AMUNDI FUNDS EMERGING MARKETS BLENDED BOND

Monthly Portfolio Update

28/02/2026

Meet the Team

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Market Comments

February 2026 brought a whirlwind of headlines and remarkable resilience in EM debt, against three key developments: a rotation out of crowded US AI positions, a landmark US Supreme Court ruling on trade authority, and escalating military tensions in the Middle East. Despite these developments, hard-currency sovereign spreads remained anchored, local markets absorbed a US duration rally, and EM corporates acted as stable carry vehicles rather than crisis assets.

Geopolitics evolved from a background risk to a pressing reality. In late February, coordinated US-Israeli strikes targeted Iranian military and nuclear infrastructure. The Iranian government confirmed on March 1 that Supreme Leader Ayatollah Ali Khamenei was killed in these strikes. This shock to regime stability triggered an immediate repricing of disruption risk around the Strait of Hormuz, sending Brent crude soaring, while the haven demand for gold has remained, with prices supported over $5300.

On February 20, trade dynamics shifted dramatically when the US Supreme Court ruled that the International Emergency Economic Powers Act (IEEPA) does not grant the executive branch unilateral authority to impose tariffs. The administration pivoted to Section 122 of the Trade Act of 1974, instituting a 10% temporary global import surcharge effective February 24, valid for 150 days pending Congressional action.

A rally in US Treasuries supported EMD total returns. The 10-year yield compressed from 4.24% at the start of February to 3.94% by month-end, amid softer risk sentiment. Headline CPI printed at 2.4% y/y and January payrolls of 130k were heavily concentrated in healthcare and faced downward revisions. US duration also served as a hedge against US equity volatility and late-month Middle East escalations. The perceived probability of a rate cut at the March FOMC declined to just c3%, though the overall depth of Fed easing being priced increased, with markets now implying two rate cuts in 2026 as well as a third in 2027, bringing policy rates below 3%.

EM central banks maintained a disciplined, high-real-rate buffer across regions. In Latin America, Brazil held the Selic at 15%, while Colombia followed a hawkish path with a 100bps hike to 10.25% at January's end. Mexico remained steady at 7%, also with a hawkish bias. In CEEMEA, South Africa kept rates unchanged, focusing on fiscal credibility, while Ghana cut rates to 15.5%. In Asia, policy largely remained on hold, with India at 6.5% and Indonesia at 6%, while the Philippines delivered a 25bps cut to 4.25% to support domestic demand.

The fiscal and ratings narrative provided additional support to the asset class. South Africa’s budget reaffirmed a path toward restored credibility, with debt expected to stabilise and fall and a narrower budget deficit. In Peru, the appointment of José María Balcázar as interim president on February 19 was met with a market shrug, signalling a decoupling of political noise from credit fundamentals. Ratings momentum remained positive for frontier markets, highlighted by Kenya’s upgrade to B3 by Moody’s.

EM fixed income returns remained positive in February — EM hard-currency sovereigns (JPM EMBI Global Diversified Index), gained 0.90%; EM local-currency debt (JPM GBI EM Global Diversified Index) returned 1.29%; and EM corporate debt (JPM CEMBI Broad Diversified Index) returned 1.32%. Market technicals are the strongest in years, anchoring the asset class against external shocks. EM bond fund flows that started 2026 on a positive footing, have accelerated in February, with JP Morgan reporting inflows into active EM bond funds crossed $17.7bn YTD

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Performance Analysis

The fund (I EUR Share class) returned 1.48% net of fees during the period relative to the benchmark return of 1.49%. Duration management and EM FX were positive, while external debt and off-benchmark local debt were negative for excess returns.

Duration views were helpful for performance driven by our long USD and EUR duration positions.

Emerging market debt hard currency strategy was negative for returns due to our overweight beta position while EM country selection was positive.

EM country selection was positive led by a long position in Venezuela as bonds benefited from the US approving a licence with several companies to operate in the country’s oil industry. Long positions in Mexico and Brazil were also helpful. In Brazil, the economic activity index slowed less than expected and was supported by a recovery in agricultural output growth. In Turkey, although activity indicators like industrial production showed signs of slowing, the central government budget deficit continued to improve. While in Mexico, bonds were supported by better than expected GDP performance in Q4, while Banxico also revised their growth expectations higher for 2026 to 1.6%.

Meanwhile, negative contributors were driven by underweight positions in several Latam countries, including Uruguay, Peru and Chile, respectively. Other negative positions included underweight in Asian countries Malaysia and the Philippines.

In EM FX, the largest contributor to returns was a long INR position, followed by a long in BRL, TRY and MXN, respectively. Positions that detracted from returns were driven by an underweight in THB, TWD, and CNH.

Off-benchmark local rates were a drag on performance, largely led by a long position in Colombia, and to a lesser extent Turkey and Egypt, respectively.

Positioning Changes

Duration: As at the end of February, the Fund has an overweight duration position of about 1.4 yr relative to the benchmark. Our overweight largely reflects our off-benchmark local rates exposure as well as a small long USD duration position.

We maintain a constructive outlook on EM debt for 2026 as the asset class moves deeper into a carry-driven phase of the cycle. Improving credit quality, resilient growth differentials, and supportive technicals continue to underpin the opportunity set. While global growth softened into late 2025, we expect EM growth to remain broadly resilient in 2026, tracking sideways at levels that continue to outpace developed markets. With global headline inflation appearing to have bottomed and the US Federal Reserve expected to deliver a further 50bps of easing over the course of 2026, the macro backdrop remains supportive for income-oriented assets.

That said, the nature of returns is evolving. Following two years of strong performance, valuation dispersion has narrowed and beta-driven gains are likely to be more limited. We therefore expect returns to be driven primarily by carry, complemented by selective valuation upside in reform-driven sovereigns and high-quality credits. Given current yield levels and still ample global liquidity, EM debt remains well positioned to deliver high single digit total returns in 2026, supported by a third consecutive year of credit quality improvement and contained default risk.

Emerging markets are set to remain a key engine of global growth. While expansion in China and India is likely to moderate modestly from 2025 peaks, both economies should continue to lead global activity. Structural shifts, including geopolitical realignment, supply-chain reconfiguration, and intensifying technology competition are creating durable investment opportunities across regions. Although fiscal balances may deteriorate modestly as governments continue to support domestic demand, relatively high real yields and improved external balances should provide an important buffer against external shocks. It is important to note many EM central banks retain policy credibility following earlier and more proactive tightening cycles.

From an asset allocation perspective, EM debt continues to offer a compelling diversification alternative to US assets, particularly as rising debt levels and fiscal imbalances challenge the narrative of US exceptionalism. Absolute yield levels remain near their highest since 2009, and the yield premium of EM over US credit remains attractive. A gradual Fed easing cycle should further reduce the appeal of US cash while underpinning EM rates and supporting EM credit. While many EM central banks are nearing the end of their easing cycles, idiosyncratic policy stories including Turkey, Poland, and Brazil continue to offer selective alpha opportunities.

Technical conditions remain supportive. Investor flows, which resumed in 2025 for the first time in several years, are expected to persist as global investors remain structurally underweight the asset class despite strong recent performance. With more than $7 trillion still parked in global money market funds, the ongoing search for yield should continue to favour EM as core rates decline. On the supply side, net issuance remains manageable, particularly within high yield. Credit fundamentals are solid: upgrades continue to outpace downgrades, and sovereign default risk remains exceptionally low, with no systemic default risks currently evident.

Our base case remains a broadly supportive environment for carry, albeit requiring more tactical and selective implementation. Global GDP is expected to hover around 3.0%, with US growth supported by AI-related capex as consumption moderates.

Key risks include a re-acceleration of US inflation, renewed volatility stemming from US fiscal dynamics, and persistent geopolitical tensions in the Middle East and Ukraine. However, the pass-through from the 2025 tariff regime has so far proven more modest than initially feared.

Developments in the Middle East remain an important , though still largely contained, tail risk for EM debt in 2026. While markets have so far absorbed episodic volatility, the region represents one of the more plausible sources of macro shocks. The main question now is the duration and severity of the military operation, and if it evolves into disruptions of energy infrastructure, logistics or production. Our base case is a contained conflict, with little disruption to oil supply, and under this scenario volatility is likely to create tactical entry points.

Our outlook for EM hard-currency bonds remains constructive, supported by an improving macro backdrop, attractive absolute yield levels, and continued credit quality improvements. We expect total returns to be driven primarily by carry rather than broad-based spread tightening, although selective compression remains possible in reform-driven sovereigns and improving credit stories.

Some of our favoured countries include Argentina and Mexico, respectively. Argentina's fundamentals continue to improve, supported by a macroeconomic reform program which is seeing an improving current account deficit, a primary surplus and a recovery in growth. In Mexico, quasi-sovereign valuations are attractive, and there is room for spreads to tighten relative to the sovereign. The fiscal deficit is also improving in Mexico, while the current account has recently turned to a surplus.

We still like selective countries in the CEEMEA region although recently reduced broad exposure given its proximity to the Middle East conflict and dependence on energy imports. The countries we like in the region include Turkey and Egypt, respectively. Turkey maintains attractive valuations while the macro outlook is strengthening. Inflation is easing in the midst of tighter fiscal policy while the current account deficit is smaller and fully funded. Meanwhile, Egypt continues with its structural reform program as part of its IMF package, while its balance of payments position has been improving.

In EM local currency debt, our outlook is anchored in attractive real yields across selective high-yielding markets. We favour countries with elevated nominal and real yields where there remains scope for monetary easing, particularly where inflation is well contained and policy credibility remains intact.

Within local rates, some of our key positions include Brazil, Hungary, Colombia, and South Africa. . We continue to like Brazil as real rates are one of the highest in the EM universe and have room to fall this year. In Hungary, carry is attractive and the NBH is cautious in further rate cuts as inflation remains sticky and above its target range. Although we do think there is scope for monetary easing this year. In South Africa, the curve remains steep, inflation is well-contained and SARB has also formally revised its inflation target lower.

In EM FX, we are selective but like countries that offer high carry, including BRL, NGN, EGP and TRY, whereas we are broadly underweight Asian currencies.

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