EM Debt: Where Political Risk Is Priced, and Where It Isn't

VanEck

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Poland's political crisis looks contained until 2027 elections, France's problems will go unaddressed, and Brazil's rate-cut push without fiscal adjustment is currency-negative.

Key Takeaways

- Poland's constitutional crisis looks frozen until the late-2027 elections, but the unifying right makes EU funding likely to resurface as a market concern.
- France's fiscal dominance problem will end in politics, and the protests are unlikely to be put down, so the underlying problems stay unaddressed.
- Brazil is not a "good" EM: high debt and weak fiscal prospects offset by solid external accounts, and rate cuts without fiscal adjustment are currency-negative.

The VanEck Emerging Markets Bond ETF (EMBX) returned 0.37% in October, compared to 0.32% for its benchmark, the 50% J.P. Morgan Government Bond Index - Emerging Markets Global Diversified (GBI-EM) and 50% J.P. Morgan Emerging Markets Bond Index (EMBI), and +1.51% for the Global Agg and +3.28% for U.S. Treasuries. Year to date, EMBX is up 1.78%, compared to up 0.27% for its benchmark, and down -2.21% for the Global Agg and –2.03% for U.S. Treasuries. Brazil local (no exposure), USD UAE (overweight), and Mexico local (no exposure) contributed most to outperformance. Chile local (overweight), China local (underweight), and USD Colombia (overweight) detracted the most in October. Local currency exposure is currently at 34.3%, carry is 6.47, YTW is 7.26 and we increased duration again, now to 5.94.

VanEck Emerging Markets Bond ETF (EMBX) Performance

Average Annual Total Returns* (%)

Month End As of 10/31/2026	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Life 07/09/12
EMBX (NAV)	0.37	-1.54	1.79	4.05	11.11	4.76	4.89	3.48
EMBX (Market Price)	0.48	-2.00	1.73	3.88	11.04	4.72	4.87	3.47
50% GBI-EM/50% EMBI	0.31	-1.55	0.28	2.28	9.42	2.49	2.80	2.55

Quarter End As of 09/30/2026	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Life 07/09/12
EMBX (NAV)	-2.65	-2.12	1.41	4.61	10.51	4.68	4.84	3.48
EMBX (Market Price)	-2.86	-2.29	1.24	4.31	10.40	4.62	4.81	3.46
50% GBI-EM/50% EMBI	-2.73	-2.41	-0.03	3.28	8.97	2.29	2.66	2.54

*Returns less than one year are not annualized.

EMBX Gross Expense Ratio – 0.76%

30-Day SEC Yield: 6.33% as of November 3, 2026

The performance data quoted represents past performance. Past performance is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance may be lower or higher than performance data quoted. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month ended.

Prior to 10/06/2025, the Fund operated as the VanEck Emerging Markets Bond mutual fund; performance shown before that date is that fund's NAV performance (Class I, unadjusted for today's ETF expenses).

Index returns are not illustrative of fund returns. It is not possible to invest directly in an index.

Poland is worth paying attention, especially because markets aren't. The constitutional crisis has deep roots and deep implications for Europe. But it seems contained until late-2027 elections, it seems. No violence here. Sticking with the precise possible market implications, we see one clear one. EU funding for Poland will likely re-emerge as a core market concern as politics come into focus. Poland is a right-right country, to our eye, with the right's division being the key to the current Tusk government's coalition. The constitutional crisis is unifying the right so by definition EU funding is likely to become an issue. The good news is that the political conflict seems largely frozen for the time being, with Tusk appearing damaged but not so much as to trigger early elections. Europe is part of the implications, because the supremacy of the European Court of Justice remains contentious in many EU countries, as does the directly related issues of immigration and joining the Eurozone.

Speaking of violence...France. Core Europe's more visible political risk is instructive. We've always said "fiscal dominance" always ends with politics. Also, Europe remains in denial of the politics themselves. Your author was born in France, for what that's worth. Our view is that the "manifestations" will not be put down, and that only France can solve France's problems. So, the problems will continue un-addressed. Note also that most French debt is held offshore, so a scenario in which the issue quickly becomes the European financial system as opposed to French debt would be, what should we say...French!

Back to Brazil; not all EMs are "good". To get it out of the way, the fund was overweight local-currency bonds and took profit to near-zero-weight during IMF meetings; the rationale was that Bolsonaro was fully priced by meeting participants, not that Lula would win. Our IMF takeaways can be found here. Brazil is highly indebted with bad fiscal prospects but also has rock-solid external accounts. Current policy seems focused on simply getting interest rates down with no compensatory fiscal adjustment, so very currency negative. To start.

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions in October were Malaysia, Colombia, Poland, China, and Indonesia:

- We increased our hard currency sovereign exposure in the United Arab Emirates, Oman, and Colombia. We focused on duration which can benefit from global correlations, as well as from country-specific developments. Both United Arab Emirates and Oman have large buffers and more diversified export infrastructure, whereas oil production is gradually recovering. The United Arab Emirates are now expected to run twin surpluses in 2026 and its GDP contracted less than expected during the Middle East conflict. Colombia is also benefitting from higher oil prices, and the new cabinet is pushing ahead with a more aggressive fiscal consolidation proposal than expected. In terms of our investment process, this improved the technical and policy test scores for these countries.
- We also increased our hard currency sovereign exposure in South Africa, Poland, and Mexico. Correlations with global duration were a key reason, strengthening the technical test score for all three countries. Domestic fundamentals have not added noise or headwinds to the benign global trends.
- We increased our local currency exposure in Thailand. Thailand currently benefits from a combination of two factors: (a) very low exposure to the AI trade; and (b) stretched short positioning. Both improve the technical test score for the country, when the market at large is questioning the longevity of the AI boom, especially against the backdrop of significant bond issuance by AI-related entities.
- We reduced our local currency exposure in South Korea and Taiwan. Both countries are at the forefront of the AI trade, which weakens their technical test scores. In addition, the Korean won has been holding on quite well despite the equity market's underperformance, which put extra strain on the technical test score.
- We also reduced our local currency exposure in Brazil and Chile. Chile's correlation to the AI trade via copper demand lowered the technical test score for the country. Brazilian assets staged a major rally after the 1st round of the presidential election - which worsened their valuations (no longer the top valuation bucket for the 10-year yield) – while the already elevated long positioning became even more stretched, weakening Brazil's technical test score. We thought it prudent to take profits going into the runoff, as a market-friendly election outcome was already fully priced in, whereas a less favorable scenario was barely reflected in the price.
- Finally, we reduced our hard currency sovereign exposure in Egypt. As a net energy importer, Egypt is a loser from high oil prices, which also raise new concerns about the country's financing needs, worsening the technical and economic test scores for the country. Egypt's two-notch rating upgrade by Moody's provided a suitable catalyst for profit-taking.

[i] Source: Banque de France Q2 2026, Q1 2026 release, Continuum Economics

[ii] Rio Times, 2025 data

[iii] Sources: IMF, Fitch

Important Disclosures

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