Emerging Market High Yield Sovereign Debt

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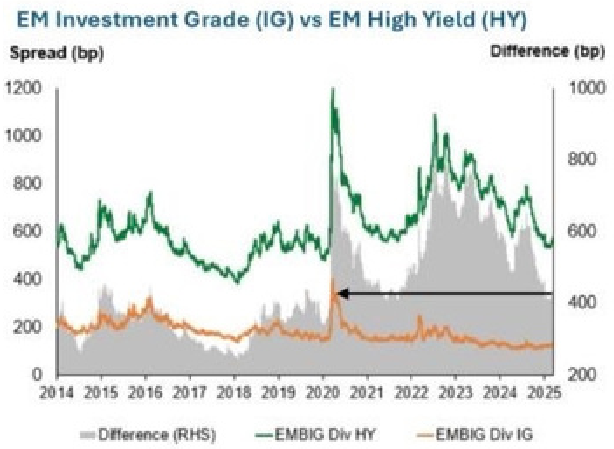
Emerging Market High Yield (EM HY) sovereign debt saw notable developments in 2024.

A confluence of factors, including improved EM fundamentals through fiscal reforms and debt restructurings, coupled with favorable market conditions like commodity prices remaining high and U.S. Federal Reserve rate cuts, drove EM HY spreads (the yield premium over U.S. Treasuries) to their tightest relative to levels during Covid in 2020. See "**EM Investment Grade vs EM High Yield**[1]".



Notably, a significant portion of 2024 index returns (6.54%) was concentrated in 10 out of 72 countries, accounting for circa 70% of the returns. We examine drivers behind some outperformers, where the risks lie, and things to watch in EM HY for 2025.

Lebanon: Experienced a substantial rally from a significantly low base following its 2019 default. This low base and thin trading volumes amplified the impact of perceived improvements in its financial condition. Positive market sentiment arose from:

1. indications resolution to the political vacuum stemming back to October 2022 was in sight; and

2. the November 2024 ceasefire agreement with Israel.

These developments were key steps towards beginning debt restructuring processes and securing financial support from the International Monetary Fund (IMF).

1. Source: Bloomberg, J.P. Morgan, Gramercy, As of March 2025; LSEG Datastream, Schroders. As of December 2024

Things to watch in 2025: Sustainability of the ceasefire, and signs of political uncertainty related to 2026 parliamentary elections. Lebanon recently appointed ministers in key positions, Amer Bisat (Economy Minister) and Yassine Jaber (Finance Minister). Their success pushing through economic reforms will also be key.

Argentina: President Javier Milei's success implementing fiscal consolidation and lowering inflation exceeded expectations, contributing significantly to index returns. Optimism was further fuelled by hopes of continued IMF support given Milei's positive relationship with Trump.

Things to watch in 2025: The impact of allegations surrounding Milei's involvement with the cryptocurrency $LIBRA and if impeachment proceedings weaken his ability to govern. Another is whether episodes of anti-austerity protests in Buenos Aires spread to other cities.

Zambia: Served as a test case for completing a $13bn debt restructuring under the G20 Common Framework. It concluded in June 2024 after a protracted 3 year process.

Things to watch in 2025: Climate risk. Severe drought is affecting food and copper production. Zambia is Africa's 2nd largest copper producer and is a vital export. The government will need to balance debt terms, rising costs and energy shortages.

EM HY experienced a strong run in 2024, but was concentrated. 2025 performance will be heavily influenced by:

1. Continued IMF financing and political stability to enact reforms; and

2. If EM's can navigate short-term shocks, in particular those arising from Trump's policies.

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