

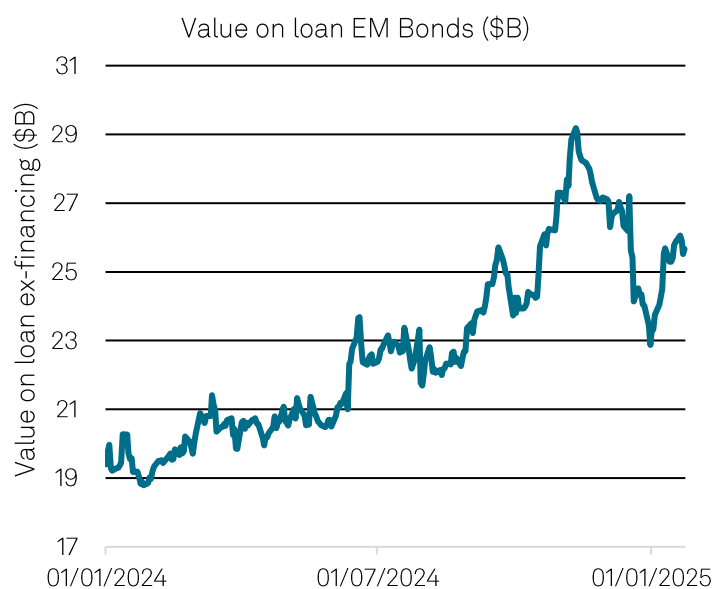
Tariff Tensions: Uncertainty Fuels Rise in EM Bond shorts.

Investors increase short positions in Emerging Market bonds as a defensive strategy against potential economic downturns.

In recent months, the global economic landscape has been characterized by heightened uncertainty surrounding the imposition of potential trade tariffs. This uncertainty is significantly impacting the value of emerging market currencies, leading to a growing trend of short positions in emerging market government bonds.

As countries grapple with the potential for increased tariffs, investors are increasingly wary of the economic repercussions. Trade tariffs can lead to increased costs for imported goods, which may stifle economic growth and inflationary pressures in emerging markets. Consequently, currencies in these regions often face downward pressure. A weaker currency diminishes the purchasing power of local consumers and can lead to capital outflows as investors seek safer assets. This volatile

environment creates opportunities for short sellers, as investors look to hedge against potential losses.



©2025 S&P Global Market Intelligence Source: S&P Global Market Intelligence Securities Finance

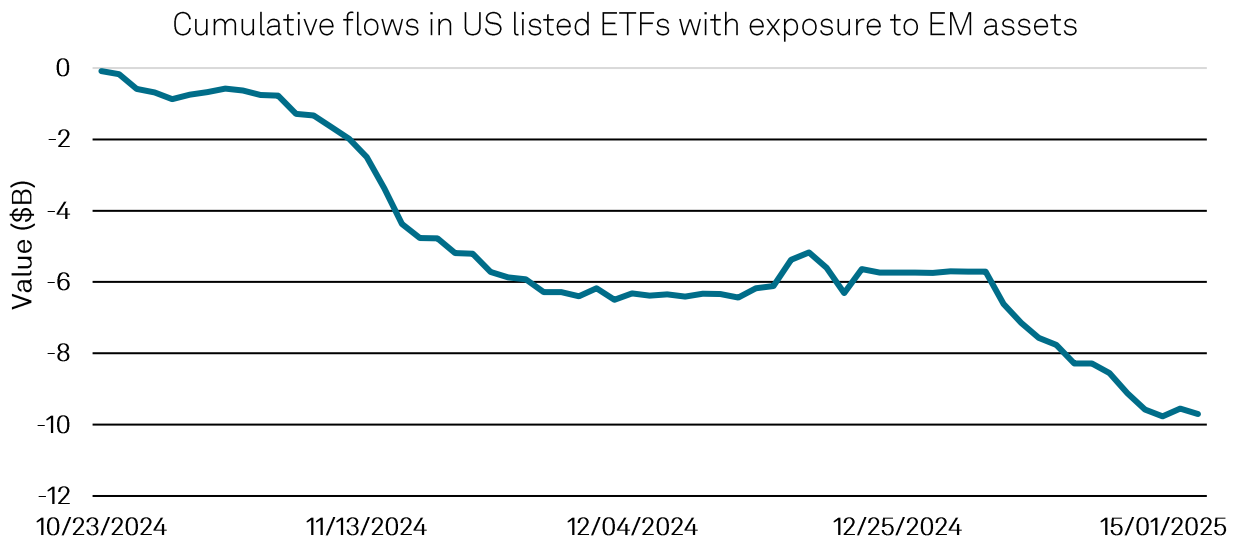
The relationship between currency value and bond markets is intricate. When emerging market currencies weaken, the yield on government bonds often rises to compensate for the heightened risk. However, this increase in yield may not be sufficient to attract investors, particularly when global economic conditions remain uncertain. As a result, many investors are opting to short emerging market bonds, anticipating that their values will decline in response to ongoing economic challenges.

Furthermore, the uncertainty surrounding trade tariffs can lead to increased volatility in emerging markets. Investors are acutely aware that any

sudden announcements regarding tariffs can trigger sharp movements in currency values, further complicating the investment landscape. This unpredictability encourages a more defensive investment strategy, prompting many to adopt short positions in bonds as a safeguard against potential downturns.

Additionally, the rise in short positions reflects a broader trend of risk aversion among investors. With geopolitical tensions and trade disputes at the forefront of global markets, many are reassessing their exposure to emerging markets. The combination of weakening currencies and rising bond yields creates a perfect storm for short sellers, who are increasingly confident that the value of these bonds will decline.

The uncertainty surrounding trade tariffs and the subsequent volatility in emerging market currencies have also had a notable impact on exchange-traded funds (ETFs) that focus on these regions. Recently, there has been a significant outflow of emerging market assets from U.S.-listed ETFs with exposure to emerging market assets, as investors seek to minimize their exposure to the heightened risks associated with economic instability. This trend reflects a growing sentiment of caution among investors, who are reallocating their portfolios towards safer assets amid fears of currency depreciation and rising bond yields. The outflow from emerging market ETFs not only underscores the shifting investor confidence but also exacerbates the downward pressure on emerging market currencies and bonds, creating a feedback loop that further complicates the investment landscape in these regions. As a result, ETF managers may need to adapt their strategies to address these challenges and attract investors back to emerging markets.



©2025 S&P Global Market Intelligence

Source: S&P Global Market Intelligence ETF and Benchmarking

The uncertainty surrounding trade tariffs is having a profound impact on emerging market currencies, leading to increased short positions across emerging market bonds and outflows across emerging market asset classes. As investors navigate this complex landscape, the interplay between currency fluctuations and asset values will continue to shape market dynamics. With the potential for further tariff developments, the outlook for emerging markets remains uncertain, prompting many to adopt a cautious approach in their investment strategies.

Copyright © 2025 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials, including any software, data, processing technology, index data, ratings, credit-related analysis, research, model, software or other application or output described herein, or any part thereof (collectively the "Property") constitute the proprietary and confidential information of S&P Global Market Intelligence or its affiliates (each and together "S&P Global") and/or its third-party provider licensors. S&P Global on behalf of itself and its third-party licensors reserves all rights in and to the Property. These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable.

Any copying, reproduction, reverse-engineering, modification, distribution, transmission or disclosure of the Property, in any form or by any means, is strictly prohibited without the prior written consent of S&P Global. The Property shall not be used for any unauthorized or unlawful purposes. S&P Global Market Intelligence's opinions, statements, estimates, projections, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security, and there is no obligation on S&P Global Market Intelligence to update the foregoing or any other element of the Property. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. The Property and its composition and content are subject to change without notice.

THE PROPERTY IS PROVIDED ON AN "AS IS" BASIS. NEITHER S&P GLOBAL NOR ANY THIRD PARTY PROVIDERS (TOGETHER, "S&P GLOBAL PARTIES") MAKE ANY WARRANTY, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE PROPERTY'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE PROPERTY WILL OPERATE IN ANY SOFTWARE OR HARDWARE CONFIGURATION, NOR ANY WARRANTIES, EXPRESS OR IMPLIED, AS TO ITS ACCURACY, AVAILABILITY, COMPLETENESS OR TIMELINESS, OR TO THE RESULTS TO BE OBTAINED FROM THE USE OF THE PROPERTY. S&P GLOBAL PARTIES SHALL NOT IN ANY WAY BE LIABLE TO ANY RECIPIENT FOR ANY INACCURACIES, ERRORS OR OMISSIONS REGARDLESS OF THE CAUSE. Without limiting the foregoing, S&P Global Parties shall have no liability whatsoever to any recipient, whether in contract, in tort (including negligence), under warranty, under statute or otherwise, in respect of any loss or damage suffered by any recipient as a result of or in connection with the Property, or any course of action determined, by it or any third party, whether or not based on or relating to the Property. In no event shall S&P Global be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including without limitation lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Property even if advised of the possibility of such damages. The Property should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions.

The S&P Global logo is a registered trademark of S&P Global, and the trademarks of S&P Global used within this document or materials are protected by international laws. Any other names may be trademarks of their respective owners.

The inclusion of a link to an external website by S&P Global should not be understood to be an endorsement of that website or the website's owners (or their products/services). S&P Global is not responsible for either the content or output of external websites. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process. S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global Ratings' public ratings and analyses are made available on its sites, www.spglobal.com/ratings (free of charge) and www.capitaliq.com (subscription), and may be distributed through other means, including via S&P Global publications and third party redistributors.