

Emerging Markets Debt: Strength, Resilience, and Opportunity

SFDR Article 6,8 and 9 Funds
September 2025

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Emerging Markets Debt (EMD) offers strong fundamentals, attractive yields, and renewed investor interest. With solid credit quality and under-allocation in global portfolios, EMD is positioned for strong returns in 2025 and beyond.

Key Investment Highlights:

- ◆ Stronger fiscal discipline in many emerging countries compared to developed markets.
- ◆ Improved credit quality, with corporate and sovereign issuers showing high incidence of ratings upgrades.
- ◆ High real yields in emerging local currency bonds supported by low or declining inflation.
- ◆ Weaker U.S. dollar outlook may benefit emerging currencies, even for euro-hedged investors.

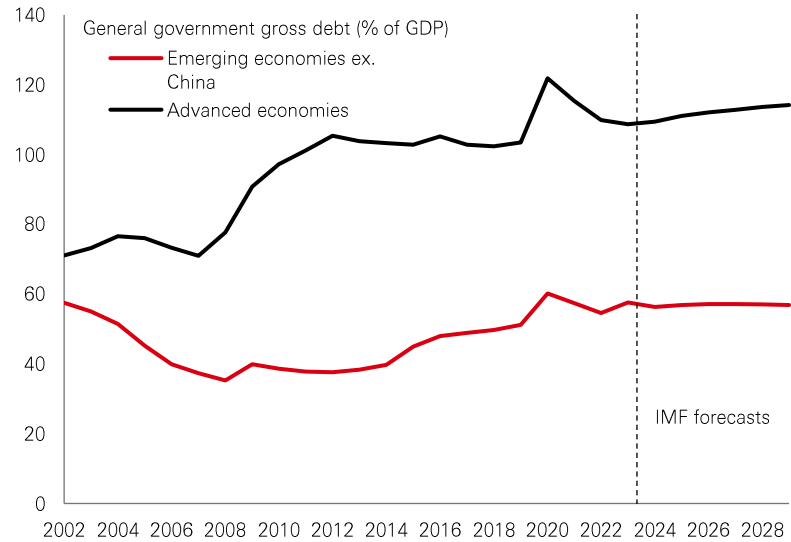


In a global environment of shifting macroeconomic dynamics, EMD stands out as a well-positioned asset class for both return potential and diversification benefits.

1. Strong Fundamentals in an Uncertain World

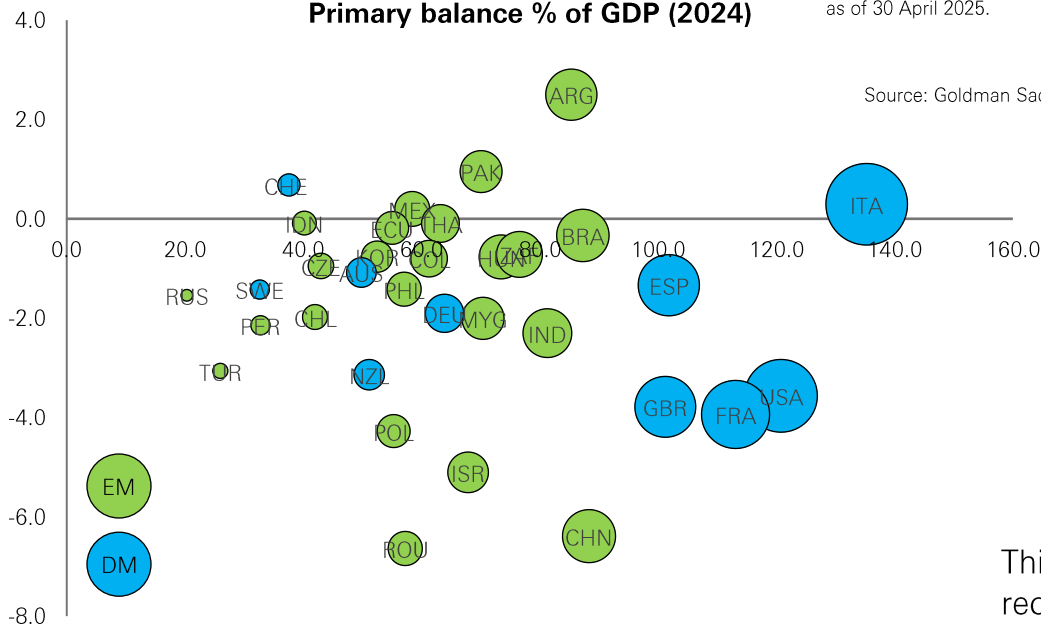
Many emerging market (EM) countries are entering this cycle with healthier fiscal positions than their developed market (DM) counterparts. Years of prudent budgetary discipline have improved resilience, enabling these economies to withstand geopolitical uncertainty and tariff pressures more effectively.

EM ex-China Debt Level Unchanged

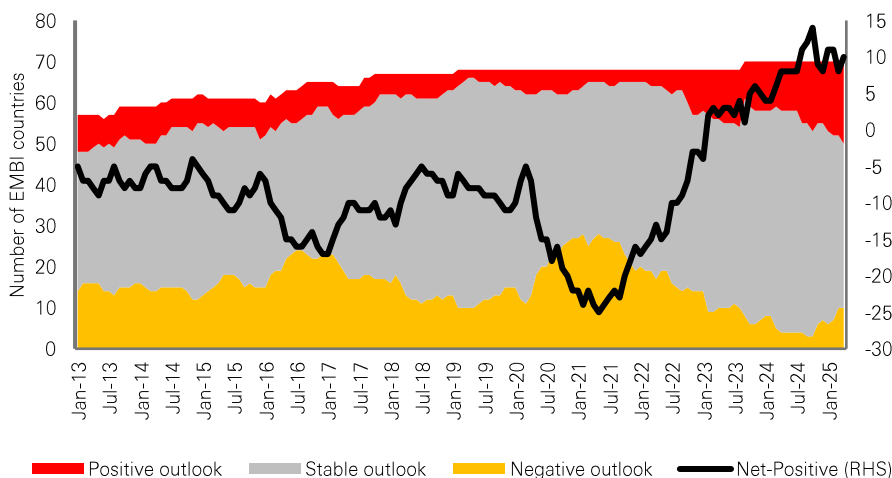


Source: IMF World Economic Outlook, and HSBC Asset Management, as of 30 April 2025.

Primary balance % of GDP (2024)



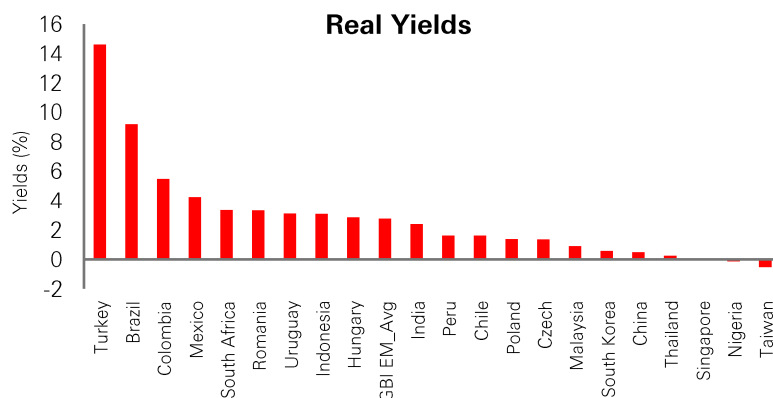
EMBI ratings outlook skew



This improvement has been recognized by credit rating agencies. Issuers with a positive outlook generally have a 2/3 probability of an upgrade in their next ratings action—an encouraging sign for credit quality across the asset class.

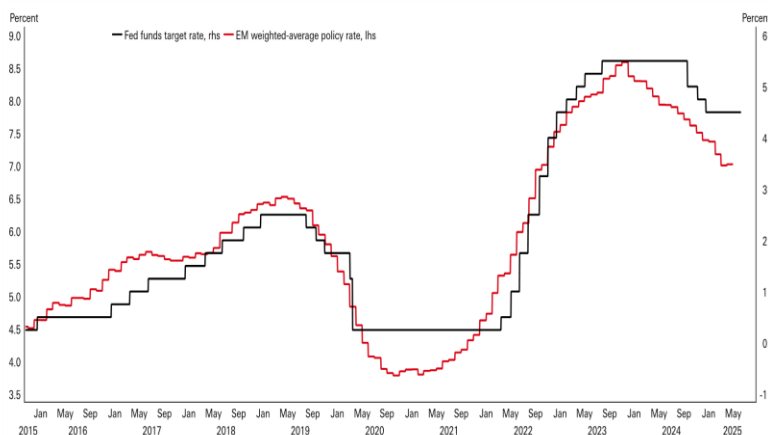
2. Attractive Yields and Real Rates

Low inflation in many EM economies means EM local sovereign bonds currently offer high real yields. For the first time in history, EM central banks cut interest rates in this cycle ahead of and faster than the Fed, owing to a more favorable inflation environment in EM relative to the US. The environment remains constructive given these factors, coupled with the likelihood that EM central banks to continue reduce interest rates regardless of the Federal Reserve policy stance.



Source: Bloomberg HSBC Asset Management, Aug 2025.

Average EM policy rate versus the Fed funds target rate



Source: Macrobond, HSBC Asset Management, June 2025.

Additionally, a weaker US dollar, partly driven by questions around the safe haven status of US assets and US exceptionalism, could further boost EM currency returns, especially for euro-hedged investors who benefit from a lower volatility profile. A weaker US dollar also boosts the repayment capacity of EM governments, further enhancing the country credit outlook.

Weaker dollar should help EMs to outperform

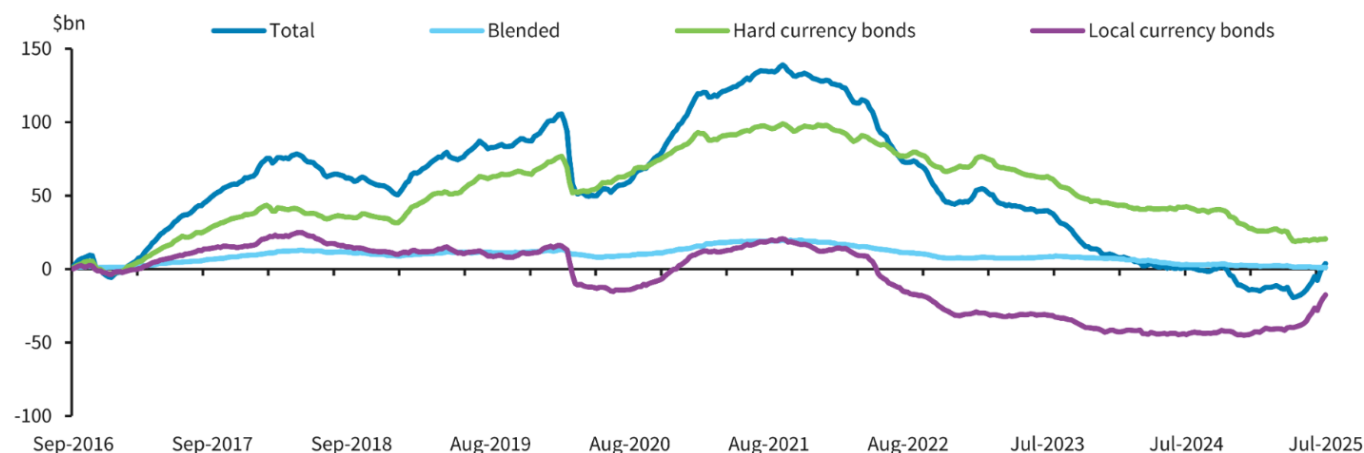


Source: Refinitiv, MSCI, HSBC Asset Management, June 2025.

Source: HSBC Asset Management as of September 2025. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. The level of yield is not guaranteed and may rise or fall in the future. Any yields shown do not account for fees and expenses which will decrease yields received. The views expressed above were held at the time of preparation and are subject to change without notice.

3. Under-Allocation Creates Room for Growth

Despite strong fundamentals, EMD remains under-allocated in global portfolios since the pandemic. This presents a significant opportunity for inflows as institutional and retail investors revisit the asset class and return to more normal allocations.



Source: EPFR Global, Barclays Research, as of 31 July 2025. Any forecast, projection or target where provided is indicative only and not guaranteed in any way. The views expressed above were held at the time of preparation and are subject to change without notice..

4. Breadth of Capabilities Across EMD Strategies

The EMD platform at HSBC Asset Management offers a full suite of strategies designed to meet diverse investor needs—spanning hard currency sovereigns, local currency debt, corporates, sustainable, and total return approaches.

These capabilities are backed by an experienced team with deep knowledge in sovereign, corporate, and local currency markets, supported by a disciplined investment process and robust risk management framework.

	EMD Hard Currency		EMD Local Debt		EMD Corporates			EMD Total Return
	GEM Bond	GEM ESG Bond	GEM Local Debt	GEM ESG Local Debt	GEM Corporate Sustainable	RAIF EM Freestyle	RAIF EM IG	GEM Total Return
Launch date	1998	2021	2007	2011	2021	2023	2023	1999
SFDR Classification	Article 6	Article 8	Article 6	Article 8	Article 9	Article 6	Article 6	Article 6
AUM (USD)	\$4.7B (of which \$3.3B in dedicated IG)	\$116.3M	\$2,191.8M	\$347.2M	\$344.5M	\$15.9M	\$8.3M	\$180.8M
Yield (%)	6.67	6.69	6.57	6.86	6.63	6.56	5.12	6.90
Duration (yrs)	6.73	7.27	2.60	5.27	3.59	4.01	4.56	5.07
Spread Duration (yrs)	5.99	6.47	N/A	N/A	3.28	4.00	4.54	1.85
Credit Quality	BBB-/BB+	BBB-/BB+	AA-/A+	A-/BBB+	BB+	BBB-/BB+	BBB+/BBB	BBB+/BBB
Comparative index¹	JPM EMBI Global Div (JPM EMBIGD Inv Grade)	JPM ESG EMBI Global Diversified	50% JPM GBI-EM Global Div / 50% JPM ELMI+	JPM ESG GBI-EM Global Diversified	JPM ESG CEMBI Broad Diversified	JPM CEMBI Broad Diversified	JPM CEMBI IG+	Cash

Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future.
Source: HSBC Asset Management, as of 30 August 2025.

5. Recent Performance and AUM Growth

2025 has already seen notable momentum:

- ◆ GEM Hard Currency – Among the top in its peer group YTD; 3-year relative performance is back in positive territory.
- ◆ GEM ESG Bond – Celebrated its 3-year anniversary in December 2024; top-ranked since inception.
- ◆ GEM Corporate Sustainable Bond – Continues to outperform since inception and reached its 3-year anniversary on 27 September 2025; IFC's endorsement of the strategy and commitment to invest up to US\$100m is drawing renewed attention.
- ◆ GEM Total Return – Recently attracted ~\$160M in new inflows alongside growing investor interest.

Overall, EMD assets under management are up over \$2.3 billion year-to-date, across both mutual funds and segregated accounts.

Conclusion

Emerging Markets Debt stands out as a strategic opportunity, combining resilient fundamentals, attractive yield opportunities, and ongoing improvements in credit quality. Back by a diverse range of strategies, with proven performance track-records, the asset class is well-positioned to capture growing investor demand and deliver sustainable long-term value.



Key risks

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested.

ESG Investing Risk. The use of ESG criteria in the strategy's investment process may cause the strategy to forgo investment opportunities available to other strategies that do not use these criteria, or to increase or decrease its exposure to certain sectors or types of issuers, which may negatively impact the strategy's relative performance as compared to non-ESG strategies. Investing on the basis of ESG criteria is qualitative and subjective by nature and there can be no assurances that the process utilized by the Adviser will enable the strategy to meet its investment objectives.

Exchange Rate Risk Changes in currency exchange rates could reduce or increase investment gains or investment losses, in some cases significantly.

Counterparty Risk The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations.

Liquidity Risk is the risk that a Fund may encounter difficulties meeting its obligations in respect of financial liabilities that are settled by delivering cash or other financial assets, thereby compromising existing or remaining investors.

Operational Risk may subject the Fund to errors affecting transactions, valuation, accounting, and financial reporting, among other things.

Derivatives Risk Derivatives can behave unexpectedly. The pricing and volatility of many derivatives may diverge from strictly reflecting the pricing or volatility of their underlying reference(s), instrument or asset.

Emerging Markets Risk Emerging markets are less established, and often more volatile, than developed markets and involve higher risks, particularly market, liquidity and currency risks.

Interest Rate Risk When interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality.

Default Risk The issuers of certain bonds could become unwilling or unable to make payments on their bonds.

Credit Risk A bond or money market security could lose value if the issuer's financial health deteriorates.

CoCo Bond Risk Contingent convertible securities (CoCo bonds) are comparatively untested, their income payments may be cancelled or suspended, and they are more vulnerable to losses than equities and can be highly volatile.

Sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

Further information on the potential risks can be found in the governing documents.

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The decision to invest in the fund should take account of all the characteristics or objectives as described in the prospectus or equivalent document. Detailed information for article 8 and 9 sustainable investment products, as categorised under the Sustainable Finance Disclosure Regulation (SFDR), including; description of the environmental or social characteristics or the sustainable investment objective; methodologies used to assess, measure and monitor the environmental or social characteristics and the impact of the selected sustainable investments and; objectives and benchmark information, can be found at:

<https://www.assetmanagement.hsbc.co.uk/en/intermediary/investment-expertise/sustainable-investments/sustainable-investment-product-offering>

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