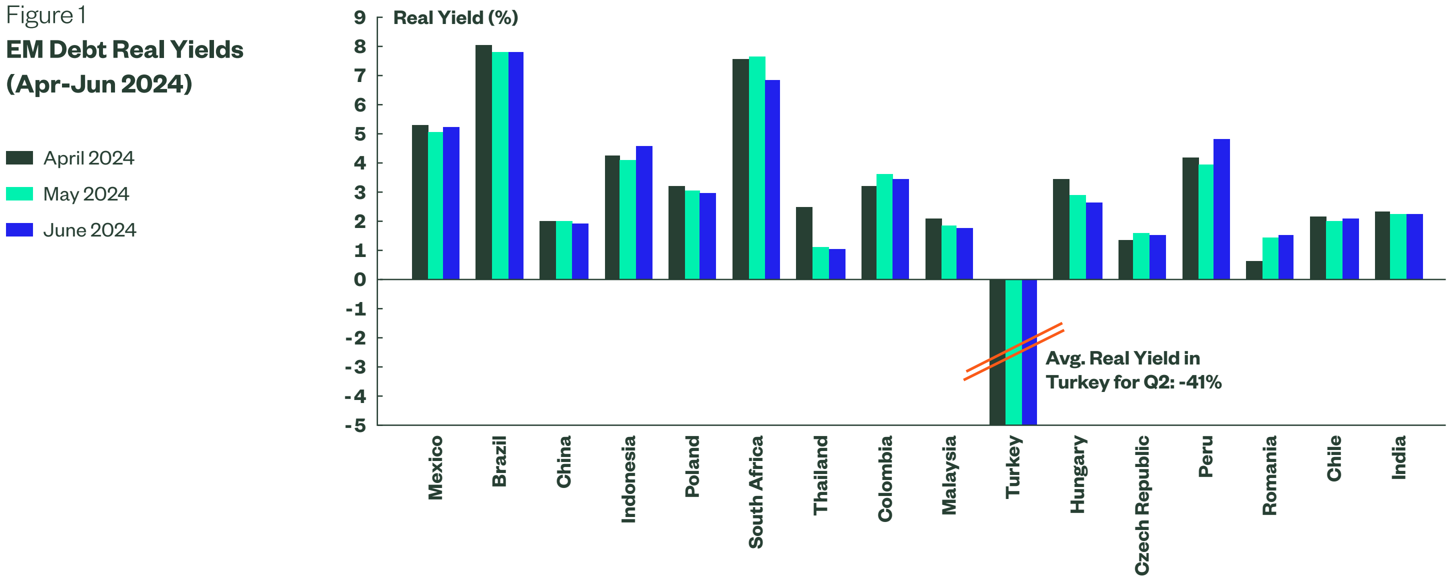
Commentary
Fixed Income

Emerging Market Debt
Market Commentary: Q2 2024

Chart of the Quarter: Emerging Markets Real Yields Remain Positive

There was a slowdown in the pace of EM disinflation despite phases of commodity price volatility during the second quarter. EM real yields, however, remained positive across the board with the notable exception of Turkey. The Turkish economy remains plagued by extremely high inflation and real yields are significantly negative. Positive real yields provide greater leeway for central banks to adjust monetary policy in response to any potential slowdown.

Figure 1
EM Debt Real Yields (Apr-Jun 2024)



Source: Bloomberg Finance L.P., as of 28 June 2024. Past performance is not a reliable indicator of future performance. Real Yields measured as nominal yields minus the CPI (Consumer Price Index). Negative vertical axis reduced owing to Turkey's sizeable skew towards the negative side.

EMD Commentary: Q2 2024

Emerging market (EM) debt began the quarter facing headwinds from market repricing of core rates 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 had been anticipated weighed on investor risk sentiment in April. The EM macro backdrop improved in May, backed by a partial reversal of US dollar strength and a softening in US Treasury yields. The geopolitical backdrop remained uncertain, with Israel's operations in Rafah and elections taking place in India, Mexico, and South Africa. Market sentiment remained cautious in June, as market participants pushed out the timing of the Fed's first rate cut late into 2024. The Fed's policy rate was retained at the 5.25%-to-5.50% range throughout the quarter, acknowledging resilient US economic activity and still-high inflation, notwithstanding the latest softer-than-expected inflation print. The prospect of the US economy continuing to be resilient, alongside the strength of the US dollar, weighed on EM local bond performance, in particular. EM hard currency bonds delivered positive returns in Q2, driven by the spread component.

In China, the government relaxed home buying restrictions and reduced down payment ratios to support the prevailing sluggishness of its housing market. In May, the Ministry of Finance in China launched a one trillion yuan ultra-long special sovereign bond program with a tenor of 20 to 50 years. The first tranche attracted strong demand with a bid-to-cover ratio of 3.91. The People's Bank of China (PBoC) retained its 1-year loan prime rate and the five-year mortgage reference rate at 3.45% and 3.95%, respectively, through Q2. In Latin America (LatAm), the Central Bank of Chile reduced its benchmark interest rate from 7.25% to 5.75% over the quarter. Rate cuts were also delivered in Brazil and Colombia. In Europe, Hungary and Czech Republic lowered their policy rates to 7.00% and 5.25% from 8.25% and 5.75%, respectively. The central bank of Turkey maintained its key one-week repo auction rate at a record high of 50%, as it continued to combat remarkably high inflation. EM central banks in Asia (ex-China) continued to be cautious. The central bank of Indonesia delivered a 25bps hike in April and retained its interest rate at 6.25% for the rest of Q2. Malaysia's central bank kept its overnight policy rate unchanged 3.0% throughout the quarter.

Net flows in the quarter for hard currency and local currency funds amounted to +$1.3bn and -$3.7bn, respectively (source: JP Morgan).

Figure 2
Emerging Market Debt Index Returns

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	-1.08	-1.63	-3.71	-3.71	0.67	-3.27	-1.29
EMBI GD (EM Hard Currency)	0.62	0.30	2.34	2.34	9.23	-2.60	-0.03
CEMBI BD (EM Corporates)	0.93	1.49	3.85	3.85	9.30	-0.32	2.23
In EUR							
GBI-EM GD (EM Local Currency)	0.20	-0.87	-0.76	-0.76	2.48	0.05	-0.08
EMBI GD (EM Hard Currency)	1.92	1.08	5.49	5.49	11.19	0.75	1.19
CEMBI BD (EM Corporates)	2.23	2.28	7.03	7.03	11.26	3.09	3.48
In GBP							
GBI-EM GD (EM Local Currency)	-0.37	-1.70	-2.90	-2.90	1.25	-0.36	-1.15
EMBI GD (EM Hard Currency)	1.34	0.24	3.21	3.21	9.86	0.33	0.11
CEMBI BD (EM Corporates)	1.66	1.43	4.73	4.73	9.93	2.67	2.37

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 28 June, 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

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
JESG GBI-EM (ESG EM Local Currency)	-1.16	-1.62	-3.80	-3.80	0.79	-3.14	-1.18
JESG EMBI (ESG EM Hard Currency)	0.76	0.34	1.87	1.87	8.09	-3.49	-0.40

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 28 June, 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 28 June 2024

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-1 bps	33 bps	40 bps	6.60%
EMBI GD Yield	-1 bps	66 bps	56 bps	8.42%
EMBI GD Spread	11 bps	49 bps	7 bps	391 bps
CEMBI BD Yield	-9 bps	7 bps	3 bps	7.03%
CEMBI BD Spread	8 bps	-5 bps	-48 bps	301 bps
CDX.EM 5y	12 bps	6 bps	9 bps	175 bps
10y UST	-10 bps	20 bps	52 bps	4.40%
Dollar Index (DXY)	1.14%	1.26%	4.47%	—
DOW 30	1.12%	-1.73%	3.79%	39119
Oil (WTI)	5.91%	-1.96%	13.80%	$ 81.54

Source: JP Morgan, Bloomberg as of 28 June, 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 -1.63% (in USD terms) in Q2 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 (-2.51%). The broad appreciation of the US dollar during the quarter and the differences in monetary policy cycles of some EM central banks relative to the US Fed weighed on local currency returns. Partly offsetting these headwinds was the positive interest return component (+1.37%). The price returns from local bonds were however negative (-0.50%), as the GBI-EM GD Index yield increased by 33bps in Q2. Of particular note in the quarter was the inclusion of India in the benchmark on June 28 at an initial 1% weight.

Figure 5
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 $)	**-1.08**	**-1.63**	**-3.71**
FX Return (vs $)	-1.96	-2.51	-5.30
Price Return (Local currency)	0.46	-0.50	-1.14
Interest Return (Local currency)	0.42	1.37	2.72
In EUR			
Total Return (in €)	**0.20**	**-0.87**	**-0.76**
FX Return (vs €)	-0.69	-1.75	-2.34
In GBP			
Total Return (in £)	**-0.37**	**-1.70**	**-2.90**
FX Return (vs £)	-1.25	-2.57	-4.48

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 28 June, 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*

Q2 2024	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight	Index Impact (bps)[1]
GBI-EM GD		-1.63	0.88	-2.51		
Top 5 Performers	South Africa	11.5	7.5	4.0	8.8%	102
	Turkey	5.7	7.1	-1.4	1.6%	9
	Chile	4.1	0.2	3.9	1.9%	8
	India	2.1	2.1	0.0	1.0%	2
	Serbia	1.3	2.0	-0.7	0.4%	0
Bottom 5 Performers	Indonesia	-3.0	0.1	-3.2	10.0%	-30
	Uruguay	-5.7	-1.0	-4.7	0.2%	-1
	Colombia	-6.7	0.0	-6.7	4.4%	-30
	Mexico	-9.6	-0.5	-9.0	10.0%	-96
	Brazil	-10.7	-0.9	-9.8	8.8%	-95

Source: State Street Global Advisors, JP Morgan, Bloomberg as of 28 June, 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 Q2, with a significant detraction from FX returns. The prevailing currency weakness was magnified by US dollar strength and the yield differential with the US. In Q2, the Central Bank of Brazil lowered its key Selic rate by 25bps to 10.5%. The annual inflation rate in Brazil rose to 3.93% in May from 3.69% in April. The Brazilian real fell against the US dollar by 11.57% in Q2 and closed at 5.59.

Mexico was another underperformer in Q2. Markets were volatile, with rising government bond yields and a depreciating peso. Mexico's annual inflation rate increased to 4.69% in May from 4.42% at the end of the first quarter. In line with expectations, the Bank of Mexico kept its benchmark interest rate unchanged at 11.00% throughout the quarter. The Mexican peso depreciated against the US dollar by 10.63% in Q2 and closed at 18.32.

Indonesia also underperformed in the quarter. The Bank of Indonesia unexpectedly raised its key 7-day reverse repurchase rate by 25bps to 6.25% in its April meeting and the rate was held unchanged for the remaining of the quarter. The annual inflation rate eased to 2.51% in June from 3.05% at the end of Q1. The Indonesian rupiah weakened against the US dollar by 3.28% in Q2 and closed at 16,375.

South Africa was the best performer in Q2. The country's local bonds generated positive returns a quarter focused on the general elections held on 29 May — a poll that resulted in the African National Congress losing its majority, albeit remaining the largest party and continuing in government. South Africa's annual inflation rate fell to 5.2% in May, although it 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 3.64% in Q2 and closed at 18.19.

Turkey was another good performer in the three months. The country's annual inflation rate eased to 71.60% in June, down from 75.45% in May and marking the first slowdown in the pace of consumer price increases in seven months. In its June meeting, the central bank of Turkey left its benchmark one-week repo auction rate unchanged at 50% for the third consecutive month. The Turkish lira depreciated against the US dollar by 1.19% in Q2 and closed at 32.76.

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

The JP Morgan ESG GBI-EM Index returned -1.62% (in USD terms) in Q2 2024, thereby delivering returns similar to the standard benchmark JP Morgan GBI-EM Global Diversified Index, which returned -1.63%. This marginal outperformance by +0.01% was driven by relative index underweights, especially in Mexico (-0.3%), Brazil (-0.2%), Indonesia (-0.2%), Thailand (-0.2%) and Colombia (-0.1%), which contributed a total of +0.07% to excess returns. This contribution was offset by relative underweights in China (-3.5%) and Turkey (-0.6%), which detracted a total of -0.06% from excess returns, as the Chinese and Turkish local bonds delivered positive returns during the quarter. The impact from relative overweights in Poland (+2.0), Czech Republic (+1.8%), and Romania (+1.2%) was flat, detracting from performance by less than -0.1%.
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Figure 7
Key Return Drivers of ESG EM Local Government Bond Markets

JESG GBI-EM (ESG EM Local Currency)	Monthly Return (%)	3 Month Return (%)	YTD Return (%)
In USD			
Total Return (in $)	**-1.16**	**-1.62**	**-3.80**
FX Return (vs $)	-2.03	-2.42	-5.24
Price Return (Local currency)	0.46	-0.55	-1.24
Interest Return (Local currency)	0.42	1.35	2.67

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 28 June, 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)

June 2024	Country	JESG GBI-EM (%)	GBI-EM GD (%)	Relative Weight (%)
Top 5 Overweights	Poland	10.0	8.0	2.0
	Czech Republic	8.0	6.2	1.8
	Romania	5.4	4.1	1.2
	Hungary	3.8	3.0	0.9
	Uruguay	0.3	0.2	0.1
Top 5 Underweights	Malaysia	9.7	10.0	-0.3
	Mexico	9.7	10.0	-0.3
	India	0.6	1.0	-0.4
	Turkey	1.1	1.6	-0.6
	China	6.5	10.0	-3.5

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 28 June, 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 +0.30% (in USD terms) in Q2 2024, as measured by the JP Morgan EMBI Global Diversified Index. The spread component (+0.43%) was the major contributor to performance, partially offsetting losses coming from the treasury component (-0.12%). Hard currency treasuries were impacted by the volatility in US Treasury yields during the quarter and the market repricing of the timing of the US Fed's first rate cut. The EMBI GD Index yield increased by 66bps in Q2. The high-grade countries in the index outperformed their high-yield counterparts, driven by the macro backdrop and country-specific idiosyncrasies. Almost two-thirds of the countries in the index delivered positive returns for Q2, with most of the outperformance observed in LatAm and Africa.

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 (%)
Total Return	**0.62**	**0.30**	**2.34**
Spread Return	-0.45	0.43	3.67
Treasury Return	1.07	-0.12	-1.28
IG Sub-Index	1.10	0.32	-0.45
HY Sub-Index	0.14	0.28	5.22

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 28 June, 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*

Q2 2024	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Average Index Weight (%)	Index Impact (bps)[1]
EMBI Global Diversified		**0.30**	**0.43**	**-0.12**		
Top 5 Performers	Venezuela	10.7	9.3	1.2	0.6	7
	Maldives	9.5	8.6	0.8	0.1	1
	Tajikistan	5.6	4.7	0.8	0.1	0
	Argentina	4.0	3.7	0.3	1.9	8
	Suriname	3.9	3.5	0.3	0.1	0
Bottom 5 Performers	Benin	-2.6	-2.2	-0.4	0.1	0
	Ecuador	-3.8	-4.0	0.2	1.1	-4
	Ukraine	-4.0	-4.6	0.6	0.9	-3
	Kenya	-4.6	-4.9	0.2	0.8	-4
	Gabon	-7.9	-8.3	0.5	0.2	-2

Source: State Street Global Advisors, JP Morgan, Bloomberg as of 28 June, 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.

Argentina outperformed in Q2, contributing 8bps to index returns. Argentinian hard currency bonds gained almost 10% early in the quarter as the government continued to make progress in bringing down inflation. Midway through Q2, markets reacted negatively to the cabinet shakeup that saw the sacking of cabinet chief Nicolás Posse and his replacement by Guillermo Francos, the interior minister. The rally in Argentine assets waned further in June with lawmakers' pushback against President Javier Milei's package of pro-market reforms designed to address the deep economic crisis.

Venezuela was another outperformer in Q2, contributing 7bps to index returns. A major contribution to positive returns came from the spread component. Venezuelan hard currency bonds were lifted 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 resultant flows coming into the country.

Maldives also performed well in the quarter, contributing 1bp to index returns. Market sentiment improved following the International Monetary Fund's (IMF) 2024 Article IV consultation with Maldives in May. The IMF acknowledged the resilience in Maldives' economy, and recognized the successful implementation of goods and services tax rate hikes, which brought in sizable revenues in 2023.

Kenya was one of the underperformers in Q2, detracting 4bps from index returns. The country requires fiscal reforms to address its soaring interest costs and to obtain funding from the IMF to revive the economy. Kenya's sovereign dollar bonds suffered losses after anti-government protests forced President William Ruto to scrap a $2.3 billion plan to balance the budget and make the country's debt sustainable.

Ecuador was another laggard in Q2, detracting 4bps from index returns. On May 31, the IMF Executive Board approved a 48-month arrangement under the Extended Fund Facility (EFF) for Ecuador, with access equivalent to around $4 billion. However, the country's dollar bond markets were impacted by outflows from the economy amid declining sentiment toward President Daniel Noboa who is just six months into his new term.

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

The JP Morgan ESG EMBI hard currency index returned +0.34% (in USD terms) for Q2 2024, outperforming the standard benchmark JP Morgan EMBI Global Diversified Index by +0.04%. A major contribution to outperformance came from the spread component (+0.54%). The macro backdrop that prevailed in Q2 amid volatility in US Treasury yields and narratives on the timing of the first rate cut by the US Fed was more beneficial to the ESG benchmark compared to the standard benchmark. The HY sub-index of the ESG benchmark outperformed the HY sub-index of the standard benchmark by around 0.10%.

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 (%)
Total Return	**0.76**	**0.34**	**1.87**
Spread Return	-0.34	0.54	3.38
Treasury Return	1.10	-0.21	-1.46
IG Sub-Index	1.17	0.28	-0.61
HY Sub-Index	0.29	0.38	4.81

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 28 June, 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)

June 2024	Country	JESG EMBI (%)	EMBI GD (%)	Relative Weight (%)
Top 5 Overweights	Poland	4.4	2.9	1.5
	Romania	3.9	2.4	1.4
	Hungary	4.1	2.8	1.3
	Uruguay	3.3	2.1	1.2
	UAE	5.1	4.3	0.8
Top 5 Underweights	Pakistan	0.1	0.8	-0.8
	Turkey	3.5	4.5	-0.9
	Malaysia	0.9	2.3	-1.5
	Mexico	3.3	5.0	-1.7
	China	0.7	3.9	-3.3

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 28 June, 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.

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