William Blair

5 Reasons to Consider EM Debt in a Tariff-Driven World

The United States' tariff announcement on April 2, 2025, created significant market volatility—but on the bright side, the market selloff has provided investors with attractive opportunities to increase allocations to emerging markets (EM) debt.

1. **No Shift in Base Case**
   We expect a global slowdown and believe disinflation will continue, giving central banks room to normalize policy gradually. As a result, we expect a slow but steady improvement in global liquidity—and EM debt is driven by global growth and liquidity.

2. **EM Resilience**
   EMs appear better positioned than many developed markets to weather a global trade war, thanks in part to the rise of intra-EM trade, which has reduced direct exposure to U.S. tariffs.

3. **Pivoting in China**
   In China, we expect a mix of monetary and fiscal stimulus, alongside currency weakening, as the government works to cushion the impact of tariffs. China is also likely to accelerate its pivot away from U.S. exports. EMs now account for nearly half of Chinese outbound trade, and that could increase as it expands trade with both EM and developed market partners.

4. **Strong Fundamentals, Supportive Technicals**
   EM debt fundamentals remain solid, with a healthy growth premium over developed markets likely to persist through 2026, in our opinion. Sovereign credit risk appears contained, with no new defaults expected over the next year, leaving EM credit on stronger footing than its developed market peers. On the technical side, we expect continued support from limited net new issuance in 2025, even amid near-term uncertainty over investment flows.

5. **Compelling Valuations**
   Recent credit-spread widening has improved valuations, particularly in high yield, where spreads now sit above long-term averages, so we remain positioned for compression of high-yield and investment-grade spreads. Despite concerns over inflation from potential tariffs, our positive outlook for the 10-year U.S. Treasury yield is unchanged. We see an opportunity for investors to add long-duration exposure to lock in attractive real and nominal yields.

Select Opportunities in Sovereign, Corporate, and Local Markets

Opportunity	Countries with the capacity to absorb higher trade tariffs and strong access to multilateral and bilateral funding	EM local currency debt	EM corporate credit
Rationale	Both remain key sources of external support in 2025	Currency valuations are compelling, real rate differentials versus developed markets remain elevated, and a weaker U.S. dollar could further support performance	Fundamentals remain resilient: default rates are expected to fall below long-term averages as companies manage maturities, maintain cash flow, and tap diverse funding sources

Source: William Blair, as of May 2025.

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