SOVEREIGN CREDIT · EMERGING MARKETS

Central America & the Caribbean —

Quality Carry in a Fully Valued Market

An update to our regional hard-currency coverage. Spreads are historically tight and returns are carry-led; the edge is in selection, not beta. We tilt to quality — Overweight Panama, Guatemala, the Dominican Republic and Honduras — and Underweight the rich, shock-exposed tail.

House View	**Constructive, quality-tilted.** We are **OVERWEIGHT a four-name Central America + DR basket** — Panama, Guatemala, the Dominican Republic and Honduras — owning regional carry with the lowest impairment risk. Preferred single expression: **HONDUR 8.625% 2034** at 6.27% YTM / OAS +183bp, the group's best fundamentals-adjusted carry. We do not chase the cheapest-to-rating names: **Market Weight** Trinidad (cheap, but fiscal and downgrade risk) and Suriname (oil convexity offset by a ~30%-of-GDP external deficit). **Underweight** Costa Rica and Jamaica. Market Weight the Bahamas and El Salvador.

Regional snapshot	Value	Regional snapshot	Value
Universe	**10 sovereigns, USD**	Region total return (YTD)	**~ +2.4%**
Rating range	**Baa3 → Caa1**	Bloomberg EM USD HY (YTD)	**+2.5%**
Benchmark YTM range (~10Y)	**5.51% – 7.19%**	Bloomberg EM USD IG (YTD)	**+0.1%**
Benchmark OAS range	**+105 – +276bp**	10Y UST anchor (indic.)	**~4.3%**
2026F growth (CenAm + DR)	**3.3% – 3.9%**	Dominant return driver	**Carry / roll-down**
2026F growth (Caribbean)	**−1.2% – 2.5%**	Spread regime	**Tight; little compression left**
Preferred expression	**HONDUR 8.625% 2034**	**YTM / OAS**	**6.27% / +183bp**

Source: Bloomberg (bond pricing, indices), IMF World Economic Outlook (Apr-2026), national authorities, Khorlan Capital estimates. Prices indicative as transcribed.

EXECUTIVE SUMMARY

We update our strategic view across the ten hard-currency Central American and Caribbean sovereigns we cover — Panama, Guatemala, Costa Rica, the Dominican Republic, Honduras, El Salvador, Trinidad & Tobago, the Bahamas, Jamaica and Suriname — spanning the Baa3-to-Caa1 spectrum. The defining feature of the opportunity set is not distress or dislocation but its opposite: spreads have ground to multi-year tights, reference bonds bar one trade above par, and the regional index has returned roughly +2.4% year-to-date, broadly matching the broad EM high-yield benchmark. In that setting, total return is overwhelmingly a carry-and-roll story, and the marginal alpha sits in security selection rather than directional beta.

The cross-section is bifurcated along a familiar fault line. Central America and the Dominican Republic retain the stronger growth engine — resilient domestic demand and remittances underpin 3.3%–3.9% real growth in 2026 — while the tourism- and commodity-dependent Caribbean is structurally slower and more shock-prone, ranging from a Jamaican contraction (post-Hurricane Melissa) to sub-2.5% prints elsewhere. Solvency mirrors this: Guatemala and Honduras anchor the strong end on low debt and contained financing needs, while the Bahamas, Trinidad and Jamaica carry the heaviest leverage and external imbalances.

Our highest-conviction posture is a quality tilt: **Overweight Panama, Guatemala, the Dominican Republic and Honduras** — the four strongest-fundamental Central America and DR credits. In a market where the last basis points of compression sit in the weakest, most shock-prone names, we would rather be paid carry to own balance-sheet quality. **Honduras** remains the preferred single expression: a 7.5% current yield and +183bp OAS on the HONDUR 8.625% 2034, an on-track IMF EFF/ECF program, a primary surplus, reserves above the program floor and the best roll-down in our coverage. **Guatemala** anchors the basket on defensiveness — the lowest debt in Latin America (27.6% of GDP), a structural current-account surplus and >10 months of import cover — while **Panama**, the regional investment-grade name with the deepest, most liquid curve and the fastest 2026 growth, now pays a spread that compensates for its post-downgrade fiscal-repair path. **The Dominican Republic** adds the strongest cyclical re-acceleration and the widest spread of the Ba2 cluster, with a long end that has begun to catch up after lagging year-to-date.

We deliberately do not chase the cheapest-to-rating names. **Trinidad & Tobago** screens clearly cheap to its BB+ tranche (+45bp), but we read that discount as fair compensation for a wide fiscal deficit, a negative ratings outlook and dependence on an uncertain 2027 gas-project timeline — Market Weight. **Suriname**'s GranMorgu oil convexity is real but is offset by a current-account deficit near 30% of GDP and an oil-revenue framework not yet operational; we hold it Market Weight in small size rather than overweight. We are **Underweight Costa Rica and Jamaica**: Costa Rica trades at investment-grade-equivalent yields with the weakest YTD return in the group (+0.6%) and negligible roll-down, while Jamaica's long bond screens two notches rich as the credit works through a fragile, Melissa-driven recovery. The Bahamas and El Salvador round out the Market Weight core.

GROWTH OUTLOOK & MACRO DASHBOARD

The region's growth premium is concentrated in Central America and the Dominican Republic, where remittances and private consumption remain the dominant cyclical supports. Guatemala (3.9% in 2026) and the Dominican Republic (3.7%, a cyclical re-acceleration off a softer 2025) lead, with Honduras and Costa Rica in the mid-3s as remittance growth normalizes from its 2025 surge. The Caribbean lags structurally: the Bahamas (2.2%) faces broadly flat stay-over tourism, Trinidad (0.8%) remains constrained by a secular decline in hydrocarbon output pending new gas supply in 2027, and Jamaica is the regional outlier — a projected 1.2% contraction in 2026 as the economy absorbs the Q4-2025 hurricane shock before a base-effect rebound in 2027. Suriname is a special case: headline growth is steady, but the macro picture is dominated by the offshore oil build-out rather than the current cycle.

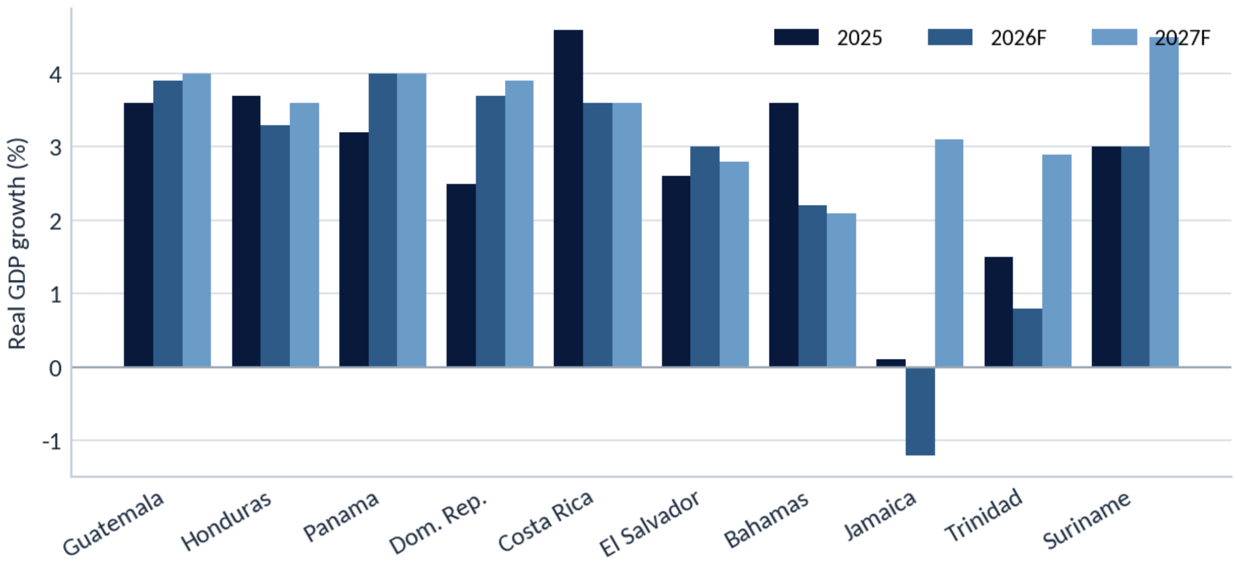

Figure 1. Real GDP growth, 2025 / 2026F / 2027F (%). *Source: IMF WEO Apr-2026; national authorities; Khorlan Capital estimates.*

Sovereign	Rating (Moody / comp.)	GDP '26F	Debt/GDP	Ext. debt %	Overall bal.	Primary bal.	C/A	Khorlan view
Guatemala	Ba1 / BB+	3.9	27.6	44.5	−2.2	−0.5	+3.2	**Overweight**
Honduras	B1 / B+	3.3	43.8	52.0	−1.5	+2.0	−2.6	**Overweight**
Panama	Baa3 / BBB-	4.0	58.0	80.0	−4.0	−2.0	−3.0	**Overweight**
Dominican Rep.	Ba2 / BB-	3.7	58.3	72.7	−3.5	+0.2	−1.5	**Overweight**
Costa Rica	Ba2 / BB	3.6	61.1	50.0	−3.6	+0.9	−1.5	**Underweight**
El Salvador	B3 / B-	3.0	84.0	50.0	−1.8	+2.6	−3.0	**Market Weight**
Bahamas	Ba3 / BB-	2.2	71.9	44.2	−0.3	+3.7	−9.1	**Market Weight**
Jamaica	Ba3 / BB-	−1.2	65.8	88.3	−4.9	+0.6	−6.0	**Underweight**
Trinidad & Tobago	Ba2 / BB+	0.8	84.1	32.1	−4.6	−0.8	+3.8	**Market Weight**
Suriname	Caa1 / CCC+	3.0	78.0	80.0	+0.5	+2.5	−29.7	**Market Weight***

% of GDP unless stated. Honduras primary balance on NFPS/national-accounts basis; WEO central-government basis is modestly weaker. Source: IMF WEO Apr-2026, national authorities, Khorlan Capital estimates.

The dashboard frames our quality tilt. Our Overweight basket — Panama, Guatemala, the Dominican Republic and Honduras — combines the group's most contained imbalances (Guatemala, Panama) and strongest cyclical growth (the Dominican Republic) with the best fundamentals-adjusted carry (Honduras). The high-carry tail (El Salvador, Suriname, the Bahamas) pairs wider spreads with weaker ratings or larger external imbalances, which is why we own it at Market Weight or less. In a beta-light market we would rather be paid carry to hold quality than reach for the last basis points of cheapness in the weakest credits.

FISCAL POSITION & DEBT SUSTAINABILITY

Fiscal trajectories diverge more than headline debt ratios suggest. The Bahamas and Barbados-style consolidators run the largest primary surpluses (the Bahamas at +3.7% of GDP in 2026, alongside the group's smallest overall deficit), while El Salvador's 2025 adjustment — a primary surplus near 3.6% of GDP and a deficit cut to 0.5% — stands out historically, even as Q1-2026 data flag some reversal as consumption and transfers re-accelerate. Honduras delivers a primary surplus on a national-accounts basis with an IMF program enforcing discipline; Guatemala pairs the lowest debt in Latin America (27.6% of GDP) with only a modest deficit. At the weaker end, Trinidad and Jamaica run the widest overall deficits — Trinidad on subsidy-heavy spending against soft energy output, Jamaica on a hurricane-driven escape-clause widening to near 4.9% of GDP.

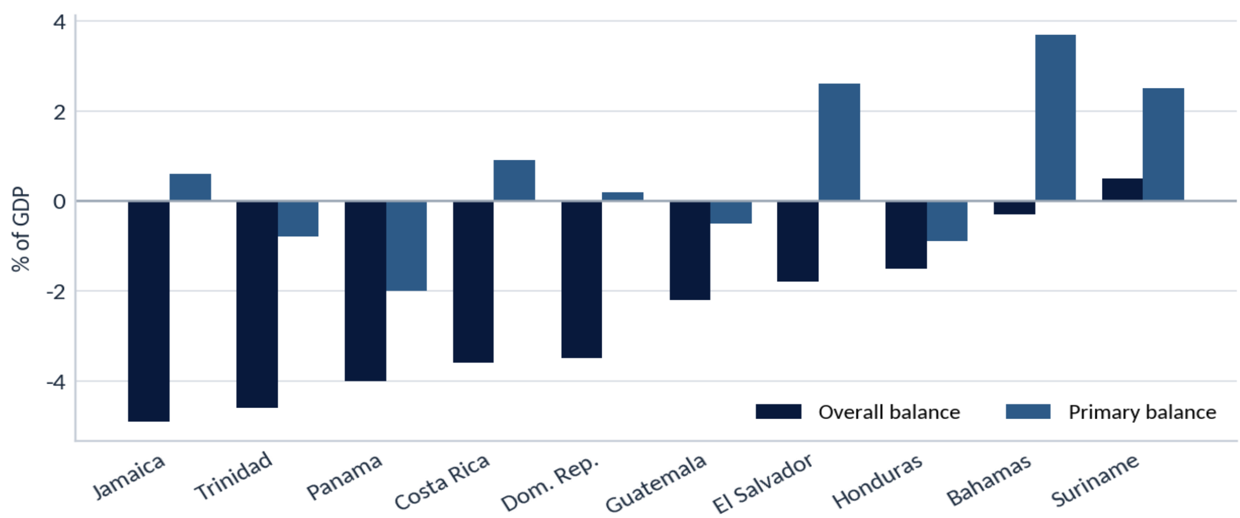

Figure 2. Overall vs primary fiscal balance, 2026F (% of GDP). *Source: IMF WEO Apr-2026; Khorlan Capital estimates.*

On solvency, the cross-section spans a wide range — from Guatemala's 27.6% of GDP to Trinidad's 84% and El Salvador's ~84% — but the composition of debt matters as much as the level. Jamaica's debt is 88% external, leaving it most exposed to global financial conditions and FX; the Dominican Republic (73% external) and Suriname (~80%) are similarly sensitive, whereas Trinidad's heavier domestic share cushions an otherwise high stock. El Salvador's structural overhang is its pension liability — roughly a third of public debt and the principal medium-term sustainability question, IMF program execution notwithstanding. Gross debt and its external share for every sovereign are tabulated in the macro dashboard above.

EXTERNAL ACCOUNTS, FX & LIQUIDITY

External balances are the region's clearest differentiator of risk. The energy exporters and the remittance-rich economies sit comfortably: Trinidad runs a current-account surplus near +3.8% of GDP and Guatemala a structural surplus around +3.2%, the latter underpinning reserve cover in excess of ten months of imports — the strongest liquidity buffer in the group. The Dominican Republic, Honduras and Costa Rica carry moderate deficits (1.5%–2.6% of GDP) financed by resilient tourism and remittance inflows, with import cover of roughly 5.5–5.6 months at the lower end of the group but still well above the IMF's three-month adequacy threshold.

The pressure points are the import-dependent islands and the oil-transition outlier. The Bahamas (−9.1% of GDP) and Jamaica (−6.0%, in its post-Melissa reconstruction phase) run the widest external deficits among the tourism economies. Suriname is in a category of its own: a current-account deficit estimated near 30% of GDP in 2026, driven almost entirely by engineering, construction and oil-service imports for the GranMorgu project, with import cover having fallen to ~3.5 months once foreign oil-company activity is captured. We read this as a financeable, project-cycle phenomenon rather than a balance-of-payments crisis — but it is the single largest external imbalance in our coverage and the reason we size Suriname small.

Sovereign	Current account (% GDP)	Overall balance (% GDP)	Ext. debt (% total)	Twin balance (pp)
Suriname	**−29.7**	+0.5	80.0	**−29.2**
Jamaica	**−6.0**	−4.9	88.3	**−10.9**
Bahamas	**−9.1**	−0.3	44.2	**−9.4**
Panama	**−3.0**	−4.0	80.0	**−7.0**
Costa Rica	**−1.5**	−3.6	50.0	**−5.1**
Dominican Rep.	**−1.5**	−3.5	72.7	**−5.0**
El Salvador	**−3.0**	−1.8	50.0	**−4.8**
Honduras	**−2.6**	−1.5	52.0	**−4.1**
Trinidad & Tobago	**+3.8**	−4.6	32.1	**−0.8**
Guatemala	**+3.2**	−2.2	44.5	**+1.0**

Twin balance = current account + overall fiscal balance (Khorlan-derived gauge of combined external and fiscal pressure); sorted weakest to strongest. Suriname's deficit is distorted by GranMorgu project imports. Source: IMF WEO Apr-2026, national authorities, Khorlan Capital estimates.

2027 debt-service profile

On forward liquidity, Jamaica and the Dominican Republic carry the heaviest 2027 external debt-service loads — Jamaica near 24.5% of exports and 23.7% of fiscal revenues, the Dominican Republic at 17.9% and 25.4% respectively. Neither, in our view, faces a near-term repayment problem: both retain market access and adequate reserves, and the remaining credits look comfortable. But the combination of Jamaica's elevated service load with a fragile, disaster-sensitive recovery is a core reason we are cautious there. For the Dominican Republic, electricity-sector reform is the swing factor that could ease the fiscal pressure that fuel subsidies have re-introduced in 2026.

BOND STRATEGY & THE REGIONAL CURVE

Read as a single complex, the regional USD curves stack predictably by rating: Panama (IG, Baa3) anchors the low-yield floor, the Ba1–Ba3 cluster (Guatemala, Costa Rica, the Dominican Republic, Trinidad, the Bahamas, Jamaica) occupies the 5.4%–6.6% belly, and the high-beta tail (Honduras B1, El Salvador B3, Suriname Caa1) sits on top. Crucially for a carry book, the curves are upward-sloping and reasonably steep — duration is paid — so the ~10-year point offers the best blend of yield and roll-down across most issuers. We use the ~10Y benchmark of each curve as the comparison point and the 10-year US Treasury (~4.3%) as the risk-free anchor against which option-adjusted spreads are measured.

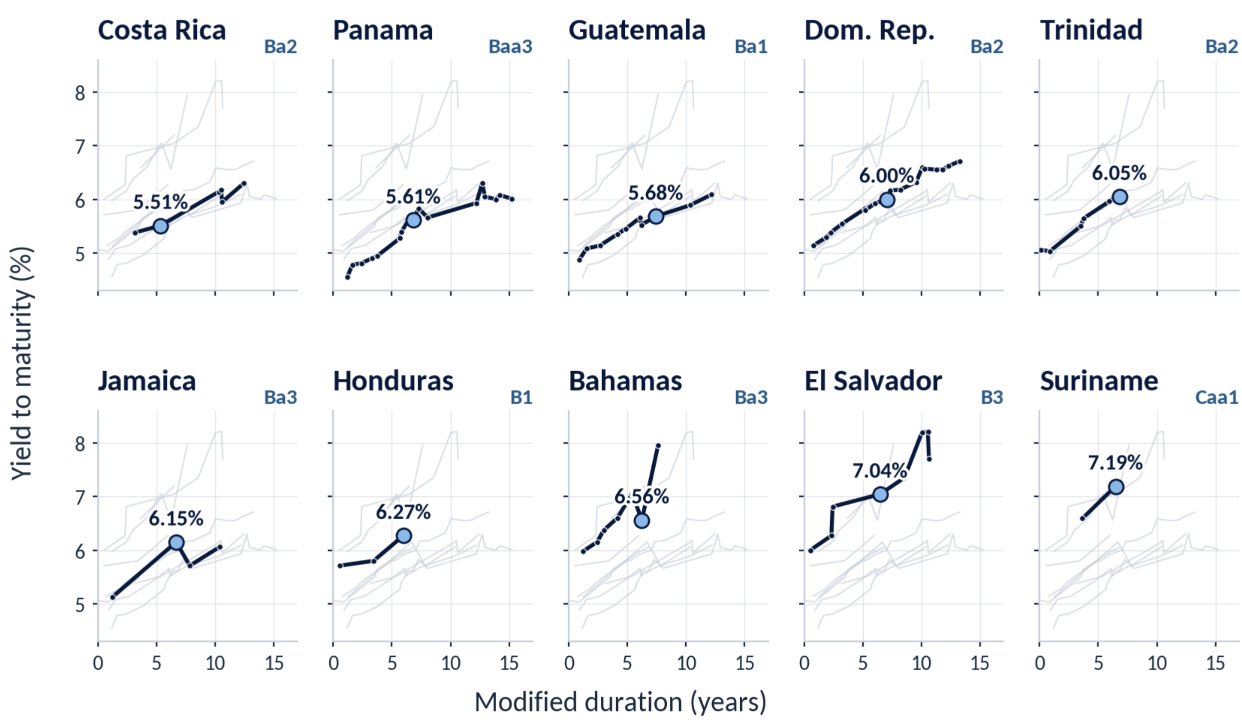

Figure 3. Regional USD sovereign curves — yield to maturity vs modified duration. *Source: Bloomberg; Khorlan Capital estimates.*

~10-year benchmark table

Sovereign	Coupon / mat.	Bid	Ask	YTM	Z-Spr	OAS	Dur	Moody / comp.	YTD	Khorlan view
Panama	6.875 2036	109.32	109.59	**5.61**	155	**116**	6.81	Baa3 / BBB-	+3.4	**Overweight**
Guatemala	6.55 2037	106.87	107.43	**5.68**	159	**115**	7.41	Ba1 / BB+	+3.0	**Overweight**
Costa Rica	6.55 2034	106.51	106.83	**5.51**	135	**105**	5.35	Ba2 / BB	+0.6	**Underweight**
Trinidad & Tobago	6.5 2036	103.23	103.66	**6.05**	200	**160**	6.81	Ba2 / BB+	+7.1	**Market Weight**
Dominican Rep.	5.875 2035	99.12	99.40	**6.00**	196	**157**	7.04	Ba2 / BB-	+1.8	**Overweight**
Bahamas	8.25 2036	112.29	112.85	**6.56**	234	**201**	6.24	Ba3 / BB-	+4.0	**Market Weight**
Jamaica	8.5 2036	116.95	118.12	**6.15**	205	**168**	6.68	Ba3 / BB-	+4.4	**Underweight**
Honduras	8.625 2034	115.21	115.70	**6.27**	220	**183**	5.98	B1 / B+	+5.4	**Overweight — pref.**
El Salvador	7.65 2035	103.99	104.38	**7.04**	301	**264**	6.47	B3 / B-	+3.4	**Market Weight**
Suriname	8.5 2035	108.81	109.50	**7.19**	313	**276**	6.48	Caa1 / CCC+	+4.5	**Market Weight***

*YTM in %; Z-Spr/OAS in bp; duration modified; YTD = bond-level total return, %. * Suriname held in small size. Source: Bloomberg; Khorlan Capital estimates. Levels indicative as transcribed.*

The benchmark table isolates the trade. Our Overweight basket sits across the quality spectrum: **Panama** (5.61% / +116bp) and **Guatemala** (5.68% / +115bp) pay a Ba-area spread for near-IG balance sheets, **the Dominican Republic** (6.00% / +157bp) offers the widest spread of the Ba2 cluster, and **Honduras** (6.27% / +183bp) the best fundamentals-adjusted carry of all. **Trinidad** and the **Bahamas** show the widest spreads inside the Ba bucket and the **El Salvador**/**Suriname** tail delivers 7%+ yields — but we hold those at Market Weight, unwilling to pay up in event and rating risk for spread we judge fairly priced. The expensive corner is equally clear: **Costa Rica** at 5.51% / +105bp and the **Jamaica** long end trade through where their ratings and risk profiles warrant.

RELATIVE VALUE — SAME-RATING COMPARISON

Beyond the duration-adjusted curve, the sharper screen is each benchmark against the median yield of its own rating tranche. On this basis the regional picture is overwhelmingly rich-to-fair — consistent with a late-cycle, tight-spread EM backdrop — with only two names printing a clear cheapening: **Trinidad** (+45bp to the BB+ tranche) and the **Bahamas** (+36bp to BB-). The cheapness has clear drivers: Trinidad's energy-export external surplus is offset in the market's eye by fiscal weakness and a downgrade watch, while the Bahamas' carry is balanced against the group's widest current-account deficit and acute hurricane sensitivity. In each case the discount is doing a job — fair compensation for a real risk — so we treat both as Market-Weight carry rather than reaching for the cheapness. The valuation screen sharpens our preference for owning quality at a fair spread over owning the weakest credits at a cheap one.

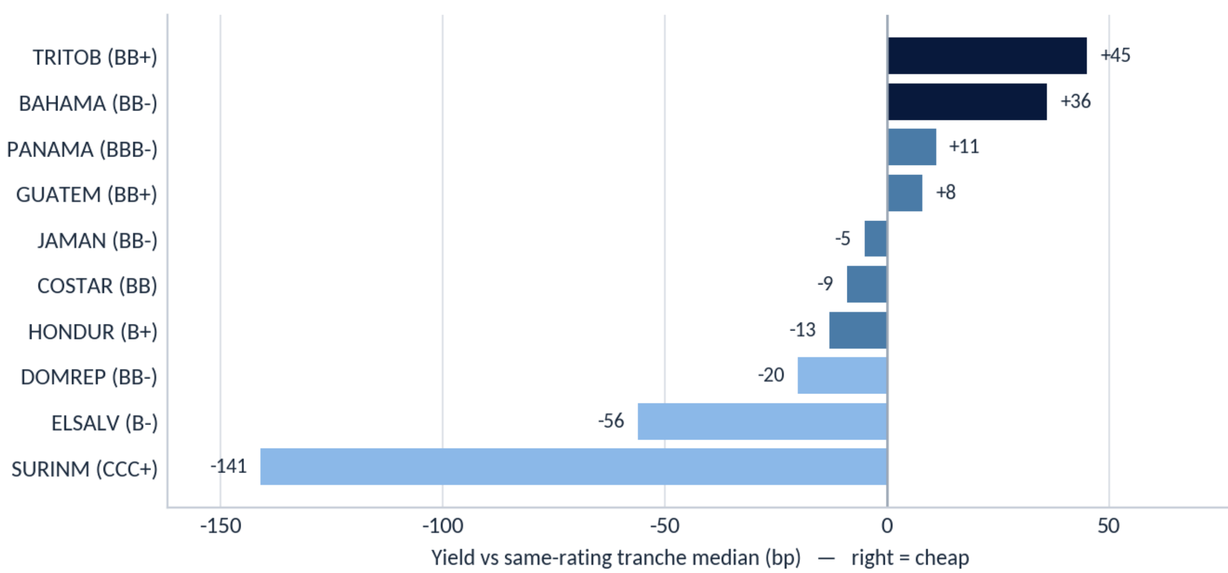

Figure 4. ~10Y benchmark yield vs same-rating tranche median (bp); right = cheap. *Source: Bloomberg rating-bucket medians (Khorlan compilation); Khorlan Capital estimates.*

Sovereign	Composite	Benchmark YTM	Tranche median	Δ (bp)	Screen
Trinidad & Tobago	BB+	**6.05**	5.6	**+45**	**Cheap**
Bahamas	BB-	**6.56**	6.2	**+36**	**Cheap**
Panama	BBB-	**5.61**	5.5	**+11**	**In line**
Guatemala	BB+	**5.68**	5.6	**+8**	**In line**
Jamaica	BB-	**6.15**	6.2	**−5**	**In line**
Costa Rica	BB	**5.51**	5.6	**−9**	**In line**
Honduras	B+	**6.27**	6.4	**−13**	**Rich (marg.)**
Dominican Rep.	BB-	**6.00**	6.2	**−20**	**Rich**
El Salvador	B-	**7.04**	7.6	**−56**	**Rich**
Suriname	CCC+	**7.19**	8.6	**−141**	**Rich**

Tranche medians on a Bloomberg composite-rating basis (Khorlan compilation). EM USD IG index ~5.3%, EM USD HY index ~7.4%. Source: Bloomberg; Khorlan Capital estimates.

The rich names tell a more nuanced story. **El Salvador** (−56bp) and **Suriname** (−141bp) trade well through their low-rating tranches because the market is already pricing improvement — El Salvador's 2025 consolidation, Suriname's oil-revenue optionality. That richness is the bull case realized in price, and it caps compression; we hold both at Market Weight, for carry and convexity rather than tightening. The **Dominican Republic** screens only marginally rich (−20bp) to a BB- median that is itself dragged by weaker islands; against the Ba2 cluster it offers the widest absolute spread, the strongest growth, and a long end that has begun to catch up after lagging YTD — which is why we look through the tranche screen and hold it Overweight, just as Honduras (−13bp) screens marginally rich only because its B+ median is dragged by stronger-rated peers. The **Jamaica** long end, by contrast, is rich for less constructive reasons — disaster sensitivity and a heavy 2027 service load — and we underweight it.

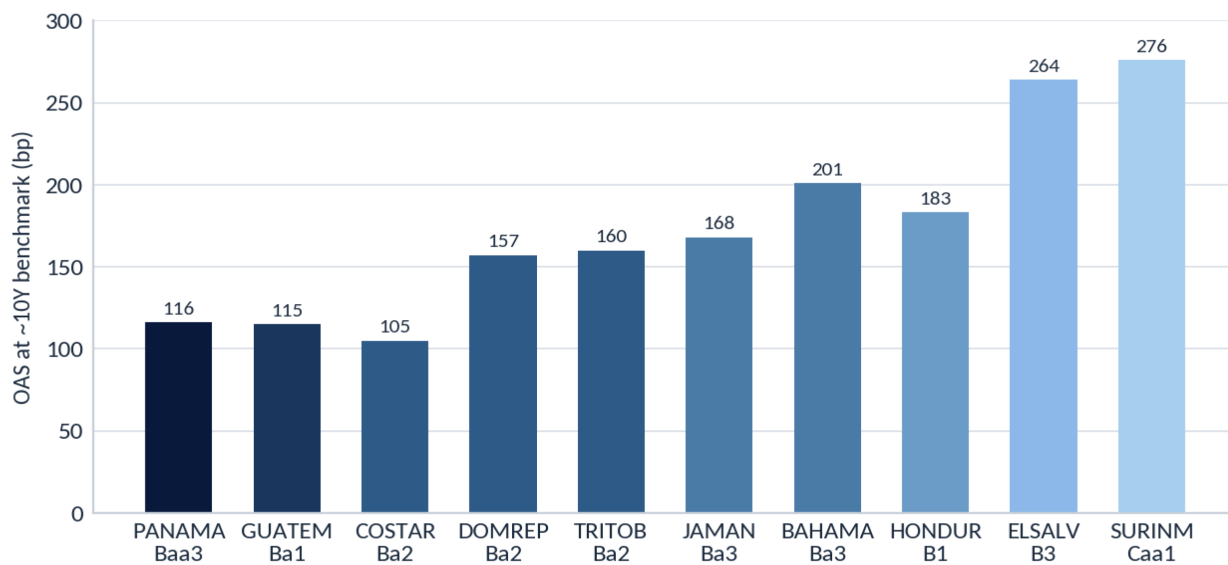

Figure 5. ~10Y benchmark OAS grouped by Moody rating. *Source: Bloomberg; Khorlan Capital estimates.*

YTD PERFORMANCE & THE 10-YEAR BENCHMARK

Year-to-date returns reconcile the curve and RV pictures. At the benchmark level, Trinidad (+7.1%) and Honduras (+5.4%) lead on a combination of high carry and spread compression, with Suriname, Jamaica and the Bahamas in the +4% range; the Dominican Republic (+1.8%) and Costa Rica (+0.6%) lag. Decomposing the regional return, carry has been the dominant engine (on the order of +2.8% for the broad regional index), with spread compression adding roughly +1.6% and more than offsetting the drag from a ~50bp upward shift in the US Treasury curve. The Dominican Republic is the conspicuous laggard, the one name where both the risk-free move and a modest spread widening worked against carry — though its long end has rallied sharply over the past month, a catch-up worth monitoring.

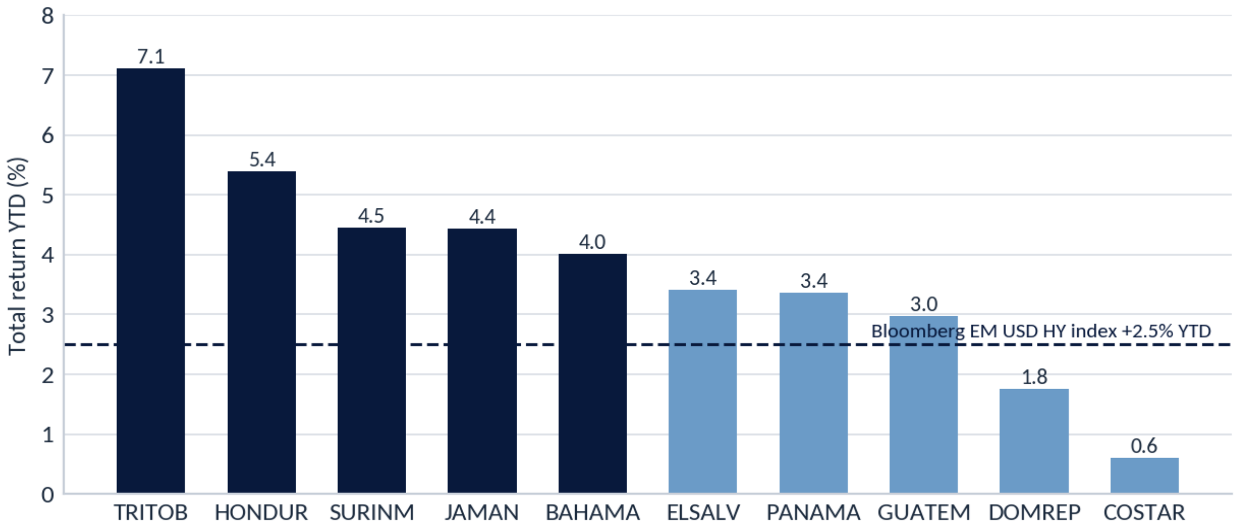

Figure 6. Bond-level total return YTD by ~10Y benchmark (%). *Bond-level returns run above index-level country returns given higher coupons/duration. Source: Bloomberg; Khorlan Capital estimates.*

The forward read is that, with spreads at multi-year tights and limited room to compress, carry and roll-down should dominate returns for the remainder of 2026. A simple buy-and-hold under an unchanged-curve assumption points to broadly similar ~3.5–4% six-month carry-plus-roll returns across the region, with the steeper, higher-coupon curves (the Bahamas, Honduras, Trinidad) at the upper end. That reinforces the strategic conclusion: in a beta-light environment, the names that combine acceptable fundamentals with carry and roll — our Panama, Guatemala, Dominican Republic and Honduras basket — should outperform.

COUNTRY CREDIT VIEWS

Honduras — Overweight (preferred). The cleanest fundamentals-adjusted carry in the region. An on-track IMF EFF/ECF program, a primary surplus, reserves (~USD 8.5bn) well above the program floor, and the strongest roll-down profile underpin the HONDUR 8.625% 2034 at +183bp OAS / 7.5% current yield. It trades modestly through the B+ median, but that median is dragged by stronger-rated EM peers; in absolute terms Honduras pays you a wide spread to own an improving credit. *Preferred: HONDUR 8.625% 2034.*

Panama — Overweight. The regional investment-grade anchor (Baa3) with the deepest, most liquid curve and the fastest 2026 growth in the group (4.0%). Post-downgrade, the spread now pays you to own the highest-quality balance sheet in the region; we move it up from ballast to a core Overweight — the liquid, low-beta engine of the basket. *Preferred: PANAMA 6.875% 2036 (5.61% / +116bp).*

Guatemala — Overweight. The strongest fundamentals in the group — the lowest debt in Latin America (27.6% of GDP), a structural current-account surplus and >10 months of import cover. We are paid a Ba1 spread for a near-investment-grade balance sheet; the defensive anchor of the basket with the lowest impairment risk. *GUATEM 6.55% 2037 (5.68% / +115bp).*

Dominican Republic — Overweight. A cyclical re-acceleration story (3.7% growth) trading at the widest spread of the Ba2 cluster (+157bp). It screens marginally rich to a BB- median dragged by weaker islands, but the absolute carry, the growth and a long end that has begun to catch up after lagging YTD make it our preferred Ba2 long. Watch item: fuel subsidies and external service needs; electricity reform is the upside swing factor. *DOMREP 5.875% 2035 (6.00% / +157bp).*

Trinidad & Tobago — Market Weight. The only liquid name clearly cheap to its rating (+45bp to BB+), with an energy current-account surplus (+3.8%) and the Manatee gas project as a 2027 catalyst. But the discount is fair: a wide fiscal deficit (−4.6%), a negative ratings outlook and reliance on an uncertain gas timeline keep us from overweighting. We hold Market Weight and would revisit on fiscal or gas-timeline clarity. *TRITOB 6.5% 2036.*

Suriname — Market Weight (small size). GranMorgu oil convexity is real — past 30% complete, first oil ~mid-2028, ~220kbpd capacity — but a current-account deficit near 30% of GDP and an oil-revenue-management framework not yet operational are too much idiosyncratic risk to overweight in a quality-tilted book. We hold a small Market Weight position for the convexity. *SURINM 8.5% 2035.*

Bahamas — Market Weight. Cheap-to-rating carry (+36bp to BB-) and supportive tourism momentum plus post-election policy continuity, balanced against the widest C/A deficit in the group, elevated leverage and acute hurricane exposure into H2. Attractive carry, real tail risk.

El Salvador — Market Weight. The 2025 consolidation is impressive and largely rewarded — the bonds trade rich to the B- tranche. Q1-2026 fiscal slippage, the pension overhang (~⅓ of debt) and IMF-program execution risk keep us from chasing the rally.

Costa Rica — Underweight. Sound fundamentals, but the market already pays for them: IG-equivalent yields, the weakest YTD return in the group (+0.6%) and negligible roll-down leave poor risk-adjusted carry and limited compression upside.

Jamaica — Underweight. A solid pre-shock fiscal record, but the long bond screens two notches rich while the credit works through a Melissa-driven growth and external shock with a fragile, disaster-sensitive recovery path and a heavy 2027 service load. More risk than reward at current levels.

KEY RISKS

Tight-spread reversal / global risk-off. With spreads at multi-year tights and most bonds above par, the asymmetry is to wider; a US growth scare or HY-funding squeeze would hit the high-beta tail (El Salvador, Suriname) and the leveraged islands hardest.

Oil and commodity shocks. Higher oil pressures the net-importer islands (Bahamas, Jamaica, DR) via the current account and subsidies, while benefiting the exporters (Trinidad, prospectively Suriname) — a two-sided regional sensitivity.

Climate / hurricane risk. The 2026 Atlantic season is a live, recurring tail for the Caribbean tourism economies; Jamaica's Melissa experience (losses ~54% of GDP) is the cautionary case.

Fiscal-execution and reform risk. Fuel subsidies (DR), pension obligations (El Salvador), the gas-project timeline (Trinidad) and oil-revenue governance (Suriname) are the country-specific swing factors most likely to move spreads.

Liquidity. Several curves (Honduras, Suriname, Jamaica) are thin; the same illiquidity that creates cheapness can delay its correction and amplify drawdowns in risk-off episodes.

CONCLUSION & RECOMMENDATION

The Central American and Caribbean hard-currency complex is a carry market, not a compression market. Spreads sit at multi-year tights, reference bonds bar one trade above par, and the regional index has returned ~+2.4% YTD on carry doing the heavy lifting. With limited room for further tightening, the remainder of 2026 should reward security selection — sovereigns that combine acceptable fundamentals with the best carry and roll-down — over directional risk.

We stay constructive and quality-tilted on the region. Our highest-conviction posture is an **Overweight basket of four Central America and DR credits — Panama, Guatemala, the Dominican Republic and Honduras** — owning regional carry with the lowest impairment risk; **Honduras** is the preferred single expression at 6.27% YTM / +183bp OAS. We deliberately hold the cheapest-to-rating names at Market Weight — **Trinidad** (fair cheapness against fiscal and downgrade risk) and **Suriname** (oil convexity offset by a huge external deficit) — and round out the Market Weight core with the Bahamas and El Salvador. We fund the book by **underweighting Costa Rica** (IG-equivalent yields, no roll, weakest YTD) and **Jamaica** (rich long end, post-Melissa fragility). The view would change on a broad risk-off that re-cheapens quality (adding to the basket), an IMF-program derailment in Honduras, or a fiscal or external shock that impairs the Central America growth story.

Recommendation	**OVERWEIGHT basket: Panama, Guatemala, Dominican Republic, Honduras** — quality carry, lowest impairment risk. Preferred single expression: **HONDUR 8.625% 2034** · 6.27% YTM / +183bp OAS. **Market Weight** Trinidad, Suriname, the Bahamas and El Salvador — we do not chase the cheapest-to-rating names. **Underweight** COSTAR & JAMAN. Carry-led book; ~6% running carry even if spreads hold.

DISCLAIMER

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