Income, resilience, and diversification:

The Case for EM Short Duration

BlackRock
Emerging Markets Debt (EMD) Team

Quick read

An Overlooked Corner of Fixed Income

EM Short duration debt has consistently delivered income, resilience, and diversification, yet it remains under-utilized by investors*

Unique Sovereign-led approach

Anchoring the portfolio around sovereign exposures preserves the flexibility to reposition across countries and credit dynamics as market conditions evolve.

Consistent Returns Across Market Cycles

A track record over the years that reflects a deliberate, disciplined approach to navigating an inherently dynamic asset class.

The search for resilient, income generating assets that can withstand volatility while preserving capital has always been central to investing.

One segment of the fixed income universe that has consistently achieved this balance is short duration emerging market debt.

Yet its effectiveness depends not only on the asset class itself, but also on how it is implemented.

In this note, we outline the case for short duration EM debt within diversified portfolios. We also draw on the experience of the **BSF Emerging Markets Short Duration Bond Fund** to illustrate why this approach can translate into consistent outcomes over time.

Value Proposition of Short Duration Emerging Market Debt

The short duration EM debt universe spans sovereign, quasi sovereign, and corporate issuers across emerging economies, typically with maturities under five years and predominantly denominated in hard currency (USD, EUR). It encompasses over 70 countries and a wide range of credit profiles, offering diversification that is difficult to replicate in developed markets.

Investors allocating to this space are typically seeking to enhance income through the credit premia embedded in emerging markets, while limiting exposure to interest rate volatility inherent in longer duration fixed income.

In practice, the most common implementation has been to focus on the corporate segment. This is intuitive: EM corporate bonds tend to offer shorter duration, broad issuer diversification, and attractive carry, resulting in favourable headline risk adjusted metrics.

However, this approach has structural limitations. Corporate bonds in EM are often less liquid, and observed volatility can understate underlying risk when trading activity is limited. More importantly, EM is highly sensitive to global macro regimes. In such environments, a predominantly corporate, less liquid portfolio can be difficult to reposition, forcing investors to absorb regime shifts rather than actively respond to them.

*Source: BlackRock, based on performance and portfolio data generated by the BSF Emerging Markets Short Duration Bond Fund. Investor underinvestment: source: BlackRock Investment and Portfolio Solutions EMEA, BlackRock Aladdin, Morningstar, as of 14 April 2026. Portfolio average allocation based on 155 Europe-domiciled moderate-risk multi-asset portfolios, reviewed quarterly. We use the Moderate Strategic EUR model as our comparator (rebalanced as of March 2026). **Past performance is not a reliable indicator of current or future results.**

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Value Proposition of Short Duration EMD (Con't)

A more flexible implementation can address this. Portfolios built primarily around short duration sovereign bonds benefit from stronger underlying liquidity, enabling active repositioning as conditions evolve. Corporate exposure would continue to be a part of the portfolio, leveraging its favourable features, but selectively focused on more liquid segments to complement the sovereign positioning.

The result is a portfolio that retains the income and diversification benefits of short duration EM debt, while enhancing adaptability and avoiding liquidity constraints.

How this can look in practice

Our strategy is designed to maximise the value embedded in short duration EM debt through a differentiated, **sovereign-led** implementation, with a duration cap of three years and at least 70% of holdings maturing within five years. Hard currency sovereign and quasi sovereign issuers typically represent 70–80% of the portfolio, and 10-20% for corporates, with at least 90% of exposures denominated in USD.

At the core of this approach is **liquidity**. While income remains the foundation of short duration EM investing, liquidity enables the portfolio to also capture capital upside by actively reallocating across countries and credit stories as market conditions evolve. Liquid sovereign bonds provide a precise platform to express macro and country level views, allowing us to identify improving credit dynamics and mispriced risk, particularly in markets undergoing reform or re-rating. Equally important, the portfolio can be repositioned efficiently during periods of stress, when transaction costs rise and flexibility becomes critical.

The strategy is anchored to an absolute return objective, benchmarked primarily against 3-month SOFR, with the JPM EMBI Global Diversified 1–3 Year Index serving as a secondary reference.

Diversification is another key pillar. The portfolio is typically constructed across 80–120 issuers, with a selective high yield bias to enhance carry but keeping portfolio positionings resilience. This is a deliberate research driven allocation to credits where we have strong conviction. This allows the strategy to efficiently capture spread income while maintaining a strong focus on drawdown risk management.

The peer groups below reflect the merits of our approach.

Performance	2025	2024	2023	2022	2021	2020
BSF EM Short Duration Bond Fund (net of D2 USD fees)	**14.40**	**11.54**	**12.78**	**-5.91**	**-0.82**	**8.76**
Morningstar Peer Ranking (net of D2 USD fees)	**35th**	**6th**	**21st**	**3rd**	**13th**	**16th**
EM Sovereign Debt Return Driver	Spread (+) Duration (+)	Spread (+) Duration (flat)	Spread (+) Duration (+)	Spread (–) Duration (–)	Spread(flat) Duration (–)	Spread (–) Duration (+)
JPM EMBI GD 1-3Y Index	12.57	9.13	9.29	-10.54	1.04	0.46
3-month cash return	4.39	5.37	5.21	1.70	0.04	1.08

Net of D2 USD share class 0.40% management fee. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. Morningstar Peer Group of Global Emerging Markets Bond Category.

Short Duration EM as a Diversifier to Other Income Segments

Within a diversified income portfolio, investors typically access a range of fixed income segments including investment grade credit, global high yield, and full duration government bonds. Each offers distinct characteristics, but many share common sensitivities to interest rate cycles, credit conditions, or developed market dynamics.

Short duration EM debt offers something structurally different. Its return profile is driven primarily by EM credit premia and country specific dynamics, which tend to be less correlated with the factors driving returns in developed market credit and rates.

In practice, the shorter duration profile limits overlap with rate sensitive segments, while exposure to a broad set of EM issuers introduces a return driver that behaves differently from traditional credit allocations. For investors already holding investment grade or high yield credit, this adds geographic and structural diversification without meaningfully increasing portfolio duration or volatility.

When structured and managed appropriately, short duration EM debt can play a meaningful role as a diversifier within income-oriented portfolios, enhancing overall resilience while delivering compelling excess returns over time.

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Source: BlackRock, Morningstar, Bloomberg. Data: BSF EM Short Duration Bond Fund net fee D2 USD performance. M* ranking using net of D2 USD fees performance. 3-month cash return is based on a combination of 3m SOFR and 3m LIBOR (for 2020). **Diversification and asset allocation may not fully protect you from market risk.**

Conclusion

Short duration emerging market debt offers a rare combination of income, resilience, and diversification, attributes that are increasingly difficult to achieve simultaneously in today's environment. But outcomes are largely determined by implementation. Approaches that prioritise static carry and less liquid segments can limit flexibility in an asset class shaped by frequent macro regime shifts.

Our approach structures portfolios around liquidity and adaptability, using predominantly sovereign exposures to enable active repositioning as conditions evolve, while selectively incorporating corporate bonds where liquidity supports it. The results are reflected in the strategy's track record, which has delivered consistently strong outcomes across market environments and ranks favourably versus peers over time.

For investors seeking income with a higher degree of consistency and controlled drawdowns, this provides a compelling way to access the asset class, combining the benefits of short duration with the flexibility needed to navigate an inherently dynamic market.

BSF Emerging Markets Short Duration Bond Fund – Key Facts

Morningstar
Overall Rating: ★★★★★

Award-winning Strategy
LSEG Lipper Fund Awards Europe – Global EM HC
Best Fund over 3-year and 5-year in 2023
Best Fund over 3-year in 2024
Best Fund over 5-year in 2025
Best Fund over 5-year in 2026

Portfolio Parameters

Portfolio Managers	Kirill Veretinskii, Michel Aubenas
Trading frequency	Daily, T+3 settlement
Legal form	UCITS (Luxembourg)
Fund AUM (US$)	$421m
Average Duration	Max three years at portfolio level
Quality	Entire spectrum
Primary Benchmark	3-month SOFR (compounded in arrears)
Secondary Benchmark	JPMorgan EMBI Global Diversified 1-3Y
Risk Target	Absolute 450bps
Typical Risk Range	200-600bps

Latest Portfolio Characteristics

Positioning	Fund
Yield (%)	6.94
Mod Dur (yrs)	2.92
Spread (bps)	247
Spread dur (yrs)	2.82
Carry (%)	6.75
DxS	8.18
Number of issuers	130
Avg life (yrs)	3.92

Source: BlackRock, data as of 31 May 2026.

Available share classes include	Management Fee	Ongoing Charges Figures	ISIN	Min. Investment
Class A2 USD	0.75%	0.91%	LU1706559744	US$ 5,000
Class D2 USD	0.40%	0.56%	LU1706559827	US$ 100,000
Class I2 USD	0.40%	0.49%	LU2548888341	US$ 10m

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Fund Specific Risks for BSF Emerging Markets Short Duration Bond Fund:

Changes to interest rates, credit risk and/or issuer defaults will have a significant impact on the performance of fixed income securities. Noninvestment grade fixed income securities can be more sensitive to changes in these risks than higher rated fixed income securities. Potential or actual credit rating downgrades may increase the level of risk.

Emerging Markets Risk: Emerging markets are generally more sensitive to economic and political conditions than developed markets. Other factors include greater 'Liquidity Risk', restrictions on investment or transfer of assets, failed/delayed delivery of securities or payments to the Fund and sustainability-related risks

Currency Risk: The Fund invests in other currencies. Changes in exchange rates will therefore affect the value of the investment.

Derivatives Risk: Derivatives may be highly sensitive to changes in the value of the asset on which they are based and can increase the size of losses and gains, resulting in greater fluctuations in the value of the Fund. The impact to the Fund can be greater where derivatives are used in an extensive or complex way.

Counterparty Risk. The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Credit Risk: The issuer of a financial asset held within the Fund may not pay income or repay capital to the Fund when due.

Liquidity Risk: Lower liquidity means there are insufficient buyers or sellers to allow the Fund to sell or buy investments readily.

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