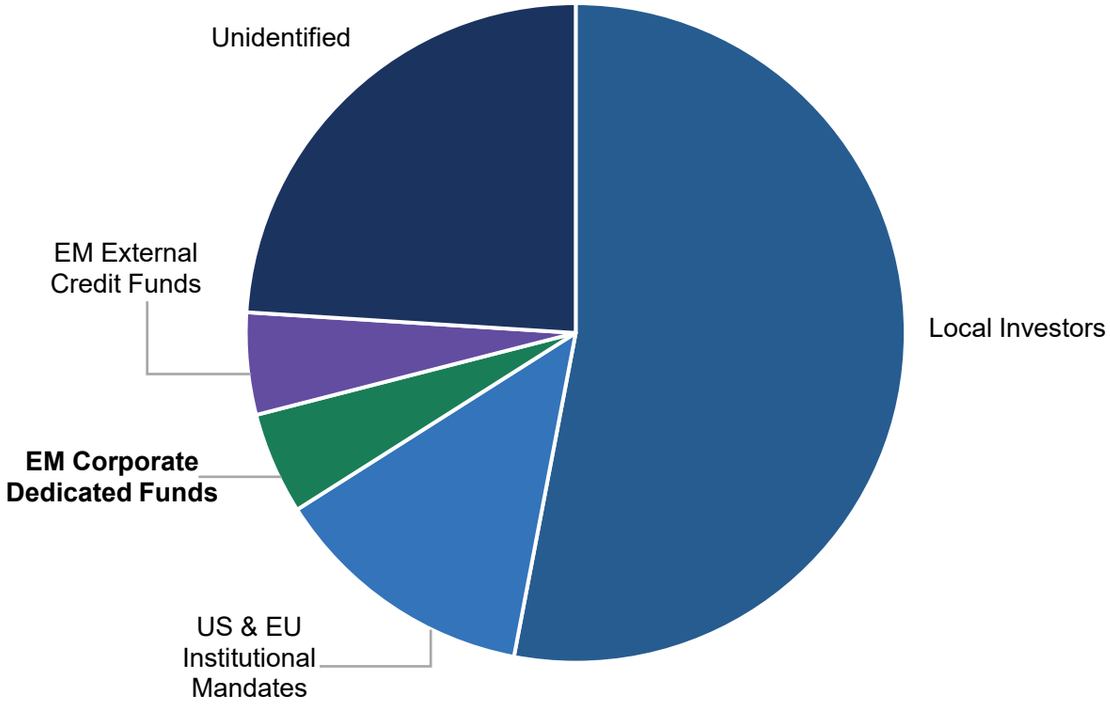


EM CORPORATE CREDIT

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.



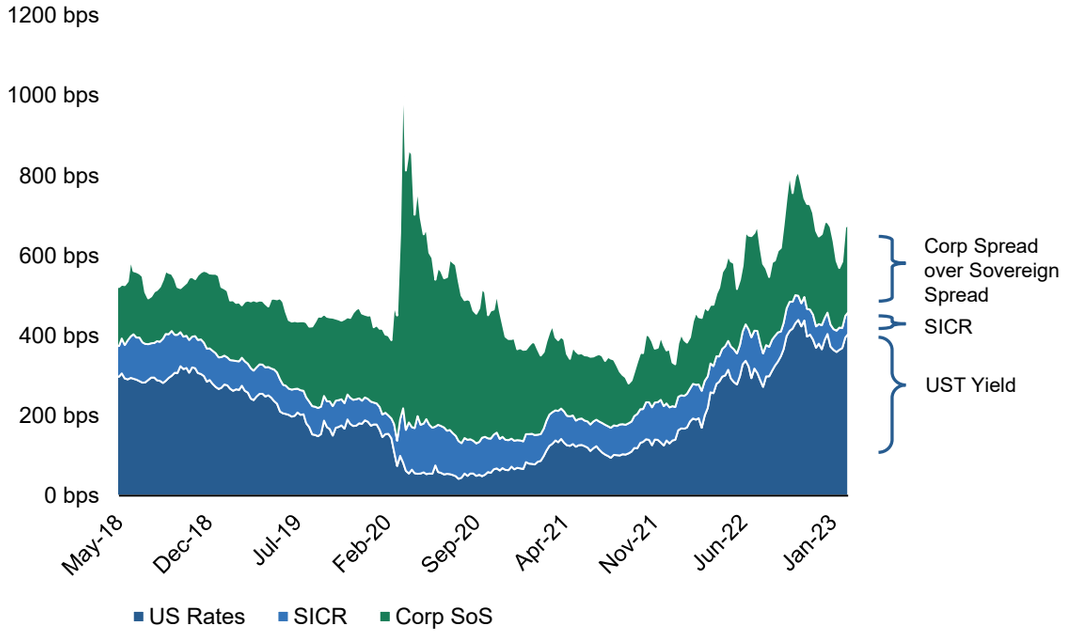
Source: JP Morgan Markets as of 12/31/2022. This represents how the portfolio management team generally implements its investment process under normal market conditions

EM CORPORATE CREDIT

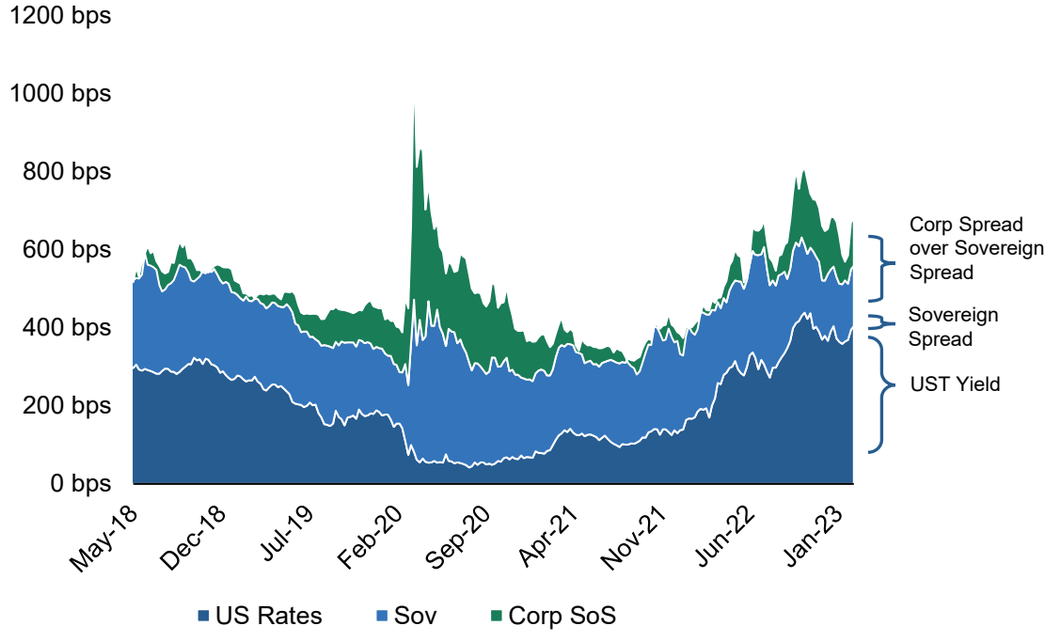
Our Approach

- 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 ∩ Corporate default given sovereign default) x (1 - Loss given default)

South American Chemicals Company - Morgan Stanley's SICR Analysis



South American Chemicals Company – Traditional Analysis



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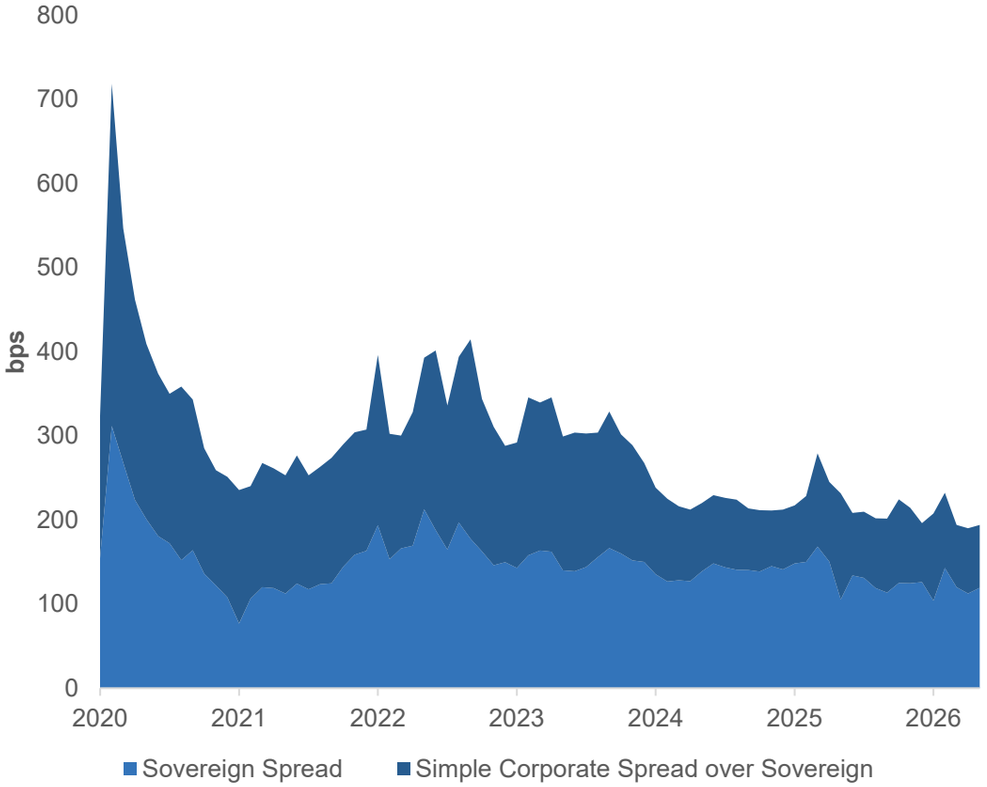
EM CORPORATE CREDIT

Valuations

Overall, EM corporate credit remained resilient in Q2 2026, with CEMBI diversified returning 2.2% as credit spread returns contributed roughly 200bps. Spreads remained near historical tights despite the U.S.-Iran conflict, supported by strong earnings, low leverage, robust technicals, and resilient primary markets. Performance dispersion increased as commodity-linked issuers and Argentina/Colombia credits benefited, while Brazil HY corporates and Indonesian assets remained pressured by idiosyncratic and policy risks.

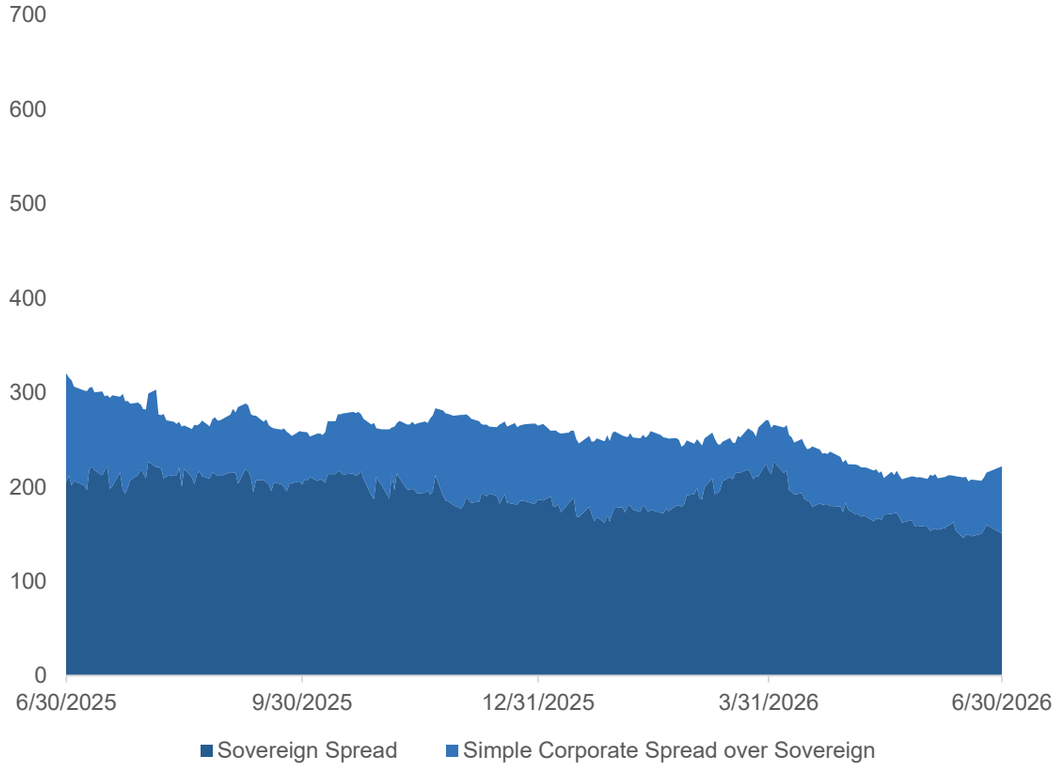
Spread Over Sovereign (CEMBI)

(5-Year Period)



Spread Over Sovereign (EV Universe)

(1-Year Period)



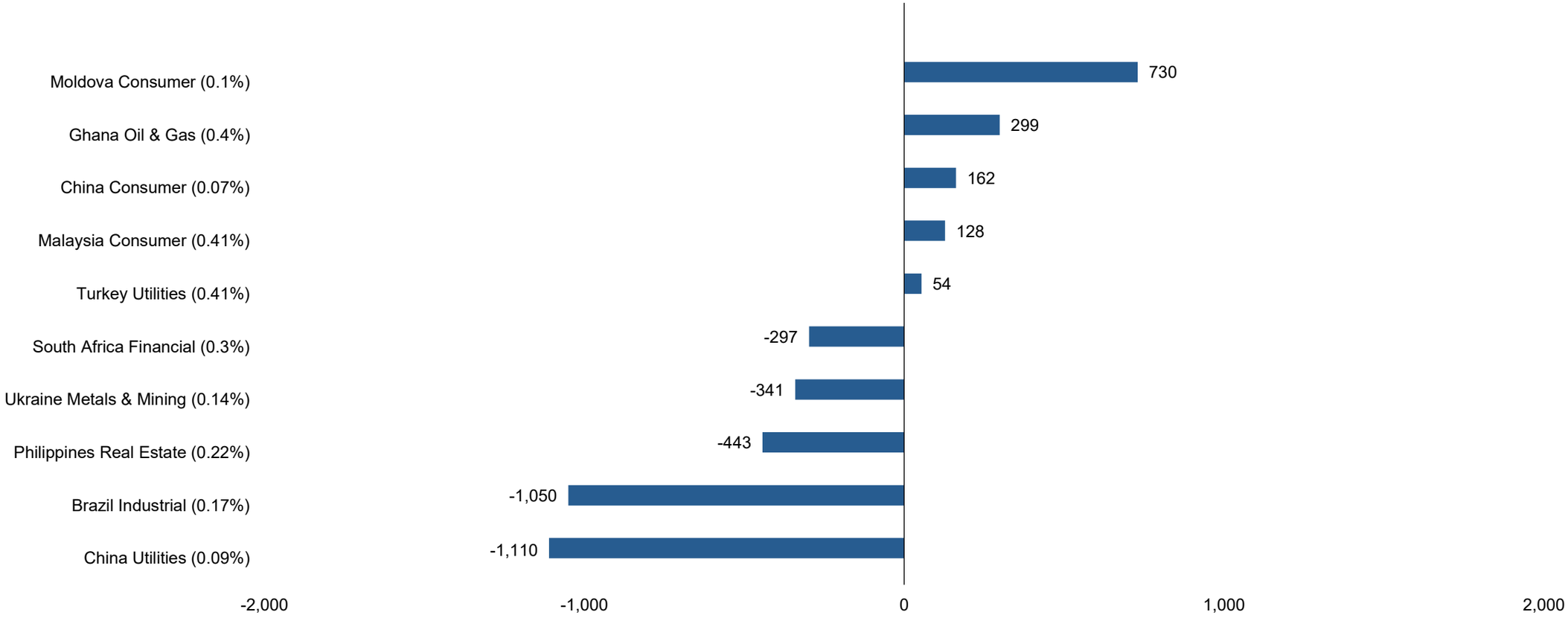
Source: Morgan Stanley Investment Management proprietary data and calculations. As of 6/30/2026. CEMBI bonds used in calculation. Data provided is for informational use only. **Past performance is no guarantee of future results.** See end of report for important additional information.

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)

Q2 Top Country-Sector Spread Changes



Source: JP Morgan. As of 6/30/2026

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Risk Considerations

RISK CONSIDERATIONS

There is no assurance that a Portfolio will achieve its investment objective. Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the Portfolio will decline and may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing . Fixed-income securities are subject to the ability of an issuer to make timely principal and interest payments (credit risk), changes in interest rates (interest-rate risk), the creditworthiness of the issuer and general market liquidity (market risk). In a rising interest-rate environment, bond prices may fall and may result in periods of volatility and increased portfolio redemptions. In a declining interest-rate environment, the portfolio may generate less income. Investments in foreign instruments or currencies can involve greater risk and volatility than U.S. investments because of adverse market, economic, political, regulatory, geopolitical, currency exchange rates or other conditions. In emerging or frontier countries, these risks may be more significant. Investors should be aware that this strategy may be subject to additional risks, which should be carefully considered prior to any investment decision

IMPORTANT ADDITIONAL INFORMATION

Risk Considerations

ABOUT ASSET CLASS COMPARISONS:

Elements of this report include comparisons of different asset classes, each of which has distinct risk and return characteristics. Every investment carries risk, and principal values and performance will fluctuate with all asset classes shown, sometimes substantially. Asset classes shown are not insured by the FDIC and are not deposits or other obligations of, or guaranteed by, any depository institution. All asset classes shown are subject to risks, including possible loss of principal invested.

The principal risks involved with investing in the asset classes shown are interest-rate risk, credit risk and liquidity risk, with each asset class shown offering a distinct combination of these risks. Generally, considered along a spectrum of risks and return potential, U.S. Treasury securities (which are guaranteed as to the payment of principal and interest by the U.S. government) offer lower credit risk, higher levels of liquidity, higher interest-rate risk and lower return potential, whereas asset classes such as high-yield corporate bonds and emerging market bonds offer higher credit risk, lower levels of liquidity, lower interest-rate risk and higher return potential. Other asset classes shown carry different levels of each of these risk and return characteristics, and as a result generally fall varying degrees along the risk/return spectrum.

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