Emerging debt in the face of geopolitical turmoil

The resilience of emerging corporate debt: a driver of diversification and opportunity

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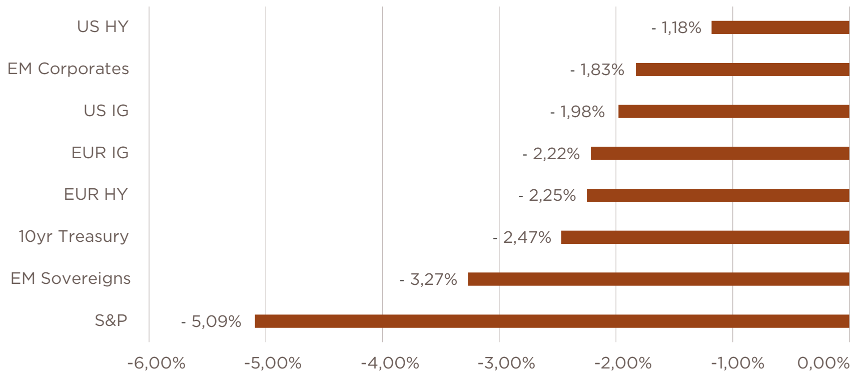
Whilst emerging markets have been at the forefront of geopolitical discussions since the start of the conflict in the Middle East, emerging corporate debt markets have, so far, seen only a limited impact compared with other asset classes (see Chart 1).

The conflict has mainly reignited inflationary fears through rising oil prices. This situation has weighed particularly heavily on long-dated bonds, regardless of where they are issued. By contrast, emerging corporate bonds, which typically have shorter average maturities, have weathered this period of tension better.

Furthermore, exposure to regions far removed from the conflict, such as Latin America, but which are benefiting from rising oil prices, has helped to support this asset class.

Chart n°1 : March 2026 return

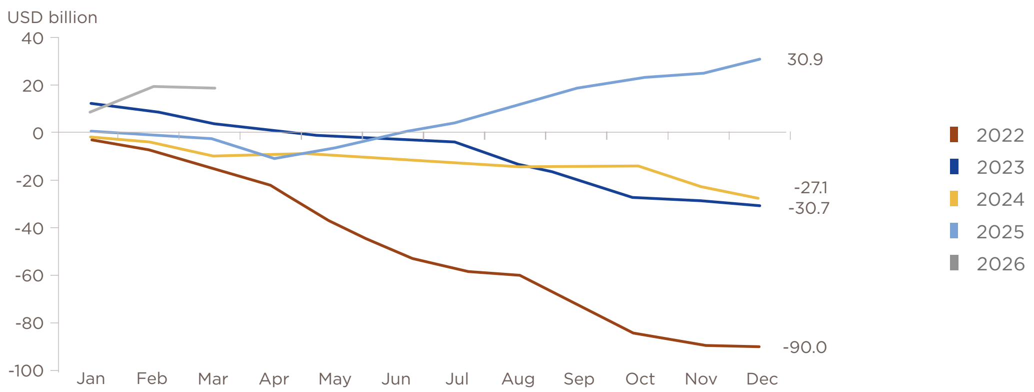


Source: Bloomberg, Edmond de Rothschild Asset Management, data as of 31/03/2026

After a strong year for inflows in 2025, how do technicals and fundamentals for the asset class look so far in 2026 according to your analysis?

After three consecutive years of outflows between 2022 and 2024 (-$150 billion), emerging market corporate debt saw a genuine turnaround from mid-2025 onwards. **Flows have turned overwhelmingly positive, with over $30.9 billion in inflows in 2025, followed by a further $19 billion in January and February 2026 alone** (see Chart 2).

Chart n°2: Cumulative EM Bond Fund Flows (retail + strategic)



Source: JPM, March 2026.

The renewed interest from investors reflects the strength of the structural arguments in favour of the asset class, which have not been called into question by the outbreak of conflict in the Middle East. As long as the conflict does not become protracted, most of these favourable factors remain fully valid: **increased South-South trade, investors' desire to** diversify **portfolios and the persistent weakness of the dollar** which, despite its appreciation since the start of the conflict in Iran, remains around 9% lower than its level at the start of last year[1]. Added to this, there are still robust growth dynamics in emerging markets in our view, with attractive yields for the asset class, and a generally supportive commodity price environment.

Finally, the asset class's fundamentals remain solid, with an average net leverage of 1.4x for emerging market companies, a level significantly lower than that of their US or European counterparts[1]. It is worth noting that the average net leverage by region highlights the strength with which Middle Eastern companies entered the conflict, which also explains their strong resilience in this context. Whilst Latin America shows the highest leverage, the dispersion within the region is particularly wide and the selection of the most attractive opportunities remains essential.

Against a backdrop of heightened volatility, how do you manage credit risk and country risk?

For now, the main effect of the conflict in Iran has been to reignite inflation fears through rising oil prices, rather than triggering an economic slowdown. Risk premiums in the credit markets have remained relatively stable, indicating that investors do not, at this stage, anticipate a systemic shock. The countries most exposed are, on the one hand, those directly affected by the attacks and regional instability, foremost among them the Gulf states, and, on the other hand, net oil importers, particularly in Asia (Turkey, India, etc.). For the latter, the challenge is twofold: ensuring the continuity of energy supplies and absorbing the impact of a sustained rise in oil prices.

Our portfolios are significantly underweight in the Middle East, but retain exposure to Turkey and India. As net oil importers, these two countries are being monitored particularly closely, as not all companies have effective hedges against rising energy prices. Furthermore, not all sectors are affected to the same extent by this energy shock, but the industrial sector, which is a heavy energy consumer, is also being monitored very closely. Our analyses and investment decisions are therefore adjusted in line with developments in the conflict; should the crisis drag on, the impacts could undermine the profitability and liquidity ratios of certain companies.

1. Source: Edmond de Rothschild AM, data as of 31/03/2026.

Conversely, we have substantial exposure to Latin America. As they are predominantly net oil exporters and far removed from the conflict, most Latin American countries are benefiting from rising energy prices, while the negative effects remain, for the time being, largely confined to a few airlines companies, and vary depending on their energy hedging policies.

From a macroeconomic perspective, the region continues to post solid GDP growth rates, with forecasts of 3.1% for Argentina, 2.7% for Colombia, 3% for Peru, 2.5% for Chile and 1.8% for Brazil[2]. This momentum is taking place against a backdrop of political change, marked by a gradual shift towards more private-sector-friendly governments in several countries. The 2026 elections, particularly in Brazil, Peru and Colombia, could reinforce this trend and create a more favourable environment for investment.

Thus, rising uncertainty is paving the way for attractive entry points for investors capable of adopting a selective and disciplined approach.

How to invest in emerging corporate debt with Edmond de Rothschild AM?

To meet different investor profiles and objectives, **Edmond de Rothschild Asset Management currently offers three complementary solutions to gain exposure to emerging corporate debt**.

The first solution is the **EdR Fund Emerging Credit**, the flagship fund of the range. Launched in 2009, it boasts one of the longest track records in this segment. The fund is characterised by a significant overweighting of Latin America, at around 60%, and Africa, at around 15%. It also has significant exposure to the energy sector, with around 20% allocated to Oil & Gas. Furthermore, the portfolio's modified duration is short, below 4, which helps limit sensitivity to interest rate movements[3]. The average rating is around BB-, with a majority of high-yield[4] securities (76%) complemented by an Investment Grade[5] bucket (24%).

Diversification is another strength of the fund, which is exposed to more than twenty countries and over ten sectors. The fund's main driver of performance is carry[6]. Exposures to Colombia, Argentina and several African countries are among the strongest expected contributors for the current year.

2. The World Bank, Edmond de Rothschild AM.

3. Source: Edmond de Rothschild AM. Data as at the end of March 2026, provided for information purposes only. This breakdown is subject to change over time without notice.

4. High-yield bonds are corporate bonds that carry a higher risk of default than investment-grade bonds and, in return, offer a higher coupon.

5. Investment-grade bonds are debt securities issued by companies whose risk of default ranges from very low (repayment is almost certain) to moderate. They correspond to a rating scale ranging from AAA to BBB- (Standard & Poor's rating).

6. Carry can be defined as the money an investor earns by holding a bond over the long term, after deducting financing costs.

The second solution is **EdR SICAV Millesima Emerging 2032**, a target-maturity fund, launched in February 2026, which invests in a selection of corporate bonds from emerging markets maturing no later than December 2032. The average rating of the portfolio is also around BB, with an even higher proportion of high-yield bonds (88%) and 12% investment-grade bonds[7]. The sectoral and geographical positioning is very similar to that of EdR Fund Emerging Credit, meaning that the drivers of performance are similar: high carry, issuer selection and active risk management. The main difference lies in the dated structure, which provides greater visibility regarding the holding horizon and the expected return path.

Finally, the third fund, **EdR Fund EM Climate Bonds**, aims to finance the energy transition by investing in renewable energy, energy efficiency and the electrification of transport, via green and sustainability bonds[8]. The fund, which is predominantly Investment Grade-oriented (86% IG vs 14% HY)[9], focuses on emerging market IG issuers whose financial strength is comparable to, or even superior to, that of issuers in developed countries, while targeting a more attractive yield and offering exposure to high-growth, future-oriented sectors. The portfolio's modified duration is kept below 4, resulting in volatility half that of US Investment Grade credit[9]. We believe that this strategy offers an attractive and relatively stable alternative to investment-grade bonds from developed countries, particularly in the current environment where portfolio diversification is essential.

7. Source: Edmond de Rothschild AM. Data as at the end of March 2026, provided for information purposes only. This breakdown is subject to change over time without notice.

8. Green bonds are bonds where the funds raised are used exclusively to finance projects with environmental benefits (renewable energy, energy efficiency, clean transport, etc.). Sustainability bonds finance both environmental and social projects (access to water, health, education, financial inclusion, etc.), in accordance with defined and transparent frameworks.

9. Source: Edmond de Rothschild AM. Data as at the end of March 2026, provided for information purposes only. This breakdown is subject to change over time without notice.

Disclaimer

1/ **Edmond de Rothschild Fund Emerging Credit** is a sub-fund of the Luxembourg SICAV authorised by the CSSF and authorized for marketing in Austria, Switzerland, Germany, Spain, France, United Kingdom, Luxembourg, Netherlands and Portugal. **Risk indicator: 3/7.**

2/ **Edmond de Rothschild Fund EM Climate Bonds** is a sub-fund of the Luxembourg SICAV authorised by the CSSF and authorised for marketing in France, United Kingdom, Switzerland, Italy, Spain, Germany, Austria and Luxembourg. **Risk indicator: 2/7.**

3/ **Edmond de Rothschild SICAV Millesima Emerging 2032** is a sub-fund of the French SICAV authorised by the AMF and authorized for marketing in France, Spain, Germany, Luxembourg, Portugal and Switzerland. **Risk indicator: 2/7.**

The risk indicator rates this fund on a scale of 1 to 7. This indicator is used to assess the level of risk of this product in comparison to other funds and a category 1 rating does not mean that the investment is risk free. In addition, it indicates the likelihood that this product will incur losses in the event of market movements or our inability to pay you. This indicator assumes that you hold the product until the end of the recommended holding period of this fund. The actual risk may be very different if you choose to exit before the end of the recommended holding period of this Fund. **The risks described below are not exhaustive. Please refer to the prospectus for the relevant funds.**

Risk of capital loss: The sub-fund does not benefit from any guarantee or protection, so it is possible that the capital initially invested will not be fully returned even if the subscribers keep the units for the recommended investment period.

Credit risk: The main risk associated with debt securities and/or money market instruments such as treasury bills (BTFs and BTANs) or short-term marketable securities is that of the issuer's default, i.e. the non-payment of interest and/or the non-repayment of capital. Credit risk is also linked to the downgrade of an issuer. The attention of the shareholder is drawn to the fact that the net asset value of the sub-fund is likely to vary downwards in the event that a total loss is recorded on a financial instrument following the default of an issuer. The presence of debt securities directly or through UCIs in the portfolio exposes the sub-fund to the effects of changes in credit quality.

Credit risk related to investment in speculative securities: The sub-fund may invest in issues of companies rated in the non-investment grade category by a rating agency (with a rating below BBB- according to Standards & Poor's or equivalent) or with an equivalent internal rating of the Management Company. These issues are so-called speculative securities for which the risk of default of issuers is higher. This UCITS must therefore be considered as partly speculative and aimed more particularly at investors who are aware of the risks inherent in investing in these securities. For example, the use of «high yield» securities (speculative securities for which the risk of the issuer defaulting is greater) may lead to a greater risk of a decline in the net asset value.

Risks associated with investing in emerging markets: The portfolio may be exposed to certain securities that carry a higher degree of risk than that generally associated with investments in major financial markets, particularly due to local political and/or regulatory factors. The legal framework of certain countries in which the underlying UCITS and the investment portfolio may invest may not provide the same protection or information to investors as is usually provided in major financial markets. Securities issued in certain so-called emerging markets may be significantly less liquid and more volatile than those issued in more mature markets; consequently, holding such securities may increase the portfolio's risk level and the net asset value may fall more sharply and more rapidly than in developed countries.

Interest rate risk: Exposure to fixed income products (debt securities and money market instruments) makes the sub-fund sensitive to interest rate fluctuations. Interest rate risk translates into a possible fall in the value of the security and therefore in the net asset value of the sub-fund in the event of a change in the yield curve.

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