

# EM-DM Convergence: A Secular Trade on Deglobalization

Bill Campbell, Portfolio Manager, Global Sovereign Debt | February 2026



Since Donald Trump’s re-election with Republican congressional majorities, investors understandably have focused on changing U.S. policy as the instrumental mover of markets. That preoccupation, however, has diverted attention from the change in the structural landscape of the globe over the past half-decade. Deglobalization remains underappreciated and underpriced in developed markets (DM) while a parallel inattention is impacting large emerging markets (EM). Many of these emerging markets, having benefited from globalization, today preside over much sounder economic and financial foundations than generally recognized by investors. As a result, more-astute investors can take advantage of an EM-DM convergence story shaped by these structural factors.

## Globalization and Developed Markets

Over the past 20 years, globalization has largely acted as a global public good, providing the benefit of cheap labor for developed countries, export markets for emerging countries and a post-Cold War peace dividend of growing global interconnectedness for both worlds. In this context, G-7 countries saw standards of living increase with contained inflation, access to cheaper goods and services, and healthy real wages. These payoffs came at quiet costs: deindustrialization, a concomitant loss of manufacturing jobs and increased dependence on overseas supply chains. DM politicians and policymakers at first viewed the tradeoffs of the globalization bargain as a net positive from the perspective of comparative advantage in global trade. However, the cost side – in the forms of hollowed-out job markets and vulnerable supply chains – became a source of political controversy across many developed markets.<sup>1</sup> (Figure 1)

### Fall in U.S. Manufacturing Jobs | January 29, 2026

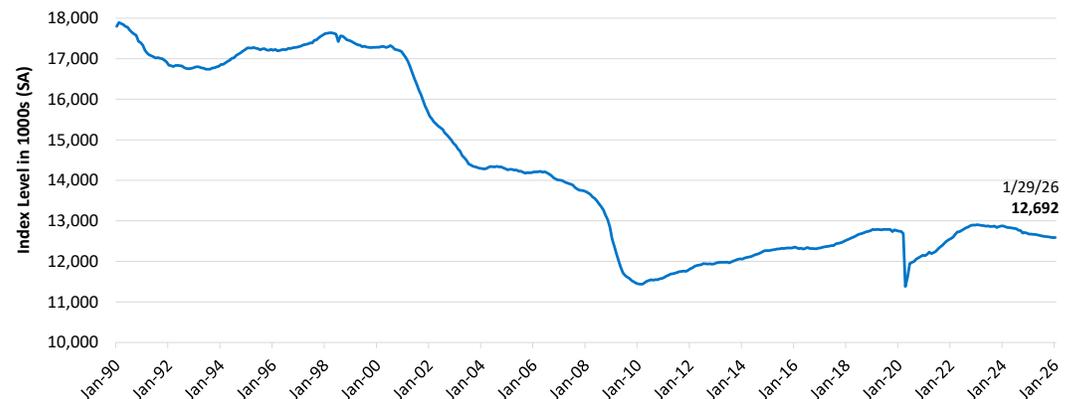


Figure 1

Source: DoubleLine, U.S. Bureau of Labor Statistics, Bloomberg

Amid the fair winds of globalization, DM governments enjoyed reduced demand to spend large amounts on social safety nets, investment and defense. In the United States, the federal government actually ran a surplus from the late 1990s to early 2000s (if one overlooks the unfunded long-term commitments in the entitlement programs – namely, Medicare and Social Security). (Figure 2)

### U.S. Treasury Federal Surplus/Deficit as a Percentage of GDP January 31, 1990 through January 31, 2026

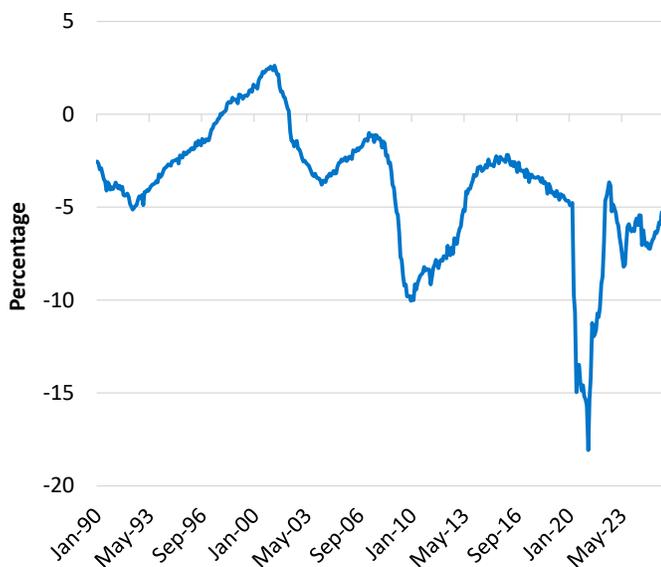


Figure 2  
Source: DoubleLine, U.S. Treasury, Bloomberg

As DM budget deficits were kept in check (broadly speaking), government bond issuance was reduced at a time when private savings were increasing.<sup>2</sup> Ben Bernanke, Federal Reserve chair from 2006 to 2014, characterized the global savings glut from roughly 1996 to 2006 as a phenomenon that suppressed interest rates and, by definition, the cost of capital. This cocktail encouraged consumption in developed countries and stimulated investment, including capital moving into emerging markets to support their development and capitalize on their cheap labor. Emerging markets underwent a massive industrialization period. (Figure 3)

### Emerging Markets GDP per Capita (Constant Prices; PPP; 2021 International Dollars)

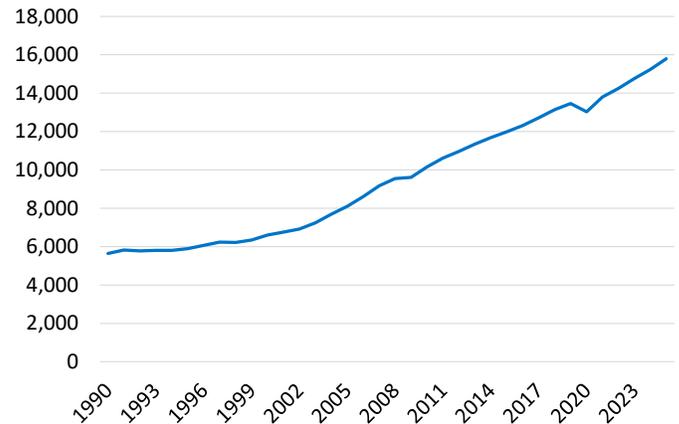


Figure 3  
Source: DoubleLine, International Monetary Fund World

### Globalization: Advantage Emerging Markets

During this era of globalization, EM capital expenditure (capex) surged as these countries underwent a transformative industrialization cycle that has lasted from the 2000s through today. Borrowing to fund industrial capex registered a commensurate boom. The beginning of the era marked large budget deficits and debt loads in emerging countries, exerting downward pressure on their currencies and upward pressure on local inflation and interest rates. But emerging markets were able to not only develop strong and diversified domestic economies, their respective private sectors witnessed a buildout of domestic savings, which led to financial market improvements by growing their domestic equity, debt and credit markets, and increasing the domestic investor base. (Figure 4)

### Emerging Markets Debt Outstanding

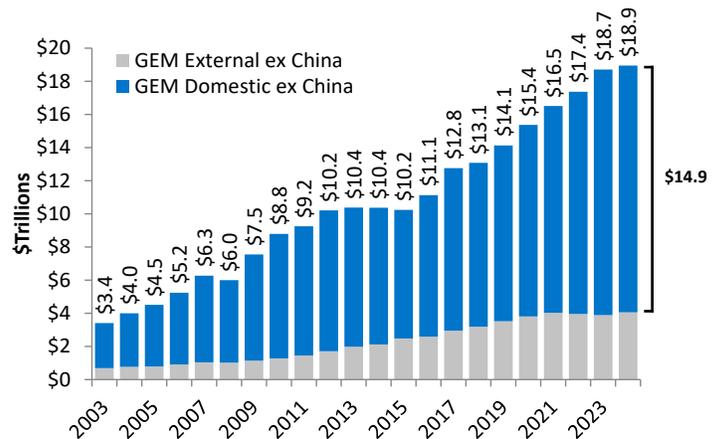


Figure 4  
Source: DoubleLine, Bank of America GEMs, Bank of International Settlements

The broadening and deepening of EM domestic financial markets improved standards of living with rising gross domestic product (GDP) per capita. EM policymakers worked closely with the International Monetary Fund (IMF) and other organizations to improve their fiscal and monetary policies, gain control of inflation and manage foreign exchange (FX) volatility, ultimately resulting in lower cost of capital and increased credit availability. (Figure 5)

**Fiscal Prudence | 2024 Government Debt**  
Percentage of GDP

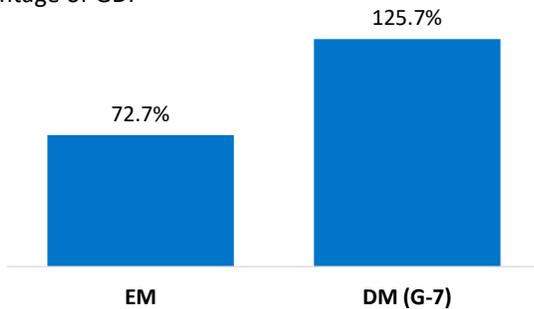


Figure 5  
Source: DoubleLine, IMF WECO April 2025

## EM Transition: From Globalization to Localization

The growth of the domestic financial markets across many of the larger EM economies has reduced dependence on foreign capital. With their increased incomes and savings, EM consumers are becoming an ever-larger part of the domestic economy and by extension a larger portion of the domestic financial markets. The upshot is a more stable capital base for EM economies. The resulting reduced reliance on foreign capital helps decrease the risk of large currency depreciations when foreign investors lose confidence and pull their money due to either domestic or international developments.

Increased credit availability benefits domestic housing markets, business capex and individual consumers, all supporting a more robust economic growth profile and future financial returns. The IMF recently noted, “Large emerging markets with strong policy frameworks and growing domestic savings have been able to rely more on local currency debt issuance and strong demand from domestic investors, especially nonbank financial institutions.”<sup>3</sup>

Finally, another structural factor continues to benefit the long-term outlook for emerging markets: age demographics. EM populations have an average age about 13 years younger than those of developed markets. (Figure 6) As developed markets continue to age, dependency ratios increase as the needs of

## Median Age Has Risen from 30 to 43 Years in DM Economies and from 19 to 30 in EM Economies | Median Age, Years

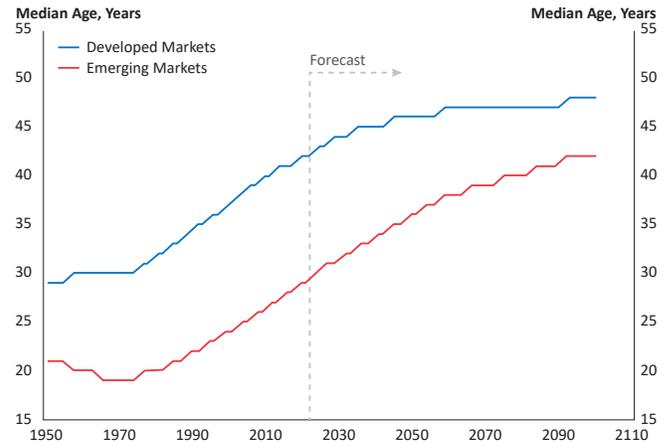


Figure 6  
Source: United Nations, Goldman Sachs Global Investment Research

the public grow and the number of working-age people falls, increasing the burden on governments and families alike.<sup>4</sup> In contrast, emerging markets continue to benefit from a relatively young population that is reaching peak productivity with respect to the average working age of their population. This should help support continued positive growth outcomes in the years ahead.

## Sea Change: Convergence Between DM and More-Developed EM

A natural consequence of decades of globalization has been the maturing of labor in emerging markets. Employees now demand increased wages for the goods and services that they produce. This trend has resulted in the reduction of the global public good of cheap labor, goods and services that provided the fiscal benefits and increased standards of living in developed markets in the early 2000s. Many trends within globalization have reversed. Notably, global wage distribution has shifted toward EM labor.<sup>5</sup> (Figure 7) This shift has had several consequences. First, as discussed, goods and services, once cheaply abundant, have become more costly. This also has increased wealth and savings in emerging markets, creating a more robust domestic consumer, broad and deeper domestic capital markets, more availability to credit, and a cheaper cost of capital for investment and consumption.

## Comparison of the Global Wage Distribution in 2006 and 2021 Using Full-Time Equivalent Monthly Wages (PPP 2021 International US\$)

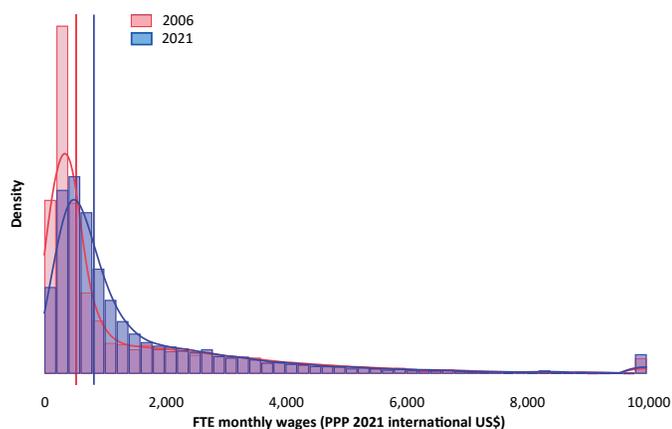


Figure 7  
Source: ILO Global Wage Report 2024-2025

In response to the rise in the global costs of goods and services and the loss of manufacturing jobs to emerging markets, social demands and political pressures in many DM countries have forced governments to increase fiscal spending.<sup>6</sup> Populist, nationalist and protectionist movements have surged in DM countries where part of the electorate perceives national security interests have become threatened by outsourcing their industrial base to EM producers. This has increased the need for infrastructure and defense spending, funded by widened deficits and increased borrowing, eroding sovereign balance sheets. In short, the world has moved from one where the DM received cheap goods and commodities from EM to a world where they are competing for these goods in price terms and for access to resources. These trends were already under way before the 2024 election returned Donald Trump to the White House. Thus, I view this second Trump administration and its policies as an accelerant rather than the primary cause of these trends. In my view, these trends are likely to persist even after the end of President Trump's second term.

I have often been asked by investors about politics being a risk factor in emerging markets. It is. The global investment community, however, needs to realize that this risk has now found its way into developed markets. Such risk is starting to be priced into DM markets but not fully so. That mispricing is a source of risk and opportunity.

On the other side of the coin, global investors have largely overlooked the gains in emerging markets. Compared to developed markets, many emerging markets are better positioned on inflation and fiscal policy and have prospects for stronger growth for 2026. Prudent management has made room for many EM central banks to continue easing policy rates if inflation and FX volatility remain manageable this year.

In the past, EM central banks had to maintain high interest rates in order to keep inflation and currency volatility in check. Calendar year 2025 witnessed a sea change with the U.S. dollar weakening and many EM currencies appreciating despite multiple geopolitical and global economic concerns. If this dynamic continues in 2026, EM central banks could continue to cut if given the opportunity. This should support growth and help attract capital back to these countries. A virtuous feedback loop in EM could be in the offing. Last year, international investment into emerging markets remained tepid despite very strong performance. A pickup in international investment would reinforce the outlook for mutually reinforcing strong currency returns, economic growth and falling interest rates in the coming years.

## Opportunity in EM Local Markets: Several Forms

This landscape creates a unique situation where EM local fixed income presents several sources of value, which should come as welcome relief to global investors who find DM financial assets at stretched valuations.

EM fixed income offers diversified sources of potential returns. First, value is present in the high nominal carry and high real yields offered by many larger EM countries. Issuers of sovereign debt from Brazil to South Africa offer very high yields compared to their domestic fundamentals. In Brazil, an orthodox central bank has maintained very high rates to contain inflation and political risks. This orthodoxy is likely creating value for investors willing to look at local fixed income markets. In South Africa, policymakers continue to push for improvements to the inflation targeting of the central bank, helping to better anchor inflation and fiscal expectations. This, too, could present value to investors who invest locally in South Africa.

Risk premium continues to remain elevated due to political risks in emerging markets. Latin America, for example, is undergoing a heavy 2025-2026 election calendar.<sup>7</sup> Latin American election outcomes appear to have been investor-friendly to date. In addition, upcoming elections in Hungary and Colombia, in particular, bear close watching. Each has the potential to boost returns in the second half of this year.



# EM-DM Convergence: A Secular Trade on Deglobalization

Many emerging markets hold vast resources of raw materials (for example, industrial metals) that will be in demand to meet DM infrastructure and defense needs. As world demand rises for natural resources, metal exporters such as Chile and Peru stand to benefit. South Africa, an exporter of precious metals, also stands to benefit from both exports and local currency appreciation as global investors' concerns rise over the safety of DM currencies. Over the past year, currencies in commodity-exporting EM countries have started to appreciate against the dollar. This is likely to continue if the globe's demand for commodities continues to remain robust. Through the variety of their economic makeup, EM countries give investors access to various investment themes.

## Conclusion

Secular transitions such as the nascent DM-EM convergence can make for confusing times for investors as the change in an underlying trend might not be obvious at its outset. I believe markets underappreciate the risks of the DM-EM convergence but also the potential for significant sources of return. And therein lies opportunity. ■



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Mr. Campbell joined DoubleLine in 2013. He oversees the firm's Global Sovereign Debt team and serves as a Portfolio Manager of the DoubleLine Emerging Markets Local Currency and Global Bond strategies. He is a permanent member of the Fixed Income Asset Allocation Committee. Prior to DoubleLine, Mr. Campbell worked for Peridiem Global Investors as a Global Fixed Income Research Analyst and Portfolio Manager. Prior to that, he was with Nuveen Investment Management Co., first as a Quantitative Analyst in the Risk Management and Portfolio Construction Group then as a Vice President in the Taxable Fixed Income Group. Mr. Campbell also worked at John Hancock Financial as an Investment Analyst. He holds a B.S. in Business Economics and International Business, as well as a B.A. in English, from Pennsylvania State University. Mr. Campbell holds an M.A. in Mathematics, with a focus on Mathematical Finance, from Boston University.

### About DoubleLine

DoubleLine Capital LP is an investment adviser registered under the Investment Advisers Act of 1940. DoubleLine's offices can be reached by telephone at (813) 791-7333 or by email at [Info@DoubleLine.com](mailto:Info@DoubleLine.com). Media can reach DoubleLine by email at [Media@DoubleLine.com](mailto:Media@DoubleLine.com).

### Endnotes

- <sup>1</sup> Bill Campbell, "[Winds of Change: DM Safe Haven No Longer to Be Taken for Granted](#)," December 2025
- <sup>2</sup> Southern European countries experienced challenges in debt sustainability following the 2008 Global Financial Crisis, but northern Europe maintained sustainable debt profiles during this time.
- <sup>3</sup> "[Good Policies \(and Good Luck\) Helped Emerging Economies Better Resist Shocks](#)," IMF Blog, Oct. 6, 2025.
- <sup>4</sup> "The Path to 2075 — The Positive Story of Global Aging," p. 2, Goldman Sachs Economics Research, May 20, 2025. <https://www.gspublishing.com/content/research/en/reports/2025/05/20/2d3fe290-10b1-44be-8d0e-77b8d303928f.pdf>
- <sup>5</sup> International Labour Organization, United Nations, [Global Wage Report: 2024-2025](#), pages 66, 67
- <sup>6</sup> Campbell, "[Winds of Change: DM Safe Haven No Longer to Be Taken for Granted](#)," December 2025
- <sup>7</sup> Valerie Ho, "[Trump's Western Hemisphere Pivot and the Implications for Latin America](#)," Jan. 14, 2025

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