GLOBAL X INSIGHTS

Emerging Market Bonds: A Market Reshaped, A Case Renewed

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Key Takeaways

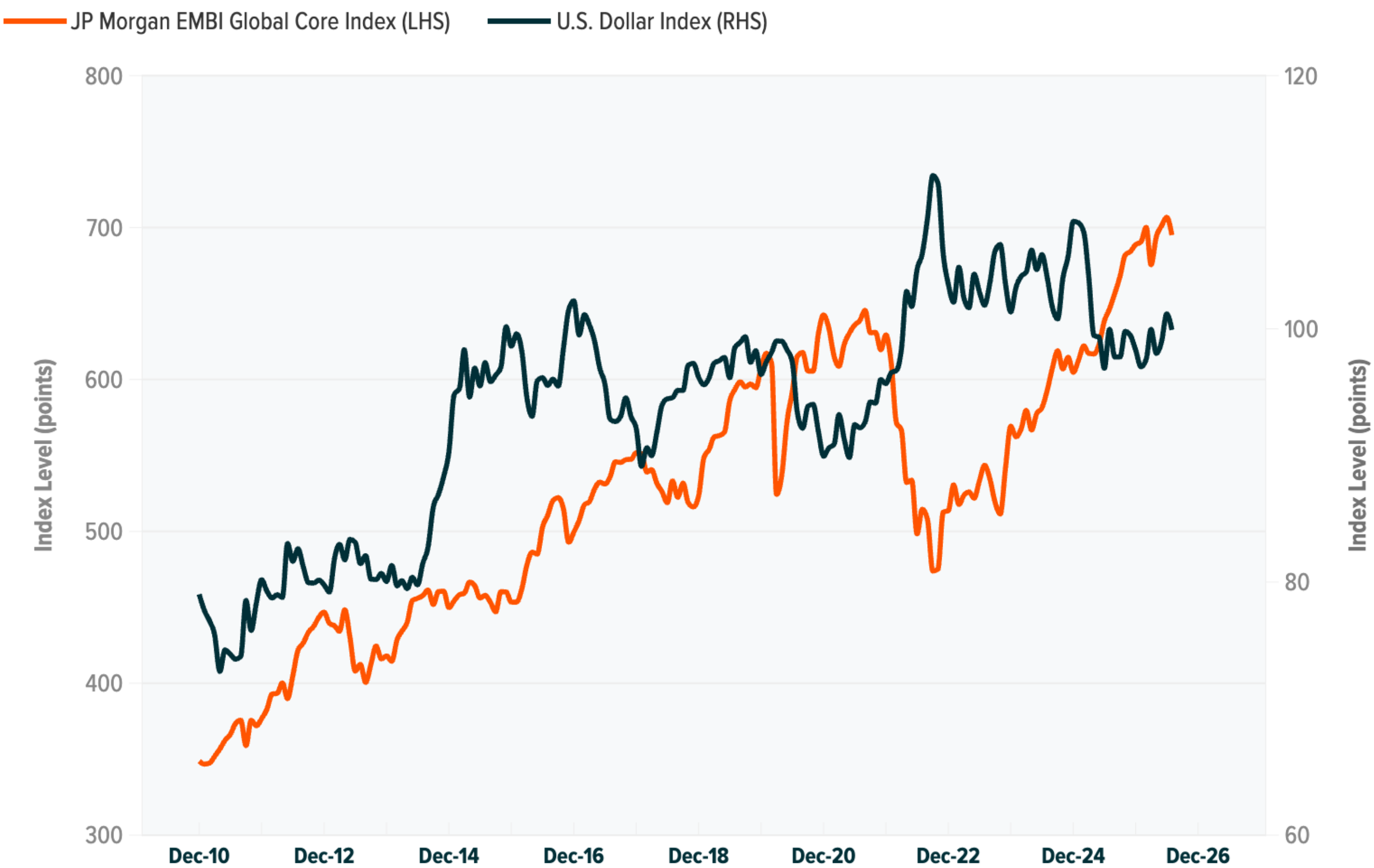
- We believe Emerging Market (EM) debt has evolved into a higher-quality asset class capable of providing meaningful portfolio diversification, potentially making it more suited as a core allocation than tactical trade.
- While a simple market-cap weighting would give its largest weights to the countries that have issued the most debt, active management attempts to find those that are managing that debt best.
- The Global X Emerging Markets Bond ETF (EMBD) offers active management with a competitive fee, along with the liquidity and transparency of the ETF structure.

For most of the past three decades, EM debt carried a simple reputation: high yield, high risk, and dependent on a weak U.S. dollar to work. That reputation is outdated. We believe EM debt has evolved into a materially higher-quality, more diversified asset class, with a credit profile, a currency dynamic, and a structural argument for active management that together make the case for a core allocation, not a tactical trade.

Currency: The Dollar Relationship Can Work in Investors' Favor

U.S. dollar-denominated EM bonds let investors participate in dollar weakness without taking on the added volatility of holding local currency directly. A softer dollar lowers the real cost of servicing dollar debt for EM sovereigns and corporates and tends to lift commodity-linked revenue, both of which support credit conditions. Over the past ~20 years, the U.S. Dollar Index (DXY) has shown a -0.55 correlation with the JPMorgan EMBI Global Core Index, a meaningfully negative relationship.[1] In practice, that means EM dollar debt has tended to benefit when the dollar cycle turns, without requiring investors to hold local-currency exposure to get there.

A REVERSAL OF THE US DOLLAR SHOULD SUPPORT EM BONDS



Source: Bloomberg data, as of July 31, 2025.

Fiscal comparisons sharpen the point. Mexico's public debt stood near 50% of GDP as of April 2026, while U.S. Federal debt held by the public was close to 100% of GDP at the same time, a gap the Congressional Budget Office projects widening toward 125% by 2036.[2,3] Relative fiscal footing, not just the dollar's direction, is increasingly part of the EM debt story.

Credit: A Genuinely Different Market

The credit story has been improving. Fitch Ratings tallies seven Emerging Market sovereign upgrades against just two downgrades so far in 2026, including Argentina, Bolivia, Ecuador, Ghana, and South Africa, continuing a multi-year run of upgrades outpacing downgrades across the asset class.[4] The gains reflect reduced fiscal deficits, current account adjustment, and inflation-targeting regimes that have taken hold across a widening set of EM economies. This is no longer a market defined by a handful of serial restructurers.

Why Active Management Still Matters

Simple market-cap weighting would give its largest weights to the countries that have issued the most debt, not necessarily the ones managing that debt best. Thus, passive exposure can inherit this tension at the margin. Active managers can go further, overweighting sovereigns and corporates with improving fiscal trajectories, underweighting structurally impaired credits, and assessing where relative value sits between a country's sovereign bonds and its corporate issuers, a distinction no benchmark makes for you.

Diversification That Actually Diversifies

EM debt's correlation profile reinforces the case for diversification. Using nearly 20 years of monthly data, EM bonds have shown just a 0.33 correlation to U.S. Treasury bills, versus 0.82 to U.S. investment-grade corporates and 0.78 to U.S. high-yield corporates.[5] That is a meaningfully different return stream than the interest-rate and credit risk carried by core U.S. fixed income exposures such as Treasuries, investment-grade corporates, and high yield, and it means EM debt can dampen, rather than duplicate, the interest-rate and credit risk investors may already carry elsewhere in a portfolio.

EM FIXED INCOME CORRELATION WITH OTHER ASSET CLASSES

	Emerging Market Bonds	US Investment Grade Bonds	US High Yield Corporate Bonds	US Investment Grade Corporate Bonds	US Treasury Bills	Global Investment Grade Debt
Emering Market Bonds	1.000	0.638	0.784	0.822	0.334	0.714
US Investment Grade Bonds	0.638	1.000	0.365	0.868	0.899	0.830
US High Yield Corporate Bonds	0.784	0.365	1.000	0.669	-0.025	0.476
US Investment Grade Corporate Bonds	0.822	0.868	0.669	1.000	0.609	0.792
US Treasury Bills	0.334	0.899	-0.025	0.609	1.000	0.690
Global Investment Grade Debt	0.714	0.830	0.476	0.792	0.690	1.000

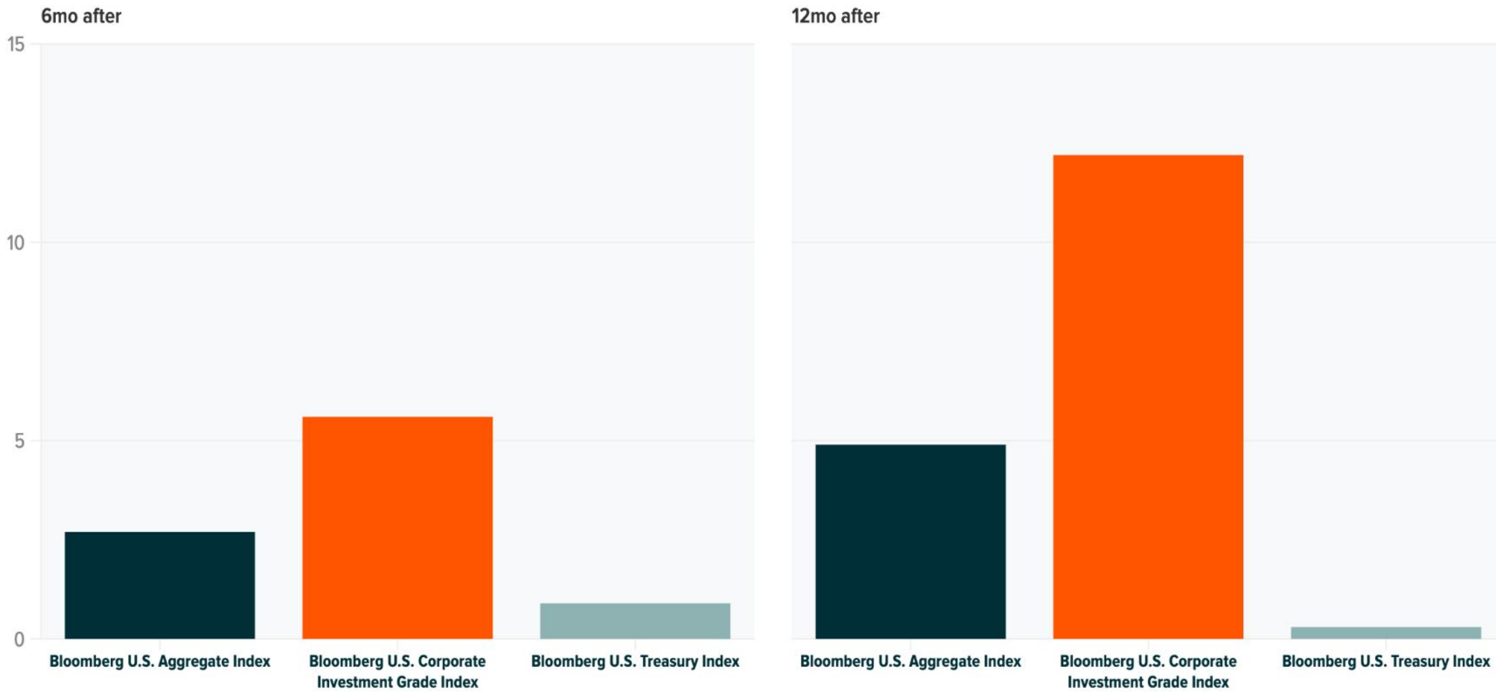
Source: Bloomberg, as of 7/31/2026 with monthly data from 12/17/2007. Asset classes represented by the following: Emerging Market Bonds, J.P. Morgan EMBI Global Core Index; US Investment Grade Bonds, Bloomberg U.S. Aggregate Index; US High Yield Corporate Bonds, Bloomberg U.S. Corporate High Yield Bond Index; US Investment Grade Corporate Bonds, Bloomberg U.S. Corporate Investment Grade Index; US Treasury Bills, Bloomberg U.S. Treasury Index; Global Investment Grade Debt, Bloomberg Global Aggregate Index.

EM Debt as the Rate-Cutting Cycle Matures

The Fed held rates steady in July 2026 after a divided vote, and the aggressive easing phase of this cycle looks to be maturing rather than accelerating.[6] History offers a useful guide for what that transition has meant for EM debt. Following the three completed Fed easing cycles since 2007, the JPMorgan EMBI Global Core Index outperformed the Bloomberg U.S. Aggregate, U.S. Corporate Investment Grade, and U.S. Treasury indices at every measured interval, six, twelve, twenty-four, and thirty-six months after the cutting cycle ended.[7] That pattern reflects the asset class's structurally higher carry and its sensitivity to the same global liquidity backdrop that has historically supported risk assets once a cutting cycle matures, not just while it is underway.

Index Performance After End of Fed Target Rate Cutting Cycles

Cumulative Total Return (%)

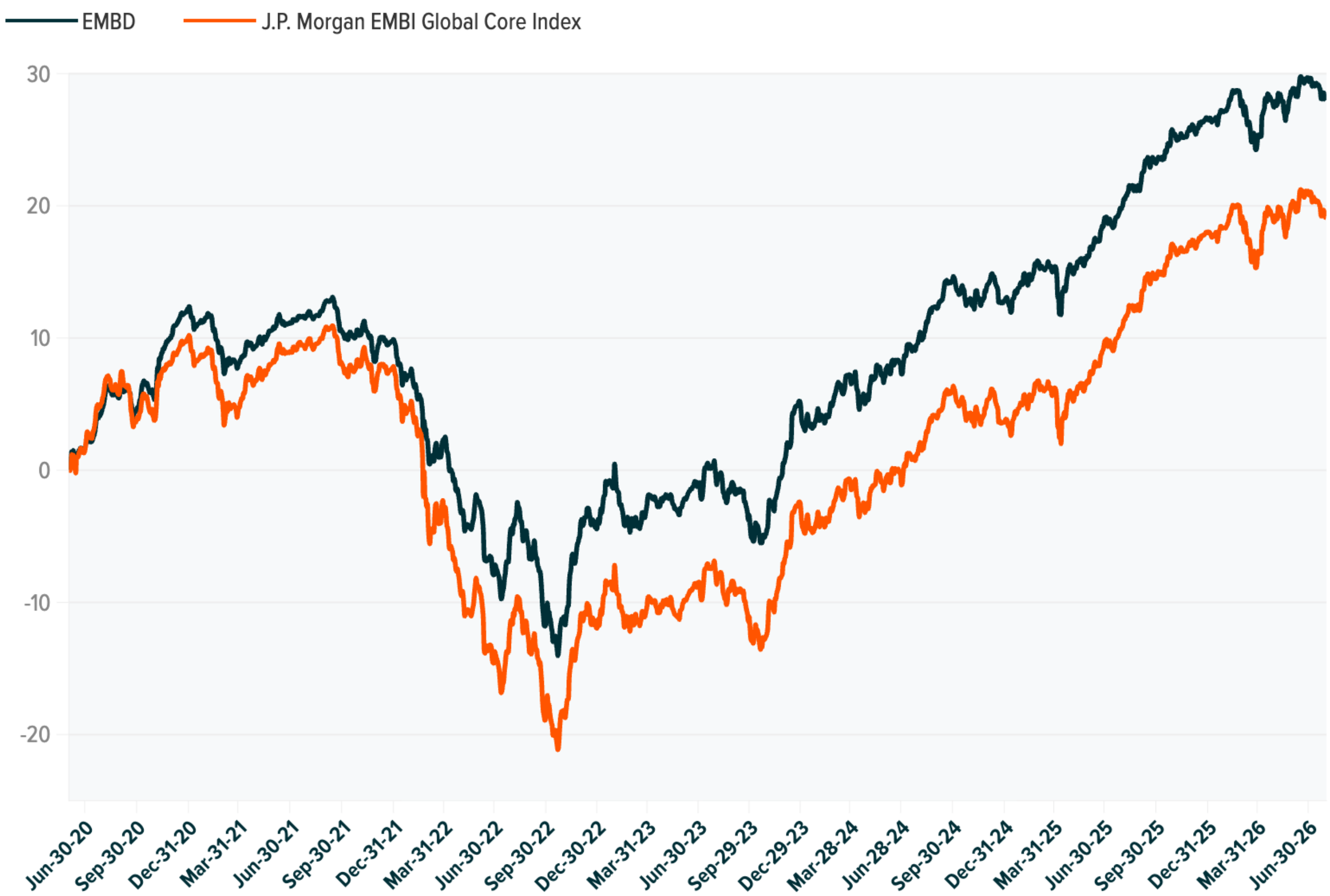


Source: Global X ETFs with information derived from: Bloomberg LP. Average returns based off of the six completed target rate cutting cycles by the Federal Reserve: 1/1/01 to 12/31/25. Data accessed on August 26, 2026. Past performance is not a guarantee of future results.

Put together: a dollar-linked but more stable currency exposure, a credit profile that has genuinely improved, a structural case for active management over passive exposure, real diversification benefits, and a historical tailwind once rate-cutting cycles mature. That combination is the argument for treating EM debt as a core allocation, not a trade on the dollar alone.

EMBD HAS OUTPERFORMED ITS BENCHMARK SINCE INCEPTION

Cumulative Total Return (%, net dividends)



Source: Global X ETFs with information derived from: Bloomberg LP. Data as of July 31, 2026.

Why EMBD?

In addition to offering potentially higher yield, diversification, exposure to economic growth potential, and improving fundamentals in EMs, EMBD offers active management with a competitive fee, along with the liquidity and transparency of the ETF structure.[8] EMBD is also sub-advised by Mirae Asset Global Investments (USA) LLC and is supported by a dedicated nine-person investment and research team located in New York and Asia. Additionally, we have members from our Macro and Quantitative strategy teams who provide macroeconomic data analysis and statistical scenario analysis for top-down assessment. The fund is managed by two portfolio managers focused on both top-down and bottom-up analysis using a strict, proven, and repeatable investment process. Furthermore, EMBD has outperformed its benchmark since inception, with an annualized total return (based on net asset value) 1.21% higher than the JPMorgan EMBI Global Core Index.[9]

Related ETFs

EMBD – Global X Emerging Markets Bond ETF

Click the fund name above to view current performance and holdings. Holdings are subject to change. Current and future holdings are subject to risk.

Footnotes

1. Bloomberg L.P. 19-year monthly correlation between the U.S. Dollar Index (DXY) and the JPMorgan EMBI Global Core Index. Data as of July 31, 2026.
2. Committee for a Responsible Federal Budget. (2026, Apr 30). Debt Surpasses Size of the Economy.

3. Mexico Business News. (2026, Jun 9). Mexico’s Public Debt Falls to 50% of GDP in April 2026.
4. Fitch Ratings. Sovereign rating actions on emerging market issuers, year-to-date 2026, as reported July 16, 2026.
5. Bloomberg L.P. 19-year asset-class correlation matrix using monthly data, as of July 31, 2026; Global X ETFs analysis.
6. CNBC. (2026, Jul 29). Fed rate decision July 2026: Divided Fed holds interest rates steady.
7. Global X ETFs, analysis of Bloomberg L.P. data on index performance following the three completed Federal Reserve target rate cutting cycles, 12/31/2007-6/13/2025. Past performance is not a guarantee of future results.
8. Morningstar. Morningstar Analysis on EMBD. Data as of July 15, 2026. “Global X Emerging Markets Bond ETF's Prospectus Adjusted Expense Ratio is 0.39% per year. It places it in the cheapest quintile of the Morningstar US Fund Emerging Markets Bond Category, where the median fee is 0.87% per year.”
9. Global X ETFs Fund Performance Data and Bloomberg Data for the JPMorgan EMBI Global Core Index as of July 31, 2026.

Glossary

JPMorgan EMBI Global Core Index: A market-capitalization-weighted index tracking U.S. dollar-denominated sovereign and quasi-sovereign bonds issued by emerging market countries. It is a subset of the broader EMBI Global, applying country-weight caps (typically 10%) to reduce concentration in the largest issuers and provide more diversified exposure across the emerging market universe. Eligible instruments include external-currency-denominated Brady bonds, loans, and Eurobonds with a minimum face amount outstanding and a minimum remaining maturity.
Bloomberg U.S. Aggregate Index: A broad-based, market-value-weighted benchmark covering the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. It includes Treasuries, government-related securities, corporate bonds, agency and non-agency mortgage-backed securities (MBS), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS). Securities must be rated investment grade (Baa3/BBB- or above), have at least one year to final maturity, and meet minimum par amount outstanding thresholds. It is widely used as the primary benchmark for U.S. core fixed income strategies.
Bloomberg U.S. Corporate Investment Grade Index: A subset of the Bloomberg U.S. Aggregate Index that measures the investment-grade, fixed-rate, taxable U.S. corporate bond market. It includes USD-denominated bonds publicly issued by U.S. and non-U.S. industrial, utility, and financial issuers. Securities must be rated investment grade by at least two of Moody's, S&P, and Fitch, have a minimum par amount outstanding, and have at least one year to final maturity. The index excludes convertible bonds, floating-rate notes, and bonds with equity-linked features.
Bloomberg U.S. Treasury Index: Tracks the market for U.S. dollar-denominated, fixed-rate, nominal debt issued by the U.S. Treasury. Eligible securities include Treasury bills, notes, and bonds, but exclude inflation-protected securities (TIPS) and floating-rate notes (FRNs). Securities must have at least one year to final maturity and meet minimum par amount outstanding requirements. The index serves as the standard benchmark for U.S. government bond exposure and is a core component of the Bloomberg U.S. Aggregate Index.

Investing involves risk, including the possible loss of principal. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. High yield bonds involve greater risks of default or downgrade and are more volatile than investment grade securities, due to the speculative nature of their investments. EMBD is actively managed, which could increase its transaction costs (thereby lowering its performance) and could increase the amount of taxes you owe by generating short-term gains, which may be taxed at a higher rate.

As an actively managed Fund, EMBD does not seek to replicate a specified index and is subject to increased credit and default risk, where there is an inability or unwillingness by the issuer of a fixed income security to meet its financial obligations, debt extension risk, where an issuer may exercise its right to pay principal on an obligation later than expected, as well as interest rate/maturity risk, where the value of the Fund's fixed income assets will decline because of rising interest rates.

EMBD may invest in securities denominated in foreign currencies. Because the Fund's NAV is determined in U.S. dollars, EMBD's NAV could decline if currencies of the underlying securities depreciate against the U.S. dollar or if there are delays or limits on repatriation of such currencies. Currency exchange rates can be very volatile and can change quickly and unpredictably.

Carefully consider the Fund's investment objectives, risks, and charges and expenses before investing. This and other information can be found in the Fund's summary or full prospectuses, which may be obtained at globalxetfs.com. Please read the prospectus carefully before investing.

EMBD's benchmark index is the JPMorgan EMBI Global Core Index, which is a broad, diverse U.S. dollar denominated emerging markets debt benchmark that tracks the total return of actively traded debt instruments in emerging market countries. Indices are unmanaged and do not include the effect of fees, expenses, or sales charges. One cannot invest directly in an index.

This information contains a manager's opinion, is not intended to be individual or personalized investment or tax advice, and should not be used for trading purposes.

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. The market price returns are based on the official closing price of an ETF share or, if the official closing price isn't available, the midpoint between the national best bid and national best offer ("NBBO") as of the time the ETF calculates current NAV per share, and do not represent the returns you would receive if you traded shares at other times. NAVs are calculated using prices as of 4:00 PM Eastern Time.

Since the Fund's shares did not trade in the secondary market until several days after the Fund's inception, for the period from inception to the first day of secondary market trading in Shares, the NAV of the Fund is used to calculate market returns.

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