AMUNDI FUNDS EMERGING MARKETS BOND

Monthly Portfolio Update

31/05/2026

Meet the Team

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Market review:

May marked the third month of the US-Iran conflict with investors continuing to navigate a familiar cycle of headlines: signs of progress in negotiations, talk of an imminent deal, subsequent delays and renewed strikes. Despite the persistent noise, emerging market debt performed strongly in May, with all EMD sub-asset classes posting positive returns over the month. Global markets also ended the month on a firm note, as the S&P 500 rose for seven consecutive sessions and the 10-year Treasury yield fell for seven straight days for the first time in more than a year.

Expectations of a potential US-Iran deal supported oil prices moving lower, with Brent crude falling ~19% over the month, its sharpest monthly decline since March 2020. Although sentiment started the month on a constructive note, it deteriorated mid-month after President Trump said Iran's proposal was "totally unacceptable," described the ceasefire as on "massive life support" and suggested further escalation could be necessary, while still expressing hope that war could be avoided. By month-end, reports pointed to renewed progress: Iran's state TV referred to an unofficial draft for an interim peace deal, while Axios reported that a 60-day memorandum of understanding had been reached to extend the ceasefire, alongside the start of negotiations on Iran's nuclear program. This helped push oil prices lower late in the month, with Brent ending at ~$92 per barrel, its lowest level in over a month.

The 10-year US Treasury yield ended May ~6bps higher at 4.43%, with markets pricing in ~14bps of additional Fed hikes for the rest of the year versus ~53bps of hikes for the ECB. US data remained resilient, highlighted by a ~115k gain in payrolls — the first time since 2024 that monthly job growth has exceeded ~100k in consecutive months. At the same time, a strong US core CPI reading stoked concerns about more persistent inflation, pushing sovereign yields to new highs in several markets within the month. The 30-year US Treasury yield touched ~5.2%, its highest level since 2007, while in Germany and Japan the 10-year yield respectively reached its highest level since 2011 (~3.2%) and 1997 (~2. 8%).

EM central banks and policymakers continue to contemplate tightening monetary policy and reducing fiscal subsidies in a few of the most affected emerging markets. In Asia, the central bank of Indonesia delivered a surprise 50 bps hike to 5.25% to defend the rupiah. In CEEMEA, the central bank of South Africa hiked by 25 bps to 7% on fuel-driven inflation. In Latin America, the Mexican central bank cut policy rates by 25bps to 6.5% as its easing cycle continued.

In idiosyncratic news, far right candidate Abelardo de la Espriella topped Colombia's presidential first round on May 31 with ~43.7% of the vote, ahead of leftist Senator Iván Cepeda on ~41%, setting up a polarised runoff on June 21. The result was stronger than polls had suggested. Moody's changed South Africa's sovereign outlook to positive from stable on May 22, affirming the Ba2 rating citing gradually strengthening fiscal performance and sustained reform commitment. European Commission President announced that up to ~€16.4bn in previously frozen EU funds could be released subject to continued reform delivery by Prime Minister Magyar's new Hungarian government.

EM debt delivered positive returns across all sub-asset classes in the month and all were positive year to date. The ongoing closure of the Strait of Hormuz has curtailed energy supply while the AI investment boom has stoked demand for tech goods globally. Exposures to these two shocks vary widely across EM and explain significant divergence in economic and especially market performance this year.

Hard currency sovereigns measured by the JP Morgan EMBI Global Diversified Index, returned 1% in May and 2.58% year to date. Local currency debt, tracked by the JP Morgan GBI-EM Global Diversified Index, returned 0.85% in May and 1.32% year to date. EM corporates, via the JP Morgan CEMBI Broad Diversified Index, returned 0.38% in May and 1.79% year to date. According to JPM data, flows into EM bonds remained strong in May totalled ~$24.4 billion year-to-date, comprising ~$9.8 billion in hard currency and ~$14.6 billion in local currency.

Performance attribution:

Following a very strong start to the year, excess returns for the fund remained robust in May, contributing to strong total and excess returns on a year-to-date basis. The month's performance was shaped by a challenging global rates backdrop: US Treasury yields surged to multi-decade highs, with the 30-year yield briefly touching ~5.2% driven by rising oil prices linked to the US-Iran conflict and persistent inflation concerns. Against this backdrop, the fund's underweight duration bias proved a meaningful contributor to excess returns in May. Long positions in high-carry currencies also contributed positively, with the Egyptian pound appreciating by ~2.7% against the US dollar over the month, supported by continued macroeconomic stabilisation, while the Hungarian forint continuing post-election gains.

Within credit selection, sovereign credit in Zambia also performed strongly after Zambia launched a cash tender offer to buy back $1.36 billion of the notes at $780 per $1,000 of principal, financed in part through a $600 million African Development Bank loan. Venezuela was another standout contributor with sovereign bonds rallying sharply following the government's announcement of a comprehensive restructuring of an estimated $150–$170 billion in defaulted obligations. Our overweight bias to the energy sector in Ukraine generated positive returns

On a year-to-date basis, credit selection and currency strategies have been the primary drivers of positive excess returns, while the fund's allocation to cash has detracted in a period of broadly positive risk asset performance. Within currencies, the Hungarian forint has appreciated approximately 7.5% against the US dollar since the start of the year, and the Brazilian real has gained around 7.8%, benefiting from strong capital inflows, even as elevated real interest rates and fiscal dynamics remain closely watched.

Within credit selection, the largest YTD contributors have come from overweight positioning in sovereign credit in Venezuela, Argentina and Lebanon. Argentina's dollar bonds rallied reflecting structural improvements in fiscal and external accounts, economic reforms, and improved reserve accumulation prospects, with the central bank reporting $8.1 billion in FX purchases even as Fitch upgraded the rating to B. Venezuelan bonds delivered one of the standout distressed debt trades of the year as political changes and the formal launch of a debt restructuring process have revived investor interest. Allocations to Ukraine and the Mexican energy sector also contributed positively.

Portfolio positioning:

We continue to view the current environment as one of selection rather than broad beta exposure, as the backdrop remains insufficiently risk-on. Geopolitical tensions have kept volatility elevated, widened dispersion across markets and created tactical opportunities. At the same time, the macro picture has become more nuanced as the US economy continues to show resilience with labour market weakness stabilising and activity data remaining firm, while inflation concerns are re-emerging due to elevated energy prices, tariff-related pass-through and second-order effects from the AI capex boom.

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Against that backdrop, we believe the Fed has lesser room to ease than previously expected as the market has pushed out rate cut expectations. We have retained an overall underweight duration position a constructive, while taking some profit after the initial shock. If tensions escalate further, oil-driven inflation pressure could trigger additional front-end repricing. Conversely, a meaningful deterioration in growth would likely force a more dovish policy response. For now, however, the combination of firmer US data, sticky inflation and higher energy supports our preference to not add broad duration risk. In Europe, inflation remains more exposed to energy spillovers and the ECB appears more likely to respond to the real economy and persistent core services pressures than to ease policy. We therefore continue to prefer EUR duration versus USD duration, with the balance of risks now tilted toward a more hawkish ECB path relative to the market's prior expectations. If global tensions ease, there could be a relief rally across duration, but we remain comfortable with current positioning.
From a regional perspective, we remain underweight Asia and the Middle East and overweight Latin America and selected African credits, though we have become more selective following recent moves. In particular, we remain constructive on countries with improving fundamentals and credible policy or refinancing paths, including Ecuador, Ivory Coast, Paraguay, Angola, Republic of Congo and Nigeria. We also continue to identify tactical opportunities in sub-Saharan Africa during sell-offs, while remaining cautious on credits with elevated refinancing risk. We have reduced exposure to Lebanon in 2025 and remain wary of names where the path to market access remains uncertain.
We remain focused on high-conviction off-benchmark corporate exposure in areas where we see stronger idiosyncratic upside, including energy in Mexico, Argentina and Kazakhstan, metals in Brazil and Uzbekistan, and food in Ukraine and Turkey.
In terms of recent political developments in Colombia have led to a sharp rally in assets, but we have been reluctant to chase the move after the repricing, given still-elevated policy and fiscal risks. In Romania, recent political outcomes have made us more cautious on the outlook, despite ongoing support from EU funds and near-term consolidation efforts. In contrast we remain constructive on Hungary, where valuation and medium-term convergence dynamics remain supportive.
In currencies, we continue to believe the US dollar was initially supported by haven demand, but we remain mindful that a resolution to geopolitical tensions could renew pressure on the currency. More broadly, we do not assume the dollar's safe-haven status will remain unchanged indefinitely, particularly if structural concerns around US reliability become more pronounced. Balance-of-payments differentiation remains key across EM FX. We maintain tactical exposure in selected high yield FX names, including BRL and EGP, where carry remains attractive and valuation still offers scope for alpha.

Outlook:

We maintain a constructive but increasingly selective stance on EM debt for 2026, as the asset class continues to evolve into a predominantly carry-driven regime. Improving credit fundamentals, resilient growth differentials, and still-supportive technical conditions continue to underpin the opportunity set. However, the global backdrop has become more nuanced: growth momentum has softened, while inflation dynamics are increasing and remain uneven and sensitive to external shocks. Global imbalances remain about 21% below the 2006 peak, but appear to be widening again amid rising trade protectionism and global instability.

While EM growth is still expected to outperform developed markets, the environment is becoming more fragile and differentiated across countries. The US Federal Reserve retains an easing bias, but the pace of rate cuts is likely to remain cautious and data dependent. This backdrop remains broadly supportive for income-oriented assets, albeit with increased sensitivity to inflation surprises, energy prices, and financial conditions.

Geopolitics has become a more central driver of macro conditions. Efforts to de-escalate the Iran conflict, including ongoing negotiations and a fragile ceasefire, have provided intermittent support to global risk sentiment. Markets have responded positively to signs of de-escalation, with EM assets and broader risk assets benefiting from improved sentiment during ceasefire periods. However, the truce remains fragile and incomplete, with key structural issues unresolved and the potential for renewed volatility still elevated. As a result, the geopolitical backdrop should be viewed as a source of episodic relief rallies rather than a full removal of tail risks.

That said, the nature of returns is evolving. Following a period of strong performance, valuation dispersion has narrowed and beta-driven gains are likely to be more limited. This reinforces a shift toward carry as the primary return driver, with alpha increasingly dependent on active allocation, country selection, and relative value. A wider distribution of macro outcomes particularly linked to geopolitical developments suggests a more tactical approach will be required.

Emerging markets should continue to represent a key pillar of global growth, although with increasing differentiation. China and India remain important contributors, but broader EM performance will depend more heavily on domestic policy credibility, reform momentum, and exposure to global trade and commodity cycles. Structural trends including supply-chain diversification and geopolitical fragmentation continue to create opportunities, but also contribute to volatility and regional divergence.

Fiscal dynamics are becoming more relevant in this phase of the cycle. While many EM countries benefit from improved external balances and relatively high real yields, higher funding costs and persistent global uncertainty may pressure weaker sovereigns. Encouragingly, many EM central banks have turned more hawkish as inflation has been revised up more than growth has been revised down. Chile and Israel stand out as notable exceptions, as earlier and more proactive tightening has helped preserve policy credibility and provides them with greater flexibility than many developed markets. From an asset allocation perspective, EM debt continues to offer attractive income and diversification benefits. Yield levels remain elevated, and the asset class compares favourably to developed market credit. At the same time, growing uncertainty around US fiscal dynamics and macro conditions supports the case for diversification away from US-centric exposures.

Technical conditions remain broadly supportive but more balanced. Investor flows have improved, supported by the global search for yield, though they remain sensitive to shifts in risk sentiment. Periods of geopolitical de-escalation such as the recent Iran ceasefire have reinforced the potential for renewed inflows, even if positioning remains tactically driven. Against this backdrop, China's next phase of economic and technological development is facing trade backlash, with GDP at 3.8% by the end of 2025 amid growing resistance from the Global South and Europe.

Our base case remains one of moderate but resilient global growth (3%), but with heightened volatility risks. Key financial stability risks are rising and include persistent inflation pressures, tighter-than-expected financial conditions, and ongoing geopolitical tensions. Energy markets remain a critical transmission channel, with oil price volatility continuing to shape both inflation expectations and global financial conditions.

In this context, we remain disciplined in our stock selection and continue to favour issuers linked with structural growth themes and solid fundamentals. Regional differentiation remains key: we see opportunities across Latin America, such as Brazil, Argentina and Mexico which are more resilient given their oil and gas exposure and agricultural commodities and selective Frontier countries, while remaining more cautious in areas where valuations are stretched or macro vulnerabilities are more pronounced.
Our outlook for EM hard-currency debt remains constructive but more balanced. Attractive carry and stable credit fundamentals continue to support the asset class, but the more uncertain macro backdrop particularly around energy prices and global rates suggests limited scope for broad-based spread compression.

The fragile ceasefire in Iran has supported periodic tightening in spreads and improved risk appetite, but ongoing geopolitical uncertainty is likely to keep volatility elevated. As such, returns are expected to remain predominantly carry-driven, with tactical opportunities arising during bouts of market dislocation.

We maintain a preference for high yield over investment grade, given the stronger income profile and improving credit quality within the HY universe. Investment grade remains more exposed to global duration risk and offers less valuation upside. Regionally, Latin America and selective frontier markets remain preferred, while Asia appears more constrained by tighter spreads.

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In EM local currency debt, attractive real yields remain a key anchor for returns, particularly in markets where inflation is moderating and policy easing remains feasible. However, the outlook is more nuanced given external shocks, especially energy price volatility linked to the Middle East conflict.

While the ceasefire has provided temporary relief via improved sentiment, the persistence of supply risks means inflation uncertainty remains elevated. This creates divergence across EM: commodity exporters may benefit, while importers could face renewed constraints on easing cycles.

We continue to favour selective higher carry strategies, particularly in Latin America, South Africa and selective Frontier countries, where real yields remain elevated and macro frameworks are relatively robust. FX volatility is likely to remain a key driver of returns.

We continue to have constructive but selective view on EM debt. Our outlook for EM corporate debt reflects a balance of solid fundamental resilience and supportive technicals, with a continued preference for high yield over investment grade. Many HY corporates have meaningfully reduced leverage, extended maturities and strengthened liquidity after a prolonged period of financial discipline.

However, consistent with the broader macro backdrop, the environment is shifting toward more selective alpha generation. Periods of geopolitical easing such as the Iran ceasefire have supported spreads and market access, but these effects may prove temporary if volatility re-emerges.

We maintain a preference for high yield over investment grade, as IG offers tighter spreads and greater sensitivity to global rate volatility. Opportunities remain in Latin America, where valuations are relatively compelling and fundamentals continue to improve. Sectorally, energy and technology remain areas of interest given supportive macro and earnings dynamics.

As valuations are no longer uniformly attractive, performance will increasingly depend on issuer selection, sector differentiation, and disciplined risk management rather than broad market beta.

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Slovakia: The prospectus of the Fund, along with the Key Investor Information Document (as applicable), the current annual and semi-annual report, can be obtained, free of charge, at Amundi Luxembourg S.A., 5 Allée Scheffer, L-2520 Luxembourg or at www.amundi.sk
Slovenia: The prospectus of the Fund, along with the Key Investor Information Document (as applicable), the current annual and semi-annual report, can be obtained, free of charge, at Amundi Luxembourg S.A., 5 Allée Scheffer, L-2520 Luxembourg or at www.amundi.si
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