

The Case for Local Currency and Active Management in a Softening Dollar Environment

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Key Takeaways

- With the U.S. dollar weakening in 2025 and early 2026, local currency emerging market debt has surged toward 20% returns, outpacing hard currency peers closer to 15%, making active local exposure through the [WisdomTree Emerging Markets Local Debt Fund \(ELD\)](#) increasingly compelling in a shifting macro regime.
- After more than a decade in which dollar-denominated EM debt delivered roughly 60% cumulative returns versus less than 20% for local currency strategies amid a 40% rise in the dollar, the pivot toward Fed easing and softer FX trends is now flipping leadership back to local markets.
- In this new environment, active country allocation has mattered, as [ELD](#) has outperformed its largest passive local currency peer across YTD, 1-year, 5-year and 10-year periods by overweighting higher-carry Latin America and avoiding structural laggards such as China, underscoring why ETF selection is as critical as the asset class itself.

If we look at the biggest ETFs in the Morningstar Emerging Markets Bond category, measured by assets under management (AUM), we see two giants exemplifying this:

- iShares J.P. Morgan USD Emerging Markets Bond ETF (EMB), \$15.9 billion.
- Vanguard Emerging Markets Government Bond Index Fund (VWOB), \$5.9 billion.

Conversely, if we look for the biggest ETF by AUM that generates exposure to local currency emerging markets bonds, we find:

- VanEck J.P. Morgan EM Local Currency Bond ETF (EMLC), \$5.2 billion.

Two Potential Surprises for Investors

A granular analysis of the performance data from both a recent period, 2025 and early 2026, as well as a longer period back to 2013, reveals a distinct bifurcation on two distinct levels we will explore in this piece:

1. Local currency debt, recently, has rather dramatically outperformed hard currency debt.

2. Within the local space, active management, exemplified by the [WisdomTree Emerging Markets Local Debt Fund \(ELD\)](#), has been able to generate consistent outperformance relative to EMLC.

We can use the [WisdomTree Bloomberg U.S. Dollar Bullish Fund \(USDU\)](#) as a way to bring context to these questions, marrying analysis of the emerging markets bond asset class with a view on performance of the U.S. dollar.

Point 1: Surprise—Local Currency Emerging Market Debt has been Outperforming

For many U.S.-based investors, emerging markets bonds can feel like a black box. Returns are shaped not only by credit risk and interest rates, but also by currency movements that don't always show up clearly in traditional performance snapshots. Distinguishing between hard currency and local currency debt adds another layer of complexity. Yet beneath that complexity, leadership has emerged, as local currency bonds have been doing much of the heavy lifting performance-wise, at least since early 2025.

In Figure 1a, we see this as both [ELD](#) and EMLC (local currency strategies) have opened up a performance advantage against EMB and VWOB (hard currency strategies). It's important to note that, over this period, the return of [USDU](#) was negative, telling us that the overall environment was that of a 'weak U.S. dollar.'

Figure 1a: Recent Outperformance of Emerging Markets Local Currency Debt



Figure 1b: Standardized Performance

Fund Name	Fund Ticker Symbol	Fund Inception Date	Gross Fund Expense Ratio	Net Fund Expense Ratio	Fund SEC 30-Day Yield	Year-to-Date	1-Year	3-Year	5-Year	10-Year
WisdomTree Emerging Markets Local Debt Fund (NAV)	ELD	8/9/10	0.55%	0.55%	6.21%	19.74%	19.74%	9.61%	1.57%	3.54%
WisdomTree Emerging Markets Local Debt Fund (MP)	ELD	8/9/10	0.55%	0.55%	6.21%	20.92%	20.92%	9.87%	1.67%	3.59%
VanEck J.P. Morgan EM Local Currency Bond ETF (NAV)	EMLC	7/22/10	0.31%	0.30%	6.02%	18.25%	18.25%	8.53%	0.70%	3.04%
VanEck J.P. Morgan EM Local Currency Bond ETF (MP)	EMLC	7/22/10	0.31%	0.30%	6.02%	18.81%	18.81%	8.62%	0.68%	3.05%
iShares J.P. Morgan USD Emerging Markets Bond ETF (NAV)	EMB	12/17/07	0.39%	0.39%	5.48%	13.45%	13.45%	10.00%	1.26%	3.95%
iShares J.P. Morgan USD Emerging Markets Bond ETF (MP)	EMB	12/17/07	0.39%	0.39%	5.48%	13.85%	13.85%	9.95%	1.12%	3.90%
Vanguard Emerging Markets Government Bond Index Fund ETF Shares (NAV)	VWOB	5/31/13	0.15%	0.15%	5.64%	13.00%	13.00%	9.69%	1.51%	4.18%
Vanguard Emerging Markets Government Bond Index Fund ETF Shares (MP)	VWOB	5/31/13	0.15%	0.15%	5.64%	13.49%	13.49%	9.74%	1.39%	4.13%
WisdomTree Bloomberg U.S. Dollar Bullish Fund (NAV)	USDU	12/18/13	0.51%	0.51%	3.44%	-3.21%	-3.21%	4.55%	5.05%	2.06%
WisdomTree Bloomberg U.S. Dollar Bullish Fund (MP)	USDU	12/18/13	0.51%	0.51%	3.44%	-3.29%	-3.29%	4.55%	5.10%	2.08%

Sources: WisdomTree, FactSet, Morningstar specifically data from the Fund Comparison Tool in the PATH suite of tools, accessed February 19, 2026 with returns as of February 17, 2026 for Figure 1a and as of December 31, 2025 for Figure 1b. NAV denotes total return performance at net asset value. MP denotes market price performance. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance, click the relevant ticker: [ELD](#), [USDU](#), [EMLC](#), [EMB](#), [VWOB](#).**

The Hard Currency Trap and the Macro Pivot

To understand the current opportunity, one must first understand the inertia of the past. Looking back over a common period dating back to 2013¹, EMB and VWOB, the U.S. dollar denominated exposures, delivered much stronger performance than their local currency peers, EMLC and [ELD](#). As we see in Figure 2:

- The cumulative returns of EMB and VWOB were in the neighborhood of 60% over this period.
- By comparison, the cumulative returns of [ELD](#) and EMLC were below 20%.
- Remembering that we have to maintain cognizance of the performance of the U.S. dollar, we see that [USDU's](#) return over this same period was in the neighborhood of 40%.

In our view, this disparity solidified the dominance of USD-based funds in investor portfolios. When the dollar is strong, the currencies of emerging markets depreciate, eroding the returns of local-currency bonds when converted back to dollars. For years, avoiding currency risk was the winning trade.

Figure 2: A Period where Hard Currency Exposures Outperformed



Sources: WisdomTree, FactSet, Morningstar specifically data from the Fund Comparison Tool in the PATH suite of tools, accessed February 19, 2026 with returns as of February 17, 2026. NAV denotes total return performance at net asset value. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance, click the relevant ticker: [ELD](#), [USDU](#), [EMB](#), [VWO](#).**

Currency Return Behavior Can Fluctuate

In Figure 3, we look instead at the latest 1-Year period ended February 17, 2026. The reason we do this is that we are focusing on a period where the performance of the U.S. dollar shifted from that of strength to that of weakness—seen in the Figure as a negative cumulative return for [USDU](#). The results of this shift are stark:

- [ELD](#) and EMLC became the performance leaders, with cumulative returns pushing towards, but not quite reaching 20%.
- EMB and VWO became the performance laggards, with cumulative returns pushing towards, but not quite reaching 15%.

The message from the market is clear: the 'more obvious' exposure of the last decade has become the underperforming exposure of the current recovery. We use 'more obvious' to reflect investors' tendency to

extrapolate performance trends indefinitely, frequently forgetting that 'past performance is not indicative of future results.'

It is also worth noting that if the local currency ETFs mentioned here are pushing towards 20% for this period and the hard currency ETFs mentioned here are pushing towards 15%, it's telling us that the overall asset class, Emerging Markets Bonds, is showing some real strength.

Figure 3: When Local Currency Strategies Started Outperforming



Sources: WisdomTree, FactSet, Morningstar specifically data from the Fund Comparison Tool in the PATH suite of tools, accessed February 19, 2026 with returns as of February 17, 2026. NAV denotes total return performance at net asset value. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance and to download the respective Fund prospectuses, click the relevant ticker: [ELD](#), [USDU](#), [EMB](#), [VWO](#).**

Point 2: Active vs. Passive, Why ELD is Beating EMLC

Once an investor accepts the premise that local currency debt may be a compelling place to be, the next decision is the vehicle. The largest product in the Morningstar Emerging Markets Bond category that provides exposure in local currency is the VanEck J.P. Morgan EM Local Currency Bond ETF (EMLC), a passive fund tracking an index. However, in the complex world of emerging markets, passive indexing often exposes investors to troubled economies simply because those countries issue a lot of debt.

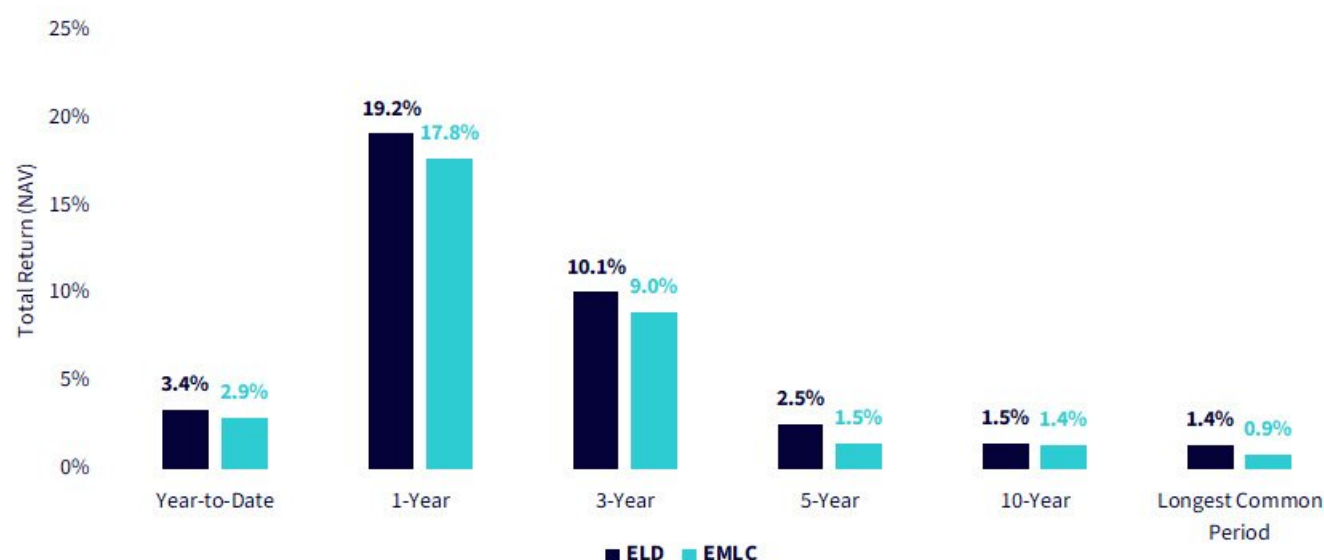
That point bears repeating, but phrased as a question: Does it make sense to put the most weight within a fixed income strategy into the entity issuing the most debt?

This is where the distinction between ELD and EMLC becomes critical. ELD utilizes an active approach that allows for strategic deviations from the standard indices. As of early 2026, ELD has maintained a strategic overweight in Latin American issuers, specifically Brazil, Colombia, and Peru, while underweighting Asia and EMEA relative to the index. This positioning has been prescient. Latin American issuers have offered higher yields with better fundamentals than their counterparts in other regions.

In Figure 4, we wanted to combine a look at recent periods, such as 'year-to-date 2026' and '1-year' with looking at longer periods, such as 5 years and 10 years. We wanted to test the robustness of any performance differences between ELD and EMLC over numerous time horizons.

We see that, for the time periods shown, ELD outperformed EMLC in all of them. One should recognize that this can always change in the future, but one can also be impressed at this historical consistency.

Figure 4: ELD has Generated Consistent Outperformance over EMLC



Sources: WisdomTree, FactSet, Morningstar specifically data from the Fund Comparison Tool in the PATH suite of tools, accessed February 19, 2026 with returns as of February 17, 2026. NAV denotes total return performance at net asset value. **Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performance and to download the respective Fund prospectuses, click the relevant ticker: [ELD](#), [EMLC](#).**

A look at country exposure further illustrates the difference. EMLC holds an 8.9% weighting in China, a market that has faced significant structural headwinds. ELD, by contrast, does not list China among its top exposures, instead allocating significant weight to high-carry nations like Indonesia (11.8%) and

Brazil (8.2%). This ability to sidestep the drag of underperforming heavyweights in the index is a distinct advantage of the active methodology. While we could never say this will always be the case, it's important to recognize differences in returns and underlying drivers of historical periods.

Fundamentals and Future Outlook

The case for [ELD](#) is not merely backward-looking; it is supported by improving fundamentals across the emerging market landscape. Inflation in most EM countries has trended lower, staying within stable ranges, which preserves the real value of the yields offered by local bonds. Additionally, external balances are well-contained, and growth has held up well.

The currency argument remains the linchpin. We have seen a "Liberation Day" from the pressures of the strong dollar. The recent strengthening of the Japanese yen against the dollar is another constructive signal for emerging markets, as a stronger yen historically weighs on the broad dollar index, easing financial conditions for EM economies.

Conclusion

The period of so-called 'blind devotion' to USD-denominated emerging market debt ETFs should be over. The macroeconomic environment that fueled the dominance of EMB and VWOB—specifically, a relentlessly strengthening U.S. dollar—has reversed. In this piece, we are challenging people to recognize this shift and not shelter their thinking in longer-run periods that might mute the impact of more recent trends. We believe we are now in a period characterized by Federal Reserve easing and improving EM fundamentals, a combination that historically ignites local currency debt returns.

Within this resurgent asset class, investors should be wary of treating all products as equivalent. The largest local currency ETF, EMLC, exposes investors to the rigidities of passive indexing, forcing them to own underperforming regions. In contrast, [ELD](#) offers a nimble, active approach that has proven its worth by capitalizing on the high-yield opportunities in Latin America while avoiding the pitfalls of Asia. With superior alpha generation, higher yield, and significantly stronger recent returns, [ELD](#) may represent a compelling option for investors seeking exposure to the shift in emerging markets.

Figure 5: Additional Information

Fundamentals	WisdomTree Emerging Markets Local Debt Fund (ELD)	VanEck J.P. Morgan EM Local Currency Bond ETF (EMLC)	iShares J.P. Morgan USD Emerging Markets Bond ETF (EMB)	Vanguard Emerging Markets Government Bond Index Fund ETF Shares (VWO)	WisdomTree Bloomberg U.S. Dollar Bullish Fund (USDU)
Inception Date	8/9/10	7/22/10	12/17/07	5/31/13	12/18/13
Objective	WisdomTree Emerging Markets Local Debt Fund seeks a high level of total returns consisting of both income and capital appreciation. The fund attempts to achieve its investment objective through investment in local debt denominated in the currencies of emerging market countries. Constituent countries: Brazil, Chile, Colombia, Mexico, Peru, Poland, Romania, Russia, South Africa, Turkey, China, Indonesia, Malaysia, Philippines, South Korea and Thailand.	The VanEck J.P. Morgan EM Local Currency Bond ETF seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the J.P. Morgan GBI-EM Global Core Index, which is comprised of bonds issued by emerging market governments and denominated in the local currency of the issuer.	The iShares J.P. Morgan USD Emerging Markets Bond ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, emerging market bonds, the J.P. Morgan EMBI Global Core Index.	The Vanguard Emerging Markets Government Bond Index Fund seeks to track the performance of a benchmark index that measures the investment return of U.S. dollar-denominated bonds issued by governments and government related issuers in emerging markets countries, the Bloomberg USD Emerging Market Government RIC Capped Index.	The WisdomTree Bloomberg U.S. Dollar Bullish Fund seeks to provide total returns, before expenses, that exceed the performance of the Bloomberg Dollar Total Return Index. This index tracks the performance of a basket of 10 leading global currencies versus the U.S. dollar, while also providing sensitivity to the total return performance of the same basket, incorporating not only the movements in the currency, but also the short-term U.S. interest rates and net interest rates between the currencies.
SEC 30-Day Yield	6.21%	6.02%	5.48%	5.64%	3.44%
Gross Expense Ratio	0.55%	0.31%	0.39%	0.15%	0.51%
Net Expense Ratio	0.55%	0.30%	0.39%	0.15%	0.51%
Total Assets Under Management (millions)	\$122.54	\$5,150.00	\$15,886.85	\$5,900.00	\$182.01

Sources: Respective fund company ETF pages on different websites, with assets under management current as of February 18, 2026. **Subject to change.**

1 The longest common period is defined by the inception date of USDU: 12/18/2013.

2 High carry refers to countries where the interest rate is high relative to the interest rate for the investor, in this case the U.S. If Indonesia is 'high-carry' that means that Indonesia's interest rates are higher than those of the U.S.

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments. Derivative investments can be volatile and these investments may be less liquid than other securities, and more sensitive to the effects of varied economic conditions. Please read the Funds' prospectus for specific details regarding the Funds' risk profile.

ELD: Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. In addition, when interest rates fall income may decline. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs.

USDU: The Fund focuses its investments in specific regions or countries, thereby increasing the impact of events and developments associated with the region or country, which can adversely affect performance. Investments in currency involve additional special risks, such as credit risk and interest rate fluctuations. While the Fund attempts to limit credit and counterparty exposure, the value of an investment in the Fund may change quickly and without warning in response to issuer or counterparty defaults and changes in the credit ratings of the Fund's portfolio investments. The Fund's investment in repurchase agreements may be subject to market and credit risk with respect to the collateral securing the repurchase agreements and may decline prior to the expiration of the repurchase agreement term. Issuer specific events, including changes in the actual or perceived financial conditions of an issuer, can have a negative impact on the value of the Fund. Due to the investment strategy of the Fund, it may make higher capital gain distributions than other ETFs. Although the Fund invests in very short-term, investment grade instruments, the Fund is not a "money market" Fund, and it is not the objective of the Fund to maintain a constant share price. The Fund invests in the securities included in, or representative of, its Index regardless of their investment merit, and the Fund does not attempt to outperform its Index.

For additional fund disclosures, please click the respective ticker: [EMLC](#), [EMB](#), [VWOB](#).