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The Investment Case for Emerging Markets Bonds



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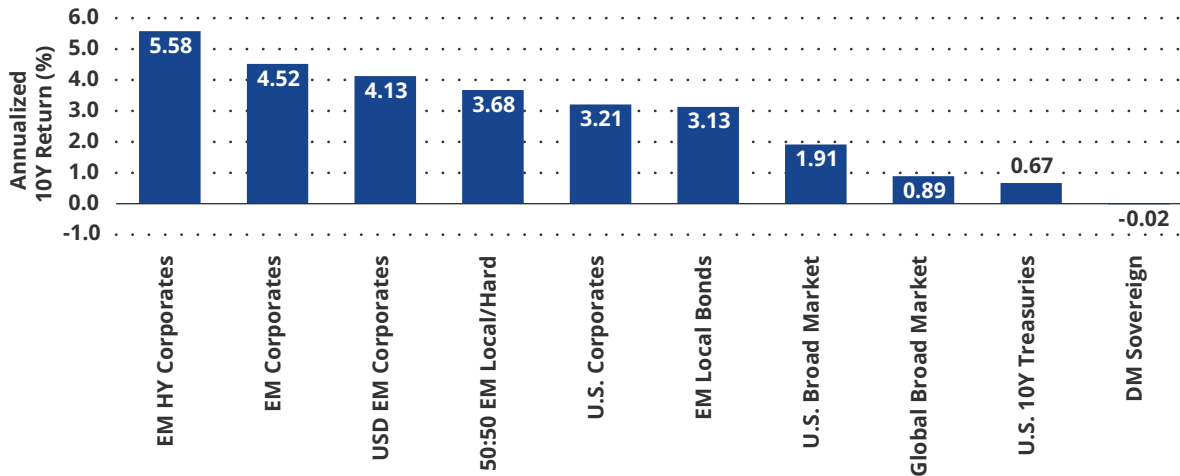
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The investment case for emerging markets (EM) debt is compelling and straightforward. In the past 10 years, EM bonds generated annual returns of 3.68% while DMs generated negative returns of -0.02%. The past 5 years look even worse for DM sovereigns. As of now, DM sovereigns' yield-to-worst (YTM) is only 3.61%. EM sovereigns in USD have a YTM of 6.89%, and yield 5.93% in their own currencies. Selected individual sovereigns offer even superior yield.

- **Why EM bonds?** First, in a world rightly concerned about "fiscal dominance" -- excessive debt that undermines central bank independence thus keeping yields too low -- EM generally has low levels of government debt that pay higher yields.
- **Why now?** Second, these longstanding EM strengths are gaining attention and becoming impossible to ignore with the advent of CNY sharing reserve currency status with the USD (an outcome of the "dollar debasement" trade). EM conducts more trade with China than with the U.S., so this is important to all EM currencies.
- **The implications?** Third, two decades of outright and volatility-adjusted performance shows EM bonds to be too-small an allocation for most investors, and DM bonds to be too-large an allocation.

Exhibit 1 – A Decade of Outperformance

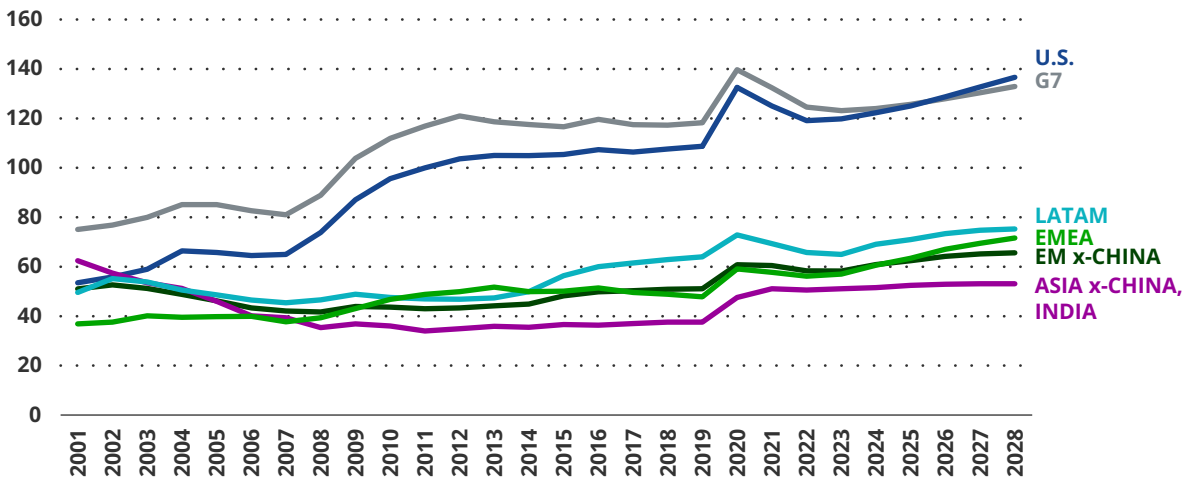


Source: Morningstar as of 10/31/2025. EM HY Corporates is represented by the J.P. Morgan CEMBIG High Yield Index. USD EM Corporates is represented by the J.P. Morgan CEMBI Broad Diversified Index. 50:50 EM Local/Hard is represented by the 50% J.P. Morgan EMBI Global Diversified Index/50% J.P. Morgan GBI-EM Global Diversified Index. U.S. Corporates is represented by the ICE BofA U.S. Corporate Index. EM Local Bonds is represented by the J.P. Morgan GBI-EM Global Diversified Index. Global Broad Market is represented by the ICE BofA Global Broad Market Index; U.S. Broad Market is represented by the ICE BofA U.S. Broad Market Index. U.S. 10Y Treasuries is represented by the ICE BofA 10-Year Current Treasury Index. DM Sovereign is represented by the ICE BofA Developed Markets Sovereign Bond Index. Past performance is no guarantee of future results.

I. “Fiscal Dominance”: EM Has Better Fundamentals Than DM

You see EMs core strength – low debt levels – in Exhibit 1 below. EM has much lower and steadier general government debt as a percentage of GDP than DM (using IMF aggregations). You also see that EM Asia has the lowest within the EM category. Of course, there are further crucial differences between countries and corporates inside these aggregate concepts like “EM” and “EM Asia”, which aren’t the topic for this paper (we update our country-specific views in other publications).

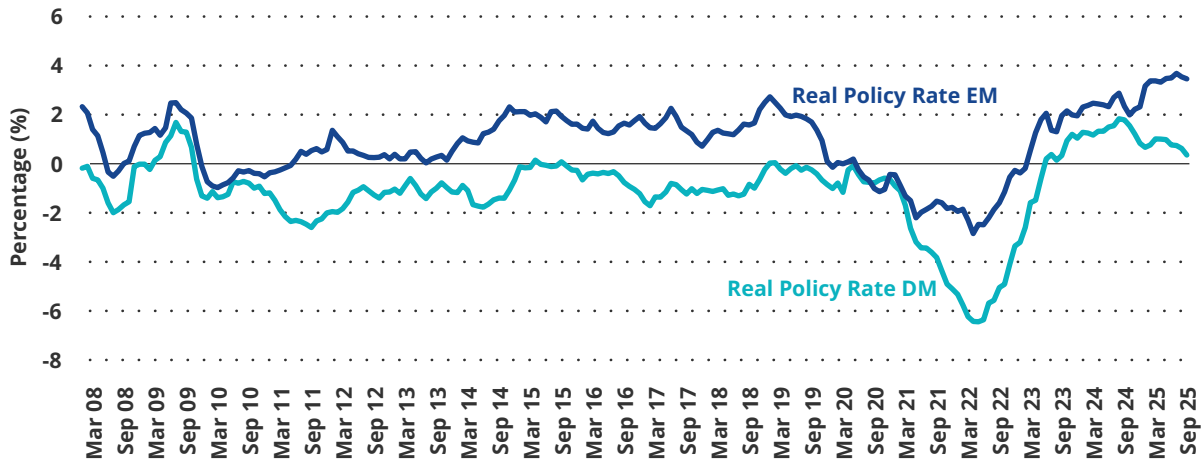
Exhibit 2 – EM Government Debt is Low, DM is High



Source: VanEck Research; International Monetary Fund; Bloomberg LP. Data as of October 2025. Not intended as a prediction of future results. For illustrative purposes only. Past performance is no guarantee of future results.

Fiscal dominance says that when government debt levels are too high, central banks lose their independence and monetary policy no longer has traction. Let's look at the evidence. Exhibit 2 shows EM central banks' real policy rates compared to DM central bank real policy rates. For decades, EM central banks have maintained higher real policy rates than DM. Note also the great growth- and risk-focus of DM central banks (i.e., episodes of sharp declines during financial episodes). For this precise reason, Fiscal dominance is part of a wider concept called Financial dominance when central banks become co-opted to "save" other financial players besides the government (which we've written about extensively in other publications).

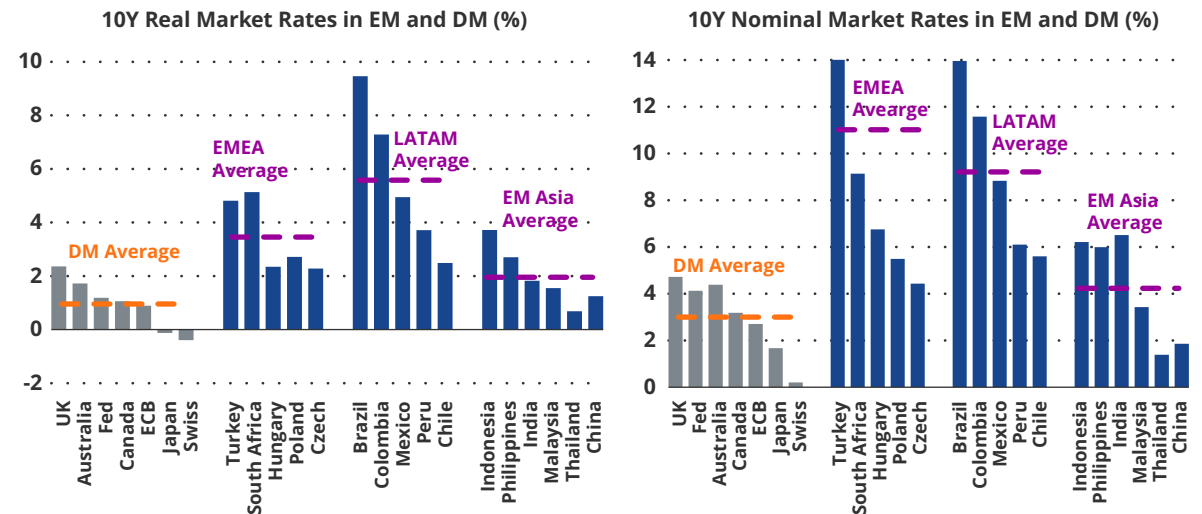
Exhibit 3 – EM Central Banks Tight, DM Central Banks Loose



Source: VanEck Research; Bloomberg LP. Data as of September 2025. Past performance is not indicative of future results.

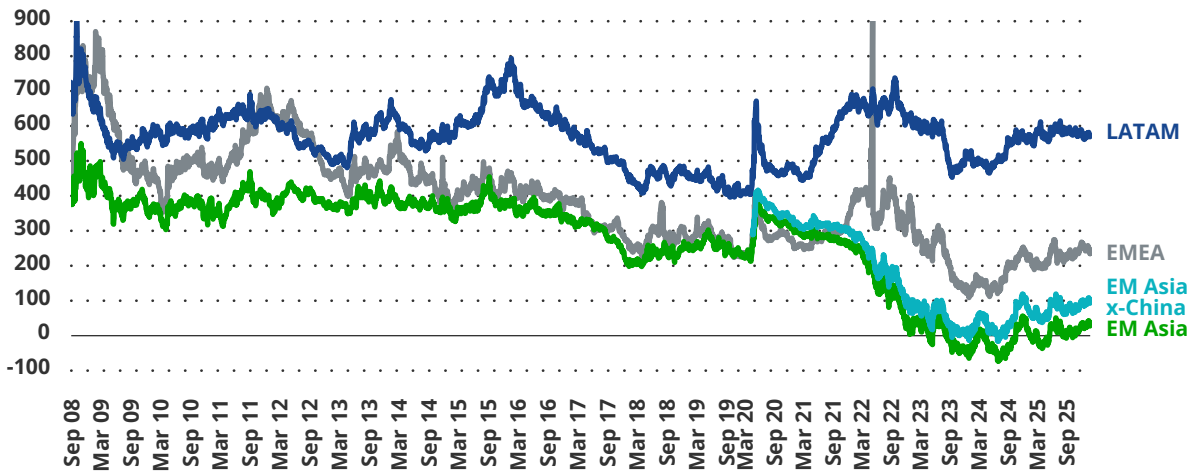
Now, we show in Exhibit 3 that there is great variety among the countries that make up aggregates such as "EM" or "EM Asia" to remind of two things. First is to show that there's substantial alpha in individual EMs within "EM", which we discuss in other publications; finding cheap bonds is our day-job, after all. Second, the Exhibit highlights a key result of fiscal rectitude in EM – Asia has proved itself for so long that it borrows at very low nominal and real (relative to DM) rates. Observe also that these Asian EM rates are *nonetheless still higher* than DM rates, and Latam and CEMEA EM rates are *much* higher. The common challenge to some EM local bonds, particularly Asian, is their low nominal yields relative to history or the U.S., but their real yields remain high. Also notice in Exhibit 4 how Asian local-currency yields collapsed relative to U.S. yields for the past 6 years in a row...this is not a flash-in-the-pan but a re-rating argument.

Exhibit 4 – Asia Orthodoxy Rewarded With Low Borrowing Costs, More to Go



Source: VanEck Research; Bloomberg LP. Data as of September 2025. Past performance is not indicative of future results.

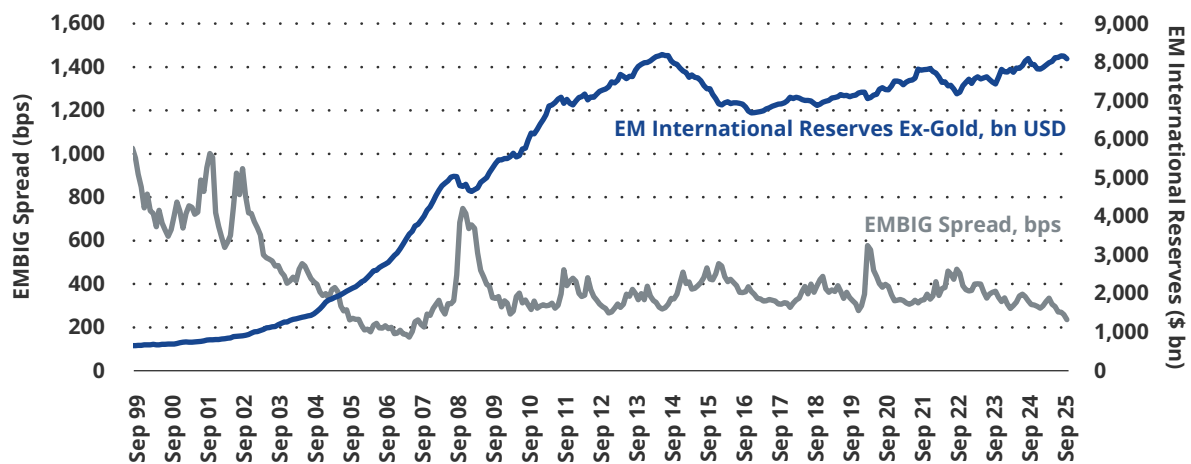
Exhibit 5 – EM Asian Local Rates First to “Graduate”



Source: VanEck Research; Bloomberg LP. Data as of September 2025. GBI-EM is represented by the J.P. Morgan GBI-EM Global Diversified Index; EMEA represented by J.P. Morgan GBI-EM Global Diversified Europe Index; Latam represented by J.P. Morgan GBI-EM Global Diversified Latin America Index; EM Asia represented by J.P. Morgan GBI-EM Global Diversified Asia Index; EM Asia x-China represented by J.P. Morgan GBI-EM Global Diversified Asia ex-China Index. Index performance is not representative of fund performance. It is not possible to invest directly in an index. Past performance does not guarantee future results.

So far we have used the “fiscal dominance” framing – the weakened gears of monetary policy as a result of excessive government indebtedness) on local-currency EM bonds. But obviously having low levels of debt (combined with growing central bank reserves, and they often go together with good debt management) should help your USD-denominated bonds as well. This is an older, better-established phenomenon, and simpler because central banks (as well as state-owned banks, which aren’t included in reserve data, importantly) literally own U.S. treasuries that can be accessed for external strains including allowing superior external debt service capability. If you own USD and owe in USD that is easy to calculate (using for example net creditor status, which we show in the appendix). Whereas if you owe in your own currency, your currency can still be subject to excess volatility, supply, fiscal, and capital control risks, penultimately undermining inflation and inflation expectations, and ultimately leading to currency convertibility risk. Asia is largely well beyond those days as described above (though DM may be entering them, particularly Europe). In fact, many EMs are net sovereign creditors in USD, having more reserves in USD than public sector debt in USD (chart in the appendix). Anyway, just to complete the story and history to include EM sovereign credit spreads, we show their history against the growth in hard-currency reserves in EM in Exhibit 5 below. Economic history just jumps out, with EM USD spreads generally no longer spiking higher with each crisis and being anchored in a tighter and lower range.

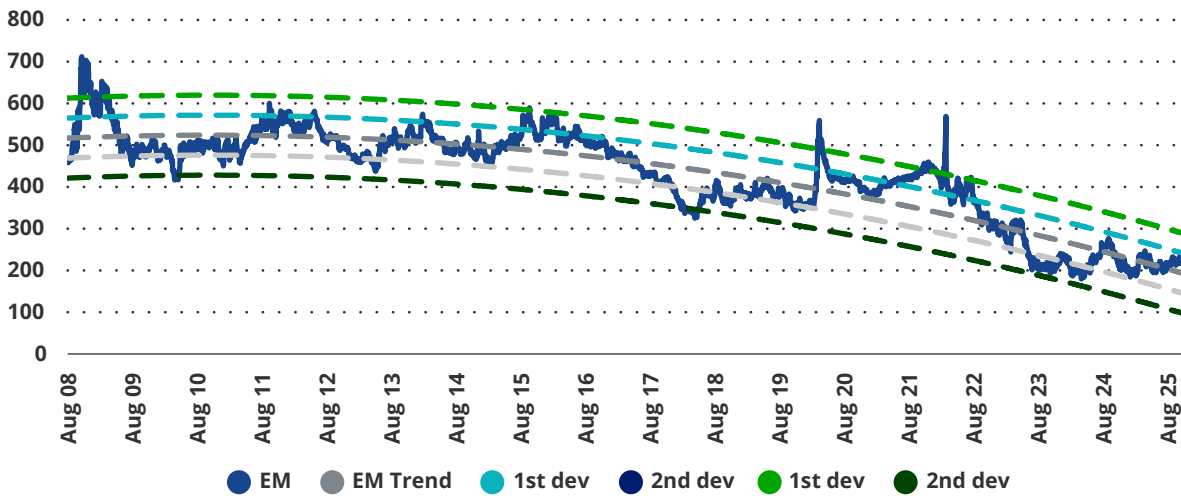
Exhibit 6 – EM Sovereign Spreads Rallied First



Source: VanEck Research; Bloomberg LP. Data as of October 2025. Past performance is not indicative of future results.

If one wants a similar aggregate perspective on what happened to EM local-currency yields, you see it in Exhibit 6 below. We subtract UST yields and add volatility bands. The yield at which EMs borrow in their local currency (relative to USTs) is clearly trending down. We should note that the x-axis in Exhibit 6 is different from the x-axis in Exhibit 5 above, simply because aggregate metrics (indices, basically) were not established contemporaneously. Their sub-components also changed, another methodological challenge. This is a reminder that we are communicating at the level of aggregates for the purposes of this paper about EM bonds generally, and always believe the country- and issuer-specific data is far more informative. Our primary focus as portfolio managers remains bottom-up, country-by-country analysis, which you can see in our other publications, but that should not be an excuse for being unable to talk about the asset class generally.

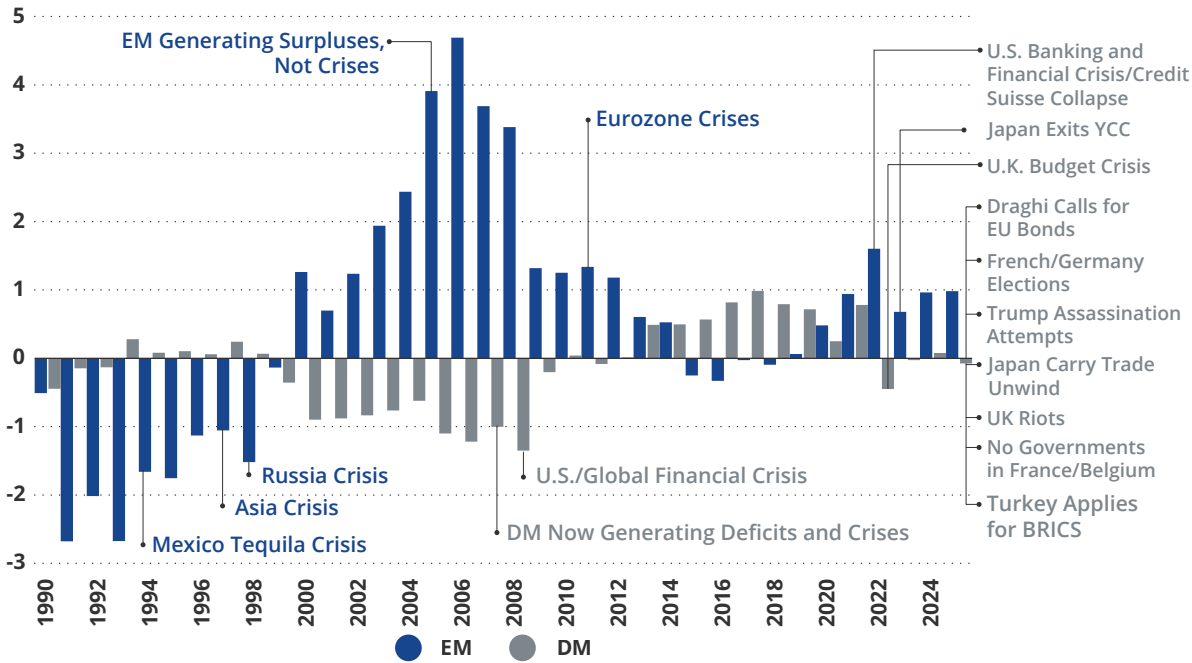
Exhibit 7 –EM Local Bonds’ Premium vs. Treasuries Is Falling



Source: VanEck Research; Bloomberg LP. Data as of October 2025. Past performance is not indicative of future results.

In fact, now that we’ve connected the absence of “fiscal dominance” in EM (and its presence in DM) to EM sovereign credit spreads *and* local currency yields, let’s wrap this section up with a little history-lesson-in-a-chart, as the capstone. Economists rightly like to use external balances such as the current account balance as a proxy for saving or dis-saving. The larger your deficit, the more you dissave, particularly as these balances often increase due to fiscal pressure. Anyway, look up the literature, there are solid reasons. We show EM versus DM current account balances over the past few decades in Exhibit 7. A few things jump out. Most important - *EMs haven’t generated crises in decades and DM is now generating crises*. EM might have an image as a crisis-generator leftover from the 1970s-1990s...but clearly something changed after the EM crises peaking in the late-1990s (further confirmed by the asset-price data above). We’ve written about what EM had to do in order to get out of their pre-2000s state-of-nature in detail, but the essence was economic orthodoxy – get debt and deficits under control, float your currencies to act as shock-absorbers and to maintain external balance, don’t guarantee insolvent financial institutions, and establish independent central banks to credibly target inflation. In other words, the EMs did the exact opposite of the DMs in the GFC and Eurozone crises. It’s why we call many EMs “graduates” – they are the best students of economic orthodoxy.

Exhibit 8 – DMs Generating Crises, Not EMs

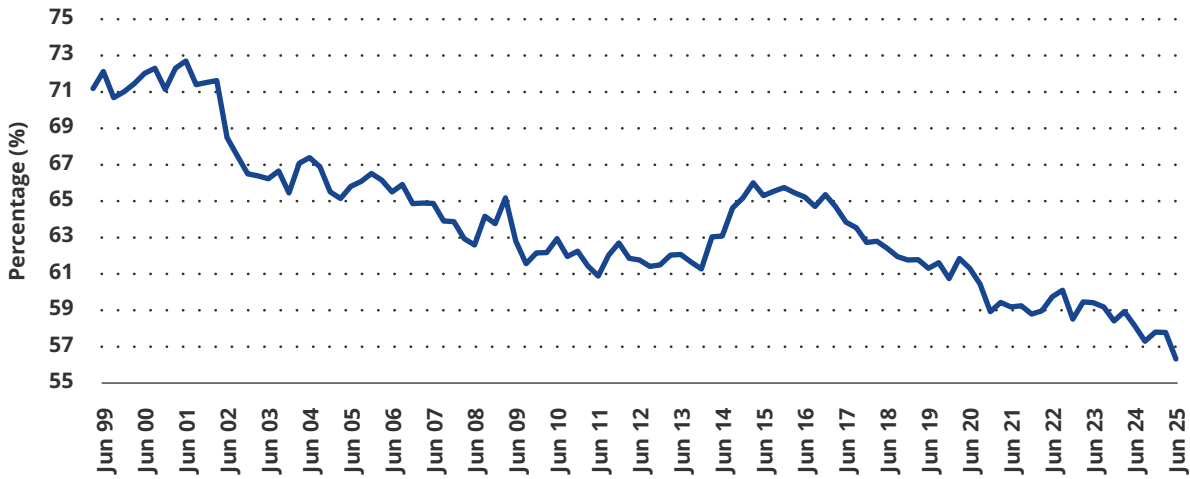


Source: VanEck Research; International Monetary Fund (IMF); Bloomberg LP. Data as of December 2024. Past performance is not indicative of future results.

II. Why Now? The Rise of CNY as a Reserve Currency

Remember the past few years of geopolitical headlines featuring China, India, Brazil, Russia, Saudi, etc. agreeing to trade in each others’ currencies? Central banks do not want piles of cash and will eventually open lines to own bonds, and will not issue press releases about these developments just as they didn’t issue press releases about their gold purchases and U.S. treasury sales. But we’ve all obviously by now *also* learned that major central banks *have* been purchasing gold as an alternative to USD/treasuries, often through state-owned banks. Our point is only that other reserve currencies will be established by central banks (as buyers of assets and/or issuers of money), and CNY is still the obvious contender. Also remember the past few years of structural headlines in which China is deepening funding markets in RMB, whether for onshore borrowers, offshore borrowers, or via swaps of USD debt for CNY debt as was done recently for Kenya. All of this represents increased future demand for CNY, that’s the only dynamic we are highlighting, these are not just interesting news stories. (For more details, see our piece “The Curiously Unpopular Case for RMB Appreciation.”) The ultimate drivers are obviously geopolitical and structural – after all, the big downgrade in USD/treasuries as a central bank reserve asset followed sanctions on the Central Bank of Russia – which means they aren’t likely to go away. We show the accelerated drop in Treasuries use as reserves in Exhibit 7, but should emphasize that China (which we don’t graph here) is still well-*above* its historical average, so there could be more room to go.

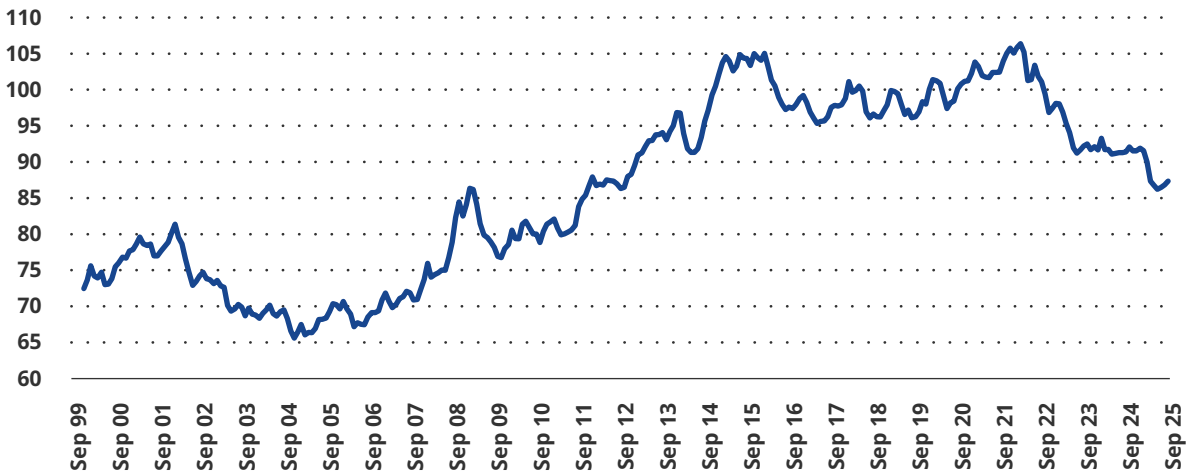
Exhibit 9 – Central Banks Use Fewer U.S. Treasuries as Percent of Reserves



Source: VanEck Research; Bloomberg LP. Data as of September 2025. Past performance is not indicative of future results.

Digging in to CNY itself, we'll start with a simple valuation point – CNY is now much cheaper in real effective terms. We will get a bit pedantic to start, because financial media has been dominated by China's supposedly *horrible* "deflation" and "overcapacity", which is hardly bad for bond or currency investors but dominates the media framing. Economists measure a currency's value, in fact, using a real-effective-exchange-rate (REER) model that precisely measures a country's inflation relative to its trading partners'. The BIS' REER for CNY shows CNY to be *undervalued* by around 15% - China's *low* inflation relative to trading partners including *higher*-inflation USA has accumulated into a significant *undervaluation*. Why this is so important especially to us is that EMs now trade more with China than with the U.S.. We won't display charts on this (we do in other publications) because this is a fairly well-established fact by now. But, it hopefully reframes your thinking about EM away from the U.S. and toward China.

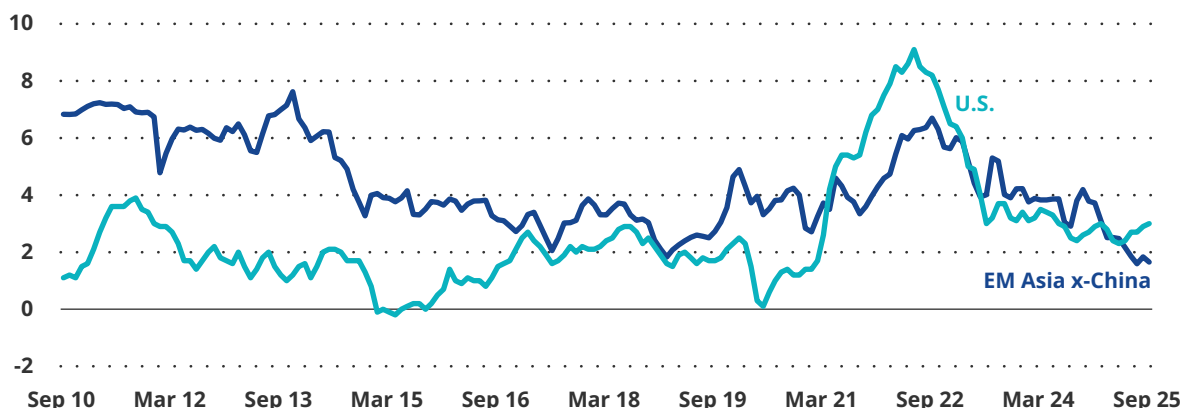
Exhibit 10 – China's Low Inflation Means CNY is Undervalued



Source: VanEck Research; International Monetary Fund; Bloomberg LP. Data as of October 2025. Not intended as a prediction of future results. For illustrative purposes only. Past performance is no guarantee of future results.

So, how can the status of DMs be compared? Well, as you saw in Exhibit 7 above, DMs have been dissaving, or running large current account deficits for decades. These were combined with large fiscal deficits which are considered among the worst initial conditions for countries that don't have guaranteed market access (because although you can conceivably force your onshore financial system to lend to the government, one cannot realistically force offshore to finance your government short of sanctions or default). You also saw from Exhibit 7 that DMs are generating crises as a result – the U.S. having to guarantee all off-balance sheet-liabilities in the world in the GFC, two Eurozone crises, sanctioning Russian central bank reserves, and the political turmoil currently growing in Europe. Running large external financing and fiscal financing deficits is generally described as a “twin deficit” problem. Practically, what this means is that the U.S. needs to borrow from offshore, as we all know when we read financial media describe the \$1tn plus portfolios of U.S. treasuries in countries such as China and Japan. You'll also observe that monetary interventions (QE, etc.), not default, are the answer for DMs, meaning inflation is the “solution”. This is why we started this white paper with a description of “fiscal dominance” and how EM is winning via lower inflation and DM is “solving” its problem with higher inflation. So, we produce Exhibit 9 below, highlighting the significant and secular improvement in EM inflation, led by Asia.

Exhibit 11 – EM Orthodoxy Means Low Inflation, DM Heterodoxy Means Stagflation

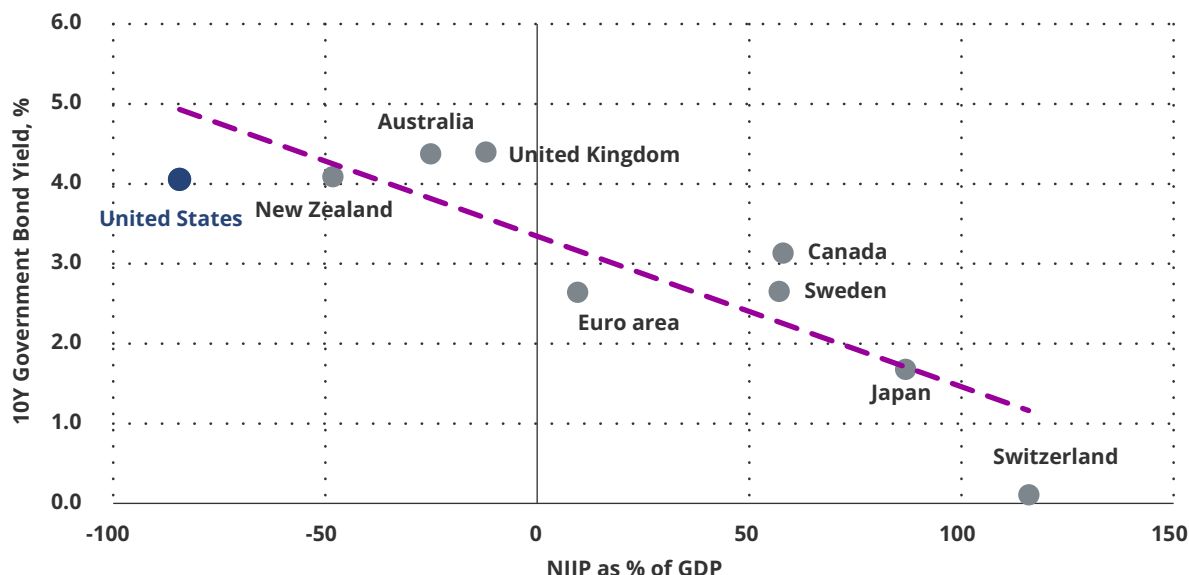


Source: VanEck Research; Bloomberg LP. Data as of September 2025. Not intended as a prediction of future results. For illustrative purposes only. Past performance is no guarantee of future results.

EMs, on the other hand, have external surpluses (Exhibits 5 and 7) combined with good fiscal positions (Exhibit 1). To the extent that their financial systems have evolved to create large domestic savings that can be intermediated, such as China, financing isn't an issue. And, if their financial systems aren't as evolved, such as extreme counter-example Laos, external surpluses can generate financing. This is why most EMs saw *both* their credit spreads on external borrowing decline (first), *as well as* (in the best cases) declines in domestic local-currency borrowing risk premia. This may seem either obvious if you are an EM investor, or surprising if you are a DM investor because DM investors simply assume essentially unlimited market access for their sovereign borrower. It's essentially the definition of DM – just assume financing - but as we've seen DMs themselves behaved like EMs of yesteryear for the past couple decades already.

As we discussed above, decades of accumulated *flows* of external surpluses in the form of reserves, have piled up to a *stock* situation in which many EMs, particularly in Asia, own more U.S. assets than vice versa. This is measured in gross reserves at central banks, of course. It is also captured for the total economy in the net international investment position (NIIP) metric. We placed our NIIP chart in the appendix as Exhibit z (because the main point is that EMs own more of DM), but it shows a number of key EMs and their positive NIIPs. A reasonable question arises – how do we surmise the impact of the U.S.' very “adverse” NIIP/how do we incorporate the fact of a large external financing need that is not the case for most EMs? Well, we built a simple regression model to guide on how much higher U.S. 10-year rates “should” be to incorporate this (relative only to other majors, as that is more robust and defensible for this argument). It says U.S. 10-year rates should be about 100bp *higher* if you incorporate the U.S.' negative NIIP. Now of course, if rates are pushed down by more monetary forbearance as has been the pattern, the hit will be absorbed by USD itself. Either way, it's an argument for EM currencies and/or their duration. This is a classic outcome of “fiscal dominance”.

Exhibit 12 – NIIP Framing Says U.S. Rates Too Low (Or USD Too Strong)

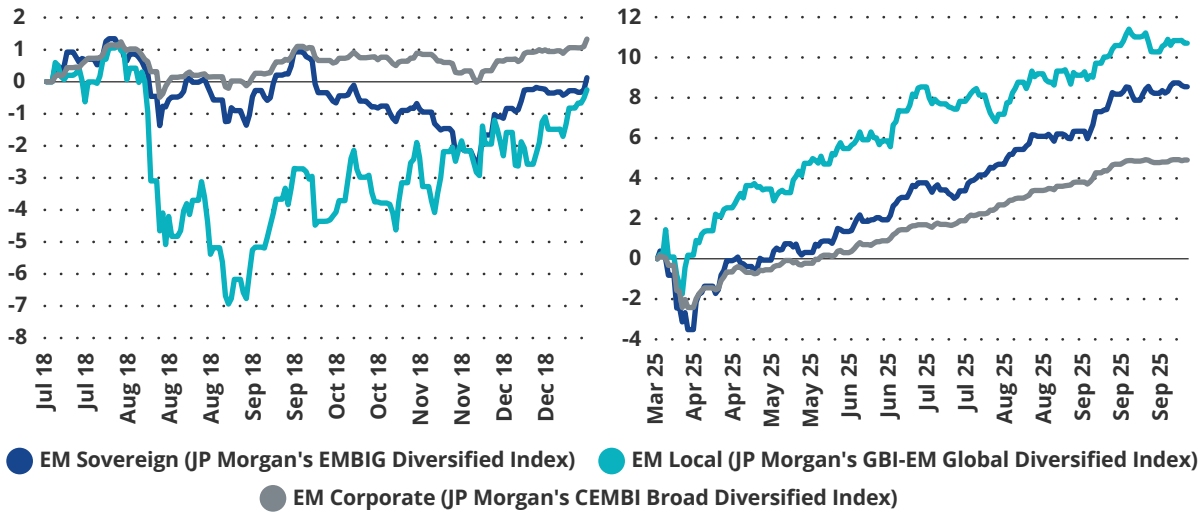


Source: VanEck Research; Bloomberg LP. Data as of October 2025. Not intended as a prediction of future results. For illustrative purposes only. Past performance is no guarantee of future results.

This is a good moment for an obvious segue – duration is not a monolith in EM local-currency. Each currency has its own yield curve, but most bond investors think of USD and treasuries when discussing “duration” in their fixed income portfolios. As a result, one can find idiosyncratic duration risk for fixed income portfolios by using EM local-currency bonds. Mexico Mbono 30-year yields *rallied* in the first half of 2025 while U.S. treasuries were weak, for example. (Don’t worry, we go through formal risk-adjusted return analysis in the next section.) This is simply because MXN rallied and reduced inflation and inflation expectations, thus pushing yields lower, while the opposite was happening in the U.S.. Moreover, Banxico like most EM central banks, maintains consistently high real policy rates (as graphed earlier for EM overall and by-country). High real rates in EM local-currency bonds act as a literal cushion for U.S. rate selloffs, with significant upside in duration and FX during U.S. rate rallies. Perhaps this is all obvious, but we find most are thinking of USD when discussing “duration”, forgetting that it is not a monolith and therefore reduces systematic risk in fixed income portfolios (more on this later).

So, what is the evidence for our view that “fiscal dominance” in DM is accelerating? Well, like we said, all the cool kids got 2025 wrong. Tariffs and related uncertainty were supposed to lead to significant EMFX weakness and China was almost universally expected to devalue its currency. It did the exact opposite. The market narrative incorrectly assumed that these countries were starved for dollars, the reality was and is that many especially in Asia are up to their necks in USD (the NIIP). We graph how EM bonds (local-currency sovereign, USD sovereign, USD corporate) performed in “Trump 2.0” versus “Trump 1.0” in Exhibit 11 below. The market resisted any constructive view on China – completely ignoring such facts as lower domestic tail risks and redirecting trade away from the U.S. and towards EM - but we observe in our recent 2025 Fall IMF Takeaways that this anti-China bias has faded considerably in elite market audiences. We should also note that the rates rally in the most-advanced EMs (Asia) was happening (recall Exhibit 3 above) for over half a decade before 2025 started making even more glamorous headlines for EM.

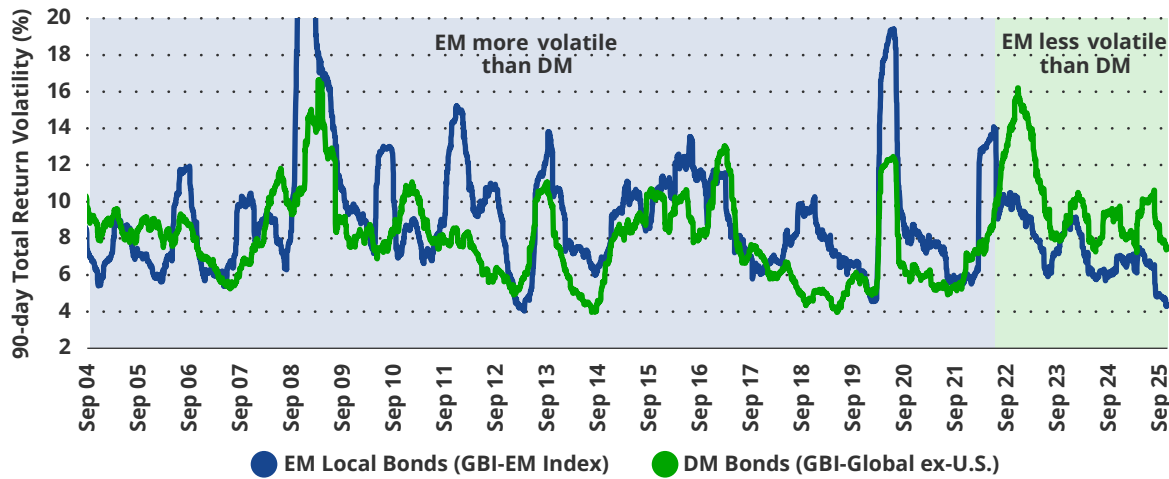
Exhibit 13 – Trump 1.0 Saw EM Sell Off, Trump 2.0 Saw EM Rally...Market Has No Explanation



Source: VanEck Research; Bloomberg LP. Data as of October 2025. EM Sovereign is represented by the J.P. Morgan EMBIG Diversified Index. EM Local is represented by the J.P. Morgan GBI-EM Global Diversified Index. EM Corporate is represented by the J.P. Morgan CEMBI Broad Diversified Index. Not intended as a prediction of future results. For illustrative purposes only. Past performance is no guarantee of future results.

Another proof of the “fiscal dominance” thesis is that EM local-currency bond volatility is lower than DM bond volatility. So, you know the carry, nominal yield, real yield is higher and the vol is lower. Is there really anything else to know? See Exhibit 12 below. This is the impact of CNY stability – anchoring EM currencies and thus bond markets. The market is trying to avoid this framing but it jumps out, in our view. Of course there is more to know, so we move to the next section which is a more formal analysis of EM bond performance using the efficient frontier.

Exhibit 14 – EM Local-Currency Bond Volatility Lower Than DM Bond Volatility

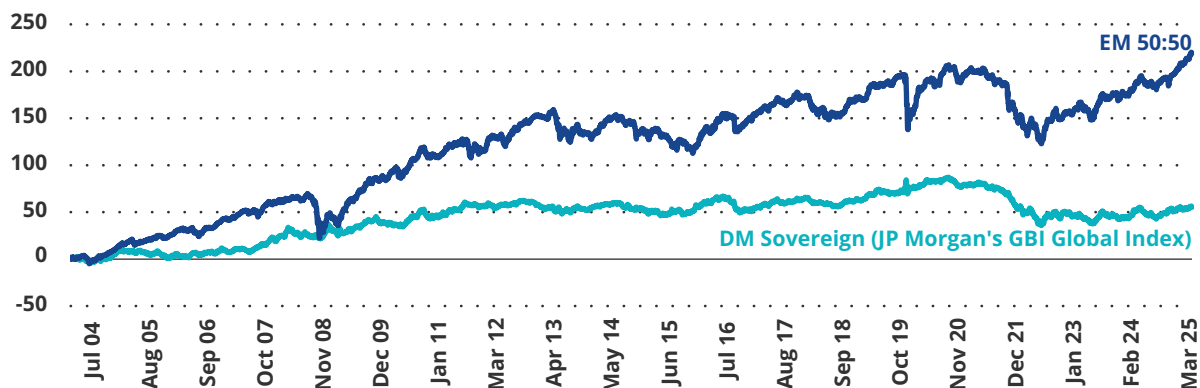


Source: VanEck Research, Bloomberg LP. Data as of October 2025. EM Local Bonds is represented by the J.P. Morgan GBI-EM Global Diversified Index. Past performance is not indicative of future results. DM Bonds is represented by the J.P. Morgan GBI Global ex-U.S. Index.

III. EM Bonds Have Nominal and Volatility-Adjusted Returns Superior To DM Bonds

Our thesis above has seen evidence in the form of performance over the past 20+ years. We show the outright return on DM sovereign bonds (GBI) to EM sovereign bonds (half local-currency and half USD, using GBIEM and EMBIG, the typical benchmark for Blend EM bond funds) in Exhibit 13 below. It speaks for itself in outright terms, with EM bonds outperforming DM during the time period by about 150%.

Exhibit 15 – EM Bonds Outperformed DM Bonds Over 20+ Years



Source: VanEck Research, Bloomberg LP. Data as of October 2025. Past performance is not indicative of future results. Past performance is no guarantee of future results.

Moving on to incorporate volatility, we ran the efficient frontier for global bonds and it concludes that the optimal allocation to EM bonds is far higher than most investors maintain. In particular, U.S. investors should have had around one-quarter of their fixed income portfolios in EM bonds (for a mid-level volatility of around 6.5) based on data for the past 20+ years. We show this in Exhibit 14, where you can see the basic bond categories we included and the optimal allocation which of course depends on the volatility level you choose. For vol levels over 6, one was supposed to have had over 14% of fixed income in EM bonds. Anyway, zero allocation is the wrong answer under most volatility scenarios.

Exhibit 16 – EM Should Be Much Larger in Optimal Fixed Income Portfolios

Portfolio st dev	LOW RISK												HIGH RISK	
	4.54	5.00	5.50	6.00	6.50	7.07	7.50	8.00	8.50	9.00	9.50	10.00	11.00	11.23
GBI-EM	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
EMBIG HY	0%	0%	7%	14%	20%	27%	32%	37%	43%	48%	53%	58%	87%	100%
CEMBI HY+	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global Aggregate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global Treasury	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global government related	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global corporates	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Global securitized	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. Aggregate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. HY	26%	37%	38%	37%	37%	36%	36%	36%	36%	36%	35%	35%	13%	0%
Euro Agg	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
U.S. Treasury	74%	63%	55%	49%	43%	36%	32%	27%	21%	16%	11%	7%	0%	0%
CEMBI IG+	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
EMBIG IG	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
EM FI (GBI-EM, EMBIG, CEMBI)	0%	0%	7%	14%	20%	27%	32%	37%	43%	48%	53%	58%	87%	100%

Source: VanEck Research; Bloomberg LP. Data as of December 2024. GBI-EM is represented by the J.P. Morgan Global Diversified Index; EMBIG HY is represented by the J.P. Morgan EMBI Global Diversified Investment Grade Index; CEMBI HY+ is represented by the J.P. Morgan CEMBI High Yield Index; Global Aggregate is represented by the Bloomberg Global Aggregate Bond Index; Global Treasury is represented by Bloomberg Global Treasury Index; Global government related is represented by Bloomberg Global Aggregate Government Related Index; Global corporates represented by Bloomberg Global Aggregate Corporate Index; Global securitized represented by Bloomberg Global Aggregate - Securitized Index; U.S. Aggregate represented by Bloomberg U.S. Aggregate Bond Index; U.S. HY represented by Bloomberg U.S. Corporate High Yield Bond Index; Euro Agg represented by Bloomberg Euro-Aggregate Index; U.S. Treasury represented by Bloomberg U.S. Treasury Index; CEMBI IG+ represented by J.P. Morgan CEMBI Investment Grade Index; EMBIG IG represented by J.P. Morgan EMBI Global Diversified Investment Grade Index; EM FI represented by an equally weighted blend of the J.P. Morgan GBI-EM Global Diversified Index, the J.P. Morgan EMBI Global Diversified Index and J.P. Morgan CEMBI Broad Diversified Index; EM HCD is represented by 50% J.P. Morgan EMBI Global Diversified Index and 50% CEMBI Broad Diversified Index. Index performance is not representative of fund performance. It is not possible to invest directly in an index. Past performance is not a guarantee of future results. Efficient frontier comprises investment portfolios that offer the highest expected return for a specific level of risk. Standard deviation measures how much the investment returns deviate from the mean of the probability distribution of investments.

IV. Conclusion

“Fiscal dominance” defines DM and is driving markets. Its absence in EM points to a key winner in this current market state – EM bonds. Low debt and superior fiscal and structural policy in EM have allowed independent central banks that pay high real rates, while collapsing their credit spreads. The opposite and problematic state for DM has led to UST’s decreasing use in central bank reserves and growing discussions of USD “debasement”, accelerated by sanctions risks. We think the story about USD/treasuries loss of reserve status is overdone and the wrong framing. But, what is correct framing is that CNY and other EMs will gradually share reserve status. And China matters arguably more to EMs. In fact, we think we are simply observing things well in-train, not speculating. As one can easily observe from two decades of asset performance. The return-to-volatility data point clearly to much higher allocations to EM debt.

This paper is making observations more than speculations, we think. A new fact of global markets is being revealed, and it is more an imperative to recognize and take action. Markets are filled with these moments when all the facts are available and it’s just a matter of decision-making. Literature is also filled with these moments, what you do when you know something. These clever phrases often say the same thing but reflect very different paths, so we’ll use two that seem to capture the gamut.

“The only way to resist an undeniable truth is to reject the courage to act upon it.”
— **Fyodor Dostoyevsky**

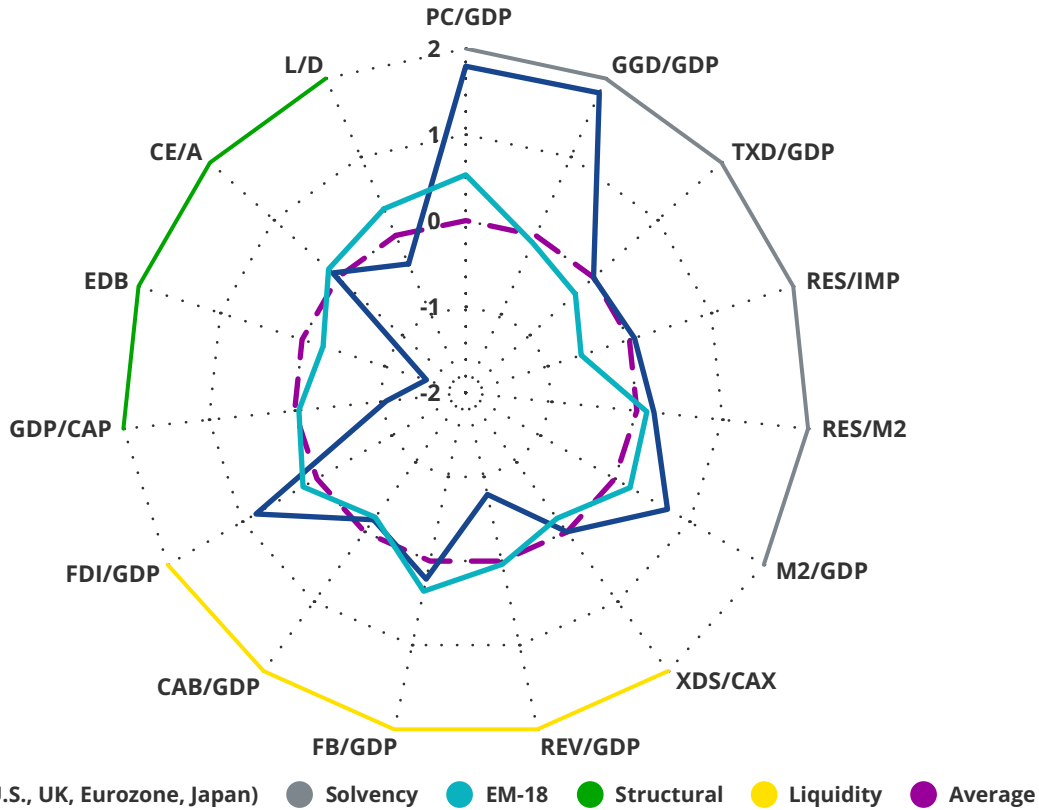
“If you tell the truth, you don’t have to remember anything.”
— **Mark Twain**

“Things that can’t go on, stop.”
— **Herb Stein**

V. Appendix/Additional Data and Observations

We concentrated on particular economic metrics in the discussion above. In our investment process we look at more than just general government debt as a percentage of GDP and current account deficits, though, obviously. We show the 15 metrics we use to measure fundamental risk in the “radar chart” below. These fundamental metrics include solvency measures (like debt-to-GDP ratios), liquidity measures (like fiscal or current account deficits/surpluses), and structural measures (like banking system debt-equity ratios). In the radar chart, we show the results for the biggest 18 EMs, compared to the G-4 (as a proxy for DM). Each radial, or course, is one of many fundamental metrics (for which there is a legend). The dashed circle in the middle represents the global mean. The green polygon is the result for the EM, and the dark blue polygon is the result for the G-10 or DM. The results are in the form of a bullseye, meaning if a result is inside the dashed circle (representing the mean), then that result is better-than-average, and if it is outside the dashed circle – it is worse-than-average. And the units are standard deviations. Looking at the chart, on a range of metrics, EM appears better than DM on a wide range of metrics. Government debt-to-GDP (the top radial), for example, shows that DM debt is not just higher than the global mean, but higher by 2 *standard deviations*, while EM is in line with the global mean. The same is true for a range of other metrics, such as fiscal deficits, current account deficits, etc. Our point is that on a wide range of fundamental metrics (not just debt levels, however important they are), EM is in line—if not arguably superior—to DM.

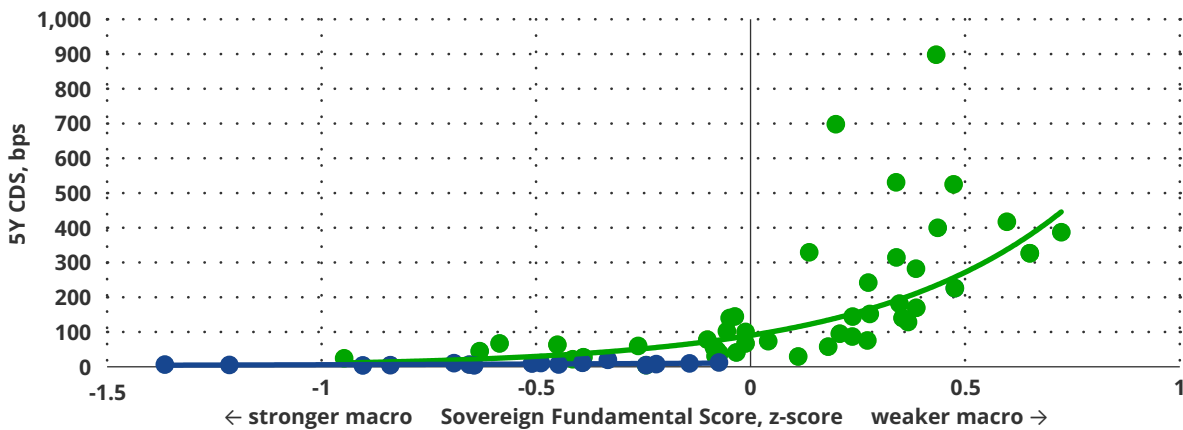
Exhibit 17 – EM Fundamentals Superior to DM on Range of Metrics



Source: VanEck Research; International Monetary Fund; World Bank; Moody's; Bloomberg, LP. Data as of October 2025.

Now, we produce a radar chart for every country in the world, and we can tell them to “line up” – good radar charts on the left and bad radar charts on the right (using a z-score on an x-axis). We can further inject the yields these countries’ bonds pay and generate a line on an xy graph showing fundamental risk on the x axis (whether you have a good or bad radar chart) and comparing it to the yields each country pays on the y axis. For purposes of this paper we built two lines, one for EM countries and one for DM, to get a little bit away from these big aggregate concepts like “EM”, because each line is made up of actual underlying countries. Anyway, you see the result in Exhibit 17, where we define the x-axis as 5-year CDS spreads. And we also show the result in Exhibit 18, where we define the x-axis as 10-year real local interest rates. In both cases, EM generally pays more than DM while also having superior fundamentals on those metrics.

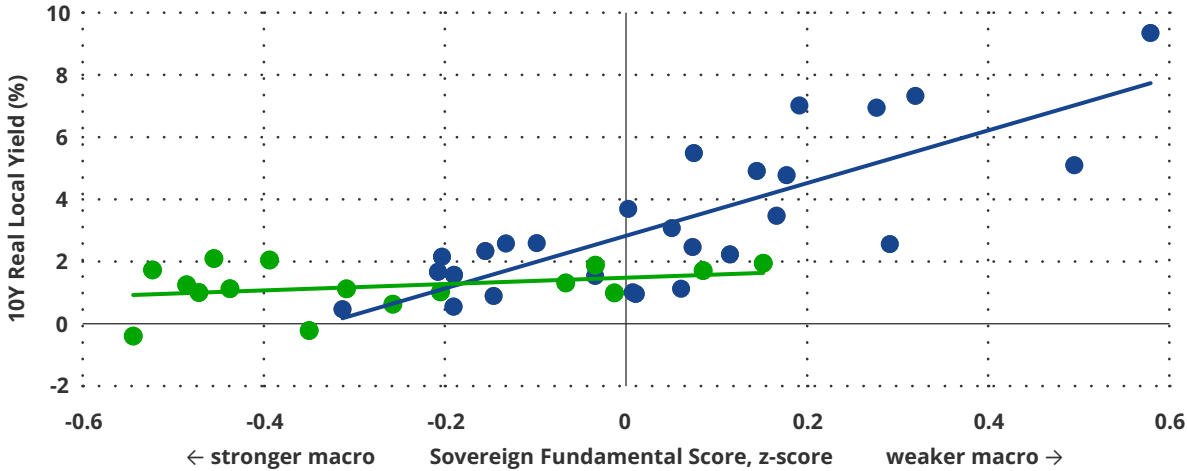
Exhibit 18 - EM Pays More Than DM in Hard Currency, Even Adjusted for Fundamentals



Source: VanEck Research; IMF; World Bank; Moody's; Bloomberg LP. Data as of October 2025.

In Exhibit 18, we show the same thing on the X-axis – the fundamental score – and this time we put the yields on local currency bonds on the Y-axis. Again, we find the same result – *EM yields in local currency are consistently higher than yields in DM, even for EMs with the same fundamental score*. This is another powerful argument supporting allocations to EM bonds, particularly in an era of central bank experimentation, rising debt and other risks that now characterize DM. One way to put it is that EM doesn't (generally speaking) have these risks with monetary experimentation—and pays you more anyway.

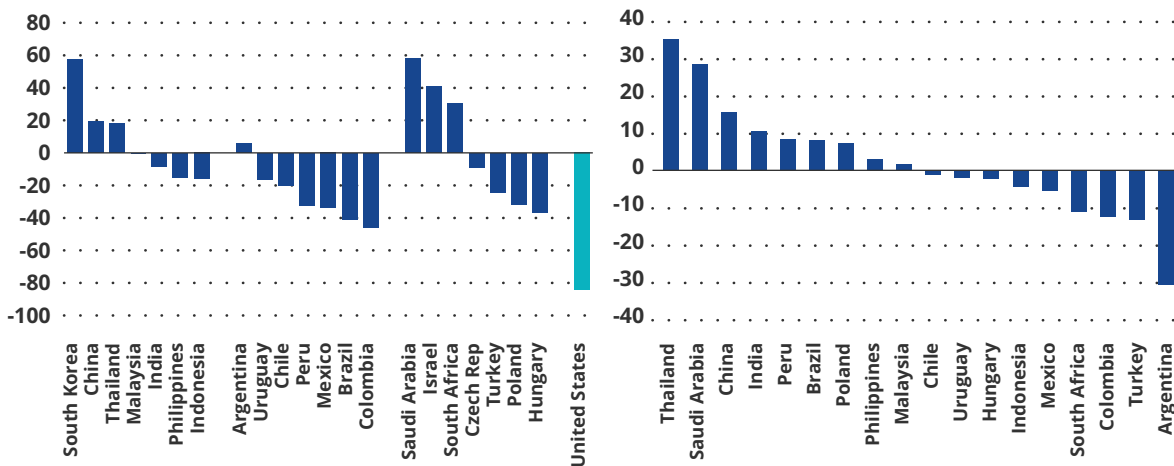
Exhibit 19 - EM Pays More Than DM in Local Currency, Even Adjusted for Fundamentals



Source: VanEck Research; IMF; World Bank; Moody's; Bloomberg LP. Data as of October 2025.

There is also one place where EM's improved fundamentals deserve a special focus, and that is their net external creditor status, to which we referred in the paper. Net creditor status measures how much a government owes in dollars, relative to their immediate liquid resources in dollars. EM is filled with net external creditors, meaning countries that have more dollar assets than dollar liabilities. In other words, they could literally buy back their entire debt stocks. Exhibit 20 shows the net creditor status EMs on the right. We also added on the left the NIIP data summary, the NIIP being an arguably superior metric, as discussed inside the paper.

Exhibit 20 – NIIP and Net Sovereign Creditor Status



Source: VanEck Research; International Monetary Fund; Bloomberg, LP. Data as of October 2025.

We can see how important this has been for EM hard currency bonds over the past few decades. In the “old days” (defined here as prior to the Asian debt crisis of 1997 and Russian debt crisis of 1998), dollar reserves were low, and spreads on the EMBIG were high and volatile. Those crises led to the so-called “Washington consensus” policy solutions, in which limits on debt and deficits were central. Also central was floating exchange rates, which meant countries didn’t have to waste reserves defending a particular exchange rate. Of course, if the exchange rate weakness passed through to inflation, that could create problems, but they were to be solved by an independent central bank setting interest rates to curb inflation (and not finance their governments). And if fiscal policy was contributing to inflation, then it was to be curbed as well. This is an important chapter in the story of EM countries learning that lunch had to be earned – fundamentals, particularly manageable debt/spending levels and a central bank paying high real interest rates, made your lunch, or you went hungry. *By the way, could you imagine DM countries deciding on limits to debts and deficits in the face of a recession or depression? And while we are asking these question, China’s international bonds are happily trading through U.S. Treasury yields.*

Exhibit 21 – Chinese Government Bond Yields are Higher Than U.S. Treasuries



Source: VanEck Research; Bloomberg, LP. Data as of October 2025.

Liquidity, Default Rates, Recovery – Better Than the Image

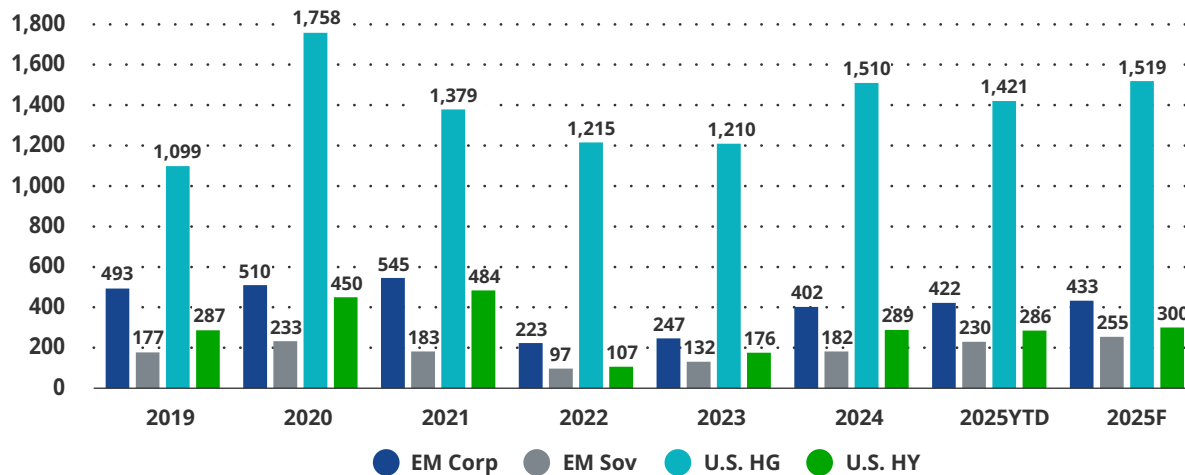
Some final comments on liquidity, default rates, and recovery values, which are all likely superior to your priors. We should note that many investors notice headlines pointing to political risks, and decide it is too much. Let’s start with point #1. How much are you paid for political risk in DM? Zero, correct? It is considered risk-free, no? (By the way, our radar charts in the European crisis showed most of Eurozone debt as having weak fundamentals and paying nothing for them. Well, that would have been the right attitude in the European debt crisis, *n’est-ce-pas*? And, we have shown above that EMs have learned and improved policy at every crisis, whereas DMs seem to issue more debt and offer lower interest rates at every crisis. Beyond this general observation, we should also note that when one examines the liquidity, default rates, and recovery values in EM corporate debt, EM looks pretty good.

Moving on to liquidity... First, U.S. and EM corporates are both traded by the same global financial institutions, mostly U.S. and some international banks. But EM corporates are *also* traded by EM banks, so there’s potentially an additional source of market making for EM corporates that doesn’t exist for U.S. corporates. EM sovereign debt in hard currency benefits from the same phenomenon as U.S. corporates – there are EM banks that also make markets, so one doesn’t only depend on U.S. banks. In other words, illiquidity is definitely a risk for EM corporates and sovereigns. However, in our view, it is not clear if the risk is any greater relative to developed markets, such as U.S. HY and Investment Grade (IG) debt. Please note that the methodology for measuring liquidity (from sources we’ve been able to find) differs between EM and U.S. corporates – EM corporate liquidity measures consider only liquid bonds, whereas U.S. corporates include the illiquid ones. So, while liquidity might be an issue for both EM and U.S. corporates, we believe that focusing on which one is better or worse leads to missing the point altogether - both have risks and those in EM look lower to us.

Second, EM's higher reserves provide key support fundamentals. Of course, they mean the sovereign itself can buy back USD-denominated bonds. It also implies that the sovereign is maintaining a floating exchange rate. What this means is that under stress, the exchange rate weakens, perhaps yields rise, but that tends to be the end of the adjustment. Why? They solve the problem. A weaker exchange rate means a cheaper one, which means even better external accounts. Higher interest rates mean weaker growth (and, thus, even better external accounts due to declining imports), as well as lower inflation. Our point is not that you can't lose money in EM local currency markets; our point is that liquidity is largely not the issue for EM local currency bonds. Finally, EM sovereign issuance in hard currency has been, and is expected to be, much smaller than net U.S. Investment Grade/High Yield issuance. Net bond issuance by U.S. corporates remains very large, despite slowing over the past three years. Hence, something will have to make up the difference if there are outflows from those funds. This is different for EM debt, however. Since EM sovereigns are often net creditors, outflows may be more manageable, with EM government debt management offices capable of buying back those debts and providing liquidity, if needed. We also show in Exhibit 9 below that EM corporate issuance is lower than U.S. corporate issuance.

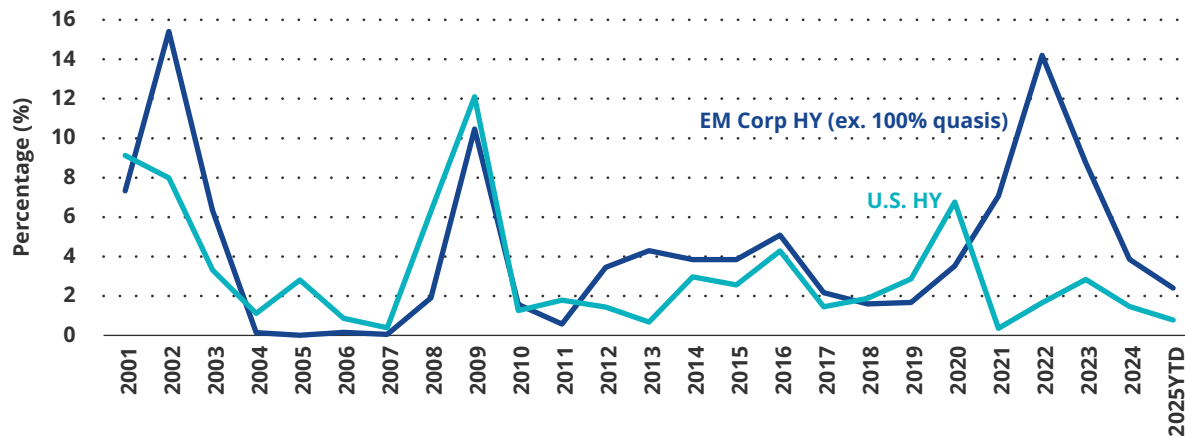
Moving on to default rates and recovery values, the bottom line is that they are in line, if not arguably better, in EM HY than in U.S. HY. There's not much color to add here, beyond Exhibits 10 and 11. Exhibit 10 shows that default rates in EM HY corporates have been slightly lower than default rates in U.S. HY corporates in the past several years. Exhibit 11 shows recovery values in EM HY and in U.S. HY. Over the longer term, they are in line, whereas recently EM HY has been showing higher recovery values. Regardless, our point is that this data is not pointing to EM being some special risk case that deserves the higher premium they pay.

Exhibit 22 – EM New Bond Issuance vs. U.S. IG, HY



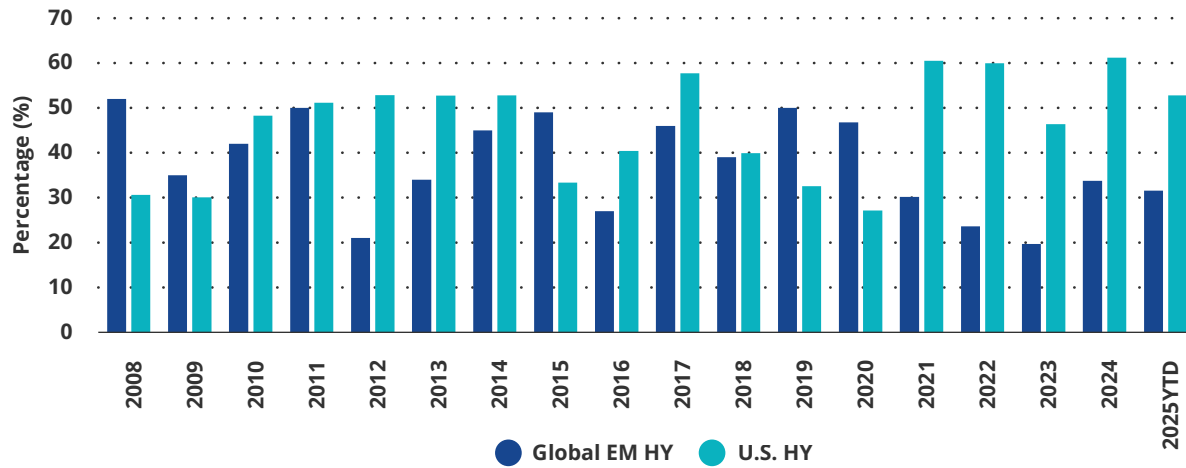
Source: J.P. Morgan. Data as of October 2025. Past performance is no guarantee of future results.

Exhibit 23 – Default Rates vs. U.S. HY



Source: J.P. Morgan. Data as of October 2025. Past performance is no guarantee of future results.

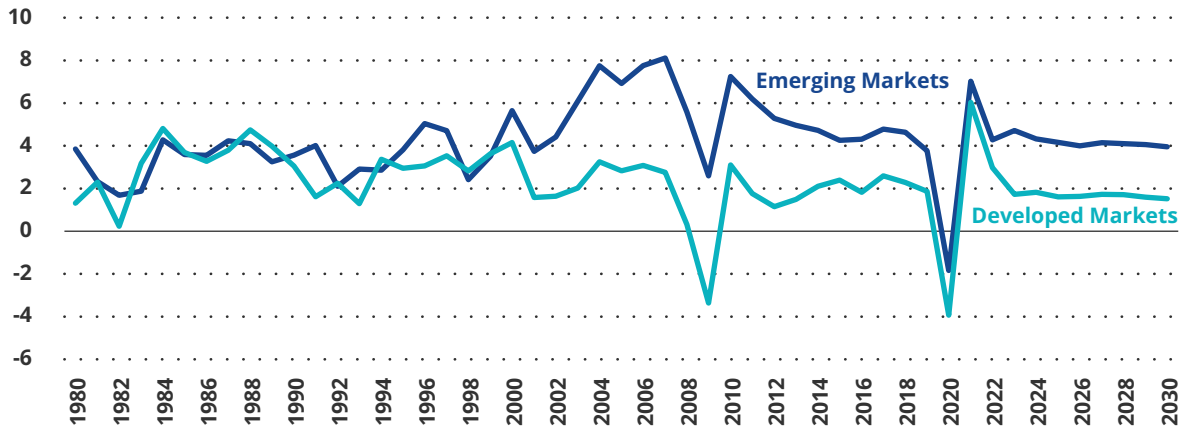
Exhibit 24 – Recovery Rates vs. U.S. HY



Source: J.P. Morgan. Data as of October 2025. Past performance is no guarantee of future results.

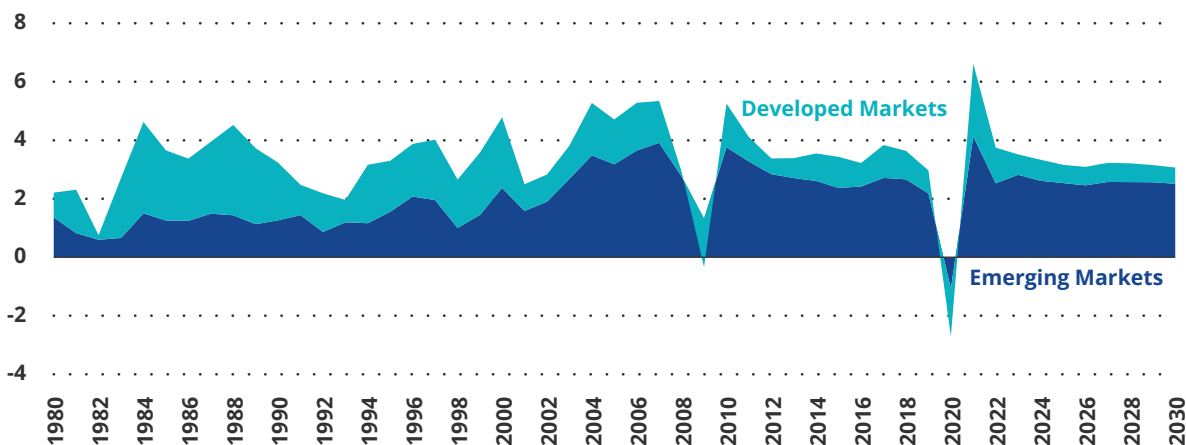
Everyone, particularly equity investors, seem to like growth charts, so we show them below, too.

Exhibit 25: Real GDP Growth in EM vs. DM



Source: VanEck Research; Bloomberg, LP. Data as of October 2025.

Exhibit 26 – EM Contributes to Global Growth more than DM



Source: VanEck Research; IMF; Bloomberg LP. Data as of October 2025.

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Morgan Government Bond Index-Emerging Markets Global Diversified (GBI-EM). **CEMBI HY+:** The J.P. Morgan Corporate Emerging Markets High Yield Bond index tracks U.S. dollar high yield bonds issued by emerging markets corporates. **CEMBI IG+:** The J.P. Morgan Corporate Emerging Markets High Yield Bond index tracks U.S. dollar investment grade bonds issued by emerging markets corporates. **EMBIG HY:** The J.P. Morgan EMBI Global Diversified High Yield index tracks returns for actively traded external high yield debt instruments in emerging markets, and is also J.P. Morgan's most liquid U.S. dollar emerging markets high yield debt benchmark. **EMBIG IG:** The J.P. Morgan EMBI Global Diversified Investment Grade index tracks returns for actively traded external investment grade debt instruments in emerging markets, and is also J.P. Morgan's most liquid U.S. dollar emerging markets investment grade debt benchmark. **Global Aggregate:** Bloomberg Global-Aggregate Total Return Index Value Unhedged USD is a sub-index of the Bloomberg Global Aggregate Index, which is a flagship measure of global investment grade debt from twenty-four local-currency markets. **Global Treasury:** The Bloomberg Global Treasury Index tracks fixed-rate, local currency government debt of investment grade countries, including both developed and emerging markets. **Global Government Related:** Bloomberg Global Aggregate Government Related Total Return Index Value Unhedged USD tracks global government debt issues. **Global Corporates:** The Bloomberg Global Aggregate Corporate Index is a flagship measure of global investment grade, fixed-rate corporate debt. **Global Securitized:** The Bloomberg Global Aggregate - Securitized Index tracks Securitized (Class 1= Securitized) bonds from the flagship Global Aggregate Index. **US Aggregate:** The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. **US HY:** The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. **Euro Aggregate:** The Bloomberg Euro-Aggregate Index is a benchmark that measures the investment grade, euro-denominated, fixed-rate bond market, including treasuries, government-related, corporate and securitized issues. Inclusion is based on currency denomination of a bond and not country of risk of the issuer. **US Treasury:** The Bloomberg US Treasury Index measures U.S. dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. **US IG:** The Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issues by U.S. and non-U.S. industrial, utility and financial issuers. Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The index may not be copied, used or distributed without J.P. Morgan's written approval. Copyright 2014, J.P. Morgan Chase & Co. All rights reserved. The **Barclays Capital U.S. Corporate High-Yield Bond Index** is composed of fixed-rate, publicly issued, non-investment grade debt. 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HC = Hard Currency; **LC** = Local Currency; **HY** = High Yield; **IG** = Investment Grade

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