

EM CORPORATE DEBT VS. EM SOVEREIGN DEBT

“SAME SAME BUT DIFFERENT”

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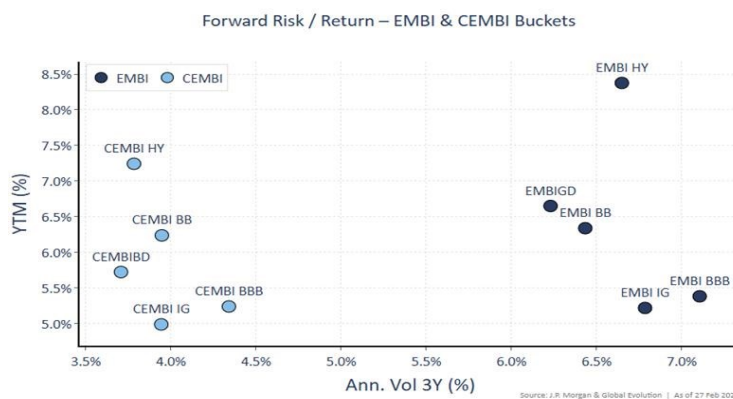
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EM Corporate Debt vs. EM Sovereign Debt

Introduction

EM Credit: Seen as one asset class, but are really two distinct opportunities – Sovereigns & Corporates

Many investors approach EM hard-currency debt primarily through sovereign bonds, often overlooking corporate credit. This bias reflects sovereigns' greater liquidity, familiarity, and longer track record. Yet, while EM corporate credit has delivered comparable returns over time, it has historically produced a stronger risk-adjusted returns profile - making a compelling case for blending both asset classes in a well-diversified portfolio. At Global Evolution, we take a more balanced view. We see EM sovereign and corporate bonds as complementary building blocks within a broader hard-currency credit allocation. Although EM corporates are traditionally perceived as the "riskier" asset class when compared across equivalent risk segments in both investment-grade and high-yield buckets, they consistently demonstrate a more attractive risk-return profile than EM sovereign credit. By blending the two, we believe investors can meaningfully enhance income potential while keeping the overall risk profile largely unchanged.



EM Hard-Currency Sovereign & Corporate Credit: Often managed separately – but evidence shows superior results when combined

- **Complementary exposures:** EM sovereign and corporate bonds offer different yet complementary sources of return. Sovereigns provide liquidity, frontier market exposure, and higher-beta upside, while corporates contribute higher-quality carry, lower volatility, and sector diversification.
- **Broader opportunity set:** Combining the two segments expands the investable universe, offering both country-level exposure through sovereigns and a diversified issuer base across investment-grade and high-yield corporates.
- **Improved portfolio construction:** EM corporates can enhance portfolio carry at comparable ratings, while sovereigns add higher-spread opportunities, resulting in a broader and more balanced spread distribution.
- **Different risk drivers:** Both EM sovereign and corporate hard-currency bonds share the same primary global risk drivers, given their USD denomination. The key differentiator is their differing exposure to global interest-rate risk: sovereigns typically exhibit higher correlation to global rates due to longer duration, resulting in greater rate-driven volatility. In contrast, corporates generally feature shorter duration, translating into lower sensitivity to rate movements, while their more globally diversified business operations help mitigate country-specific risks.

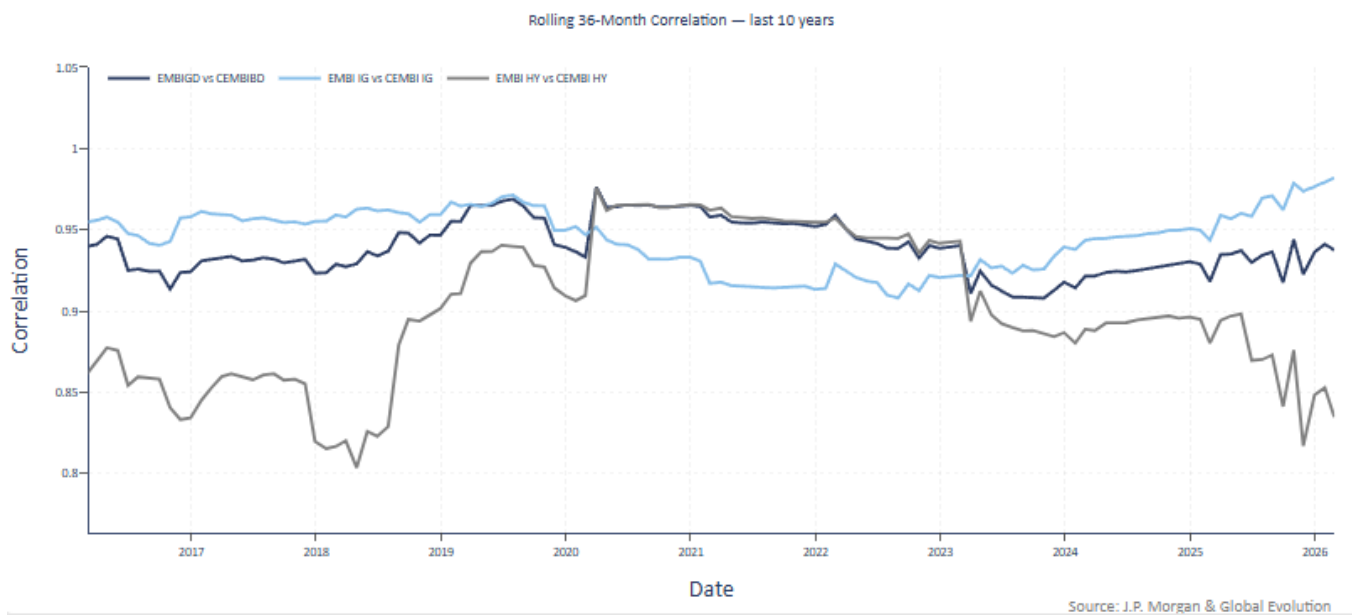
Managing EM sovereign and corporate credit together within a single allocation framework improves diversification, enhances carry, and can lead to better risk-adjusted portfolio outcomes compared with a sovereign-only approach

Shared Drivers and Correlations

EM Sovereign & Corporate Credit: closely correlated, yet perfectly complementary

Over the past decade, rolling 36-month correlations between the EMBI GD (EM sovereign) and CEMBI BD (EM corporate) indices have remained consistently high, typically ranging between 0.85 and 0.97 across both investment grade and high yield segments, with correlations persistently above ~0.90.

This reflects their shared exposure to global macro drivers. However, sovereign bonds tend to be more volatile due to their longer duration, while corporates benefit from shorter duration and natural USD hedging, through USD revenues and active FX balance sheet management helping to mitigate country-specific risks. As a result, sovereign spreads typically react more sharply to changes in risk sentiment, whereas corporates tend to be more stable.



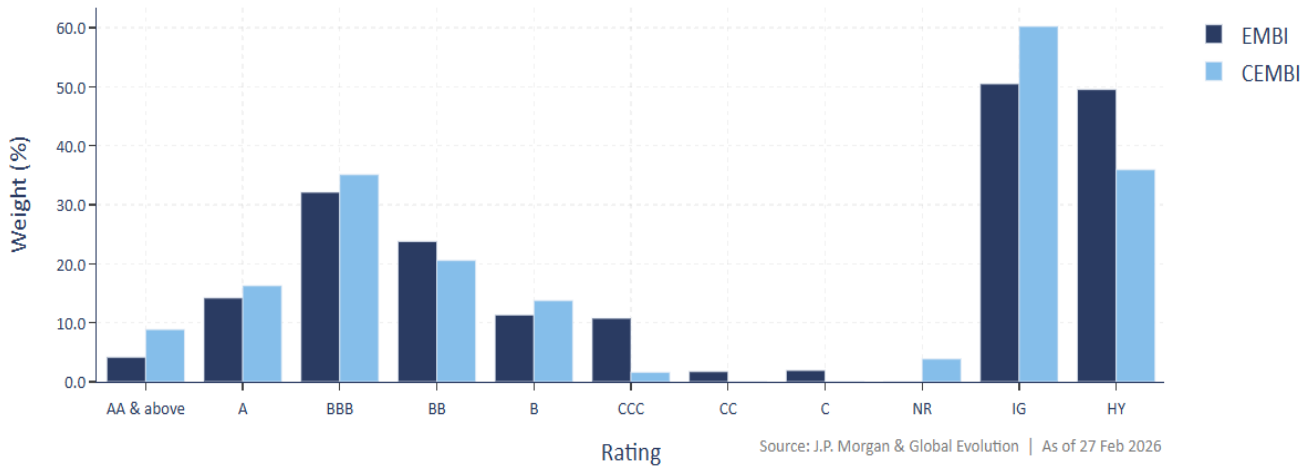
Structural Differences Between EM Corporate and Sovereign Indices

Both indices share similar average credit ratings, yet EM corporate debt delivers greater resilience thanks to shorter duration and a broader, more diversified issuer base, driving more balanced performance across the board.

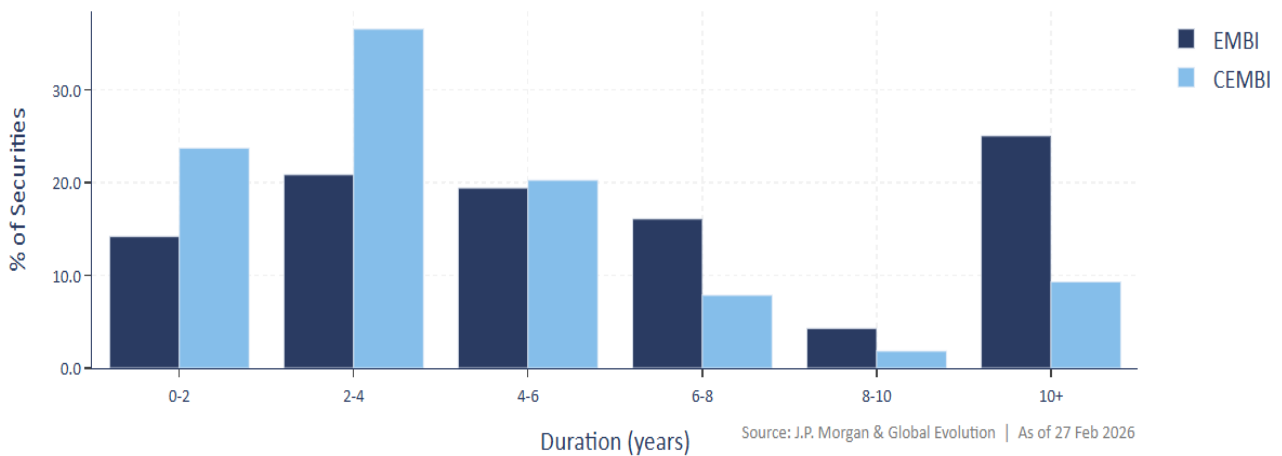
At first glance, the average credit quality of EM corporates (BBB-) and EM sovereigns (BBB-) appear broadly similar. However, a closer look at the rating and duration distribution reveals a meaningful structural divergence. EM sovereign indices carry a significantly larger allocation to lower-quality credit, with 24% exposed to debt rated B and CCC, nearly 10 percentage points more than EM corporate indices. This lower-quality skew, combined with the longer duration profile, with the EMBI averaging around 7.1 years compared with approximately 5.2 years for the CEMBI, tends to result in higher volatility and deeper drawdowns.

From a diversification perspective, the two asset classes also differ meaningfully in their regional composition. EM sovereign indices are more heavily concentrated in Latin America and EMEA, whereas EM corporate indices have a significantly larger allocation to Asia, reflecting the region's deep and diversified corporate issuer base.

Rating Distribution (% of Index Weight)



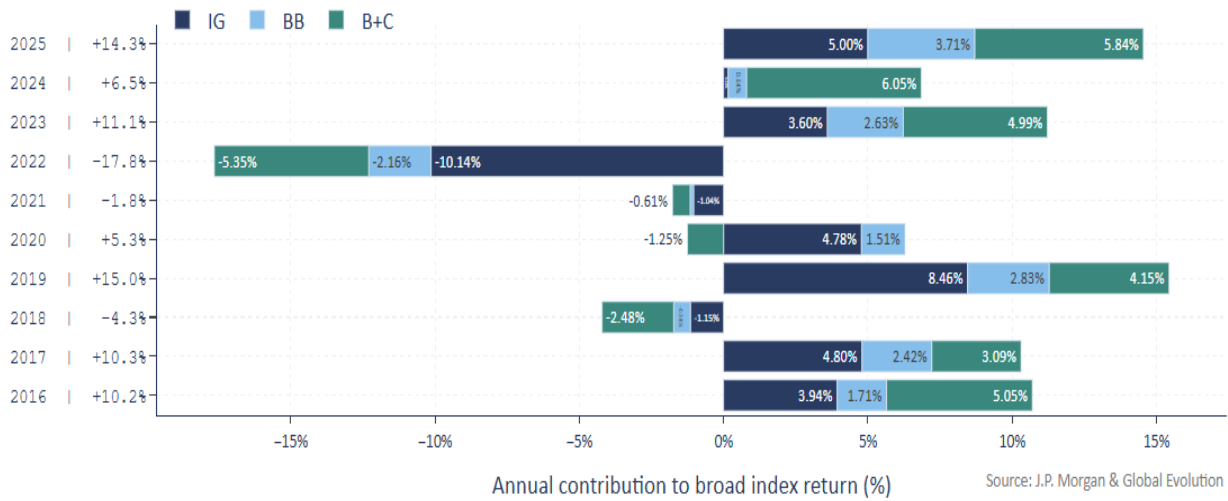
% of Securities per Duration Bucket



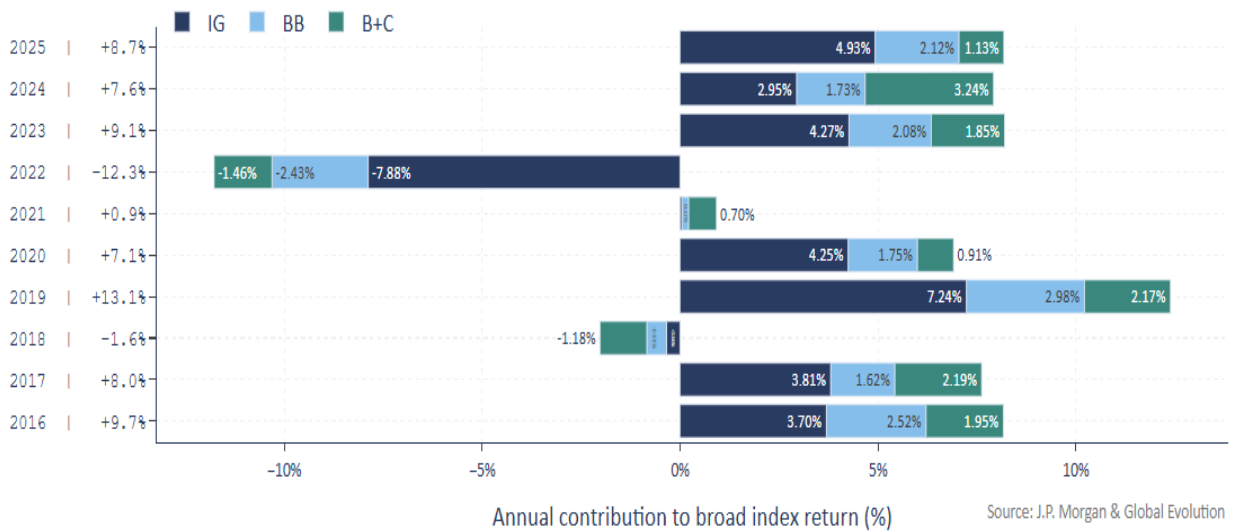
A key implication of this composition is that EMBI performance is more reliant on lower-rated segments. As illustrated below, the single-B and CCC buckets frequently account for a significant share of annual returns, typically around 30–40% in most years, highlighting the outsized role of higher-beta exposures.

By contrast, CEMBI exhibits a more diversified return profile, with performance supported by a broader mix of issuers across sectors and rating categories. This reduces reliance on lower-rated, more idiosyncratic segments and tends to result in more stable and consistent performance across market environments, reinforcing the role of EM corporate credit as a complementary allocation within hard-currency portfolios.

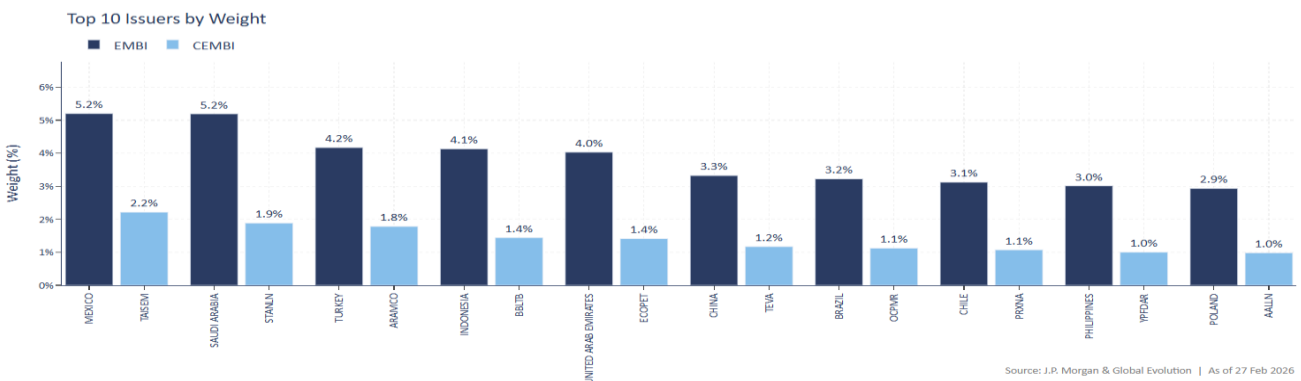
EMBI - Contribution by Bucket (IG / BB / B+C)



CEMBI - Contribution by Bucket (IG / BB / B+C)



Furthermore, the corporate universe benefits from a much broader issuer base, with around 650 individual issuers, resulting in lower concentration risk, only 10 issuers carry an index weight above 1%. By contrast, approximately 38.7% of the EMBI index is concentrated across the top 10 countries, highlighting the higher concentration inherent in sovereign benchmarks.

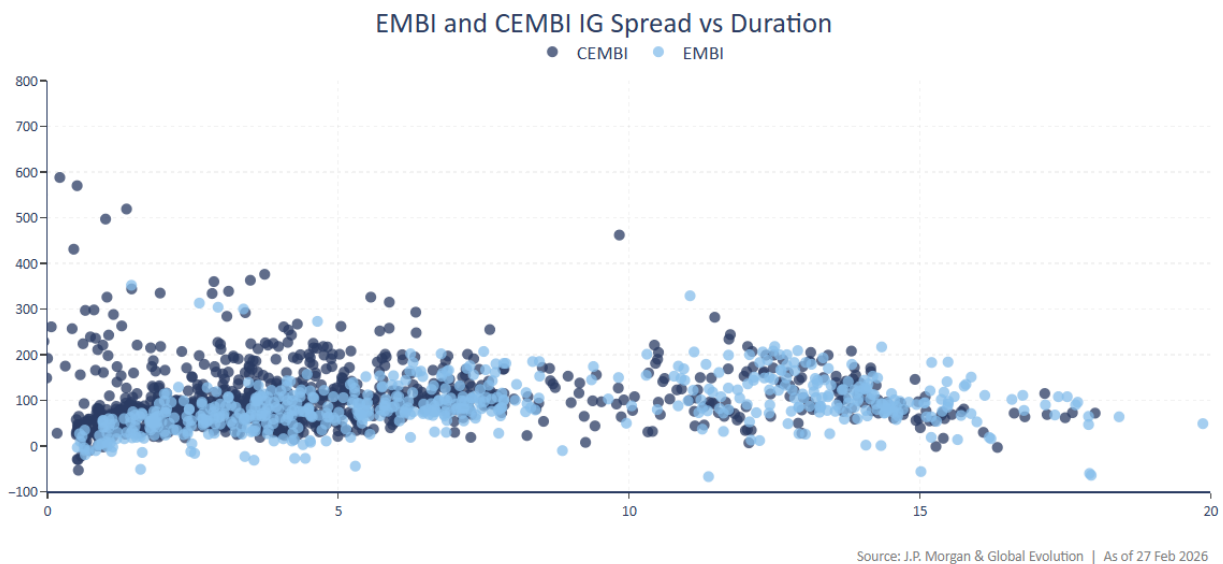


The Combined Opportunity Set

Combining EM corporates and sovereigns broadens diversification while preserving country exposure, cuts volatility via shorter duration, boosts carry through corporate credit and delivers a more balanced spread profile.

EM corporate bond universe provides significantly greater scale than in the past, with approximately \$1.19 trillion across roughly 726 issuers, compared with around \$1.45 trillion and 68 countries in the EM sovereign universe. Combining sovereign and corporate exposure therefore enhances diversification relative to a sovereign-only allocation, while allowing investors to maintain similar country exposure, reduce portfolio volatility through shorter duration, and improve portfolio carry through corporate credit, an outcome that is often difficult to achieve using sovereign bonds alone.

Structurally, the CEMBI tends to be clustered around +/-5yr maturity buckets and concentrated around the 100-250bps spread buckets, reflecting its higher average credit quality, whereas the EMBI carries greater exposure to idiosyncratic and higher-spread risk, with a heavier allocation to single-B and CCC-rated issuers. When combined, the two universes create a more balanced spread distribution across a combined portfolio.



This dynamic is particularly evident in large investment-grade EM markets such as Mexico and Brazil, where sovereign spreads are often relatively tight, while corporate issuers can offer meaningful spread pickup at comparable credit quality. By contrast, in high yield and frontier EMBI countries, corporate issuance is scarce or nonexistent, leaving sovereigns as the only real way to express a country view.

Rating	Country	Spreads (bps)			Rating	Country	Spreads (bps)		
		EMBI	CEMBI IG	CEMBI HY			EMBI	CEMBI IG 1	CEMBI HY 2
BBB	HUNGARY	120	288	309	BB	COLOMBIA	272	350	364
BBB	MOROCCO	108	167	159	BB	BRAZIL	176	124	495
BBB	PERU	101	101	195	BB	SOUTH AFRICA	205	103	232
BBB	KAZAKHSTAN	96	145	197	BB	TURKEY	211		387
BBB	INDONESIA	75	110	205	BB	ARMENIA	181		
A	SAUDI ARABIA	74	96	129	B	KENYA	428		
A	CHILE	63	141	215	BB	COTE D'IVOIRE	283		
AA	UNITED ARAB EMIRATES	60	84	153	B	EL SALVADOR	326		
A	MALAYSIA	20	79	136	CCC	SENEGAL	1250		
A	CHINA	-24	66	240	NR	AZERBAIJAN	108		

In frontier countries corporate issuances are less common

Source: J. P. Morgan (EMBIGD ex-quasi sovereign) | As of 27th of Feb 2027

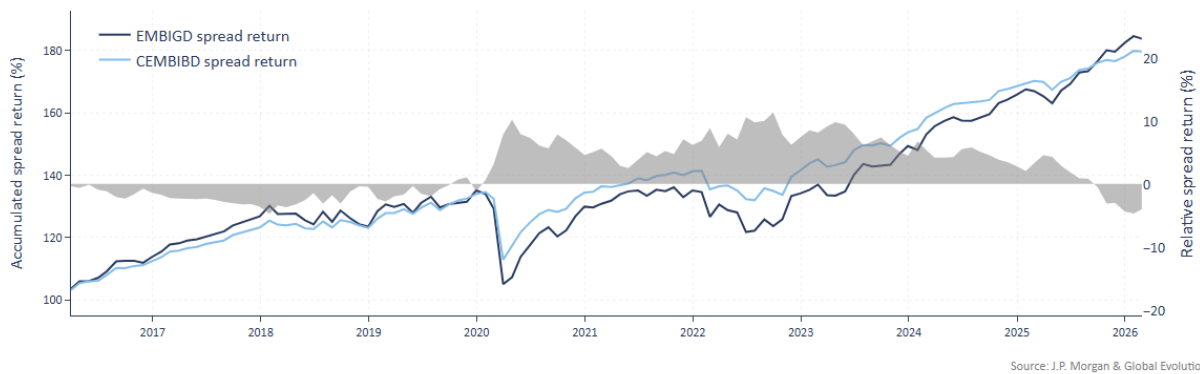
Spread Returns and Risk Compensation

CEMBI and EMBI deliver similar long-term returns, yet CEMBI stands out with greater stability, superior risk-adjusted performance, and significantly smaller drawdowns.

Over the long term, the performance of the EMBI and CEMBI indices has been broadly similar, although the EMBI universe has exhibited materially higher volatility. As shown in the chart below, when focusing on spread performance and excluding the impact of interest-rate movements, CEMBI has delivered a more stable return profile, with higher risk-adjusted returns and smaller drawdowns. This has been particularly evident over the past decade, during which CEMBI spread returns have consistently outperformed EMBI.

The combination of shorter duration, stronger fundamentals, and a broader issuer base has made corporates more resilient during periods of market stress, including the episodes seen over the past five years. By contrast, sovereign spreads, especially in high yield are generally more volatile, but can offer meaningful upside when idiosyncratic risk drivers play out.

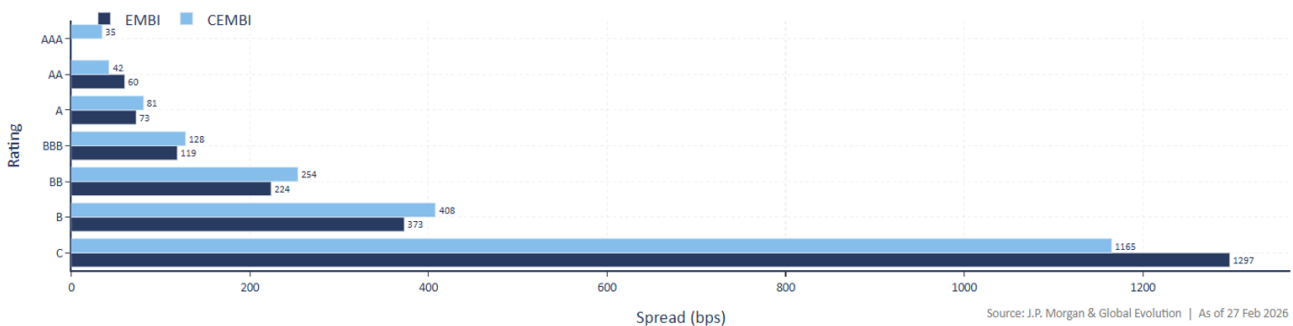
Spread returns: accumulated performance



Source: J.P. Morgan & Global Evolution

Across the investment-grade segments, spreads are broadly similar, although EM corporates typically offer slightly higher spreads than sovereigns at comparable ratings. The divergence becomes more pronounced within the HY segment. In the BB and B segments, corporates continue to offer meaningfully higher spreads than sovereigns. At the CCC level, however, sovereigns trade at significantly wider spreads than corporates, reflecting greater idiosyncratic risk. As discussed, this segment can act as a key, and at times outsized, driver of overall index performance, given its relatively large weight.

Spread by Rating



Source: J.P. Morgan & Global Evolution | As of 27 Feb 2026

The Case for the Combined Portfolio

Adding up to 50% EM corporates to a pure sovereign portfolio consistently shifts the efficient frontier outward, delivering higher returns for the same risk or lower volatility for the same return, powered by sovereign convexity and corporate carry/stability.

To quantify the benefits of adding corporates to a sovereign portfolio, we construct efficient frontiers starting from a 100% EMBI allocation and gradually introducing CEMBI up to 50%. Across this range, corporate exposure consistently improves the efficient frontier, either reducing volatility for a given return or increasing returns for a given level of risk, with results holding across both investment-grade and high-yield segments.

A key driver is the duration asymmetry between the two segments. Sovereigns provide convexity and tend to outperform in risk-on environments as spreads tighten, while corporates contribute stable carry and lower volatility, helping anchor portfolio returns across market conditions.

EMBI %	CEMBI %	Ann. Ret (%)	Ann. Vol (%)	Sharpe	Max DD (%)	Avg Spread (bps)	Avg Duration
50	50	4.34	7.54	0.58	-22.4	336	5.72
60	40	4.30	7.82	0.55	-23.1	344	5.97
70	30	4.26	8.10	0.53	-23.7	352	6.23
80	20	4.22	8.40	0.50	-24.4	360	6.48
90	10	4.18	8.70	0.48	-25.1	368	6.74
100	0	4.13	9.00	0.46	-25.9	376	6.99

Appendix 1 – Relevant Indices – Definition and Performance

Index	Definition	2025	2024	2023	2022	2021
J.P. Morgan EMBI GD	is the J.P. Morgan EMBI Global Diversified Index (EMBI GD), in the text also referred to as “hard currency EMD”: The index is a market capitalization-weighted total return index of hard currency (USD, EUR, GBP) denominated Brady bonds, loans, Eurobonds and local market debt instruments traded in emerging markets. EM sovereign spreads mentioned in the text refer to the credit spreads of EMBI GD. “EM Sovereign Spread Returnk” mentioned in the text refers to the credit component of EMBI GD total returns.	14.30	6.54	11.09	-17.78	-1.80
J.P. Morgan CEMBI BD	is the J.P. Morgan Corporate Emerging Market Bond Index Broad Diversified, in the text also referred to as “corporate EMD”, which track USD denominated debt issued by emerging market corporations. CEMBI BD is a granular asset class with 1,331 bonds of 609 different issuers from 52 different countries. . “EM Corporate Spread Returns” mentioned in the text refers to the credit component of CEMBI BD total returns.	8.72	7.63	9.08	-12.26	0.91

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