Insights
Fixed Income

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Why SPDR J.P. Morgan Saudi Arabia Aggregate Bond UCITS ETF?

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State Street Global Advisors is launching a new suite of ETFs in support of Saudi Arabia Vision 2030 — the first is SPDR J.P. Morgan Saudi Arabia Aggregate Bond UCITS.

The macro fundamentals of Saudi Arabia remain robust, while its bond market depth and liquidity continues to grow, providing investors with new diversification opportunities. SPDR J.P. Morgan Saudi Arabia Aggregate Bond UCITS ETF offers:

1. **Potential for strong risk-adjusted returns** SPDR J.P. Morgan Saudi Arabia Aggregate Bond UCITS ETF tracks the J.P. Morgan Saudi Arabia Aggregate Index, which has had higher annual returns than the Bloomberg Global Aggregate Index over 1, 2, 3 and 5 years. Volatility over the past 1- and 2-year periods has also been lower than the Bloomberg Global Aggregate.[1]

2. **Access to an under-owned market** Saudi Arabia represents an opportunity to invest in a market with a relatively low level of foreign ownership. The evolution of the market should result in broader ownership as the country is included in more key global fixed income indices.[2]

3. **Robust fiscal underpinnings** Saudi Arabia is rated A+/A1; the International Monetary Fund's Fiscal Monitor projects an average annual general government fiscal balance of -2.2% of GDP, which compares favorably to the world average of -4.5%.

4. **Local market exposure** Just over 20% of the fund is in local currency Saudi Arabia riyal (SAR) bonds. This is expected to grow over time and is typically a more difficult exposure to access than US dollar (USD)-denominated bonds.

5. **An opportunity to participate in growth** Saudi Arabian GDP growth is expected to be strong,[3] supported by efforts to broaden the economy away from hydrocarbons. Alongside this, expect local capital markets to grow.

The J.P. Morgan Saudi Arabia Aggregate Index aims to track the performance of liquid, USD-denominated sovereign and quasi-sovereign instruments and SAR-denominated Sukuk government bonds.

- Yields are approximately 80 basis points (bps) above US 10Y Treasuries, but the duration of the Index is over half a year shorter.
- Long-term returns versus Bloomberg Global Aggregate have been favorable.
- There is limited currency risk for USD-based investors, given the currency peg (fixed exchange rate) and the dominance of USD-denominated bonds.

Endnotes

1 Comparison using the J.P. Morgan Saudi Arabia Aggregate Index and the Bloomberg Global Aggregate Index. Source: State Street Global Advisors, Bloomberg Finance L.P. as at 31 October 2024.

2 The first steps have already occurred — Saudi Arabia has been a constituent of the FTSE Emerging Markets Government Bond Index since April 2022.

3 The International Monetary Fund (IMF), in its World Economic Outlook, estimate GDP growth over the 2025–2029 period to average 4.0%, more than double that of advanced economies.

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