

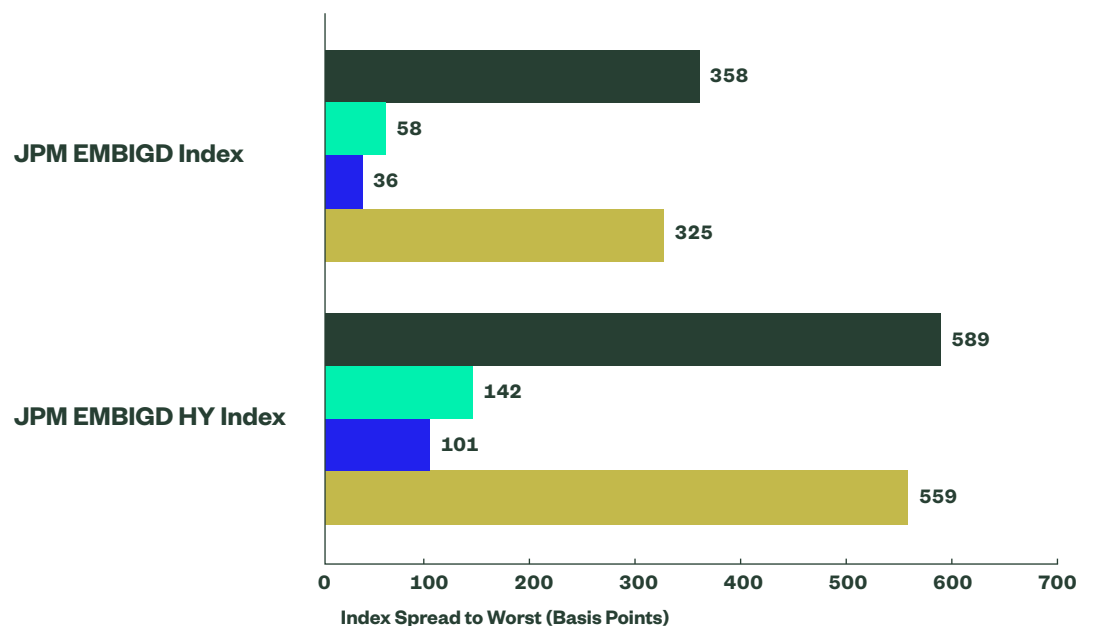
# Emerging Market Debt

## Market Commentary: Q4 2024

### Chart of the Quarter: Evolution in EMD Hard Currency Spreads

Emerging markets hard currency sovereign spreads tightened significantly in Q4 and for 2024 as a whole, as reflected by the JP Morgan EMBI Global Diversified Index. This was driven by the high yield component of the benchmark, which recorded a narrowing of spreads by 101bps in Q4 and by 142bps in 2024 to end the year 30bps lower than the 15-year average.

Figure 1  
EM Hard Currency  
Spreads Narrow



Source: Bloomberg Finance L.P., JP Morgan, as of 31 December 2024. Past performance is not a reliable indicator of future performance.

### EMD Commentary: Q4 2024

Emerging market (EM) debt experienced a difficult start to the quarter, with investor risk appetite impacted by geopolitical risks in the Middle East and market uncertainty surrounding the potential outcome of the US elections and its potential spillover impact on long-term EM economic prospects. Markets found direction in November as former president Donald Trump emerged victorious and Republicans took control of the Senate. With Trump's election campaign putting potential changes to tax, energy, trade and regulatory policies on the table, investor risk sentiment toward EM debt continued to be fragile. Geopolitical risks remained elevated in November as Ukraine launched long-range missiles into Russian territory, and Russia announced a new nuclear deterrence doctrine. Over the quarter, the US Federal Reserve (Fed) cut rates twice — by 25bps each time — to take the target range for the federal funds rate to 4.25%-to-4.50%. The cautious tone from Fed chair Jerome Powell in December prompted markets to lower expectations on rate cuts in 2025, with no more than two cuts priced in. In emerging markets, major central banks' monetary policy decisions are expected to be primarily driven by domestic inflation and growth factors, and to a lesser extent by the Fed's rate cut dynamics.

Both EM local and hard currency bonds posted negative returns for Q4. The ongoing US dollar strength dented local bond returns, while hard currency debt losses were partially offset by the narrowing in spreads in the quarter. In China, long-term benchmark yields remained near multi-decade lows with the property sector continuing to weigh on performance. The People's Bank of China (PBoC) lowered its policy rates to record lows in October, taking the one-year loan prime rate and the five-year mortgage reference rate to 3.1% and 3.6%, respectively. In November, 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. China's manufacturing activity slowed towards the end of the year, amid concerns about new potential tariffs from the incoming Trump administration. China adopted a measured fiscal stimulus in Q4, keeping the door open for further measures once there is greater clarity on the nature of new US policies.

Net flows in the quarter for hard currency and local currency funds were negative, amounting to approximately -\$11.6bn and -\$4.2bn, respectively<sup>1</sup>.

Figure 2  
**Emerging Market Debt Index Returns — As of 31 December, 2024**

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
<b>In USD</b>							
GBI-EM GD (EM Local Currency)	-1.93	-6.98	1.38	-2.38	-2.38	-0.96	-1.86
EMBI GD (EM Hard Currency)	-1.40	-1.94	4.10	6.54	6.54	-0.91	0.12
CEMBI BD (EM Corporates)	-0.54	-0.80	3.64	7.63	7.63	0.99	2.18
<b>In EUR</b>							
GBI-EM GD (EM Local Currency)	0.03	0.25	4.93	4.14	4.14	2.19	-0.26
EMBI GD (EM Hard Currency)	0.57	5.69	7.74	13.65	13.65	2.24	1.74
CEMBI BD (EM Corporates)	1.44	6.91	7.27	14.81	14.81	4.20	3.84
<b>In GBP</b>							
GBI-EM GD (EM Local Currency)	-0.47	-0.38	2.33	-0.64	-0.64	1.66	-0.75
EMBI GD (EM Hard Currency)	0.07	5.02	5.07	8.44	8.44	1.72	1.25
CEMBI BD (EM Corporates)	0.94	6.24	4.61	9.55	9.55	3.66	3.33

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 31 December, 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  
**ESG Emerging Market Debt Index Returns — As of 31 December, 2024**

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
<b>In USD</b>							
JESG GBI-EM (ESG EM Local Currency)	-2.07	-7.40	1.05	-2.79	-2.79	-0.70	-1.63
JESG EMBI (ESG EM Hard Currency)	-1.61	-2.41	3.80	5.75	5.75	-1.86	-0.47

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 31 December, 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 4  
**Key EM and Macro Levels**  
**As of 31 December 2024**

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	10 bps	29 bps	20 bps	6.39%
EMBI GD Yield	24 bps	38 bps	2 bps	7.87%
EMBI GD Spread	-11 bps	-36 bps	-59 bps	325 bps
CEMBI BD Yield	27 bps	60 bps	-8 bps	6.92%
CEMBI BD Spread	-3 bps	-14 bps	-59 bps	290 bps
CDX.EM 5y	16 bps	10 bps	7 bps	173 bps
10y UST	40 bps	79 bps	69 bps	4.57%
Dollar Index (DXY)	2.60%	7.65%	7.06%	—
DOW 30	-5.27%	0.51%	12.88%	42544
Oil (WTI)	5.47%	5.21%	0.10%	\$ 71.72

Source: JP Morgan, Bloomberg, as of 31 December, 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 -6.98% (in USD terms) in Q4 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 (-6.59%), with all the 19 currencies in the index weakening against the US dollar in the period. The combined bond price and interest return was also negative (-0.39%), with the GBI-EM GD Index yield increasing by 29bps in Q4. Market repricing of US core rates and near-term caution around the monetary easing cycle from EM central banks pushed EM local market yields higher. Three countries in the index lost over 10% (total return, in USD terms) and another eight countries lost over 6%.

Figure 5  
**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>-1.93</b>	<b>-6.98</b>	<b>-2.38</b>
FX Return (vs \$)	-1.62	-6.59	-7.73
Price Return (Local Currency)	-0.78	-1.81	-0.28
Interest Return (Local Currency)	0.48	1.42	5.63
<b>In EUR</b>			
<b>Total Return (in €)</b>	<b>0.03</b>	<b>0.25</b>	<b>4.14</b>
FX Return (vs €)	0.34	0.65	-1.21
<b>In GBP</b>			
<b>Total Return (in £)</b>	<b>-0.47</b>	<b>-0.38</b>	<b>-0.64</b>
FX Return (vs £)	-0.16	0.02	-5.98

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 31 December, 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 6  
**Best and Worst Performers  
 Across EM Local  
 Government Bond  
 Markets in USD\***

Q4 24	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight (%)	Index Impact (bps) <sup>1</sup>
<b>GBI-EM GD</b>		<b>-6.98</b>	<b>-0.39</b>	<b>-6.59</b>		
<b>Top 5 Performers</b>	Dominican Republic	1.9	3.2	-1.2	0.3%	0
	Turkey	1.7	5.2	-3.5	1.5%	3
	China	-0.9	3.1	-4.0	10.0%	-9
	India	-1.1	1.0	-2.1	7.0%	-8
	Peru	-1.6	-0.6	-1.0	2.2%	-4
<b>Bottom 5 Performers</b>	South Africa	-8.2	0.5	-8.7	8.5%	-70
	Romania	-8.7	-1.6	-7.1	3.6%	-31
	Hungary	-11.0	-0.6	-10.4	2.5%	-27
	Chile	-12.4	-3.0	-9.4	1.8%	-22
	Brazil	-15.1	-3.7	-11.4	6.1%	-92

Source: State Street Global Advisors, JP Morgan, Bloomberg, as of 31 December, 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.

**Brazil** was the worst performer in Q4. The Central Bank of Brazil raised its Selic rate by a total of 150bps to 12.25% in Q4, with plans for further tightening if inflation risks persist. Brazil's headline and core inflation levels continued to exceed the central bank's target levels, leading to revised inflation expectations for 2025 of 4.8% and 4.6%, respectively. The Brazilian real depreciated against the US dollar by 13.4% in Q4 and closed at 6.18.

**Chile** was another poor performer in Q4. Similar to its Latin American peers, Chile's peso weakened depreciated by 10.7% in Q4 against a robust US dollar to close at 994.9. Although the annual inflation rate in Chile stood at 4.2% in November, higher than the central bank's target of 3%, the Central Bank of Chile reduced its policy rate by 25bps to 5% in December, acknowledging the persistent external and domestic challenges.

**Hungary** was another underperformer in Q4. The country's annual inflation rate increased to 3.7% in November, from 3% at the end of Q3. In line with expectations, the central bank kept its base rate unchanged at 6.5% for the third consecutive meeting in December. The Hungarian forint continued to depreciate, hitting a two-year low against the US dollar to drop 11.4% in the quarter and close December at 397.45.

**Dominican Republic** was the best performer in Q4. The Central Bank of the Dominican Republic lowered its benchmark interest rate by a total of 75bps to 5.75% in Q4. The country's annual inflation rate stood at 3.18% in November, down from 3.29% at the end of Q3 and within the central bank's target range. The Dominican peso depreciated against the US dollar by 1.6% in Q4 and closed at 61.10.

**Turkey** was another positive performer in the quarter. In its December meeting, the Central Bank of Turkey lowered its benchmark one-week repo auction rate by 250bps to 47.5%, ending its nine-month streak of holding borrowing costs at a 14-year high. Turkey's annual inflation rate decreased to 47.09% in November from 49.38% at the end of Q3. The Turkish lira depreciated against the US dollar by 3.4% in Q4 and closed at 35.35.

**India** was among the better EM performers in the quarter, with the FX component largely accounting for the negative total return outcome. Bond returns were however positive. The Indian rupee depreciated against the US dollar by 2.2% in Q4 and closed at 85.61. As expected, the Reserve Bank of India retained its key repo rate at 6.5% for the eleventh consecutive meeting in December. In an effort to boost liquidity, the central bank lowered the Cash Reserve Ratio by 50bps to 4% in December.

## Performance Comparison of JPM Local Currency Benchmark vs ESG Local Currency Benchmark

Figure 7  
Key Return Drivers of ESG EM Local Government Bond Markets

The JP Morgan ESG GBI-EM Index returned -7.40% (in USD terms) in Q4 2024, thereby underperforming the standard benchmark JP Morgan GBI-EM Global Diversified Index, which returned -6.98%. This underperformance was driven by relative index overweights, especially in Poland (+2.4%), Czech Republic (+1.8%), Romania (+1.2%) and Hungary (+0.8%), which detracted a total of -0.53% from excess returns. This was partially offset by relative underweights in China (-3.3%) and India (-2.3%), which contributed a total of +0.06% to excess returns as the Chinese and Indian local bonds delivered negative returns during the quarter.

JESG GBI-EM (ESG EM Local Currency)	Monthly Return (%)	3 Month Return (%)	YTD Return (%)
<b>In USD</b>			
<b>Total Return (in \$)</b>	<b>-2.07</b>	<b>-7.40</b>	<b>-2.79</b>
FX Return (vs \$)	-1.65	-6.79	-7.84
Price Return (Local Currency)	-0.89	-2.00	-0.48
Interest Return (Local Currency)	0.47	1.39	5.53

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 31 December, 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 8  
Relative Over/Underweights (JESG GBI-EM vs GBI-EM GD)

December 2024	Country	JESG GBI-EM (%)	GBI-EM GD (%)	Relative Weight (%)
<b>Top 5 Overweights</b>	Poland	9.5	7.2	2.4
	Czech Republic	7.3	5.5	1.8
	Romania	4.7	3.6	1.2
	Hungary	3.3	2.5	0.8
	Uruguay	0.2	0.2	0.1
<b>Top 5 Underweights</b>	Malaysia	10.0	10.0	0.0
	Mexico	10.0	10.0	0.0
	Turkey	1.0	1.5	-0.5
	India	4.7	7.0	-2.3
	China	6.7	10.0	-3.3

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 31 December, 2024. Past performance is not a reliable indicator of future performance. Country exposures are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

## Hard Currency Market Highlights

EM hard currency sovereign debt returned -1.94% (in USD terms) in Q4 2024, as measured by the JP Morgan EMBI Global Diversified Index. The treasury component return (-3.86%) was the major contributor to the negative total return. A sharp increase in US Treasury yields in December, alongside a cautious tone from the Fed on the prospects for rate cuts in 2025, weighed on investor risk sentiment. The political and policy uncertainties of the upcoming Trump administration also impacted hard currency yields. The overall JPM EMBI GD yield increased by 38bps in Q4. The contribution from the spread component was positive (+1.99%), with the JPM EMBI GD spread narrowing by 36bps in Q4. The significant tightening in high yield spreads enabled the high yield (HY) sub-index to outperform its investment grade (IG) counterpart.

Figure 9

### 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>In USD</b>			
<b>Total Return (in \$)</b>	<b>-1.40</b>	<b>-1.94</b>	<b>6.54</b>
Spread Return	0.53	1.99	6.69
Treasury Return	-1.92	-3.86	-0.14
IG Sub-Index	-2.21	-4.59	0.32
HY Sub-Index	-0.63	0.67	13.00

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 31 December, 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 10

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

Q4 2024	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Average Index Weight (%)	Index Impact (bps)**
<b>EMBI Global Diversified</b>		<b>6.15</b>	<b>0.90</b>	<b>5.20</b>		
<b>Top 5 Performers</b>	Lebanon	66.5	65.1	0.8	0.3	18
	Argentina	33.6	37.2	-2.6	2.7	90
	Ukraine	22.9	27.7	-3.8	1.4	31
	Sri Lanka	13.3	13.9	-0.6	1.0	13
	El Salvador	11.4	16.4	-4.2	0.8	10
<b>Bottom 5 Performers</b>	Peru	-5.7	0.1	-5.7	2.5	-14
	Brazil	-5.9	-2.0	-4.0	3.0	-17
	Romania	-6.4	-2.5	-4.0	2.6	-17
	Mozambique	-6.8	-4.9	-2.0	0.1	-1
	Panama	-9.5	-4.8	-4.9	2.5	-24

Source: State Street Global Advisors, JP Morgan, Bloomberg, as of 31 December, 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.

**Panama** was one of the underperformers in Q4, detracting 24bps from index returns. Early in the quarter, Panama's congress unsettled investors in approving a bill that increased the country's deficit ceiling under the fiscal responsibility law from 2% to 4% of GDP in 2025 and 3.5% in 2026. Risk sentiment was dented by a perceived threat from Trump to assert US control over the Panama Canal on concerns of China's influence and excessive tolls charged for US ships.

**Romania** was another underperformer in Q4, detracting 17bps from index returns amid domestic political upheaval. Romania held its presidential election on November 24 and the constitutional court subsequently intervened following claims that the election had been compromised by a cyber operation. Romania's foreign reserves fell to US\$69,573.1 million in November from US\$73,663.3 million at the end of Q3.

**Brazil** was another underperformer in Q4, detracting 17bps from the index return. The country's dollar bond market was affected by its significantly high fiscal deficit levels. Similar to some of its BRICS (Brazil, Russia, India, China, and South Africa) peers, Brazil faces a threat of heavy US trade tariffs if it continues to pursue efforts to reduce reliance on the US dollar. The yield on Brazil's 10-year USD-denominated bond yield closed Q4 at 7.15%, up from 5.87% at the end of Q3.

**Argentina** was among the outperformers in Q4, contributing 90bps to index returns. The spread component largely accounted for the return outcome. Argentina's hard currency bonds benefited from the US election results. Argentina is the largest debtor for the International Monetary Fund (IMF) and investor sentiment was bolstered by hopes that a good relationship with the Trump administration would help secure a future deal with the IMF.

**Ukraine** was another good performer in Q4, contributing 31bps to index returns. Ukrainian dollar bonds benefited in the quarter on expectations that the Trump administration will push for an end to the ongoing war with Russia. Ukraine also secured US\$4.8 billion of funding from the World Bank as a part of the Public Expenditures for Administrative Capacity Endurance (PEACE) initiative. Ukraine's foreign reserves increased to US\$37,330.7 million in November from US\$36,515.9 million at the end of Q3.

**Sri Lanka** was another good performer in Q4, contributing 13bps to index returns. In an effort to progress its debt restructuring of USD-denominated bonds and to address debt burden concerns, Sri Lanka announced a deal to swap US\$12.6 billion of its bonds for longer-dated notes. Upon creditors' approval for restructuring, Moody's upgraded the country's long-term foreign currency issuer rating to "Caa1" from "Ca" with a stable outlook.

## Performance Comparison of JPM Hard Currency Benchmark vs ESG Hard Currency Benchmark

The JP Morgan ESG EMBI hard currency index returned -2.41% (in USD terms) for Q4 2024, underperforming the standard benchmark JP Morgan EMBI Global Diversified Index by -0.47%. A major contribution to underperformance came from the treasury component (-4.13%). The macro backdrop that was in flux through Q4 amid US elections, the US Fed's easing cycle, and volatility in US Treasury yields, was more beneficial to the standard benchmark than the ESG benchmark. The standard benchmark also benefited to a greater extent from the narrowing of sovereign spreads in the high yield universe, given its higher weight in non-investment grade bonds (52%) compared to the ESG index (47%). The HY sub-index of the standard benchmark outperformed the HY sub-index of the ESG benchmark by around 0.12% in Q4.

Figure 11  
Key Return Drivers of ESG EM Hard Currency Government Bond Markets in USD

JESG EMBI (ESG EM Hard Currency)	Monthly Return (%)	3 Month Return (%)	YTD Return (%)
<b>Total Return</b>	<b>-1.61</b>	<b>-2.41</b>	<b>5.75</b>
Spread Return	0.53	1.79	6.31
Treasury Return	-2.12	-4.13	-0.53
IG Sub-Index	-2.27	-4.91	-0.11
HY Sub-Index	-0.86	0.55	12.95

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 31 December, 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 12  
Relative Over/Underweights (JESG EMBIG vs EMBI GD)

December 2024	Country	JESG EMBI (%)	EMBI GD (%)	Relative Weight (%)
<b>Top 5 Overweights</b>	Romania	4.0	2.6	1.5
	Poland	4.2	2.8	1.3
	Hungary	3.9	2.7	1.3
	Uruguay	3.4	2.2	1.2
	Oman	3.7	3.0	0.7
<b>Top 5 Underweights</b>	Pakistan	0.1	0.9	-0.8
	Turkey	3.5	4.4	-0.9
	Malaysia	0.9	2.1	-1.2
	Mexico	3.0	4.8	-1.8
	China	0.7	3.7	-3.1

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 31 December, 2024. Past performance is not a reliable indicator of future performance. Country exposures are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

## Endnote

1 Source: JP Morgan.

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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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