

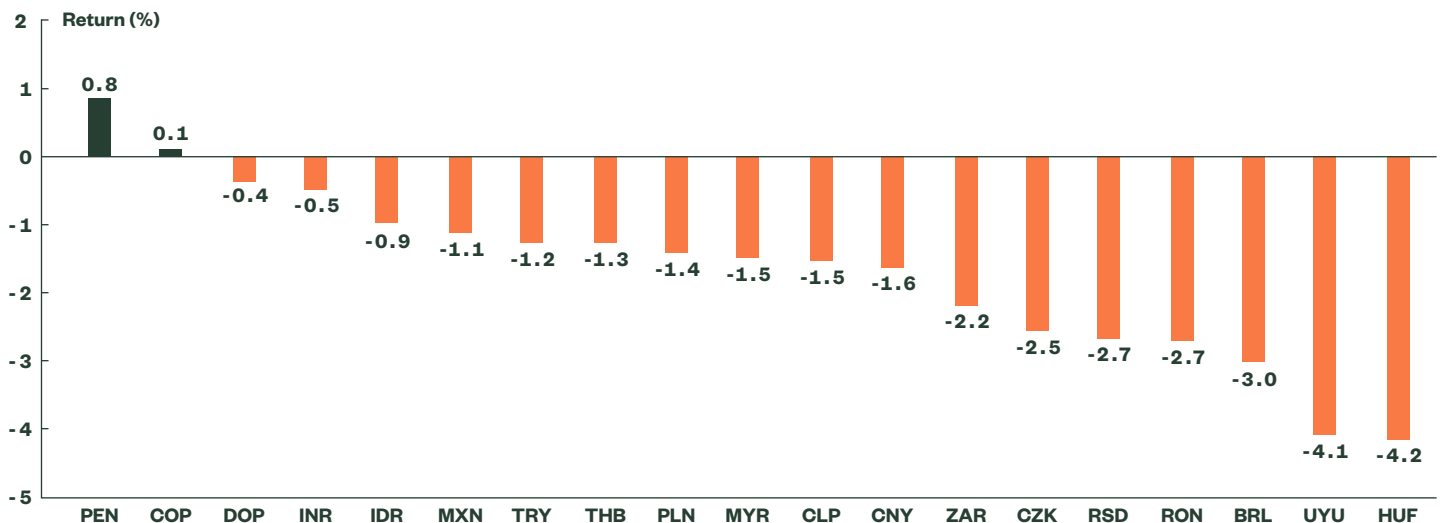
# Emerging Market Debt

## Market Commentary: November 2024

### Chart of the Month: US Dollar Strength Hits Local Currency Returns

The recent uptrend in the US dollar was largely responsible for the negative performance of emerging market local currency bonds in November. Seventeen of the 19 currencies in the JP Morgan GBI-EM GD Index recorded negative returns in the month, which skewed the total benchmark return lower.

Figure 1  
EM FX Returns vs. US Dollar in November



Source: Bloomberg, JP Morgan as of 31 October 2024. Past performance is not a reliable indicator of future performance.

### EMD Commentary: November 2024

Emerging market (EM) debt markets had a cautious start to November, factoring in US election outcome possibilities. Markets quickly found direction as former president Donald Trump emerged victorious and Republicans took control of the Senate. Consequently, potential changes to tax, energy, trade and regulatory policies were on the table and weighed on investor risk sentiment toward EM debt. Geopolitical risks remained elevated amid Ukraine's use of long-range missiles to target Russian territory, and Russia's approval of a new nuclear deterrence doctrine. Ceasefire talks between Israel and Hezbollah continued, although an agreement remained elusive by month-end. These headwinds were partially offset by the outcome of the US Federal Open Market Committee (FOMC) meeting, where the target range for the federal funds rate by 25 basis points (bps) to 4.50%-to-4.75%. This acknowledged the easing in US labour market conditions and ongoing progress on lowering inflation. EM local currency bonds posted negative returns in November, largely due to the prevailing US dollar strength. EM hard currency debt posted positive returns in November aided by the treasury component and idiosyncratic developments within the EM universe.

In China, long-term benchmark yields remained near multi-decade lows. In its November fixing, the People's Bank of China (PBoC) maintained its one-year loan prime rate and the five-year mortgage reference rate at 3.1% and 3.6%, respectively. Chinese lawmakers approved a State Council bill, which resulted in the ceiling on local government debt being raised by six trillion yuan (about \$840 billion) to 35.52 trillion yuan by the end of 2024. As a result, the amount of 'hidden' debt that China's local governments need to repay by 2028 is expected to drop from 14.3 trillion yuan to 2.3 trillion yuan. In Latin America (LatAm), the Bank of Mexico lowered its benchmark interest rate by 25bps to 10.25% in November. However, the Central Bank of Brazil increased its Selic rate by 50bps to 11.25% in November to address inflation risks and support economic stability. In EM EMEA, the Czech National Bank and the South African Reserve Bank lowered their key interest rates by 25bps in November to and 7.75%, respectively. Net flows in November for hard currency and local currency bonds amounted to -\$7.2bn and -\$2.7bn, respectively. (Source: JP Morgan).

Figure 2  
**Emerging Market Debt Index Returns — As of 30 November 2024**

|                               | 1m (%) | 3m (%) | 6m (%) | YTD (%) | 12m (%) | 3yrs (%) | 5yrs (%) |
|-------------------------------|--------|--------|--------|---------|---------|----------|----------|
| <b>In USD</b>                 |        |        |        |         |         |          |          |
| GBI-EM GD (EM Local Currency) | -0.57  | -1.94  | 2.26   | -0.46   | 2.73    | 0.20     | -0.67    |
| EMBI GD (EM Hard Currency)    | 1.19   | 1.29   | 6.22   | 8.05    | 13.16   | 0.02     | 0.80     |
| CEMBI BD (EM Corporates)      | 0.60   | 0.96   | 5.18   | 8.21    | 11.53   | 1.31     | 2.48     |
| <b>In EUR</b>                 |        |        |        |         |         |          |          |
| GBI-EM GD (EM Local Currency) | 2.21   | 2.77   | 5.10   | 4.10    | 6.12    | 2.35     | 0.18     |
| EMBI GD (EM Hard Currency)    | 4.01   | 6.15   | 9.18   | 13.00   | 16.90   | 2.17     | 1.67     |
| CEMBI BD (EM Corporates)      | 3.41   | 5.81   | 8.10   | 13.18   | 15.22   | 3.48     | 3.37     |
| <b>In GBP</b>                 |        |        |        |         |         |          |          |
| GBI-EM GD (EM Local Currency) | 0.57   | 1.40   | 2.43   | -0.17   | 2.32    | 1.55     | -0.33    |
| EMBI GD (EM Hard Currency)    | 2.35   | 4.73   | 6.40   | 8.37    | 12.71   | 1.37     | 1.15     |
| CEMBI BD (EM Corporates)      | 1.76   | 4.39   | 5.35   | 8.53    | 11.09   | 2.67     | 2.84     |

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 November, 2024. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. Performance returns for periods of less than one year are not annualized.

Figure 3  
**Key EM and Macro levels as of 30 November 2024**

| Item               | Δ 1 Month | Δ 3 Months | Δ YTD   | Current Level |
|--------------------|-----------|------------|---------|---------------|
| GBI-EM GD Yield    | -8 bps    | 4 bps      | 10 bps  | 6.30%         |
| EMBI GD Yield      | -10 bps   | -26 bps    | -22 bps | 7.63%         |
| EMBI GD Spread     | -1 bps    | -52 bps    | -48 bps | 336 bps       |
| CEMBI BD Yield     | -4 bps    | 12 bps     | -35 bps | 6.65%         |
| CEMBI BD Spread    | -1 bps    | -17 bps    | -56 bps | 293 bps       |
| CDX.EM 5y          | -12 bps   | -5 bps     | -9 bps  | 157 bps       |
| 10y UST            | -12 bps   | 27 bps     | 29 bps  | 4.17%         |
| Dollar Index (DXY) | 1.69%     | 3.97%      | 4.35%   | —             |
| DOW 30             | 7.54%     | 8.05%      | 19.16%  | 44,911        |
| Oil (WTI)          | -1.82%    | -7.55%     | -5.09%  | \$ 68         |

Source: JP Morgan, Bloomberg as of 30 November, 2024. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

## Local Currency Market Highlights

EM local currency debt returned -0.57% (in USD terms) in November 2024, as measured by the JP Morgan GBI-EM Global Diversified Index. A major contribution to the total return outcome came from negative foreign exchange (FX) returns (-1.59%), with 17 out of the 19 currencies in the index weakening against the US dollar in the month. The headwind from this dollar strength more than offset positive returns from the bond component. The combined bond price and interest return was positive (+1.02%), with the GBI-EM GD Index yield decreasing by 8bps in November amid market expectations of more rate cuts in 2025 by some of the major EM central banks. Apart from Africa, all regions yielded negative returns, with Asia accounting for the biggest impact due to its weight even while outperforming in relative terms.

Figure 4  
Key Return Drivers of  
EM Local Government  
Bond Markets

| GBI-EM GD (EM Local Currency)    | Monthly Return (%) | 3 Month Return (%) | YTD Return (%) |
|----------------------------------|--------------------|--------------------|----------------|
| <b>In USD</b>                    |                    |                    |                |
| <b>Total Return (in \$)</b>      | <b>-0.57</b>       | <b>-1.94</b>       | <b>-0.46</b>   |
| FX Return (vs \$)                | -1.59              | -3.19              | -6.09          |
| Price Return (Local Currency)    | 0.58               | -0.13              | 0.50           |
| Interest Return (Local Currency) | 0.44               | 1.38               | 5.13           |
| <b>In EUR</b>                    |                    |                    |                |
| <b>Total Return (in €)</b>       | <b>2.21</b>        | <b>2.77</b>        | <b>4.10</b>    |
| FX Return (vs €)                 | 1.18               | 1.52               | -1.53          |
| <b>In GBP</b>                    |                    |                    |                |
| <b>Total Return (in £)</b>       | <b>0.57</b>        | <b>1.40</b>        | <b>-0.17</b>   |
| FX Return (vs £)                 | -0.45              | 0.14               | -5.80          |

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 November, 2024. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. Performance returns for periods of less than one year are not annualized.

Figure 5  
Best and Worst  
Performers Across EM  
Local Government Bond  
Markets in USD\*

| November '24               | Country        | Total Return USD (%) | Bond Return (%) | FX Return (%) | Index Weight (%) | Index Impact (bps)** |
|----------------------------|----------------|----------------------|-----------------|---------------|------------------|----------------------|
| <b>GBI-EM GD</b>           |                | <b>-0.57</b>         | <b>1.02</b>     | <b>-1.59</b>  |                  |                      |
| <b>Top 5 Performers</b>    | Turkey         | 4.2                  | 5.4             | -1.2          | 1.4              | 6                    |
|                            | Peru           | 2.8                  | 2.0             | 0.8           | 2.1              | 6                    |
|                            | South Africa   | 0.9                  | 3.1             | -2.2          | 8.6              | 8                    |
|                            | Mexico         | 0.5                  | 1.6             | -1.1          | 10.0             | 5                    |
|                            | Poland         | 0.4                  | 1.8             | -1.4          | 7.4              | 3                    |
| <b>Bottom 5 Performers</b> | Czech Republic | -1.4                 | 1.1             | -2.5          | 5.4              | -8                   |
|                            | Serbia         | -2.2                 | 0.5             | -2.7          | 0.3              | -1                   |
|                            | Brazil         | -4.0                 | -1.0            | -3.0          | 7.5              | -30                  |
|                            | Romania        | -4.1                 | -1.3            | -2.7          | 3.6              | -15                  |
|                            | Uruguay        | -4.3                 | -0.2            | -4.1          | 0.2              | -1                   |

Source: State Street Global Advisors, JP Morgan, Bloomberg as of 30 November, 2024. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. \*Country and currency performance of JP Morgan GBI-EM Global Diversified Index. \*\*Index impact is calculated by multiplying the period ending weight by total return.

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**Uruguay** was the worst performer in November. The country held its presidential elections in November, with the opposition candidate Yamandú Orsi defeating Álvaro Delgado of the center-right National Party. The Central Bank of Uruguay kept its benchmark policy rate at 8.5% in an effort to bring inflation down to the target level of 4.5%. The Uruguayan peso depreciated against the US dollar by 3.54% in November and closed at 43.13.

**Romania** was another underperformer in the month. The country's annual inflation rate increased to 4.7% in October from 4.6% in September and above market expectations of 4.4%. The National Bank of Romania kept its benchmark rate unchanged at 6.5% in November as expected, marking the second consecutive pause. The Romanian leu depreciated against the US dollar by 2.94% in November and closed at 4.71.

**Brazil** was another poor performer in November. In its November meeting, the Central Bank of Brazil increased its Selic rate by 50bps to 11.25%, acknowledging risks of higher inflation and resilient services inflation. Similar to the other heavily-weighted countries in the index, Brazil's local currency took a hit against the persistingly strong US dollar in November. The Brazilian real depreciated against the US dollar by 3.17% in November and closed at 5.97.

**Turkey** was the best performer in November. The annual inflation rate in Turkey decreased to 47.09% in November, from 48.58% in October. In its November meeting, the Central Bank of Turkey kept its benchmark one-week repo auction rate unchanged at 50% for the eighth consecutive time. The Turkish lira, however, depreciated against the US dollar by 1.30% in November and closed at 34.70.

**Peru** was another good performer in November. The country's annual inflation rate increased to 2.27% in November while remaining within the central bank's target range of 1-3% for the eighth consecutive month, Peru's central bank lowered its benchmark interest rate by 25bps to 5% in its November meeting, its lowest level since May 2022. The Peruvian Sol was marginally flat against the US dollar in November and closed at 3.76.

## Hard Currency Market Highlights

EM hard currency sovereign debt returned +1.19% (in USD terms) in November 2024, as measured by the JP Morgan EMBI Global Diversified Index. The treasury component return (+0.87%) was the major contributor to performance. The overall JPM EMBI GD yield decreased by 10bps in November. The macro backdrop was shaped by the US election outcome, a reduction in benchmark treasury yields, and idiosyncratic developments that helped hard currency bonds, especially in the high yield segment. The spread component returns were also positive (+0.32%). The overall JPM EMBI GD spread narrowed by 1bp in November. The compression in Investment Grade-High Yield (IG/HY) spreads resulted in the HY sub-index outperforming the IG counterparts by 1.26%.

Figure 6  
**Key Return Drivers  
of EM Hard Currency  
Government Bond Markets  
in USD**

| EMBI GD (EM Hard Currency)  | Monthly Return (%) | 3 Month Return (%) | YTD Return (%) |
|-----------------------------|--------------------|--------------------|----------------|
| <b>Total Return (in \$)</b> | <b>1.19</b>        | <b>1.29</b>        | <b>8.05</b>    |
| Spread Return               | 0.32               | 2.13               | 6.12           |
| Treasury Return             | 0.87               | -0.82              | 1.81           |
| IG Sub-Index                | 0.55               | -1.20              | 2.59           |
| HY Sub-Index                | 1.81               | 3.76               | 13.71          |

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Figure 7  
**Best and Worst  
Performers Across  
EM Hard Currency  
Government  
Bond Markets\***

| November '24                   | Country   | Total Return (%) | Spread Return (%) | Treasury Return (%) | Average Index Weight (%) | Index Impact (bps)** |
|--------------------------------|-----------|------------------|-------------------|---------------------|--------------------------|----------------------|
| <b>EMBI Global Diversified</b> |           | <b>1.19</b>      | <b>0.32</b>       | <b>0.87</b>         |                          |                      |
| <b>Top 5 Performers</b>        | Argentina | 12.9             | 12.2              | 0.7                 | 2.5                      | 33                   |
|                                | Bolivia   | 12.1             | 11.8              | 0.3                 | 0.2                      | 2                    |
|                                | Sri Lanka | 10.5             | 9.6               | 0.8                 | 1.3                      | 13                   |
|                                | Lebanon   | 8.6              | 7.8               | 0.8                 | 0.8                      | 7                    |
|                                | Ukraine   | 7.7              | 7.3               | 0.4                 | 1.0                      | 8                    |
| <b>Bottom 5 Performers</b>     | Chile     | -1.0             | -1.6              | 0.6                 | 0.1                      | 0                    |
|                                | Latvia    | -1.2             | -1.8              | 0.6                 | 0.1                      | 0                    |
|                                | Peru      | -1.3             | -2.3              | 0.9                 | 2.6                      | -3                   |
|                                | Colombia  | -1.9             | -2.2              | 0.4                 | 0.2                      | 0                    |
|                                | Panama    | -5.7             | -5.9              | 0.3                 | 0.5                      | -3                   |

Source: State Street Global Advisors, JP Morgan, Bloomberg as of 30 November, 2024. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. \*Country and currency performance of JPM EMBI Global Diversified Index \*\*Index impact is calculated by multiplying the period ending weight by total return.

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**Argentina** was the best performer in November, contributing 33bps to index returns. Argentina's hard currency bonds benefited from the US election outcome. Argentina is the largest debtor for the International Monetary Fund (IMF). Investor sentiment was bolstered by expectations of a deal with the IMF, with hopes that a good relationship with the Trump administration would help secure a future deal.

**Ukraine** was another good performer in November, contributing 13bps to index returns. Ukrainian dollar bonds rallied in November on the back of expectations that the Trump administration will push for an end to the ongoing conflict with Russia. Ukraine also secured USD 4.8 billion of funding from the World Bank, as a part of the Public Expenditures for Administrative Capacity Endurance (PEACE) initiative.

**Sri Lanka** also performed well in November, contributing 8bps to index returns. In an effort to progress its debt restructuring of dollar-denominated bonds, Sri Lanka announced a deal to swap USD 12.6 billion of its bonds for longer-dated notes. The creditors have until December 12 to vote on this proposal. This restructuring is expected to help restore macroeconomic stability and address debt burden concerns.

**Venezuela** was among the underperformers in November, detracting 3bps from index returns. The spread component largely accounted for the poor performance amid persisting political turmoil that continued to weigh on investor sentiment since the controversial declaration of Nicolás Maduro's disputed victory in July.

**Romania** was another underperformer in November, detracting 3bps from index returns, largely due to political uncertainties. Romania held presidential elections on November 24 and the constitutional court had to intervene amid claims that the election had been compromised by a cyber operation. Romania's international reserves decreased to USD 64,669 million in October from USD 69,915 million in September.

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\* Pensions & Investments Research Center, as of December 31, 2023.

† This figure is presented as of September 30, 2024 and includes ETF AUM of \$1,515.67 billion USD of which approximately \$82.59 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

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