



Meaningful Distinctions:
Emerging Market Corporate
Bonds *Versus* Emerging
Market Sovereigns

The Loomis Sayles Emerging Markets Debt Team

June 2026

ELISABETH COLLERAN, CFA | Co-Head of the Emerging Markets Debt Team, Portfolio Manager

DILAWER FARAZI | Co-Head of the Emerging Markets Debt Team, Portfolio Manager

JACKIE LAFFERTY | Investment Strategist, Emerging Markets Debt Team



Emerging market (EM) credit, a general catch-all phrase, merges together two distinct investment opportunity sets, EM sovereigns and EM corporates.

Lately, emerging market corporates have attracted growing investor interest by offering enhanced diversification potential, an up-in-quality opportunity set, spread premiums, and strong absolute and risk-adjusted long-term returns relative to the EM sovereign universe.

EM corporates have also benefited from the recent sovereign upgrade cycle, which has eased pressure from the sovereign ratings cap on corporate issuers. Additionally, the global AI capex cycle has supercharged growth for Asia's manufacturing base and lifted structural demand for emerging market energy exporters and metals producers.



Broad Diversification

The EM hard currency corporate universe, currently at \$2.6 trillion, is now 1.4x larger than the EM sovereign universe.ⁱ

We believe the breadth of EM corporate securities, over 800 issuers across more than 65 countries, presents greater opportunities for research-based security selection and enhanced portfolio diversification.ⁱⁱ The corporate universe provides diversified exposure across sectors, with new issuance offering access to evolving investment. Notably, EM corporates have become increasingly less reliant on demand from developed markets as trade between emerging economies has increased in recent years. EM-to-EM trades have helped corporates become more resilient to shifting macroeconomic regimes, in our view.

Higher Credit Quality

When comparing the EM sovereign and EM corporate indices, the EM corporate index is rated one notch higher. Notably, the EM corporate universe has a robust investment grade opportunity set, with nearly 60% of the index rated investment grade (IG) (+12% versus the sovereign IG segment). As a result, the EM Corporate IG segment carries a Baa1 average quality rating versus EM IG Sovereigns at Baa2.

Within the high yield segment emerging market sovereign investors also face a challenge, significant index concentration in the lowest-rated segment. Nearly 10% of the EM sovereign index is held in the CCC and lower ratings category. While this exposure can offer meaningful return potential, it can also amplify volatility and sensitivity to shifts in investor sentiment, in our view.

CREDIT QUALITY BREAKDOWN		
	EM SOVEREIGNS	EM CORPORATES
Investment Grade	47.6%	59.6%
AAA	–	0.2%
AA	0.8%	5.4%
A	15.1%	20.6%
BAA	31.7%	33.4%
High Yield	52.3%	40.4%
BA	25.1%	21.9%
B	16.8%	12.6%
CAA	8.3%	1.8%
CA	–	0.2%
C	1.4%	0.0%
NR	0.8%	3.9%

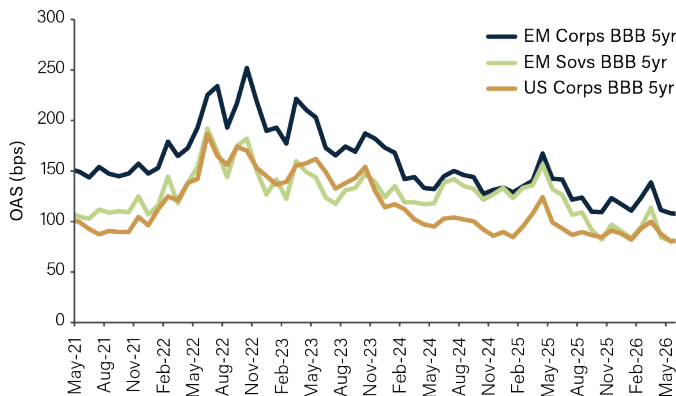
Data as of May 31, 2026

Source: JPM, EM Sovereigns = JPM EMBI GD Index, EM Corporates = JPM CEMBI BD Index

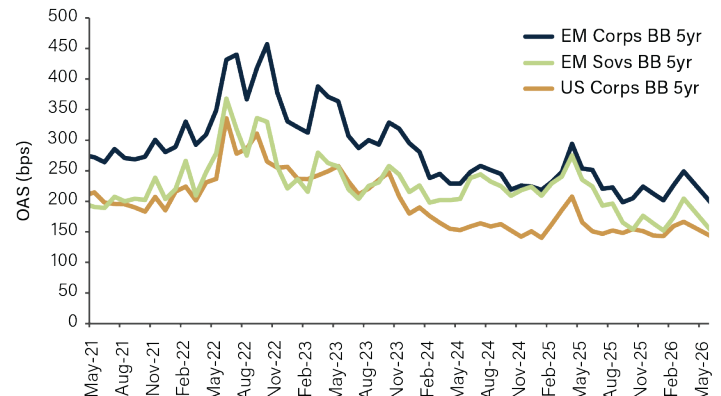
Yield Spread Premium

On a ratings and duration-adjusted basis, the EM corporate credit sector has offered a persistent spread premium compared with that of developed market and EM sovereign peers (see charts below). The excess premium typically offered by EM corporate credit has the potential to translate into higher returns. As most bond investors know, yields can drive long-term returns in fixed income.

SPREAD COMPARISON 5Y BBB



SPREAD COMPARISON 5Y BB



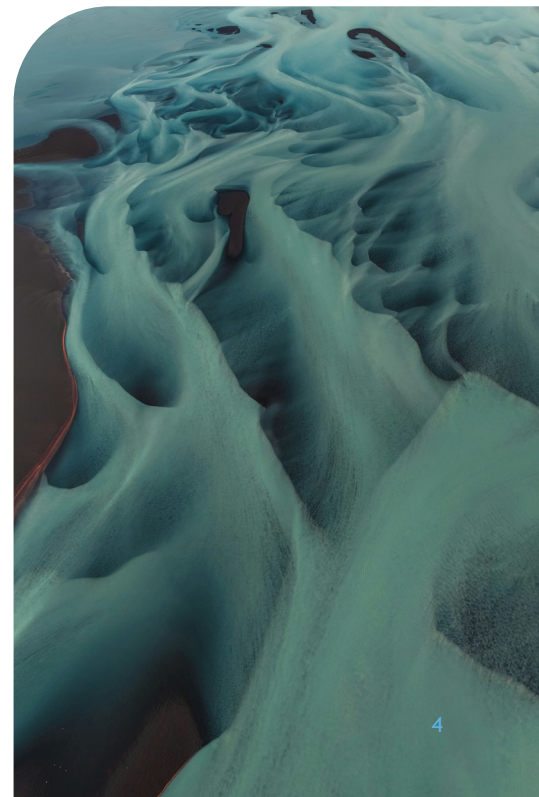
Source: Loomis Sayles, as of May 31, 2026

The charts presented above are shown for illustrative purposes only. Some or all of the information shown may be dated, and, therefore, should not be the basis to purchase or sell any securities. The information is not intended to represent any actual portfolio managed by Loomis Sayles.

Steadier Technicals

Historically, the EM corporate asset class has been dominated by sizable, geographically diverse institutional buyers. JP Morgan estimates that local investors hold more than 50% of the EM corporate asset class, providing a stable ownership base during periods of market volatility.

Limited retail participation is also a key consideration. Using the ETF market as a proxy for retail investing, we see EM corporate ETFs are far fewer and smaller on a market-capitalization basis than their EM sovereign ETF counterpart.ⁱⁱⁱ Lower relative retail participation and higher institutional ownership can provide a supportive dynamic when outflow pressures contribute to choppy prices.



Stronger Risk-Adjusted Returns

Examining performance over the past 10 years, EM corporates outperform EM sovereigns across key measures, with the space offering higher returns, lower volatility, a higher Sharpe ratio and lower drawdown. We believe the factors discussed above support the attractive risk-adjusted returns of the EM corporate sector.

LONG TERM PERFORMANCE METRICS

	CUMULATIVE RETURN	VOLATILITY	SHARPE RATIO	DRAWDOWN
EM Corporates	59.41%	6.31%	0.43	-18.98%
EM Sovereigns	53.77%	9.02%	0.29	-25.85%

Performance metrics calculated from December 31, 2015 to December 31, 2025.

Source: Loomis Sayles

EM Corporates represented by the JP Morgan CEMBI Index and the JP Morgan EMBIG Diversified Index

Importantly, comparing EM corporates to a broader fixed income universe, the asset class remains a top performer.

CROSS ASSET CLASS SHARPE RATIO COMPARISON

10Y, AS OF DECEMBER 31, 2025



Sources: EM IG Corp = JP Morgan CEMB BD IG Index, EM IG Sov= JP Morgan EMBI GD Index, US IG Corp= Bloomberg US Corporate Index, EM HY Corp= JP Morgan CEMBI BD HY Index, EM HY Sov = JP Morgan EMBI GD HY Index, US HY Corp= Bloomberg US HY Corporate Index, EM Local currency = JP Morgan GBI EM GD Index, US Agg= Bloomberg US Aggregate Index, Global Agg= Bloomberg Global Aggregate Index, ABS = Bloomberg Securitized ABS Index, MBS = Bloomberg Securities MBS Index, CMBS= Bloomberg Securitized CMBS Index.

The chart presented above is shown for illustrative purposes only.

Opportunistic EM Sovereign Investing

We do see times when sovereigns offer value in an EM corporate portfolio. Our exposure to EM sovereigns across our various EM corporate strategies is generally under 5%. The following three reasons primarily drive our allocations to sovereigns:

- Favorable view on a country where there is limited corporate opportunity.
- Little relative value in the corporates relative to the sovereign.
- Curve management - often EM corporates have only one or two bonds outstanding. Sovereigns generally have a more robust curve and offer the opportunity to tactically position on the curve.

Loomis Sayles EM USD Corporate Credit Solutions

The Loomis Sayles Emerging Markets Debt Team's corporate credit capabilities include EM corporate short duration strategies, EM corporate benchmark products, buy and maintain portfolios and ESG-sensitive accounts. The EM US-dollar-denominated corporate universe offers a robust opportunity set that enables us to tailor bespoke mandates to meet investor yield and risk objectives.



Disclosures

This marketing communication is provided for informational purposes only and should not be construed as investment advice. Any opinions or forecasts contained herein, reflect the subjective judgments and assumptions of the authors only, and do not necessarily reflect the views of Loomis, Sayles & Company, L.P. Investment recommendations may be inconsistent with these opinions. There is no assurance that developments will transpire as forecasted and actual results will be different. Data and analysis does not represent the actual, or expected future performance of any investment product. Information, including that obtained from outside sources, is believed to be correct, but Loomis Sayles cannot guarantee its accuracy. This information is subject to change at any time without notice.

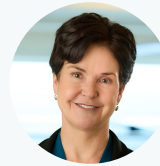
Diversification does not ensure a profit or guarantee against a loss.

Any investment that has the possibility for profits also has the possibility of losses, including the loss of principal.

There is no guarantee that the investment objective will be realized or that the strategy will generate positive or excess return.

8985214.1.1

Authors



ELISABETH COLLERAN, CFA

Co-Head of the Emerging Markets Debt Team, Portfolio Manager



DILAWER FARAZI

Co-Head of the Emerging Markets Debt Team, Portfolio Manager



JACKIE LAFFERTY

Investment Strategist, Emerging Markets Debt Team

ⁱ Source: JP Morgan, as of June 2026. Note that this figure is the representative universe and it does reflect the market value of indices.

ⁱⁱ Sources: The JP Morgan CEMBI Broad Diversified Core Index and the JP Morgan Asia Credit Index (JACI), as of June 2026.

ⁱⁱⁱ Source: Bloomberg, as of June 2026.