

# NCRAM

## The Case for EM Hard Currency Debt

MAY 2025

STRICTLY PRIVATE AND CONFIDENTIAL  
MARKETING MATERIAL

Copyright © 2025 Nomura

This document is the sole property of Nomura. No part of this document may be reproduced in any form or by any means – electronic, mechanical, photocopying, recording or otherwise – without the prior written permission of Nomura.

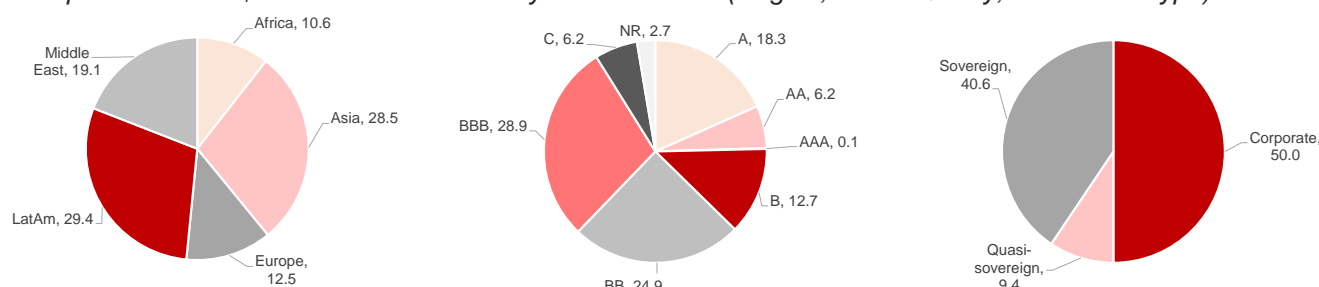
## The Case for Emerging Markets Hard Currency Debt

Emerging markets hard currency debt is a broad investment category that can offer attractive yields, strong historical returns, and valuable portfolio diversification. The asset class includes sovereign, corporate, and quasi-sovereign issuers, and spans the ratings spectrum from the highest quality investment grade to CCC and below. The abundance of lightly followed issuers creates alpha generation potential for a skilled active manager.

### Diversification, Liquidity, and Scale

The \$2.5 trillion EM hard currency investment universe consists of a diversified set of 60 countries in five regions, split across 12 corporate sectors and the full credit quality spectrum, offering investors a wide field of highly idiosyncratic opportunities. EM sovereign bonds, the longest-standing EM fixed income asset class, offer deep, liquid, and high-yielding market exposure, including longer duration assets. The market provides experienced, well-resourced active managers with the opportunity to add value through credit selection, country/sector/industry allocation, and duration management.

Composition of the \$2.5tn EM Hard Currency Debt Universe (Region, Credit Quality, and Issuer Type)



Source: JP Morgan Hard Currency Credit 50-50 Index (JEMB); as of March 31, 2025

### Attractive Absolute and Risk-Adjusted Returns

The EM hard currency debt market is divided roughly 60% investment grade and 40% high yield issuers. EM debt's historical absolute returns are superior to those of US investment grade bonds, while risk-adjusted returns are comparable to US corporates, but top US Treasuries and many global equity markets.

### 20-Year Returns and Risk

	Ann. TR	Std. Dev.	Risk/Return
50% EM Sov/50% EM Corp	5.43%	8.05%	0.67
EM Sovereigns	5.55%	8.70%	0.64
EM Corporates	5.33%	7.51%	0.71
EM Local Currency	3.73%	11.78%	0.32
US Inv Grade	4.18%	6.30%	0.66
US High Yield	6.47%	9.02%	0.72
10-Year UST	2.86%	7.33%	0.39
EM Equity	6.44%	20.49%	0.31
US LC Equity	10.23%	15.02%	0.68
US SC Equity	7.55%	20.24%	0.37

Sources: NCRAM, Bloomberg, data herein based on monthly returns from April 2005 through March 2025<sup>1</sup>



## EM Hard Currency Debt's Role in a Portfolio

EM debt can be an attractive source of portfolio yield for asset owners' and wealth managers' portfolios. The asset class also offers excellent diversification vs. interest rate sensitive securities such as US Treasuries, and reasonable diversification vs. other risk asset classes like high yield bonds and equity, earning a place in well-diversified fixed income or multi-asset class portfolios.

### Asset Class Correlation

	EM Sov	EM Corp	EM LC	US Inv Grade	US High Yield	UST10yr	EM Equity	US Large Cap	US Small Cap
EM Sov	1.00	0.91	0.82	0.83	0.79	0.33	0.70	0.62	0.54
EM Corp	0.91	1.00	0.74	0.81	0.81	0.21	0.70	0.59	0.52
EM LC	0.82	0.74	1.00	0.62	0.66	0.18	0.81	0.59	0.53
US Inv Grade	0.83	0.81	0.62	1.00	0.68	0.59	0.51	0.47	0.39
US High Yield	0.79	0.81	0.66	0.68	1.00	(0.04)	0.72	0.75	0.72
UST10yr	0.33	0.21	0.18	0.59	(0.04)	1.00	(0.08)	(0.09)	(0.16)
EM Equity	0.70	0.70	0.81	0.51	0.72	(0.08)	1.00	0.72	0.67
US Large Cap	0.62	0.59	0.59	0.47	0.75	(0.09)	0.72	1.00	0.89
US Small Cap	0.54	0.52	0.53	0.39	0.72	(0.16)	0.67	0.89	1.00

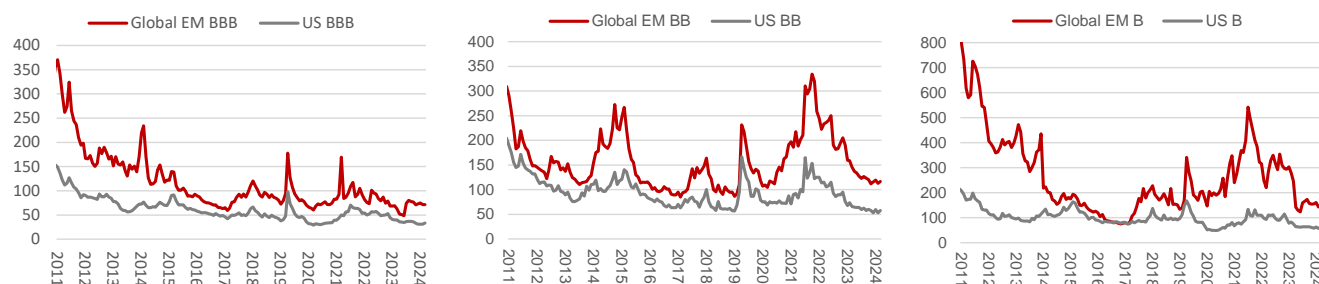
Sources: NCRAM, Bloomberg

Data herein based on monthly returns from April 2005 through March 2025<sup>1</sup>

## Embedded Risk Premium vs. Developed Market Assets

Emerging markets fixed income investments can embed both credit and elevated country risk, thus EM assets offer an attractive spread premium to developed market securities, across both investment grade and high yield credit. Skilled active managers with the ability to assess sovereign and corporate prospective risk and return can potentially exploit this opportunity for alpha generation.

### Spread per Turn of Leverage



Source: BofA, as of February 28, 2025 (latest available), Spread per Turn of Leverage is OAS divided by Net Leverage

## Conclusion

Emerging economies continue to withstand macroeconomic challenges, growing with a favorable demographic backdrop and improving institutional quality. Overall indebtedness of EM issuers remains substantially lower vs. developed markets in comparable ratings categories, and a significant share of EM economies' debts have moved into deep, local capital markets, reducing exchange-rate related risks. EM hard currency bonds continue to deliver among the strongest risk-adjusted returns across a broad spectrum of asset classes. Based on this track record, we believe that EM bonds deserve a strategic allocation in globally diversified portfolios targeting income and high total return over a market cycle.

<sup>1</sup> EM 50/50 Sov/Corp: JPM Hard Currency Credit 50-50 Index (JEMB), EM Sovereigns: JPM EM Bond Index Global (EMBIG), EM Corporates: JPM Corporate EM Bond Index Broad Diversified (CEMBI BD), EM Local Currency: JPM GBI-EM Global Diversified Index (GBI-EM GD), Investment Grade: ICE BofA US Corporate Index (C0A0), High Yield: ICE BofA US High Yield Constrained Index (HUC0), 10-Year UST: ICE BofA Current 10-Year US Treasury Index (GA10), EM Equity: MSCI EM Equity Index (MSCI EM), US Large Cap Equity: S&P 500 Index, US Small Cap Equity: Russell 2000 Index

## Disclosures

This document is prepared by Nomura Corporate Research and Asset Management Inc. (NCRAM) and is for informational purposes only. All information contained in this document is proprietary and confidential to NCRAM. All opinions and estimates included herein constitute NCRAM's judgment, unless stated otherwise, as of this date and are subject to change without notice. There can be no assurance nor is there any guarantee, implied or otherwise, that opinions related to forecasts will be met. Certain information contained herein is obtained from various secondary sources that are believed to be reliable, however, NCRAM does not guarantee its accuracy and such information be incomplete or condensed. Historical investment performance is no guarantee of future results. There is a risk of loss. Strategy performance references are based on gross of fees performance.

Certain information contained in this document contains forward-looking statements including future-oriented financial information and financial forecasts under applicable securities laws (collectively referred to herein as forward-looking statements). Except for statements of historical fact, information contained herein constitutes forward-looking statements. Although NCRAM believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that forward-looking statements will prove to be accurate. These statements are not guarantees of future performance and undue reliance should not be placed on them. Forward-looking information is subject to certain risks, trends, and uncertainties that could cause actual performance and financial results in future periods to differ materially from those projected. NCRAM undertakes no obligation to update forward-looking statements if circumstances or NCRAM's estimates or opinions should change.

This document is intended for the use of the person to whom it is delivered. Neither this document nor any part here-of may be reproduced, transmitted or redistributed without the prior written authorization of NCRAM. Further, this document is not to be construed as investment advice, or as an offer to buy or sell any security, or the solicitation of an offer to buy or sell any security. Any reproduction, transmittal or redistribution of its contents may constitute a violation of the U.S. federal securities laws.

Performance data is calculated by NCRAM based upon market prices obtained from market dealers and pricing services or, in their absence, an estimate of market value based on NCRAM's pricing and valuation policy. All performance is historical and assumes reinvestment of dividends, interest and capital gains. Performance data stated here-in may vary from pricing determined by an advisory client or by a third party on behalf of the advisory client. Performance data set forth herein is provided for the purpose of facilitating analysis of account assets managed by NCRAM, and should not be used for the purpose of reporting or advertising performance of specific account portfolios to account beneficiaries or to third parties.

An investment in high yield instruments involves special considerations and certain risks, including risk of default and price volatility, and such securities are regarded as being predominantly speculative as to the issuer's ability to make payments of principal and interest.

A copy of NCRAM's Code of Ethics and its Part 2A of Form ADV are available upon request by contacting NCRAM's Chief Compliance Officer via e-mail at [compliancenomuraasset@nomura.com](mailto:compliancenomuraasset@nomura.com) or via postal mail request at Nomura Corporate Research and Asset Management Inc., Worldwide Plaza, 309 West 49th Street, Compliance Department, Attn: Chief Compliance Officer, New York, NY 10019-7316.

The views and estimates expressed in this material represent the opinions of NCRAM and are subject to change without notice and are not intended as a forecast or guarantee of future results. Such opinions are statements of financial market trends based on current market conditions. The views and strategies described may not be suitable for all investors. This material has been prepared for informational purposes only, and is not intended to be provided, and should not be relied upon as legal or tax advice.