

Emerging Market Debt

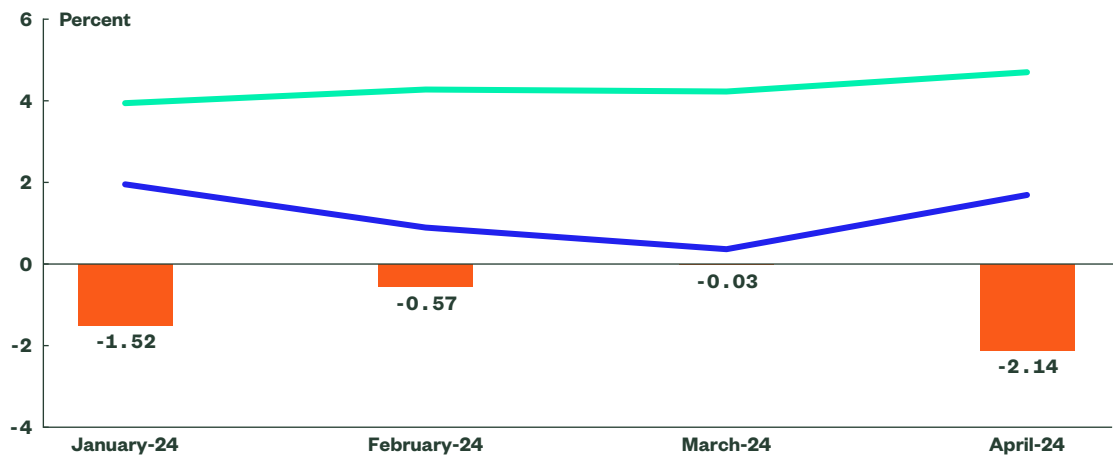
Market Commentary: April 2024

Chart of the Month: Rigid Macro Backdrop Weighs on EM Local Currency Bonds

The strength of the US dollar and repricing in US Treasury yields continued to dent EM local currency returns, despite ongoing monetary policy easing among some of the major EM central banks. The year-to-date total returns for local currency bonds remained in negative territory; the JP Morgan GBI-EM GD Index yield increased to 6.63% at the end of April, up from 6.19% at the start of the year.

Figure 1
Challenging Backdrop for
EM Local Currency Debt

■ JPM GBI-EM GD Index Total
Return in USD (%)
■ 10 Year UST Yield
■ Dollar Index — DXY (% MoM)



Source: Bloomberg, JP Morgan, as of 30 April 2024. Past performance is not a reliable indicator of future performance.

EMD Commentary: April 2024

Emerging market (EM) debt faced headwinds in April from market repricing of core rates, geopolitical tensions, and a surge in commodity prices. A market narrative built on the possibility of the US Federal Reserve (Fed) maintaining high rates for longer than was anticipated at the end of 2023 continued to weigh on investor risk sentiment. As a result, sentiment toward EM assets weakened a little in the latter part of the month amid a decline in oil prices and reduced volatility in core rates. The broad EM inflation outlook largely remained unchanged, despite a recent slowdown in the pace of EM disinflation. Real yields remained in positive territory for most EM economies. Total returns were negative in April for both EM local and hard currency bonds. The prospect of the US economy continuing to grow at a stronger rate than previously forecast, alongside the ongoing strength of the US dollar, weighed on sentiment for EM local bonds, in particular. EM hard currency debt was impacted by an uptrend in bond yields and idiosyncratic developments within the EM universe.

On the monetary policy front, rate cuts continued apace in Latin America (LatAm), with the Central Bank of Chile reducing its benchmark interest rate by 75 basis points (bps) to 6.5% in April. In Europe, Hungary lowered its key base rate by 50bps to 7.75% in April. Turkey continued to be an outlier, maintaining its record high interest rate of 50% in April as the central bank continued to combat sustained high inflation within the Turkish economy. However, central banks in EM Asia (ex-China) continued to hold a relatively more hawkish view, with the Bank of Indonesia surprising markets with a 25bps rate hike in April, taking its key 7-day reverse repurchase rate to 6.25%. In China, the People's Bank of China (PBoC) left its key lending rates unchanged in April. The 1-year loan prime rate (LPR) and the 5-year rate were retained at 3.45% and 3.95%, respectively. Both reference rates are at record lows, illustrative of the PBoC's continued efforts to fuel an economic recovery amid persisting headwinds from the troubled property sector, deflation risks, and weak trade data.

Net flows in April were positive for hard currency bonds at +\$0.2bn, helped by reduced outflows. Net flows in April were however negative for local currency bonds, amounting to -\$1.0bn. (Source: JP Morgan).

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

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	-2.14	-2.73	4.07	-4.21	1.79	-3.03	-0.27
EMBI GD (EM Hard Currency)	-2.08	0.95	10.57	-0.08	8.39	-2.80	0.24
CEMBI BD (EM Corporates)	-0.88	0.82	8.33	1.41	7.26	-0.62	2.29
In EUR							
GBI-EM GD (EM Local Currency)	-1.15	-1.18	2.88	-1.04	5.09	0.87	0.68
EMBI GD (EM Hard Currency)	-1.09	2.55	9.30	3.22	11.92	1.12	1.19
CEMBI BD (EM Corporates)	0.11	2.42	7.09	4.77	10.75	3.38	3.25
In GBP							
GBI-EM GD (EM Local Currency)	-1.27	-1.07	0.86	-2.47	2.17	0.27	0.54
EMBI GD (EM Hard Currency)	-1.21	2.67	7.15	1.72	8.80	0.52	1.05
CEMBI BD (EM Corporates)	0.00	2.54	4.98	3.25	7.67	2.76	3.12

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 30 April 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 April 2024

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	36 bps	49 bps	44 bps	6.63%
EMBI GD Yield	78 bps	44 bps	68 bps	8.53%
EMBI GD Spread	31 bps	-29 bps	-11 bps	373 bps
CEMBI BD Yield	38 bps	32 bps	34 bps	7.34%
CEMBI BD Spread	-9 bps	-45 bps	-52 bps	297 bps
CDX.EM 5y	9 bps	-5 bps	12 bps	178 bps
10y UST	48 bps	77 bps	80 bps	4.68%
Dollar Index (DXY)	1.60%	2.85%	4.82%	—
DOW 30	-5.00%	-0.88%	0.34%	37,816
Oil (WTI)	-1.49%	8.02%	14.35%	\$ 81.93

Source: JP Morgan, Bloomberg, as of 30 April 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 -2.14% (in USD terms) in April 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 (-1.26%). Strong growth data from the US added momentum to the prevailing US dollar strength, which weighed on local currency returns. Fifteen out of the eighteen currencies in the benchmark posted negative returns against the dollar in the month. Total bond returns were negative for April, with the GBI-EM GD benchmark yield increasing by 36bps in April. At a regional level, Latin America was the poorest performer, trailed by Asia and Europe, while Africa delivered a surprisingly positive total return in the month.

Figure 4
Key Return Drivers of
EM Local Government
Bond Markets

GBI-EM GD (EM Local Currency)	Monthly Return (%)	3 Month Return (%)	YTD Return (%)
In USD			
Total Return (in \$)	-2.14	-2.73	-4.21
FX Return (vs \$)	-1.26	-1.93	-4.04
Price Return (Local Currency)	-1.35	-2.14	-1.98
Interest Return (Local Currency)	0.48	1.35	1.81
In EUR			
Total Return (in €)	-1.15	-1.18	-1.04
FX Return (vs €)	-0.28	-0.38	-0.87
In GBP			
Total Return (in £)	-1.27	-1.07	-2.47
FX Return (vs £)	-0.40	-0.27	-2.31

Source: JP Morgan, Bloomberg, as of 30 April 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.

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

April' 24	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight (%)	Index Impact (bps)**
GBI-EM GD		-2.14	-0.86	-1.26		
Top 5 Performers	South Africa	2.0	1.4	0.5	8.4	17
	Chile	1.9	-0.7	2.6	1.8	3
	Turkey	1.3	1.3	-0.1	1.2	1
	China	0.2	0.4	-0.2	10.0	2
	Peru	0.0	0.7	-0.7	2.3	0
Bottom 5 Performers	Czech Republic	-2.3	-1.8	-0.6	6.3	-15
	Thailand	-3.6	-1.6	-1.9	9.6	-34
	Brazil	-4.3	-0.9	-3.4	10.0	-43
	Indonesia	-4.3	-1.9	-2.4	10.0	-43
	Mexico	-4.8	-2.4	-2.4	10.0	-48

Source: State Street Global Advisors, JP Morgan, Bloomberg, as of 30 April 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.

Mexico was the worst performer in April. Mexico's annual inflation rate stood at 4.42% in March, still above the Bank of Mexico's target of 3%. The consumer price index (CPI) increased by 0.29% in March, up from a 0.09% increase in February. The ongoing strength of the US dollar and the relative interest rate differential weighed on the Mexican peso, which depreciated 3.51% against the US dollar in April to close at 17.14.

Indonesia was another underperformer in April. The Bank of Indonesia unexpectedly raised its key 7-day reverse repurchase rate by 25bps to 6.25% in its April meeting. The annual inflation rate stood at 3% in April and the core inflation increased to a five-month high of 1.82%. The Indonesian rupiah weakened against the US dollar by 2.55% in the month and closed at 16,260.

Brazil also underperformed in the month. Although headline consumer inflation showed signs of disinflation, underlying inflation measures exceeded the target in recent releases. The Brazilian real was negatively impacted by the narrowing policy rate gap with the US Fed, and as markets priced in a slower decline in the Fed funds rate. The currency depreciated against the US dollar by 3.58% in April and closed at 5.19.

South Africa was the best performer in April. The country's local bonds generated positive returns, surprising some observers as focus shifted to the upcoming general elections on the 29 May. South Africa's annual inflation rate fell to 5.3% in March from a four-month high of 5.6% in February — however, this continues to be above the midpoint of the central bank's target range of 3% to 6%. The South African rand appreciated against the US dollar by 0.52% in April and closed at 18.78.

Chile was another good performer in April. In its April meeting, the Central Bank of Chile reduced its benchmark interest rate by 75 bps to 6.5%, in line with market expectations. The annual inflation rate in Chile eased to 3.7% in March from 4.5% in February, recording the lowest print since May 2021. The Chilean peso strengthened against the US dollar by 1.94% in April and closed at 960.33.

Hard Currency Market Highlights

EM hard currency sovereign debt returned -2.08% (in USD terms) in April 2024, as measured by the JP Morgan EMBI Global Diversified Index. The treasury component (-2.65%) was the major detractor from performance, with the JPM EMBI GD yield increasing by 78bps in April. Hard currency treasuries were impacted by country-specific factors and market repricing around the timing of rate cuts by the US Fed. Most of the countries in the benchmark experienced losses, with Argentina and Ecuador being notable exceptions. However, the spread returns component was positive (+0.59%) in the month. Given the compression in investment grade/high yield (IG/HY) spreads, the high-grade countries in the index underperformed the high yield counterparts.

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 (%)
Total Return	-2.08	0.95	-0.08
Spread Return	0.59	4.87	3.83
Treasury Return	-2.65	-3.74	-3.77
IG Sub-Index	-2.78	-2.20	-3.53
HY Sub-Index	-1.38	4.18	3.47

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 30 April 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 7

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

April' 24	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Average Index Weight (%)	Index Impact (bps)**
EMBI Global Diversified		-2.08	0.59	-2.65		
Top 5 Performers	Venezuela	20.9	20.5	0.3	0.5	10
	Argentina	10.5	12.4	-1.8	2.0	21
	Ecuador	4.4	6.6	-2.0	1.3	6
	Suriname	1.7	3.6	-1.9	0.1	0
	Pakistan	1.3	2.8	-1.4	0.9	1
Bottom 5 Performers	Sri Lanka	-3.8	-3.4	-0.5	1.0	-4
	Peru	-4.2	-0.6	-3.7	2.5	-11
	Gabon	-5.0	-3.8	-1.3	0.3	-1
	Ghana	-5.4	-4.2	-1.2	0.9	-5
	Ukraine	-12.5	-11.7	-1.0	0.8	-10

Source: State Street Global Advisors, JP Morgan, Bloomberg, as of 30 April 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.

Ukraine was one of the worst performers in April, detracting 10bps from index returns.

The country's hard currency bonds lost just over 12% in April. A two-year moratorium on debt repayments is coming to an end in a few months and Kyiv is seeking to reach a new deal by September. The uncertainty around this impacted spreads, while the market repricing of the Fed's monetary easing cycle was also a factor in performance.

Peru was another underperformer in April, detracting 11bps from index returns. On April 25, S&P Global Ratings lowered its long-term foreign currency sovereign credit rating on the country to 'BBB-' from 'BBB', citing concerns that political uncertainties were constraining growth. Peru's foreign exchange reserves decreased to US\$73,967 million in March from US\$74,062 million in February.

Ghana also underperformed in April, detracting 5bps from index returns. The country's efforts to emerge from default and economic crisis took a hit as Ghana failed to secure a workable debt deal with two bondholder groups to restructure US\$13 billion of international bonds. Additionally, the International Monetary Fund (IMF) stated that the deal would not fit the debt sustainability parameters in its bailout terms.

Argentina was among the outperformers in April, contributing 21bps to index returns. Argentinian hard currency bonds gained 10% in April and have now returned almost 40% in the year to date as the government continues to make progress in bringing down inflation. Argentina's foreign exchange reserves increased to US\$21,856 million in March from US\$21,719 million in February.

Venezuela was another good performer in April, contributing 10bps to index returns. Venezuelan hard currency bonds rallied as JPMorgan began to increase the weight of the securities in its widely-followed EM debt indices. Investor sentiment towards the country's high yielding bonds improved amid flows coming into the country as a result of the index weighting increase.

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* Pensions & Investments Research Center, as of December 31, 2022.

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ID2164500-3437638.48.IGBL.INST 0524
Exp. Date: 31/05/2025