Janus Henderson
INVESTORS

THE CASE FOR EMERGING MARKETS DEBT HARD CURRENCY



Marketing communication | Outside of the U.S.: For professional and qualified investors only | Not for onward distribution
The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Past performance does not predict future returns.

AT A GLANCE

Key Takeaways

- Institutional investors face the challenge of capturing yield, diversification, and growth from their fixed income allocations. Over time, EM government bonds have typically provided investors with higher yields and differentiated returns relative to DMs, showing modest correlation to global equities and global bonds.
- The emerging markets debt hard currency (EMD HC) debt universe spans around 70-80 countries that are subject to different economic cycles and are at varying stages of economic development, resulting in a diverse set of fundamental drivers.
- EMD HC offers the potential to isolate and benefit from the EMD return drivers, helping investors with asset allocation. Focused credit analysis can be rewarded, with country allocation and security selection helping to capture alpha in EMD.

Over the past two decades, the emerging markets debt (EMD) universe has grown substantially, encompassing three key investible areas: hard currency (HC) sovereign bonds, HC corporate bonds, and local currency (LC) sovereign bonds. HC sovereign and corporate indices are predominantly comprised of US dollar-denominated bonds issued by EM sovereigns and companies, respectively. LC sovereign indices represent local (domestic) currency denominated debt issued by EM governments. The universe based on these sub-asset classes totals some US$32.5 trillion[1], representing a material portion of fixed income markets.

Figure 1: Emerging markets debt characteristics

Characteristics	HC Sovereign	LC Sovereign	Corporate	Global Aggregate	US IG Corporate	US HY Corporate
Effective duration (years)	6.31	5.35	4.14	6.28	6.52	2.87
Yield-to-worst (%)	6.54	6.1	6.04	4.1	4.82	6.56
Number of issuers	151	20	746	3,617	1,387	841
Number of countries/ issuer domiciles	69	20	67	82	57	24
Average credit rating	BB+	BBB+	BBB-	AA-	A-	B+

Source: Bloomberg, 30 June 2026. Hard currency (HC) sovereign = J.P. Morgan EMBI Global Diversified Index (EMBDI GD); Local currency (LC) sovereign = J.P. Morgan GBI-EM Global Diversified; Index; Corporate credit = J.P. Morgan CEMBI Broad Diversified Index; Global aggregate = ICE BofA Global Broad Market Index; US investment grade (IG) Corporate = ICE BofA US Corporate Index; US high yield (HY) corporate = ICE BofA US High Yield Index. **Yields may vary and are not guaranteed.**

Past performance does not predict future returns.

[1] Source: J.P. Morgan, total debt stock, 31 December 2025.

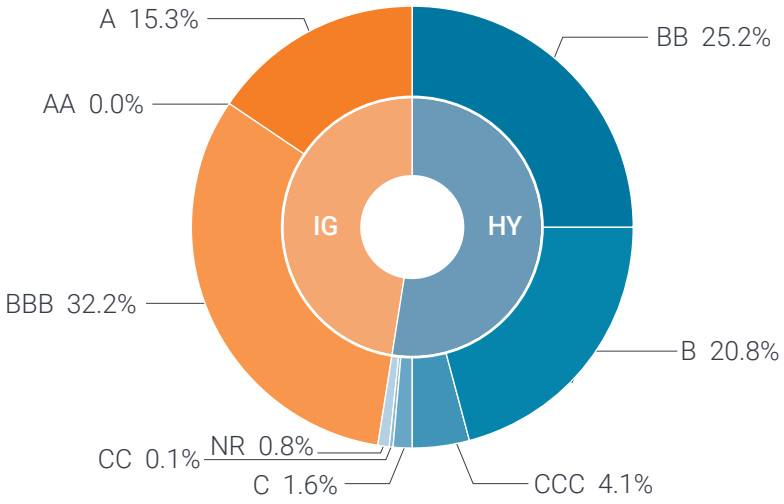
What is hard currency debt?

A hard currency denominated bond is issued by an EM government (or quasi-sovereign) whose interest and capital are denominated in a hard currency – typically US dollars, although other hard currencies can include euro, sterling and yen. As the asset class is driven by the credit risk of lending to the sovereign, it is most comparable in terms of risk factors to corporate credit. Yet, it is also different in that credit risk tends to be overpriced in sovereign EMD HC when comparing the default perception to reality. Historically, average default rates for the asset class have been 0.93% pa[2]. Perceived default risk is higher than actual default risk and often defaults are in smaller frontier markets, while the bigger part of EM has become quite resilient over past decades. While defaults and restructurings do happen, unlike with corporate bankruptcies, the country continues to exist and serve its population going forward. Participation in International Monetary Fund (IMF) programmes can support sovereign restructuring efforts by promoting structural reforms and stronger fiscal discipline. This has been evident across several frontier markets that successfully completed restructurings in 2024–25 and subsequently exited their IMF programmes.

EMs constitute the bigger share of the global economy, but often investment portfolios are strikingly under-represented in the asset class.



Figure 2: Diverse risk profiles in HC



Source: J.P. Morgan, 30 June 2026. Ratings breakdown of the EM Hard Currency index: J.P. Morgan EMBI Global Diversified Index. NR= not rated.

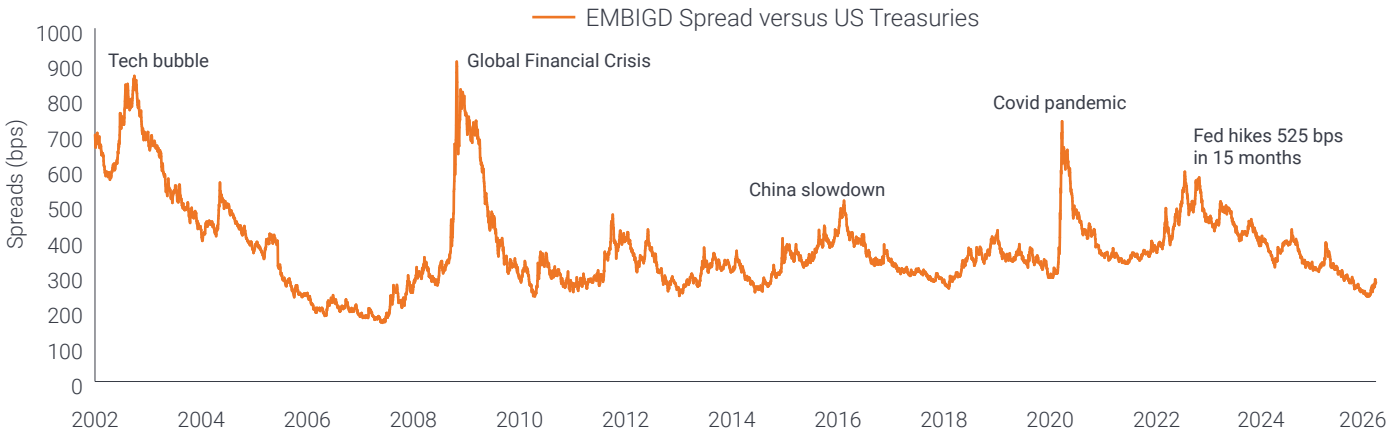
[2] Source: J.P. Morgan, 1 January 2003 to 31 December 2025. EMBIG default rate notionally weighted. Note: Although Ukraine is not being treated as a defaulted issuer in the EMBIG, we are factoring it into the rate due to the country's debt restructuring, as credit default swaps were triggered.

Capturing higher yields with less volatility

Typically, EM asset classes potentially offer higher yields and long-term returns compared to DMs. Some of the highest yields in EM can be found in sovereign markets, which are currently attractive versus long-term averages in the HC universe[3].

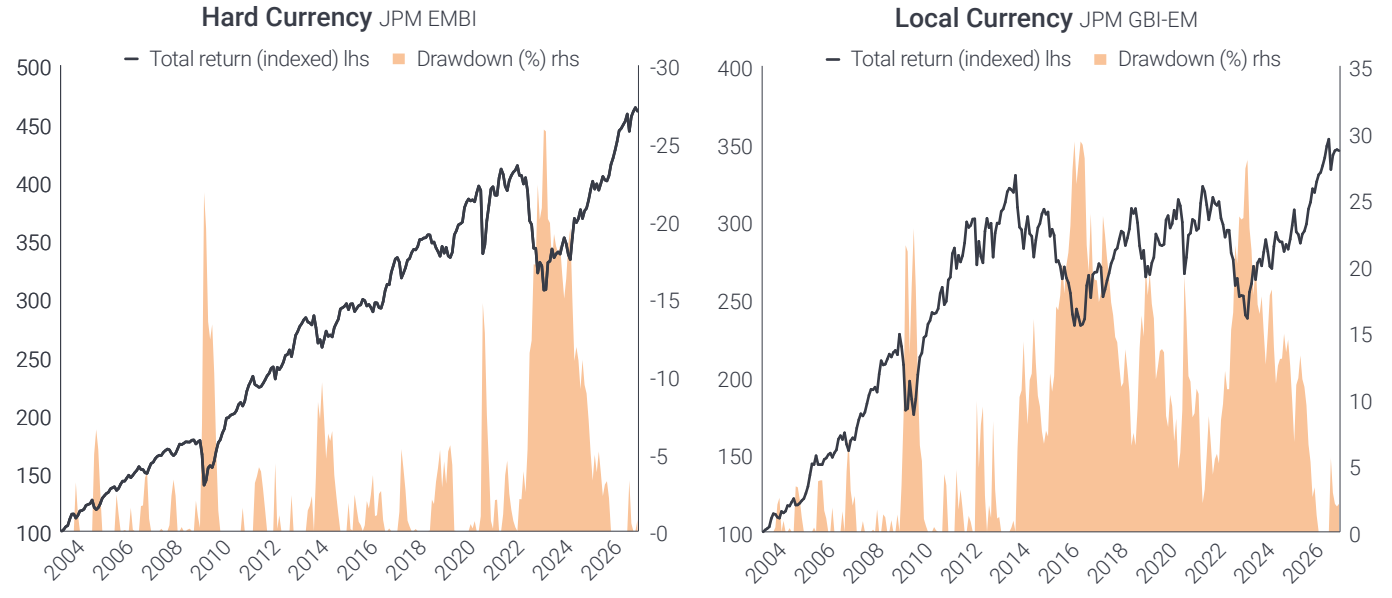
As EMD HC spreads tend to mean revert after a shock as they reconnect with credit fundamentals, this "credit anchor" has limited the length and size of the drawdowns seen in the asset class (Figure 3). Over the past decade, HC EMD has delivered better returns relative to LC debt with less severe drawdowns. Following the May 2013 "Taper Tantrum", for example, LC EMD fell 29.3% from May 2013 to its trough in September 2015 and only recovered in September last year (ie. for total returns to recover that loss). In comparison, HC EMD reached a trough much earlier (August 2013) falling just 9.6% and fully recovered losses nine months later[4]. The subsequent end of quantitative easing and rate lift-off in the US aggravated returns for LC and highlights that EM FX tends to perform in longer cycles. During the US hiking cycle in 2018 which incorporated quantitative tightening (QT), LC had a maximum drawdown of 19.8%, more than triple the 5.5% drawdown for HC[5]. Both asset classes experienced similar drawdowns during the Global Financial Crisis and the outbreak of the COVID crisis in early 2020. The recent longer than usual drawdown seen in EMD HC in 2022-23 has been due to duration, i.e. the sell-off in rates following aggressive Fed tightening, not credit spread moves.

Figure 3: The "credit anchor" reduces the longevity and magnitude of drawdowns



Source: Janus Henderson Investors, Bloomberg as at 31 December 2001 to 30 June 2026. **Past performance does not predict future returns.**

Figure 4 and 5: Total returns and drawdowns



Source: J.P. Morgan, 31 December 2002 to 30 June 2026. Returns are in US dollars. **Past Performance does not predict future returns.**

[3] Source: Janus Henderson Investors and Bloomberg, as at 2 July 2026. Yield-to-maturity for the JP Morgan EMBIGD.

[4] Source: Bloomberg, indices as per Figure 4 and 5, returns in US dollars, using monthly data.

[5] Source: Bloomberg, indices as per Figure 4 and 5, returns in US dollars, using monthly data showing max drawdowns peak to trough between 31 December 2017 and 31 December 2018.

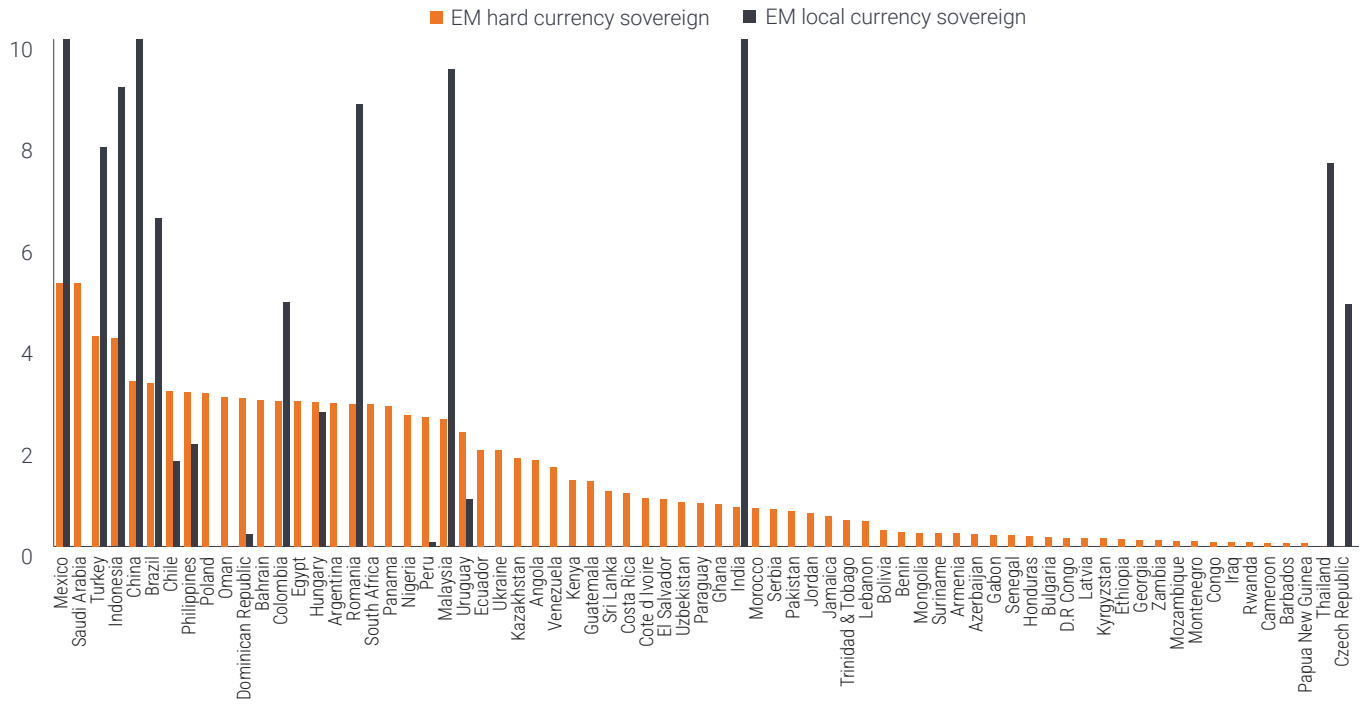
Maximising diversification

Public debt has increased in EMs since the pandemic outbreak, as countries offered fiscal support to households and companies to shore up their economies. The average public-debt-to-GDP ratio in EMs (excluding China as this is more representative of our universe) rose to 58% in 2025 from about 52% before the pandemic in 2019. EMs have not accumulated excessive debt in comparison to DMs. Advanced economies saw this ratio rise by slightly more from 101% to 108%[6]. Through the previous rate hiking cycle, the financial and external sectors in major EMs have proved resilient while some frontier markets have benefitted from increased risk appetite to issue HC debt. As the need for fiscal consolidation in a 'higher for longer' rate environment comes in focus, there is likely to be more dispersion between country performance.

While the HC sovereign universe (US$1.8 trillion) is smaller than its LC equivalent (US$15.8 trillion)[7], this disguises the broad country and issuer mix that allows for maximising the diversification potential of EM. EMD HC represented by the widely followed J.P. Morgan EMBI Global Diversified Index features around 150 issuers across 70 countries. As shown by Figure 6, LC EMD, represented by the J.P. Morgan GBI-EM Global Diversified Index, can be difficult for offshore investors to access. This drastically concentrates the index to only 20 countries (and 20 issuers), with the largest 10 making up 84% of the index (the equivalent is 37% in the HC index). On a broader basis, China makes up 19% of the MSCI Emerging Markets Index and 10% of the LC index, compared to less than 4% in the HC index[8]. Given the inability for offshore investors to invest, large EM economies like most of the countries in Central America excluding Mexico, and all countries in the Middle East are inaccessible and are thus excluded entirely from LC indices.

Over time, as emerging countries develop a higher level of political and economic stability, they are able to issue more LC debt and reduce reliance on HC financing. Moreover, as populations age and savings increase, the development of domestic pension systems necessitates a growing market in LC debt to meet those future liabilities. In general, the EMD HC universe contains more smaller and less-researched countries, including those in regions such as Africa. This creates ample opportunities for active managers to capitalise on the market inefficiencies arising from the behavioural bias that is inherent in EM. The HC universe is also evenly split between high yield (HY) and investment grade (IG), offering scope to capture different risk profiles[9].

Figure 6: A broader country and issuer mix in HC



Source: J.P. Morgan, 31 December 2025. EM hard currency sovereign = J.P. Morgan EMBI. EM local currency sovereign = J.P. Morgan GBI-EM.

While LC markets tend to attract domestic investors, foreign investor participation in EMD HC is a positive for market resilience and liquidity as it increases investor diversity. With global liquidity conditions remaining a key driver of market pricing, risk premia continue to reflect liquidity effects via transaction costs, market depth and investor sentiment. This is noteworthy, as price action in the sovereign credit market can sometimes be more a function of liquidity than fundamentals.

[6] Source: IMF, Fiscal Monitor, April 2026.
[7] Source Total debt stock, J.P. Morgan, 31 December 2025.
[8] Source: J.P. Morgan, MSCI, 30 June 2026.
[9] Source: J.P. Morgan EMBI GD, as at 30 June 2026.

The different performance of the sub-asset classes below highlights how EMD offers diversification by region and factor, with more exposure to the "growth" factor. However, this comes with greater volatility than other fixed income segments, such as the DM IG space. While justified by the fact that EMs generally have less political and economic stability than DMs, we believe such periods of risk aversion and idiosyncratic events can offer opportunities to enhance returns from mispricing.

The long-term returns and risks of EMD HC have historically been higher than global bonds and DM IG, and second only to HY. When compared to EM equities, EMD HC returns have been slightly lower but delivered with less than half the volatility.

Long-term correlations between EM debt and other asset classes, such as global bonds and equities have been modest, offering diversification potential. Understanding the factor exposures is also important. While there are a few exceptions, EM sovereign debt does not offer the 'safe haven' characteristics associated with core developed government markets. That said, typically credit spreads and the underlying Treasury yields are negatively correlated, stabilising total returns during positive and negative markets. In a risk-off environment, the underlying Treasury yield becomes a buffer, limiting a total return loss and vice versa in risk-on markets. The exception to this rule of thumb is when inflation is the culprit causing the rise in risk aversion. There are periods where correlation is positive between rates and credit spreads, but this tends to be temporary.

Figure 7: Asset class returns and volatility

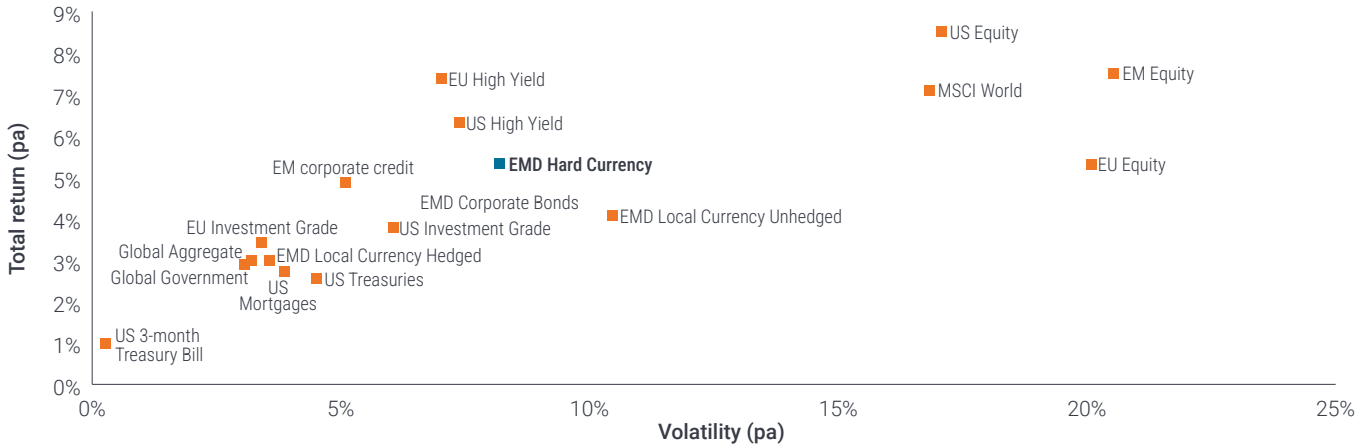


Figure 8: Correlations between asset class returns

	EMD HC	EMD LC unhedged	EMD LC hedged	US Mortgages	US Treasuries	Global Government	Global Aggregate	US IG
EMD HC	**1.00**	**0.74**	**0.74**	**0.40**	**0.26**	**0.32**	**0.44**	**0.59**
EMD LC unhedged	0.74	1.00	0.81	0.26	0.10	0.14	0.24	0.36
EMD LC hedged	0.74	0.81	1.00	0.40	0.33	0.39	0.46	0.50
EM corporate credit	0.84	0.61	0.65	0.40	0.31	0.34	0.48	0.68

	EU IG	US HY	EU HY	MSCI World	US Equity	EU Equity	EM Equity	US 3-month Treasury Bill
EMD HC	**0.49**	**0.69**	**0.61**	**0.60**	**0.53**	**0.60**	**0.63**	**0.00**
EMD LC unhedged	0.28	0.55	0.47	0.65	0.53	0.71	0.75	0.03
EMD LC hedged	0.41	0.45	0.39	0.45	0.38	0.48	0.53	0.06
EM corporate credit	0.61	0.69	0.69	0.46	0.39	0.45	0.51	-0.01

Source: Bloomberg. 3 January 2003 to 30 June 2026. Returns are in US dollars or hedged to US dollars. EM hard currency (HC) sovereign = J.P. Morgan EMBI Global Diversified Index. EM local currency (LC) sovereign = J.P. Morgan GBI-EM Global Diversified Index. EM corporate credit = J.P. Morgan CEMBI Broad Diversified Index. US Mortgages = Bloomberg US MBS Index; US Treasuries = Bloomberg US Treasury Index; Global Government = Bloomberg Global Aggregate - Government Index (USD hedged); Global Aggregate = Bloomberg Global Aggregate Index (USD hedged); US Investment Grade (IG) = Bloomberg US Corporates Index; EU Investment Grade (IG) = Bloomberg Euro Agg Corporate Index (USD hedged); US High Yield (HY) = Bloomberg US Corporate High Yield Index; EU High Yield (HY) = Bloomberg Pan-European High Yield Index (USD hedged); US Equity = S&P500 Total return index; EU Equity = MSCI Europe net Total return; EM Equity = MSCI Emerging Net Total Return USD Index; US Treasury Bill = Bloomberg US Treasury Bills 1-3M Index.

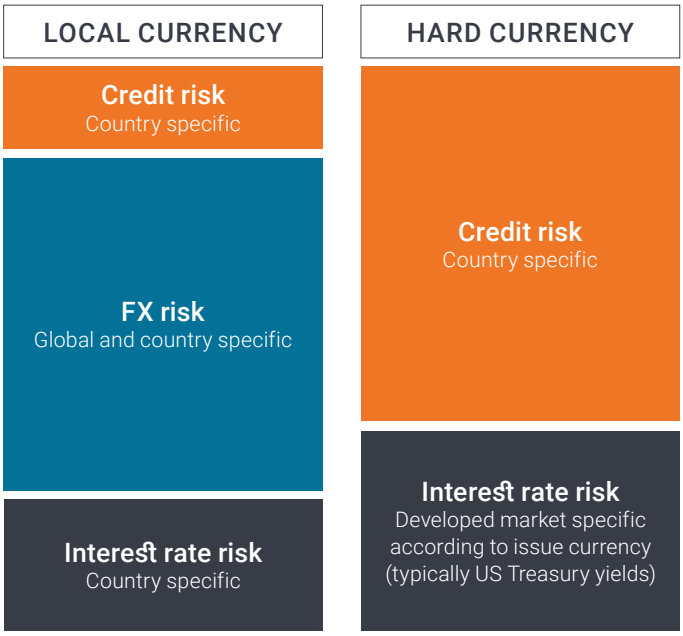
Past performance does not predict future returns. There is no guarantee that past trends will continue, or forecasts will be realised.

Capturing different return drivers

EMs are by their nature subject to swings in risk sentiment as well as external economic and geopolitical shocks. The sheer breadth of the EMD HC universe – from highly-rated countries in the Middle East to lower-rated ones in sub- Saharan Africa and Latin America – means economies are at various stages of development, resulting in different sensitivities to factors such as food/energy prices. We believe this wide range of characteristics can create opportunities for enhanced returns through active management as markets overreact in the short term to news flow.

In addition to whether economies are tilted towards manufacturing or services, commodity price dynamics increase divergence in market performance and capital flows in EM. This variation largely depends on whether countries are net commodity importers or exporters, and the extent to which their terms of trade – a ratio of export prices to import prices – has either deteriorated or improved. As beneficiaries of US dollar revenues, commodity-exporting countries benefit from higher prices, with commodities tending to be a key driver of EM sovereign returns, but this relationship varies over time.

Figure 9: LC versus HC return drivers



Source: Janus Henderson Investors. Stylised example for illustrative purposes only.

In summary, the EMD universe is impacted by a host of factors beyond fundamental drivers of credit risk, including those influencing broader global market sentiment, capital flows and so on. Looking at the asset class through the lens of risk factors, the drivers of returns in HC and LC bonds are quite different:

- As EMD HC is generally issued in US dollars, the bond yield is a function of i) the US Treasury rate and ii) a credit spread reflecting the higher credit risk for the EM issuer. As such, EMD HC is relatively more exposed to the pricing of higher credit risk premium (such as with increasing recession risks and market volatility/risk aversion) as a larger proportion of return is determined by credit risk.
- While LC EMD may also be affected by the repricing of the credit risk premium, the main drivers of return are local interest rates and FX risk, stemming from moves in the local currency versus the US dollar.
- EM FX returns are affected by US Treasury volatility and it is this variation that matters more than US rate levels, as this higher volatility in US interest rates is magnified in EM[10]. While higher sovereign credit risk tends to be reflected in higher rates in bonds, FX movements also tend be highly correlated with the credit risk premium[11], with higher premiums associated with weaker FX.

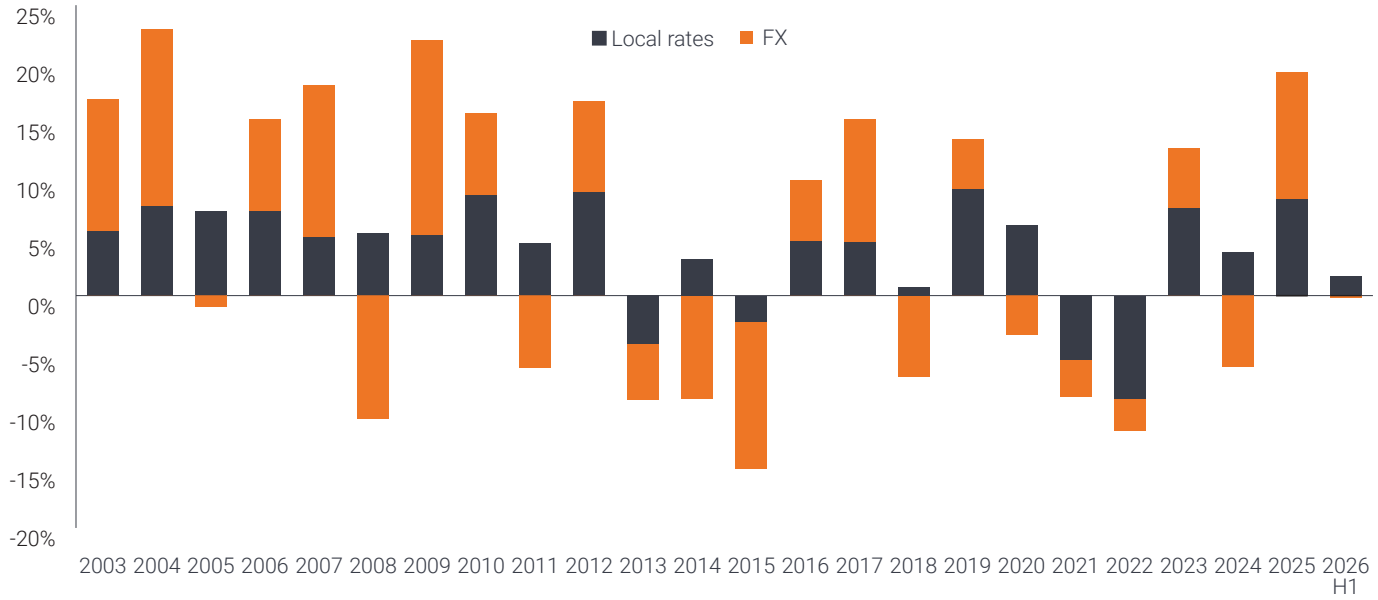
[10] Source: HSBC, June 2022.
[11] Source: Bloomberg, HSBC, 4 August 2022.

FX can have an outsized impact on LC returns

While FX risk can be influenced by idiosyncratic and domestic factors, exogenous macroeconomic factors – such as relative rate and currency differentials between EM countries and the US, global growth dynamics, and capital flows in and out the country (balance of payments) – are also key. Particularly against a backdrop of tight financial conditions globally, countries with weaker external positions (and current account deficits) are more susceptible to currency weakness, as they are more reliant upon portfolio inflows or external borrowing denominated in a foreign currency (as explained earlier).

Exposing portfolios to such FX risk therefore adds an additional layer of complexity and dynamics to consider. It can have an outsized impact on portfolio performance, as shown by comparing the local hedged to local unhedged returns with the difference attributable to currency effects.

Figure 10: FX risk has an outsized impact on returns



Source: Bloomberg, 30 June 2026. Indices used: J.P. Morgan GBI-EM Global Diversified Unhedged USD and J.P. Morgan GBI-EM Global Diversified Hedged USD, total returns in US dollars. Note: Local rates return represented by the total return on the J.P. Morgan GBI-EM Global Diversified Composite USD hedged Index. The FX return represents the difference between the return on the J.P. Morgan GBI-EM Global Diversified Composite Unhedged Index and the J.P. Morgan GBI-EM Global Diversified Composite USD Hedged Index.

Past performance does not predict future returns.



Currency moves have a direct impact on EMD LC returns on a day-to-day basis. In HC, the effect is more indirect and not linear. While a depreciation of the local currency versus the US dollar (in which the debt repayments are made) makes it more expensive to service and can lead to wider credit spreads, the currency moves need to be large and sustained (e.g., a period of financial crisis in a country) for that to last.

Measuring sovereign credit risk

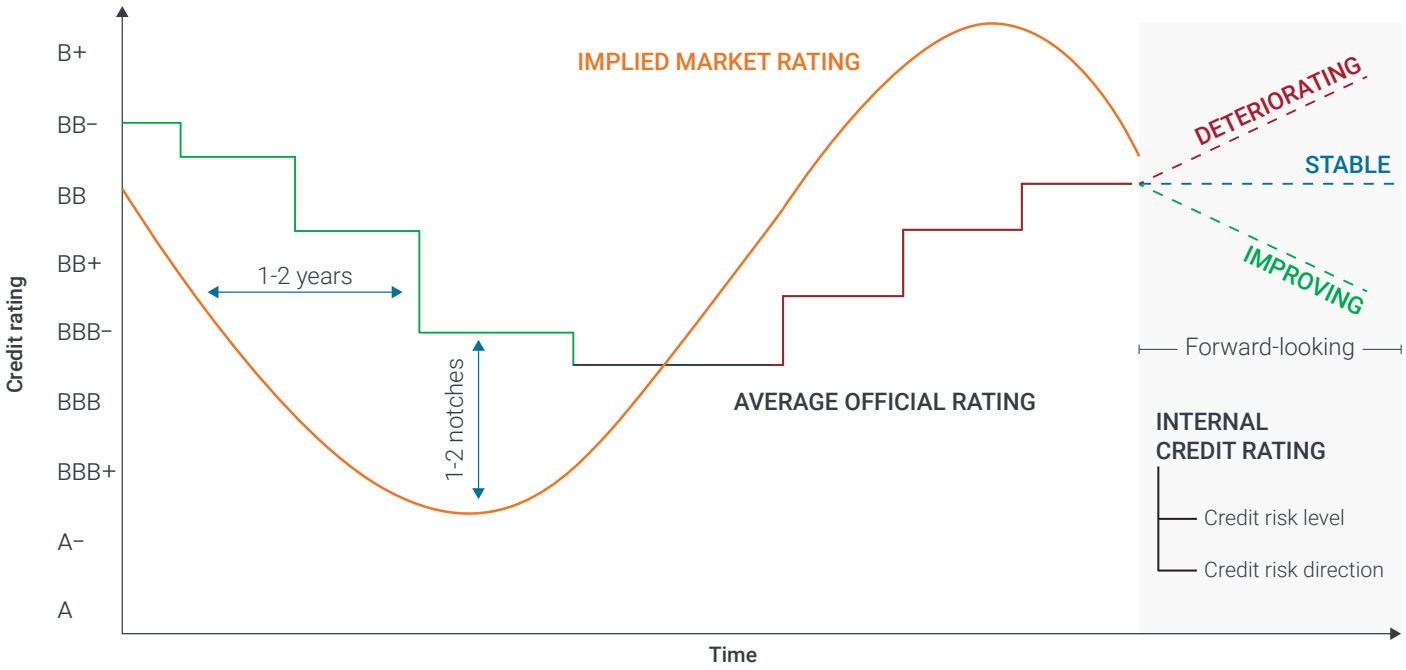
The diverse dynamics in EMs pose a challenge when allocating to the universe in making relative comparisons to inform investment decisions. Amid the 'higher for longer' interest rate environment, sovereign borrowing costs could drive debt sustainability concerns. Slower global growth and a challenged fiscal outlook alongside more expensive refinancing highlights the need to cast a wide net when measuring sovereign credit risk given the myriad factors involved:

- **Hard economic variables** – such as inflation, GDP, public debt, fiscal and current account balance, external debt, debt service ratio, and foreign currency reserves – are some of the factors influencing sovereign credit risk.
- **Governance** – different measures of governance are important to understand sovereign credit risk.
- **More slow-moving structural factors** indicating the resilience and potential of an EM economy (e.g., demographics like age dependency, innovation, inequality, climate change vulnerability and human skills score) are, in our view, some of the other drivers of sovereign credit risk.

To understand sovereign credit risk, one can analyse either historical defaults, sovereign market spreads or ratings. The systematic information within these measures can offer key empirical input to better understand sovereign credit risk at the country level. We believe using market-based indicators, such as spreads or yields, is problematic, as these indicators are influenced by many factors, such as global risk sentiment. Actual historical defaults provide little empirical value due to their infrequent nature. Our systematic analytical framework therefore rests on the empirical evidence found in historical ratings. Ratings tend to move relatively slowly with some embedded trend – indicative of a slow-moving core component of sovereign credit risk – and lag the market by a year or two. However, markets tend to be too optimistic in rewarding good stories and too pessimistic in punishing bad stories, creating opportunities to capture alpha from this mispricing.

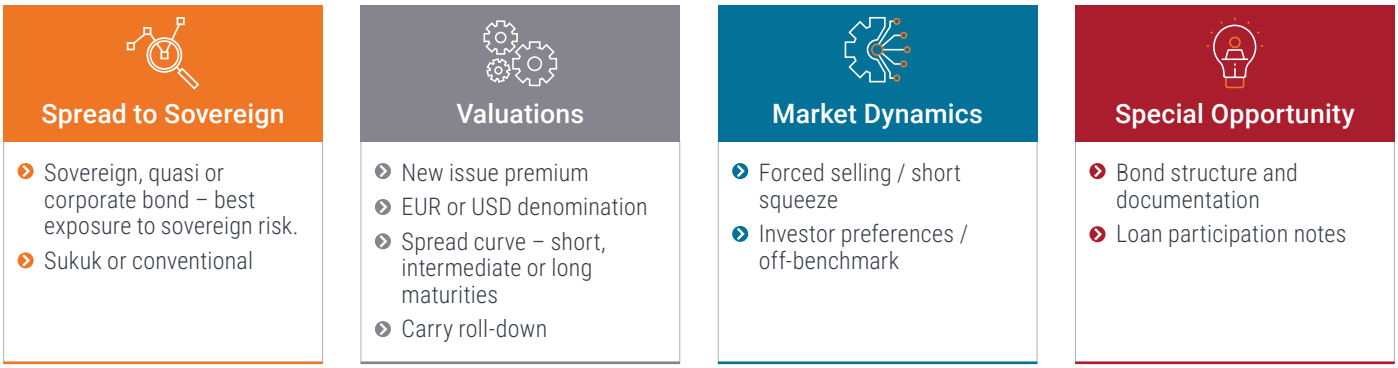
When selecting securities, there are a range of factors we consider that are reflective of valuation, technical factors and risk appetite (see Figure 12 overleaf). For example, an attractive spread differential, driven by technical factors, between a sovereign and quasi sovereign bond could present an attractive investment opportunity.

Figure 11: Markets over- and under-estimate sovereign credit risk in upgrade and downgrade cycles



Source: Janus Henderson Investors. For illustrative purposes only.

Figure 12: Factors driving security selection



Source: Janus Henderson Investors. For illustrative purposes only. **Quasi sovereign bond** is issued by a company or entity that is owned or controlled by a government but is not a sovereign issuer itself. **Sukuk** is a Sharia-compliant security that gives investors an ownership interest in underlying assets rather than a conventional debt claim. **Spread curve** is the relationship between a bond's credit spread and its maturity, which can indicate relative value across different points of the curve. **Loan participation note** is a debt security that provides investors with exposure to an underlying loan without directly owning the loan itself. **New issue premium** is the additional yield offered on a new issue in the primary market compared to the same bond traded in the secondary market. **Short squeeze** is when a sharp rise in the price of an asset forces traders who previously sold short to close out their positions. Note: Any risk management process discussed includes an effort to monitor and manage risk which should not be confused with and does not imply low risk or the ability to control certain risk factors. **Carry roll-down:** This is the expected change in a bond's price caused exclusively by the passage of time, assuming the yield curve stays exactly the same.

Governance is key to sovereign credit risk

As shown through empirical data, governance is one of the key drivers of sovereign credit risk. Ratings are highly correlated with different levels of governance issues, such as strength of a policy framework, institutional quality, economic freedom, corruption perception and policy quality. The World Bank governance indicators have amassed enough EM coverage over time, and our analysis puts a significant weight to the rule of law[12], political stability, and regulatory quality. The potential for reform is significant, but much progress has been made in recent decades in terms of economic policy quality. Most EMs now have similar policy frameworks to DMs, including independent central banks targeting inflation, floating exchange rates and more rules-based fiscal policy frameworks. There has also been a build-up of FX reserves in many EM countries, providing a credibility buffer for existing floating exchange rate regimes.

In the past, environmental factors have not been material in analysing sovereign risk. This is changing as the physical and economic impacts of climate change and resource constraints become more evident. Post the pandemic, social issues have come into focus as inequality, human rights, access to healthcare and education have risen in importance among the populace and policymakers. As EMs rely more on external inflows, some countries are issuing green, social and Sustainable Development Goal (SDG) bonds. Mexico and Benin were the first to launch SDG bonds in 2020 and 2021, respectively. Labelled bonds, which allow investors to target certain activities in the sustainability arena, are still a small component of the overall asset class, but are growing.

Human capital is a key driver of economic growth and high inflationary pressures have the potential to hurt and incense the populace, particularly among the poorest countries. Given their lower fiscal flexibility, EM governments have more constraints around their policy response in mending their economies. When times are tough, the populace are less likely to accept corruption and tend to have higher expectations for governance standards. Ergo governments are incentivised to improve governance so their social safety net is preserved. The social risk premium could thus become more important in EM going forward.

Summary

We believe EMD HC offers attractive yield and long-term return potential, delivered with less volatility when compared to LC sovereign bonds. Alongside asset class diversification, EMD HC offers diversification from both a country and fundamental perspective, as there is a breadth in countries driven by a host of macroeconomic factors to varying degrees. Building diversification in portfolios through the incorporation of the asset class comes from taking advantage of different political cycles, economic policy stances and reform cycles available in EM. After enduring some unparalleled challenges, EMs have proven their resilience, a fact underscored by the past three and a half years where sovereign rating upgrades exceeded downgrades[13].

[12] Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence (World Bank).

[13] Source: Janus Henderson Investors, JP Morgan; JPM EMBI index excluding CCC issues, as of 30 June 2026.

> "According to our proprietary database of financial professional portfolios, dedicated allocations to EMD generally make up only a small proportion of a fixed income allocation globally. But expanding allocations to EMD could help diversify fixed income portfolios. For investors considering an allocation in their portfolios, our goals-based fixed income framework demonstrates how EMD can be positioned not only to enable investors to capture some of the highest income potential available, but also benefit from lower correlations to equities compared to other single-sector income-producing assets."
>
> **Matthew Bullock, Portfolio Construction and Strategy Team.**

Janus Henderson's Portfolio Construction and Strategy global experts deliver custom insights and risk modelling to help meet investor needs. The team's goal is to help investors make sense of what's happening in the market, understand the implications for portfolio construction, and create and adjust portfolios for future success.



Bent Lystbaek
Portfolio Manager

Bent is a Portfolio Manager on the Emerging Markets Debt Hard Currency (EMD HC) Team at Janus Henderson Investors. Prior to joining the firm in 2022, he was a co-lead portfolio manager at DBAM, where he contributed to the launch of the EMD HC strategy in 2013. Bent began his career as a fixed income analyst at Andelsbanken (which later merged with Unibank and is now called Nordea) in 1986.

Bent has 40 years of financial industry experience.



Jacob Ellinge Nielsen
Portfolio Manager

Jacob is a Portfolio Manager on the Emerging Markets Debt Hard Currency (EMD HC) Team at Janus Henderson Investors. Prior to joining the firm in 2022, he was a co-lead portfolio manager on the EMD HC team at DBAM from 2013. Jacob began his career as an assistant analyst on the Danish mortgage and derivative research team at Nordea Markets in 2002.

Jacob has 24 years of financial industry experience.



Thomas Haugaard
Portfolio Manager

Thomas is a Portfolio Manager on the Emerging Markets Debt Hard Currency (EMD HC) Team at Janus Henderson Investors. Prior to joining the firm in 2022, he was a senior portfolio manager at Danske Bank Asset Management (DBAM) where he served on the EMD HC team from 2013. He is a member of the University of Copenhagen's ThinkChina working group and has been an external lecturer at the university.

Thomas has 22 years of financial industry experience.



Sorin Pirău, CFA
Portfolio Manager

Sorin is a Portfolio Manager on the Emerging Markets Debt Hard Currency (EMD HC) Team at Janus Henderson Investors. Prior to joining the firm in 2022, he worked at DBAM from 2012, first as an analyst and then a portfolio manager on the EMD HC team from 2013 where he contributed towards the launch of the EMD HC strategy that same year. Sorin is a member of the Principles for Responsible Investment's Sovereign Debt Advisory Committee.

Sorin has 14 years of financial industry experience.

Glossary

Risks

Actively managed portfolios may fail to produce the intended results. No investment strategy can ensure a profit or eliminate the risk of loss.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Emerging market investments have historically been subject to significant gains and/or losses. As such, returns may be subject to volatility.

Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

High-yield or "junk" bonds involve a greater risk of default and price volatility and can experience sudden and sharp price swings.

Sovereign debt securities are subject to the additional risk that, under some political, diplomatic, social or economic circumstances, some developing countries that issue lower quality debt securities may be unable or unwilling to make principal or interest payments as they come due.

Volatility measures risk using the dispersion of returns for a given investment.

Definitions:

Alpha: Alpha compares risk-adjusted performance relative to an index. Positive alpha means outperformance on a risk-adjusted basis.

Balance of payments: A record of all economic transactions between a country and the rest of the world over a specific period, including trade, investment and financial flows.

Basis points (bps): One basis point equals 1/100 of a percentage point. 1 bp = 0.01%, 100 bps = 1%.

Bloomberg Global Aggregate Index: A flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitised fixed-rate bonds from both developed and emerging markets issuers.

Corporate bond: A bond issued by a company. Bonds offer a return to investors in the form of periodic payments and the eventual return of the original money invested at issue on the maturity date.

Correlation: Measures the degree to which two variables move in relation to each other. A value of 1.0 implies movement in parallel, -1.0 implies movement in opposite directions, and 0.0 implies no relationship.

Credit anchor: This typically refers to a primary, financially stable entity (such as a large corporation or buyer) whose strong credit profile serves as the foundational backing for extending credit or financing to smaller, connected entities in a supply chain.

Credit quality ratings: Credit quality ratings are measured on a scale that generally ranges from Aaa (highest) to C (lowest).

Credit risk premia: The additional return investors require to compensate for the risk that a borrower may fail to meet its debt obligations.

Credit Spread: The difference in yield between securities with similar maturity but different credit quality. Widening spreads generally indicate deteriorating creditworthiness of corporate borrowers, and narrowing indicate improving.

Current account balance: The difference between a country's total exports of goods, services and income and its total imports and transfers with the rest of the world.

Current account deficit: A situation where a country's imports of goods, services and transfers exceed its exports and income receipts.

Debt service ratio: Measures a firm's available cashflow to pay its current debt obligations.

Default: The failure of a borrower to make interest payments or repay principal in accordance with the agreed terms of a debt obligation.

Diversification: Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Drawdown: The decline in the value of an investment, portfolio or market from its peak to its subsequent trough.

Duration: Measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

Emerging market investments: Emerging market investments have historically been subject to significant gains and/or losses. As such, returns may be subject to volatility.

External positions: A measure of a country's foreign assets and liabilities, indicating its financial relationship with the rest of the world.

Financial conditions: The availability and cost of financing in an economy, reflecting factors such as interest rates, credit availability, asset prices and exchange rates.

Fiscal balance: The difference between a government's revenues and expenditures over a specified period.

Fiscal consolidation: Policies aimed at reducing government budget deficits and stabilising or lowering public debt levels.

Fiscal policy: Government decisions regarding taxation, spending and borrowing to influence economic activity.

Fixed income securities: Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens.

Floating exchange rate: An exchange rate that is primarily determined by supply and demand in currency markets rather than being fixed by a government or central bank.

Fundamentals: The underlying economic, financial and credit characteristics that indicate the strength and stability of a country, company or issuer.

FX risk: The risk that changes in exchange rates will adversely affect the value of an investment.

Hedged versus unhedged returns: Hedged returns seek to reduce the impact of currency fluctuations, while unhedged returns remain fully exposed to foreign exchange movements.

ICE BofA US Corporate Index: Tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the US domestic market.

ICE BofA US High Yield Index: Tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

Idiosyncratic: Refers to risks or characteristics that are specific to an individual issuer, security or country rather than the broader market.

Inflation: The rate at which the prices of goods and services are rising in an economy. The Consumer Price Index (CPI) and Retail Price Index (RPI) are two common measures. The opposite of deflation.

Interest rate: The amount charged by a lender to a borrower, expressed as a percentage of the principal, or the return earned on an investment.

Issuer: The entity, such as a government, company or financial institution, that issues a security to raise capital.

JP Morgan CEMBI Broad Diversified Index: Tracks the performance of US dollar-denominated bonds issued by emerging market corporate entities.

JP Morgan EMBI Global Diversified Index (EMBIGD): A uniquely-weighted version of the JP Morgan EMBI Global Index. It limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts of debt outstanding. The countries covered are identical to those covered by the JP Morgan EMBI Global Index which tracks total returns for U.S.-dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds.

JP Morgan GBI-EM Global Diversified: Tracks the performance of bonds issued by emerging market governments and denominated in the local currency of the issuer.

Local currency sovereign bonds: Government bonds issued by a sovereign nation and denominated in its domestic currency.

Market inefficiencies: Situations where asset prices do not fully reflect all available information, creating potential investment opportunities.

Maturity: The date when the issuer of a bond must repay the principal amount and any final interest to the holder of the bond.

MSCI Emerging Markets IndexSM: Reflects the equity market performance of emerging markets.

Primary balance: A government's fiscal balance excluding interest payments on outstanding debt.

Public-debt-to-GDP ratio: A key economic indicator that measures the ratio of a country's government debt to its gross domestic product (GDP).

Quantitative Easing (QE): A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market.

Quantitative Tightening (QT): A contractionary monetary policy tool applied by central banks to decrease the amount of liquidity or money supply in the economy.

Risk appetite is the amount and type of risk an organization or individual is willing to accept in pursuit of its strategic objectives

Safe Haven: An investment that is expected to retain or increase its value during periods of market stress or economic uncertainty.

Short position: Fund managers use this technique to borrow then sell what they believe are overvalued assets, with the intention of buying them back for less when the price falls. The position profits if the security falls in value.

Secondary market: The secondary market is a financial arena where investors buy and sell existing securities from other investors rather than from the original issuing company.

Taper tantrum: A sharp spike in bond yields and financial market volatility triggered when investors panic over a central bank's plans to reduce its bond-buying stimulus program

Technicals: Market factors driven by supply and demand dynamics, investor positioning, fund flows and market structure rather than fundamental economic or credit considerations.

Total debt stock: The total amount of outstanding debt owed by a government, company or economy at a given point in time.

Volatility: Measures risk using the dispersion of returns for a given investment.

Yield: The level of income on a security over a set period, typically expressed as a percentage rate. For a bond, this is calculated as the coupon payment divided by the current bond price.

Yield-to-worst is the lowest possible yield an investor can receive on a bond, short of the issuer defaulting. It calculates what the return would be if the issuer redeems or calls the bond at the earliest possible date rather than holding it until full maturity.

FOR MORE INFORMATION, PLEASE VISIT JANUSHENDERSON.COM

Janus Henderson
INVESTORS

Important information:

The views presented are as of the date published. They are for information purposes only and should not be used or construed as investment, legal or tax advice or as an offer to sell, a solicitation of an offer to buy, or a recommendation to buy, sell or hold any security, investment strategy or market sector. Nothing in this material shall be deemed to be a direct or indirect provision of investment management services specific to any client requirements. Opinions and examples are meant as an illustration of broader themes, are not an indication of trading intent, are subject to change and may not reflect the views of others in the organization. It is not intended to indicate or imply that any illustration/example mentioned is now or was ever held in any portfolio. No forecasts can be guaranteed and there is no guarantee that the information supplied is complete or timely, nor are there any warranties with regard to the results obtained from its use. Janus Henderson Investors is the source of data unless otherwise indicated, and has reasonable belief to rely on information and data sourced from third parties. **Past performance does not predict future returns. Investing involves risk, including the possible loss of principal and fluctuation of value.**

Not all products or services are available in all jurisdictions. This material or information contained in it may be restricted by law, may not be reproduced or referred to without express written permission or used in any jurisdiction or circumstance in which its use would be unlawful. Janus Henderson is not responsible for any unlawful distribution of this material to any third parties, in whole or in part. The contents of this material have not been approved or endorsed by any regulatory agency.

Janus Henderson Investors is the name under which investment products and services are provided by the entities identified in the following jurisdictions: (a) **Europe** by Janus Henderson Investors International Limited (reg no. 3594615), Janus Henderson Investors UK Limited (reg. no. 906355), Janus Henderson Fund Management UK Limited (reg. no. 2678531), Tabula Investment Management Limited (reg. no. 11286661), (each registered in England and Wales at 201 Bishopsgate, London EC2M 3AE and regulated by the Financial Conduct Authority) and Janus Henderson Investors Europe S.A. (reg no. B22848 at 78, Avenue de la Liberté, L-1930 Luxembourg, Luxembourg and regulated by the Commission de Surveillance du Secteur Financier); (b) the **U.S.** by SEC registered investment advisers that are subsidiaries of Janus Henderson Group Ltd.; (c) **Canada** through Janus Henderson Investors US LLC only to institutional investors in certain jurisdictions; (d) **Singapore** by Janus Henderson Investors (Singapore) Limited (Co. registration no. 199700782N). This advertisement or publication has not been reviewed by Monetary Authority of Singapore; (e) **Hong Kong** by Janus Henderson Investors Hong Kong Limited. This material has not been reviewed by the Securities and Futures Commission of Hong Kong; (f) **South Kore**a by Janus Henderson Investors (Singapore) Limited only to Qualified Professional Investors (as defined in the Financial Investment Services and Capital Market Act and its sub-regulations); (g) **Japan** by Janus Henderson Investors (Japan) Limited, regulated by Financial Services Agency and registered as a Financial Instruments Firm conducting Investment Management Business, Investment Advisory and Agency Business and Type II Financial Instruments Business; (h) **Australia** and **New Zealand** by Janus Henderson Investors (Australia) Limited (ABN 47 124 279 518) and its related bodies corporate including Janus Henderson Investors (Australia) Institutional Funds Management Limited (ABN 16 165 119 531, AFSL 444266) and Janus Henderson Investors (Australia) Funds Management Limited (ABN 43 164 177 244, AFSL 444268); (i) the **Middle East** by Janus Henderson Investors Middle East Limited (DIFC branch), regulated by the Dubai Financial Services Authority as a Category 4 licensed entity. This document relates to a financial product which is not subject to any form of regulation or approval by the Dubai Financial Services Authority ("DFSA"). The DFSA has no responsibility for reviewing or verifying any prospectus or other documents in connection with this financial product. Accordingly, the DFSA has not approved this document or any other associated documents nor taken any steps to verify the information set out in this document, and has no responsibility for it. The financial product to which this document relates may be illiquid and/or subject to restrictions on its resale. Prospective purchasers should conduct their own due diligence on the financial product. If you do not understand the contents of this document you should consult an authorised financial adviser. No transactions will be concluded in the Middle East and any enquiries should be made to Janus Henderson. We may record telephone calls for our mutual protection, to improve customer service and for regulatory record keeping purposes.

Outside of the U.S., Australia, Singapore, Taiwan, Hong Kong, Europe and UK: For use only by institutional, professional, qualified and sophisticated investors, qualified distributors, wholesale investors and wholesale clients as defined by the applicable jurisdiction. Not for public viewing or distribution. Marketing Communication.

Janus Henderson® and any other trademarks used herein are trademarks of Janus Henderson Group Ltd. or one of its subsidiaries. © Janus Henderson Group Ltd.