

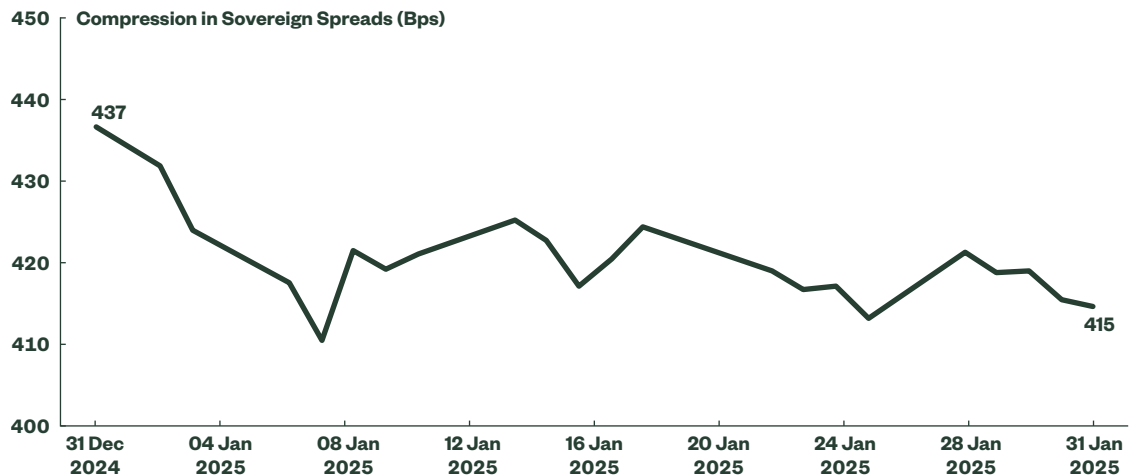
# Emerging Market Debt

## Market Commentary: January 2025

### Chart of the Month: Hard Currency Sovereign Spreads Hit Record Lows

Emerging markets hard currency sovereign spreads maintained the tightening trend of 2024 into January, as indicated by the JP Morgan EMBI Global Diversified Index. The compression in Investment Grade/High Yield (IG/HY) sovereign spreads was driven by the spread tightening in the lower-rated high yield segment of the benchmark, reflecting a continuation of the pattern observed last year.

Figure 1  
IG/HY Spread  
Compression in Hard  
Currency Sovereigns



Source: Bloomberg Finance L.P., JP Morgan as of 31 January 2025. Past performance is not a reliable indicator of future performance.

### EMD Commentary: January 2025

Emerging market (EM) debt had a tepid start to the year with policy uncertainty from the Trump administration, a strong US dollar and some country-specific developments. Potential for US trade tariffs and policy shifts in immigration induced volatility and impacted yields across the board, although the effect was not the same everywhere. Markets found some relief following Trump's inaugural speech, which focused more on immigration and security issues. Consequently, near-term investor concerns on tariffs partially reversed. Meanwhile, there was a slight uptick in inflation in a number of EM economies; however, real yields remained elevated and above historical averages, except in Turkey. On the geopolitical front, a ceasefire was announced in the Israel-Hamas conflict, though the implementation of the agreed terms is still ongoing. EM local and hard currency bonds posted positive returns in January. EM local bonds benefited from the strengthening of major EM currencies against the US dollar in the month, while EM hard currency debt was lifted by a combination of idiosyncratic developments, a reduction in benchmark treasury yields, and the compression in IG/HY spreads.

Factoring in the US Federal Reserve's (Fed) policy stance in January and domestic inflation dynamics, some EM central banks revisited their monetary easing cycle timeline. A number of major EM central banks kept their respective benchmark interest rates unchanged in January, except of Indonesia, Peru and South Africa. In China, long-term benchmark yields remained near multi-decade lows. In its January 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. According to the latest data, China's GDP grew 5.4% in Q4 on a year-on-year basis, driven by a series of stimulus measures introduced through 2024. Chinese exports outperformed market expectations, with manufacturers front-loading orders in anticipation of further tariffs from the Trump administration. In India, the Reserve Bank of India (RBI) announced a series of measures in January to address tight liquidity conditions in the banking system. These measures are expected to inject around INR 1.5 trillion into the system. Net flows in January for hard currency and local currency bonds amounted to -\$1.9bn and -\$0.9bn, respectively. (Source: JP Morgan).

Figure 2  
**Emerging Market Debt Index Returns — As of 31 January, 2025**

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
<b>In USD</b>							
GBI-EM GD (EM Local Currency)	2.05	-0.48	1.16	2.05	1.16	-0.28	-1.20
EMBI GD (EM Hard Currency)	1.44	1.21	3.66	1.44	9.18	0.53	0.10
CEMBI BD (EM Corporates)	0.80	0.85	2.92	0.80	7.85	1.83	2.03
<b>In EUR</b>							
GBI-EM GD (EM Local Currency)	1.65	3.93	5.30	1.65	5.71	2.26	0.07
EMBI GD (EM Hard Currency)	1.04	5.70	7.90	1.04	14.09	3.09	1.39
CEMBI BD (EM Corporates)	0.40	5.32	7.13	0.40	12.69	4.42	3.34
<b>In GBP</b>							
GBI-EM GD (EM Local Currency)	2.86	2.97	4.57	2.86	3.68	2.30	-0.03
EMBI GD (EM Hard Currency)	2.24	4.72	7.15	2.24	11.90	3.13	1.29
CEMBI BD (EM Corporates)	1.59	4.35	6.39	1.59	10.53	4.47	3.24

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 January, 2025. 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 31 January 2025**

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-6 bps	-5 bps	-6 bps	6.33%
EMBI GD Yield	-13 bps	2 bps	-13 bps	7.74%
EMBI GD Spread	-9 bps	-22 bps	-9 bps	316 bps
CEMBI BD Yield	1 bps	25 bps	1 bps	6.93%
CEMBI BD Spread	1 bps	-3 bps	1 bps	291 bps
CDX.EM 5y	-12 bps	-8 bps	-12 bps	160 bps
10y UST	-3 bps	25 bps	-3 bps	4.54%
Dollar Index (DXY)	-0.11%	4.23%	-0.11%	—
DOW 30	4.70%	6.66%	4.70%	44545
Oil (WTI)	1.13%	4.72%	1.13%	\$ 72.53

Source: JP Morgan, Bloomberg as of 31 January, 2025. 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 +2.05% (in USD terms) in January 2025, as measured by the JP Morgan GBI-EM Global Diversified Index, with almost equal contributions from foreign exchange (FX) returns (+1.02%) and bond returns (+1.03%). The US dollar weakened slightly on a month-on-month basis in January, enabling 15 out of the 19 currencies in the index to strengthen against the greenback amid reduced near-term tariff concerns following Trump's inauguration. Three countries in the index closed with losses, largely due to negative FX returns. On a regional basis, Latin America outperformed both in relative and absolute terms. The combined bond price and interest return was positive, with the GBI-EM GD Index yield decreasing by 6 bps in January.

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>2.05</b>	<b>-0.48</b>	<b>2.05</b>
FX Return (vs \$)	1.02	-2.23	1.02
Price Return (Local Currency)	0.54	0.33	0.54
Interest Return (Local Currency)	0.49	1.43	0.49
<b>In EUR</b>			
<b>Total Return (in €)</b>	<b>1.65</b>	<b>3.93</b>	<b>1.65</b>
FX Return (vs €)	0.62	2.18	0.62
<b>In GBP</b>			
<b>Total Return (in £)</b>	<b>2.86</b>	<b>2.97</b>	<b>2.86</b>
FX Return (vs £)	1.83	1.22	1.83

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 January, 2025. 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\***

January '25	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight (%)	Index Impact (bps)**
<b>GBI-EM GD</b>		<b>2.05</b>	<b>1.03</b>	<b>1.02</b>		
<b>Top 5 Performers</b>	Brazil	9.2	3.2	5.9	6.3	57
	Colombia	7.7	2.4	5.3	4.1	31
	Turkey	6.7	8.2	-1.5	1.7	11
	Mexico	2.9	2.2	0.7	10.0	29
	Poland	2.5	0.6	1.9	7.0	17
<b>Bottom 5 Performers</b>	Serbia	0.6	0.3	0.2	0.3	0
	Romania	0.2	-0.2	0.4	3.4	1
	India	-0.3	0.9	-1.2	8.0	-2
	Indonesia	-0.5	0.8	-1.3	10.0	-5
	Dominican Republic	-2.4	-1.3	-1.2	0.2	-1

Source: State Street Global Advisors, JP Morgan, Bloomberg as of 31 January, 2025. 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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**Brazil** was the best performer in January, with FX returns largely accounting for the total return outcome. The Brazilian real appreciated against the US dollar by 5.40% in January and closed at 5.84. Investor concerns towards Brazil caused by domestic fiscal issues eased during the month. In its January meeting, the Central Bank of Brazil raised its Selic rate by 100 bps to 13.25% and indicated the possibility of another 100 bps hike in its March meeting.

**Colombia** was another good performer in January. Similar to its LatAm counterparts, sizeable FX returns contributed to performance. The Colombian peso appreciated against the US dollar by 4.46% in January and closed at 4,209.33. Colombia's annual inflation remained at 5.2% in December, while core inflation eased to 5.2% from 5.4%. In its January meeting, the Central Bank of Colombia kept its benchmark rate at 9.5%, contrary to market expectations for a rate cut.

**Turkey** also featured among the better performers in January. The Central Bank of Turkey lowered its benchmark one-week repo auction rate by 250 bps to 45%, as widely expected to add to the 250 bps rate cut in December. Investor sentiment towards Turkey improved in the aftermath the rate cuts and was reflected in inflows. The Turkish lira depreciated against the US dollar by 1.10% in January and closed at 35.74.

**Dominican Republic** was the worst performer in January. There was an uptick in the country's annual inflation rate to 3.35% in December, up from 3.18% in a month earlier; however, this remained within the central bank's target range of 4% (+/- 1%). Dominican Republic's economy grew by 5% in 2024, in line with its central bank's projections. The Dominican peso depreciated against the US dollar by 1.14% in January and closed at 61.80.

**Indonesia** was another underperformer in January, largely due to negative FX returns. The Indonesian rupiah depreciated against the US dollar by 1.23% in January and closed at 16,300. Bond returns were however positive. Indonesia's annual inflation rate fell to 0.76% in January from 1.57% in December, to record the lowest reading since March 2000. The Bank of Indonesia lowered its benchmark interest rate by 25 bps to 5.75% in January.

## Hard Currency Market Highlights

EM hard currency sovereign debt returned +1.44% (in USD terms) in January 2025, as measured by the JP Morgan EMBI Global Diversified Index. The spread component return (+0.87%) was the major contributor to performance. The overall JPM EMBI GD spread tightened by 9 bps in January. The macro backdrop was shaped by the run-up to Donald Trump's inauguration, a reduction in benchmark treasury yields, and idiosyncratic developments that helped hard currency bonds, especially in the high yield segment. The compression in Investment Grade-High Yield (IG/HY) spreads resulted in the HY sub-index outperforming the IG counterparts by +4.33%. The treasury component return was also positive (+0.56%). The overall JPM EMBI GD yield decreased by 13 bps in January.

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>1.44</b>	<b>1.21</b>	<b>1.44</b>
Spread Return	0.87	1.73	0.87
Treasury Return	0.56	-0.51	0.56
IG Sub-Index	0.69	-1.00	0.69
HY Sub-Index	2.13	3.33	2.13

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 January, 2025. 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\***

January '25	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Average Index Weight (%)	Index Impact (bps)**
<b>EMBI Global Diversified</b>		<b>1.44</b>	<b>0.87</b>	<b>0.56</b>		
<b>Top 5 Performers</b>	Lebanon	23.3	22.8	0.4	0.3	8
	Venezuela	18.9	18.5	0.4	0.6	12
	Ecuador	14.6	14.0	0.5	1.2	18
	Suriname	7.0	6.4	0.6	0.1	1
	Gabon	6.9	6.3	0.6	0.2	1
<b>Bottom 5 Performers</b>	Jamaica	0.1	-0.5	0.6	0.7	0
	Uruguay	-0.1	-0.6	0.5	2.1	0
	Honduras	-1.0	-1.6	0.6	0.3	0
	Maldives	-1.1	-1.5	0.4	0.1	0
	Rwanda	-1.6	-2.2	0.7	0.1	0

Source: State Street Global Advisors, JP Morgan, Bloomberg as of 31 January, 2025. 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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**Ecuador** was one of the outperformers in January, contributing 18 bps to index returns. Investor sentiment towards Ecuador improved following the US election outcome last November amid market expectations of strong support from the Trump administration. Ecuador is expected to hold presidential elections in February, and its dollar-denominated bonds rallied on expectations of its current president Daniel Noboa being reelected.

**Venezuela** was another good performer in January, contributing 12bps to index returns. Similar to its high-yielding counterparts, Venezuela benefited from the IG/HY spread compression in January. Venezuela's President Nicolás Maduro was sworn in for a third term, six months after disputed elections held in July 2024. The country's hard currency bonds benefited from diplomacy dialogue with the new Trump administration pertaining to immigration issues.

**Lebanon** was another good performer in January, contributing 8 bps to index returns. Early in January, Lebanon's parliament voted to elect the country's army chief Joseph Aoun as president. Markets welcomed this move which came after 12 failed attempts to select a president. Lebanon's hard currency bonds rallied shortly after the election with renewed investor hopes that the country would finally start addressing its economic challenges.

**Rwanda** was among the underperformers in January, as markets priced in risk of tariffs and slight possibility of sanctions from the US. Rwanda's dollar bond took a hit in January in the midst of economic turbulence, and as the M23 rebels entered the largest city in the east of neighboring Democratic Republic of Congo. Confidence among the country's foreign investors was dented amid concerns on economic stability and public debt levels.

**Uruguay** was another underperformer in January. A flat return from the treasury component (+0.5%) was offset by negative spread component returns (-0.6%). Uruguay's dollar bonds faced headwinds early in the month from possible spillover effects from tariffs proposed by the Trump administration on some of its trade counterparts. Uruguay's foreign exchange reserves decreased to USD 17,411 million in December from USD 18,686.6 million in November.

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

<sup>†</sup>This figure is presented as of December 31, 2024 and includes ETF AUM of \$1,577.74 billion USD of which approximately \$82.19 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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