CREDIT UPDATE · SOVEREIGN **July 22,2026**

LatAm — Colombia · Sovereign USD/EUR Eurobonds

Colombia Sovereign Credit: Trading the ADLE Transition

From Event-Driven Trade to Structural Overweight, With a First Look at the Cash-CDS Basis

Khorlan view: With the election cycle resolved, we move Colombia's USD curve from our prior event-driven Tactical Buy to a standing OVERWEIGHT. Our own curve-fitting model puts the 2033–2035 belly 6–22bp cheap and the 2053/2054 long end ~20bp cheap, against a single clear rich outlier (the 4.125% 2042) and a scattering of rich points at the front end. Layering in CDS for the first time — 5-year protection at 143bp, 10-year at 242bp — cash bonds pay up versus synthetic risk out to about 7 years of duration, then the relationship flips: cash looks rich versus CDS beyond 8 years, which only reinforces our avoid call on the 2042s.

Recommendation: OVERWEIGHT (from Tactical Buy)

Ratings: Moody's Baa3 · S&P BB- · Fitch BB+

Preferred bonds: COLOM 8.0% Apr-33 · COLOM 8.0% Nov-35

President-elect: Abelardo de la Espriella (ADLE), inaugurates 7-Aug-26

Target OAS (belly): 155–165bp (from 176–199bp current)

Avoid / duration risk: COLOM 4.125% 2042 (rich outlier)

1. EXECUTIVE SUMMARY

Colombia's electoral overhang is now behind it. We are retiring the event-driven Tactical Buy we ran through the first round (29 May) and the runoff (21 June) and replacing it with a standing OVERWEIGHT on the sovereign USD curve. Roughly 30–40bp of the compression we were looking for has already happened; what is left, in our view, is less about the calendar and more about whether Abelardo de la Espriella's incoming government can actually execute against the fiscal mandate voters gave it.

Three things drive the upgrade. First, our own curve-fitting exercise on Colombia's outstanding bonds shows the belly still mispriced — cheap in the 2033–2035 cluster, and again in the long-dated 2053/2054 pair, against one unambiguous rich outlier (the 4.125% 2042). Second, stacking Colombia against a basket of BB-rated regional peers at matched duration, the curve still runs 30–50bp wide of that peer set despite ratings (Baa3/BB-/BB+) that compare favorably with most of the names in it. Third, we are introducing a CDS lens to this coverage for the first time: at 143bp, 5-year protection trades meaningfully through the cash curve, which argues for holding the bonds rather than reaching for synthetic exposure.

Top picks remain the COLOM 8.0% April 2033 and COLOM 8.0% November 2035, the two cleanest expressions of belly cheapness with the least idiosyncratic baggage. We would avoid the COLOM 4.125% 2042 outright. We are less convinced than a simple "duration-extension" framing would suggest: our model likes the high-coupon 2053s/2054s more than the low-dollar-price 2051s, which actually screen mildly rich once curve shape is accounted for.

2. POLITICS AFTER THE FACT: WHAT ADLE INHERITS, AND WHAT HE DOESN'T

Our coverage of this name has tracked the election since February, and the outcome — a de la Espriella win — is the one our curve positioning has assumed since late May. That makes this section less a preview and more a stock-take: what does the incoming government actually inherit, and how much room does it have to move?

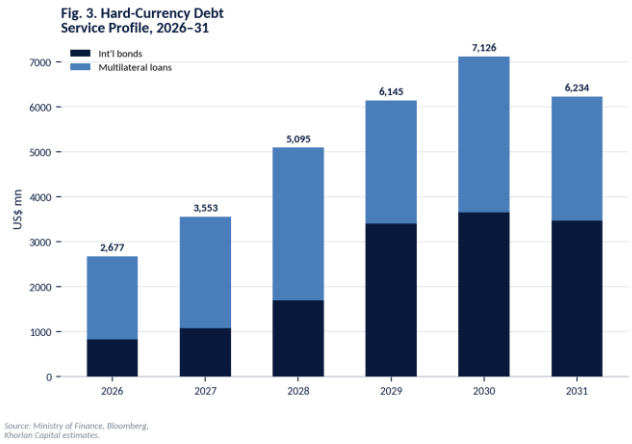
On the economy: inflation running near 6%, still above most regional peers; growth holding around 2.6% with some drag flagged for 2027; and a fiscal deficit we put near 6.5–7% of GDP this year. None of that is new — it is the same set of numbers the bond market has been discounting since the primaries. What is new is the composition of Congress and the size of ADLE's mandate, and on both counts the incoming administration has less room to maneuver than a clean electoral win might suggest: a narrow victory margin, a fragmented legislature, and a labor/social base that has shown it can mobilize quickly against unpopular fiscal measures.

We think the realistic path is incremental, not dramatic: efficiency gains rather than deep cuts on the spending side, a crackdown on tax evasion rather than new headline rates on the revenue side, and an effort to reprice financing costs — including a stated push to extend and cheapen multilateral loan maturities — as a lower-friction alternative to fiscal austerity. Better relations with Washington help around the edges (lower headline/geopolitical risk) but are not, on their own, a spread-compression catalyst.

Cabinet quality matters more than any single policy announcement here: credible, market-literate appointees buy the administration time and benefit of the doubt that a technocratically weaker team would not get.

3. DEBT PROFILE AND FINANCING STRATEGY

Colombia's public debt load is manageable by EM standards and skews heavily to local currency, with hard-currency exposure split close to evenly between international bonds and multilateral loans. The chart and summary below lay out the shape of that hard-currency load and the financing options it leaves the incoming government.



KEY DEBT METRICS	
Public debt (total)	~US$318bn (est., May 2026)
Local vs. FX currency	~75% local / ~25% FX
Multilateral maturities	~US$15bn, 2027–31
FY26 fiscal deficit (Khorlan est.)	~6.5–7.0% of GDP
Financing priority	Multilateral first, bonds opportunistic

With hard-currency bond maturities building through 2029–30, we read the multilateral-renegotiation push less as a fiscal weakness signal and more as a sequencing choice: cheaper, longer official-sector money buys the administration time before it needs to return to the Eurobond market in size. For existing bondholders, that implies limited net new USD supply over the next few quarters — a mild technical tailwind for the compression thesis, on top of the fundamental case.

4. RELATIVE VALUE

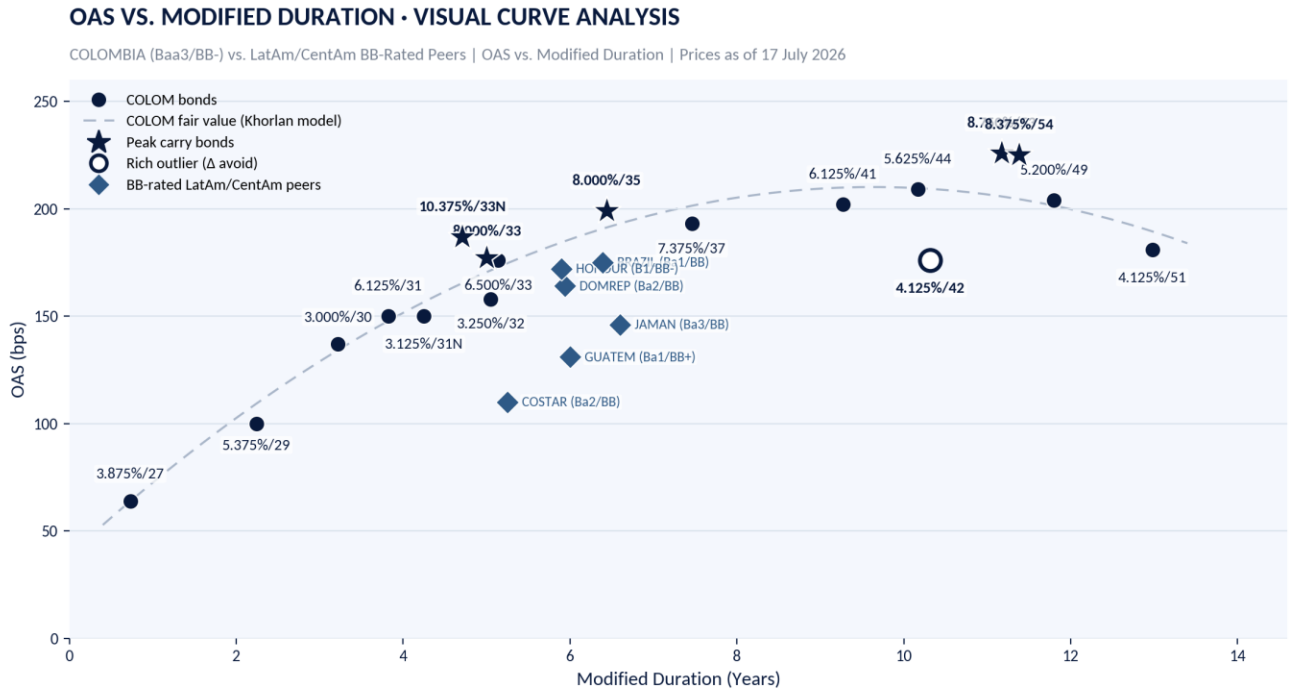
Consistent with our house format, we present the full outstanding Colombia USD curve against our own curve-model fair value, followed by the standard OAS-vs-duration visual, benchmarked against a basket of BB-rated LatAm and Central American peers.

COLOM BOND TERMS & OUTSTANDING BONDS · MOODY'S (BAA3) / S&P (BB-)

TICKER	CPN	MATURITY	BID	ASK	YTM	OAS	DUR	RTG	VS FV	REC
COLOM	3.875%	25-Apr-27	99.34	99.48	4.76	64	0.73	Baa3/BB-	~Inline	HOLD
COLOM	5.375%	21-Jan-29	100.09	100.23	5.34	100	2.24	Baa3/BB-	RICH ~9bp	UNDERWEIGHT
COLOM	3.000%	30-Jan-30	91.38	91.60	5.74	137	3.22	Baa3/BB-	~Inline	HOLD
COLOM	3.125%	15-Apr-31	88.72	88.95	5.89	150	4.25	Baa3/BB-	RICH ~7bp	UNDERWEIGHT
COLOM	6.125%	21-Jan-31	100.91	101.11	5.89	150	3.82	Baa3/BB-	~Inline	HOLD
COLOM	3.250%	22-Apr-32	86.66	86.86	6.03	158	5.05	Baa3/BB-	RICH ~13bp	UNDERWEIGHT
★ COLOM	10.375%	28-Jan-33	121.02	121.73	6.38	**187**	4.71	Baa3/BB-	**CHEAP ~22bp***	BUY
COLOM	6.500%	21-Jan-33	101.22	101.49	6.27	176	5.14	Baa3/BB-	~Inline	HOLD
★ COLOM	8.000%	20-Apr-33	109.17	109.35	6.31	**177**	5.00	Baa3/BB-	**BEST VALUE ★**	**OVERWEIGHT**
★ COLOM	8.000%	14-Nov-35	109.45	109.72	6.62	**199**	6.44	Baa3/BB-	**PEAK CARRY ★**	**OVERWEIGHT**
COLOM	7.375%	18-Sep-37	105.42	105.81	6.68	193	7.46	Baa3/BB-	RICH ~8bp	UNDERWEIGHT
COLOM	6.125%	18-Jan-41	92.38	92.76	6.97	202	9.27	Baa3/BB-	RICH ~8bp	UNDERWEIGHT
⚠ COLOM	4.125%	22-Feb-42	74.46	74.94	6.81	176	10.32	Baa3/BB-	RICH ~33bp ⚠	UNDERWEIGHT

TICKER	CPN	MATURITY	BID	ASK	YTM	OAS	DUR	RTG	VS FV	REC
COLOM	5.625%	26-Feb-44	84.83	85.04	7.15	209	10.17	Baa3/BB-	~Inline	HOLD
COLOM	5.200%	15-May-49	78.17	78.43	7.15	204	11.80	Baa3/BB-	~Inline	HOLD
COLOM	4.125%	15-May-51	66.72	67.22	6.96	181	12.98	Baa3/BB-	RICH ~8bp	UNDERWEIGHT
★ **COLOM**	8.750%	14-Nov-53	116.44	116.85	7.34	**226**	11.17	Baa3/BB-	**CHEAP ~20bp**	BUY
★ **COLOM**	8.375%	07-Nov-54	112.39	112.66	7.33	**225**	11.38	Baa3/BB-	**CHEAP ~21bp**	BUY

*Peak carry bonds highlighted. COLOM 8.0% Apr-33 / 8.0% Nov-35 = best value on curve. COLOM 4.125% 2042 = duration risk / rich outlier. Prices as of 17 July 2026. Source: Bloomberg, Khorlan Capital SRL. *10.375% 2033 screens cheapest on the model but is a high-coupon, high-cash-price legacy issue with thinner liquidity than the rest of the curve — treat the signal with caution.*

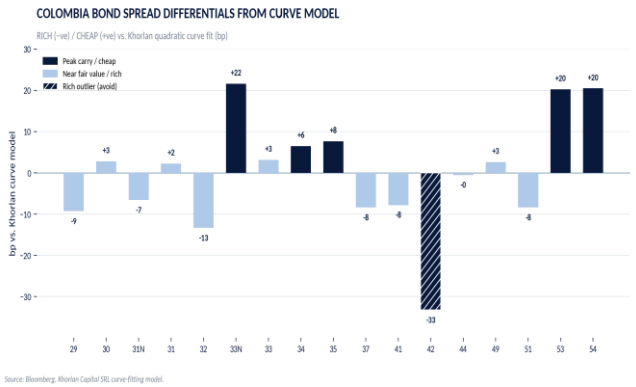


Peak carry: COLOM 8.0% Apr-33 / 8.0% Nov-35. Rich outlier / avoid: COLOM 4.125% 2042. Prices as of 17 July 2026. Source: Bloomberg, Khorlan Capital SRL.

Reading the curve plainly: the belly (2033–2035 maturities) sits above our fitted fair-value line — i.e. cheap — while the front end (2029–2032) and most of the 9–13yr sector sit below it, with the 4.125% 2042 standing out as a clear outlier. Against BB-rated peers at similar duration — Brazil, Costa Rica, the Dominican Republic, Guatemala, Honduras and Jamaica — Colombia's belly still runs 30–50bp above the ~150bp peer-average OAS, a gap that looks generous next to a ratings profile that is at least comparable to, and in places better than, that peer set.

Curve-Model Residuals: Where the Curve Is Rich and Cheap

The chart below translates the same curve fit into a single number per bond — the gap between each bond's actual OAS and what our quadratic fit says it should be, given its duration. Positive bars are cheap (the bond offers more spread than the curve shape implies); negative bars are rich.



TOP PICKS FROM THE MODEL	
8.0% Apr-33	+6.5bp cheap — OVERWEIGHT
8.0% Nov-35	+7.7bp cheap — OVERWEIGHT
8.75% 2053	+20.3bp cheap — BUY
8.375% 2054	+20.5bp cheap — BUY
3.25% 2032	−13.3bp rich — UNDERWEIGHT
4.125% 2042	−33.2bp rich — AVOID

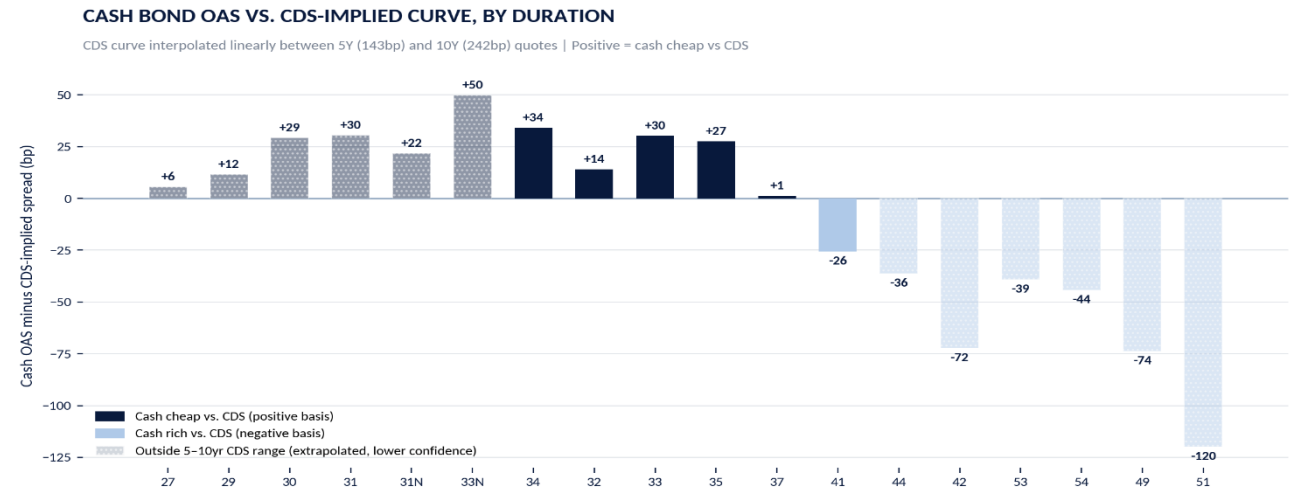
Source: Bloomberg, Khorlan Capital SRL curve-fitting model.

5. CDS MARKET: A SECOND DATA POINT ON VALUE

Colombia's CDS curve is currently quoted at 143bp in the 5-year tenor and 242bp in the 10-year tenor, implying a 5s10s slope of approximately 99bp. This is materially steeper than the slope observed across cash bonds over a comparable duration range. To assess relative value, we derive a CDS-implied spread for each bond based on its actual duration, using linear interpolation between the 5-year and 10-year CDS points. Bonds with durations outside that range require extrapolation and are identified accordingly. On this basis, the relative-value profile changes shape rather than simply shifting uniformly wider or tighter.

Cash bonds screen cheap to the CDS-implied curve out to approximately seven years of duration. Our preferred bonds—the 8.0% April 2033, with a 5.00-year duration and 177bp OAS versus approximately 143bp CDS-implied, and the 8.0% November 2035, with a 6.44-year duration and 199bp OAS versus approximately 172bp CDS-implied—offer positive cash-CDS bases of roughly 27–34bp. The 7.375% 2037, at 7.46 years of duration, trades broadly in line with the CDS-implied curve.

Beyond this point, the relationship reverses. The 6.125% 2041, with a 9.27-year duration and 202bp OAS versus approximately 228bp CDS-implied, screens around 25bp rich in cash terms. The 4.125% 2042—already identified as a rich outlier on the standalone cash curve—trades more than 70bp through the CDS-implied level, reinforcing our avoid recommendation. The long-dated 2051s, 2053s, and 2054s also screen rich under this framework. However, with durations of approximately 11–13 years, these comparisons rely on extrapolation well beyond the longest available CDS quote, and we would therefore place limited weight on the precise magnitude of the apparent richness.



Source: Bloomberg (cash bonds, 5Y/10Y CDS quotes), Khorlan Capital SRL linear interpolation.

The practical read is a curve-shaped one, not a single-number one: cash bonds pay up relative to protection in the belly, where our OVERWEIGHT picks already sit, but protection looks relatively cheap — or cash relatively expensive — once duration stretches past roughly 8 years.

Trade recommendation: In the belly (5–7yr duration), we would run the basis package we described previously — own the COLOM 8.0% April 2033 cash bond and buy matched-tenor CDS protection — to lock in the ~30bp of positive basis while staying credit-hedged; accounts without CDS access simply have another reason to prefer cash here, consistent with our OVERWEIGHT. Past 8 years of duration, the read inverts: for investors who want long-dated Colombia exposure and can use derivatives, selling 10-year protection at 242bp looks more efficient than owning the equivalent-duration cash bonds, which appear to be paying investors less than the CDS market would imply is fair — and it gives another, independent reason to steer clear of the 4.125% 2042 specifically, where the cash-versus-CDS gap is the widest on the curve. We would treat the very long end (12–13yr) as directional color only, since it sits outside the range our two CDS quotes actually cover.

Colombia's CDS market is anchored by the highly liquid 5-year contract, with the 10-year tenor providing the next meaningful point on the curve. As intermediate maturities are not actively quoted, our analysis necessarily relies on interpolation between these two market observations and extrapolation beyond them. Consequently, the duration-adjusted relative-value signals are sensitive to changes in the 5s10s CDS term structure. A flattening of the current 5s10s slope would compress the positive cash-CDS basis across the belly while reducing the apparent richness of the long end, even if cash bond spreads remained unchanged.

6. KEY RISKS

- Political capital risk: a narrow victory margin and fragmented Congress could slow fiscal consolidation well below what the bond market's post-election repricing already assumes.
- Social/labor unrest: opposition-led demonstrations or strikes in response to spending discipline or subsidy reform could delay the reform agenda and reintroduce headline risk.
- External shocks: commodity price weakness or a broader EM risk-off episode would weigh on Colombia's twin deficits and could stall or reverse spread compression regardless of domestic policy execution.
- Multilateral renegotiation risk: if talks to extend or reprice multilateral loans stall, the government may need to lean more heavily on primary bond issuance, adding technical supply pressure to the curve.
- Rich-outlier convergence risk: the COLOM 4.125% 2042 could remain persistently rich if it continues to benefit from index or liquidity technicals unrelated to fundamental value; being short liquidity in this name carries its own risk.
- Rating agency risk: Colombia's Baa3/BB-/BB+ split ratings mean a single-agency action, positive or negative, could move the curve independent of the fundamental trajectory we describe here.

7. CONCLUSION

We move Colombia's sovereign USD curve to OVERWEIGHT, closing out the Tactical Buy we ran through the election cycle now that the market-friendly outcome has been delivered and a good chunk of the compression has already happened. What is left is a more patient, structural case: our curve model still shows the belly and long end cheap, the peer comparison still shows Colombia paying up versus similarly-rated regional credits, and the CDS market — new to this coverage — confirms cash bonds are the cheaper way to hold this risk right now. We prefer COLOM 8.0% April 2033 and COLOM 8.0% November 2035, would avoid COLOM 4.125% 2042 outright, and see the cash-CDS gap as an added reason to stay in bonds rather than reach for synthetic exposure. We would revisit on any material shift in Congress's early legislative traction, progress (or lack of it) on multilateral-loan renegotiation, a meaningful move in the 5-year CDS quote, or a turn in the broader EM risk backdrop.

SOURCES

Bloomberg (bond pricing, YTM, OAS, Z-spread, duration, ratings, 5-year CDS); Colombia Ministry of Finance (public debt statistics); Moody's, S&P and Fitch published rating actions; Khorlan Capital SRL curve-fitting model and estimates. Market commentary reviewed for general context (not reproduced) includes recent LatAm sovereign desk strategy notes circulating among sell-side EM desks; all curve-fitting, rich/cheap analysis, CDS-basis work and recommendations in this report are Khorlan Capital's own.

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