Emerging Markets Debt: Higher Risk Premiums, Yields

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Emerging markets debt is under-represented in global fixed-income portfolios. As a result, it’s an asset class that tends to display higher risk premiums and higher yields.

Watch the video or read the recap below.

Some investors associate emerging markets debt with something very risky, very exotic.

The asset class has evolved tremendously over the years. Today, it represents over 25% of the global fixed-income universe, spanning over 90 countries with more than 900 issuers and a combined market capitalization of $4.5 trillion.

Yet, the asset class that is still underappreciated, still under-represented in global fixed-income indices, in global fixed-income portfolios. And because of that, it’s an asset class that tends to display higher risk premiums, higher yields.

We strongly believe that emerging markets debt offers a very attractive investment opportunity—it offers significant diversification benefits.

We believe that the structural risk premium in emerging markets debt overcompensates investors for credit risks and volatility.

Historically, credit default rates in emerging markets debt have been very low and recovery values very high. Therefore, we believe there is a strong disconnect between risks and perception of risks when it comes to investing in emerging markets countries.

Valuations are attractive. Credit spreads are still above long-term averages, especially within the higher-yielding part of the market, especially in frontier markets debt, that currently look very favorably versus credit spreads in other parts of the credit market.

We have a very constructive outlook for emerging markets debt.

The fundamental landscape has improved as the global economy recovers. We are living in a very ample liquidity condition environment, and multilateral support has been very strong for emerging markets countries.

Going forward, we believe that a positive combination of improving fundamentals, ample and affordable financing conditions, and attractive valuations will continue underpinning the performance of emerging markets debt.

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Demystifying Emerging Markets Debt

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