

Emerging Market Debt

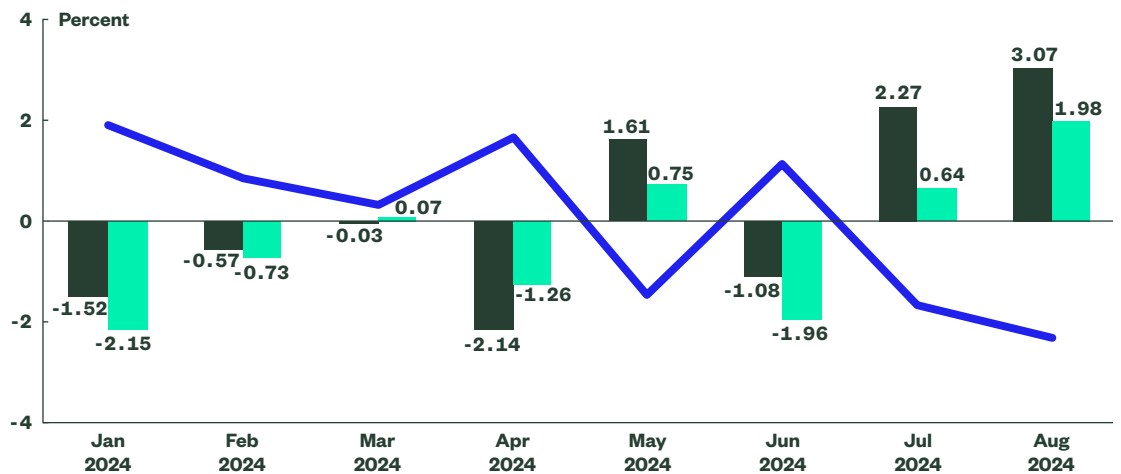
Market Commentary: August 2024

Chart of the Month: EM Local Currency Bonds Build on July Gains

Emerging market local currency bonds posted their best monthly return of the year in August, lifted in part by US dollar weakness. Along with the more favorable currency dynamic, raised market expectations of a monetary policy convergence between EM central banks and the US Federal Reserve (Fed) supported EM local bond performance in the month.

Figure 1
Best Monthly Returns in 2024

■ JPM GBI-EM GD Index Total Return in USD (%)
■ JPM GBI-EM GD Index FX Return vs USD (%)
■ Dollar Index — DXY (% MoM)



Source: Bloomberg, JP Morgan as of 30 August 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.

EMD Commentary: August 2024

Emerging market (EM) debt benefited in August from a dovish tone in messaging from US Fed Chair Jerome Powell and an improvement in the risk backdrop. Early in the month, some EM local assets had been negatively impacted by the unwinding of carry trades involving the Japanese yen, triggered by concerns around US growth and policy normalization by the Bank of Japan. However, subsequent data releases supported the likelihood of a soft landing in the US, with a weaker US dollar and lower US Treasury yields bolstering a positive EM outlook. Markets increasingly priced in the commencement of monetary easing by the Fed in September with additional cuts before the year-end that could see rates fall by more than 100 basis points (bps). Overall for the month, total returns were positive for both EM local currency and hard currency bonds. The repricing in US core rates intensified investor expectations of further rate cuts by EM central banks, pushing EM local market yields sharply lower. EM hard currency debt benefited from a decline in US benchmark Treasury yields and a notable narrowing of spreads.

In China, economic data continued (in aggregate) to surprise on the downside in August, with weaker-than-expected fixed asset investments and manufacturing surveys indicating a contraction in activity. The People's Bank of China (PBoC) kept policy rates unchanged in August after significant easing measures were announced in July. China's long-term benchmark yields remained near multi-decade lows amid expectations of further rate cuts. The prices of key commodities fell in August, with West Texas crude oil declining by 5.6%. This weighed on returns from some of the EM economies with a high beta towards commodity prices. In Latin America (LatAm), the Bank of Mexico lowered its benchmark interest rate to 10.75% in August, a move

contrary to market expectations. In Europe, the Czech National Bank cut its key interest rate by 25bps to 4.5%, in line with market expectations. In EM Asia (ex-China), the Central Bank of Philippines surprised the market consensus in reducing its benchmark interest rate by 25bps to 6.25%.

Net flows in August were negative for both hard currency and local currency bonds, amounting to -\$1.2bn and -\$1.3bn, respectively. (Source: JP Morgan).

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

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	3.07	4.28	3.66	1.50	6.00	-1.67	0.11
EMBI GD (EM Hard Currency)	2.32	4.87	6.73	6.67	13.42	-1.70	0.41
CEMBI BD (EM Corporates)	1.69	4.17	5.80	7.18	12.22	0.42	2.67
In EUR							
GBI-EM GD (EM Local Currency)	0.76	2.27	1.35	1.29	3.94	0.47	0.01
EMBI GD (EM Hard Currency)	0.03	2.85	4.34	6.46	11.21	0.43	0.31
CEMBI BD (EM Corporates)	-0.59	2.17	3.44	6.97	10.03	2.60	2.56
In GBP							
GBI-EM GD (EM Local Currency)	0.73	1.02	-0.22	-1.55	2.20	-0.14	-1.40
EMBI GD (EM Hard Currency)	0.00	1.60	2.73	3.47	9.36	-0.18	-1.11
CEMBI BD (EM Corporates)	-0.62	0.92	1.83	3.97	8.20	1.98	1.12

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

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-11 bps	-35 bps	7 bps	6.26%
EMBI GD Yield	-30 bps	-53 bps	4 bps	7.89%
EMBI GD Spread	-12 bps	7 bps	4 bps	388 bps
CEMBI BD Yield	-26 bps	-60 bps	-48 bps	6.53%
CEMBI BD Spread	-3 bps	16 bps	-39 bps	310 bps
CDX.EM 5y	-7 bps	-1 bps	-4 bps	162 bps
10y UST	-13 bps	-60 bps	2 bps	3.90%
Dollar Index (DXY)	-2.30%	-2.84%	0.36%	—
DOW 30	1.76%	7.44%	10.28%	41563
Oil (WTI)	-5.60%	-4.47%	2.65%	\$ 73.55

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Local Currency Market Highlights

EM local currency debt returned +3.07% (in USD terms) in August 2024, as measured by the JP Morgan GBI-EM Global Diversified Index. A major contribution to the total return outcome came from FX returns (+1.98%), with 12 out of the 19 currencies in the index gaining on the dollar in the month. Returns in August represented the best monthly performance this year, fueled largely by the aforementioned weakness of the US dollar. Regionally, Asia and Africa were the clear outperformers, followed by more moderate gains in Europe. Local bonds in LatAm underperformed, with returns significantly influenced by the FX component. Total bond return was also positive (+1.08%), with the GBI-EM GD Index yield decreasing 11bps in August.

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 \$)	3.07	4.28	1.50
FX Return (vs \$)	1.98	0.64	-2.83
Price Return (Local Currency)	0.63	2.26	0.63
Interest Return (Local Currency)	0.47	1.38	3.69
In EUR			
Total Return (in €)	0.76	2.27	1.29
FX Return (vs €)	-0.33	-1.36	-3.03
In GBP			
Total Return (in £)	0.73	1.02	-1.55
FX Return (vs £)	-0.36	-2.61	-5.87

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

August '24	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight	Index Impact (bps) ¹
GBI-EM GD		3.07	1.08	1.98		
Top 5 Performers	Indonesia	7.1	1.8	5.3	10.0	71
	Malaysia	6.5	0.2	6.3	10.0	65
	Chile	6.0	2.9	3.1	1.8	11
	Thailand	5.3	0.6	4.7	9.5	51
	South Africa	4.9	2.4	2.5	8.6	42
Bottom 5 Performers	Uruguay	0.8	0.7	0.1	0.2	0
	Brazil	0.3	0.5	-0.2	8.2	3
	Turkey	-1.5	1.4	-2.9	1.6	-2
	Colombia	-2.5	0.0	-2.5	4.2	-11
	Mexico	-4.0	1.3	-5.2	10.0	-40

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

Indonesia was the best performer in August. In its August meeting, the Bank of Indonesia kept its interest rate unchanged at 6.25%, in line with expectations, as the country's annual inflation rate of 2.12% remained within the central bank's target range of 1.5% to 3.5%. The Indonesian rupiah appreciated against the US dollar by 4.95% in August and closed at 15,455.

Malaysia was another strong performer in August. Recent data on domestic expenditure and export activity pointed towards sustained strength in the country's economic activity. Malaysia's headline and core inflation remained within the projected ranges. Similar to other local bonds in EM Asia, the major contribution to the return outcome came from the FX component. The Malaysian ringgit appreciated against the US dollar by 5.88% in August and closed at 4.32.

Thailand was another good performer. In August, the Bank of Thailand held its key interest rate unchanged at 2.5% for a fifth consecutive meeting. The central bank did note however that the US Fed's actions were not an important driver of its monetary policy. Thailand's annual inflation rate fell to 0.35% in August, from 0.83% in July and below market expectations of 0.4%. The Thai baht appreciated against the US dollar by 5.02% in August and closed at 33.86.

Mexico was among the underperformers in August. The annual inflation rate increased for the fifth consecutive month to 5.57% in July, up from 4.98% in June. This marked the highest reading in a year, driven by surging food prices and political uncertainty. The Bank of Mexico reduced its benchmark interest rate by 25bps to 10.75% in August, contrary to market expectations. The Mexican peso depreciated against the US dollar by 5.97% in August and closed at 19.73.

Colombia was another underperformer in August. Colombia's annual inflation rate slowed to 6.86% in July, from 7.18% in June, marking the lowest reading since December 2021. Additionally, weaker-than-expected economic activity and GDP data raised the likelihood of more rate cuts by the central bank. The Colombian peso fell against the US dollar by 2.80% in August and closed at 4,177.58.

Hard Currency Market Highlights

EM hard currency sovereign debt returned +2.32% (in USD terms) in August 2024, as measured by the JP Morgan EMBI Global Diversified Index. The treasury component return (+1.46%) was the major contributor to performance, with the pattern of returns being relatively uniform. Regionally, Africa, LatAm and Middle East were the outperformers. The performance of hard currency treasuries was also influenced by country-specific factors and market expectations around near-term monetary easing by the US Fed. The contribution from the spread component was also positive (+0.85%), with the JPM EMBI GD spread narrowing by 12bps in August. The JPM EMBI GD yield fell by 30bps in August and the investment grade (IG) sub-index outperformed its high yield (HY) counterpart.

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	2.32	4.87	6.67
Spread Return	0.85	-0.22	3.91
Treasury Return	1.46	5.10	2.66
IG Sub-Index	2.44	5.45	3.84
HY Sub-Index	2.20	4.30	9.59

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 August, 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*

August' 24	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Average Index Weight (%)	Index Impact (bps)**
EMBI Global Diversified		2.32	0.85	1.46		
Top 5 Performers	Argentina	5.9	4.7	1.2	1.9	11
	Ecuador	5.5	4.2	1.2	1.2	7
	El Salvador	5.2	3.8	1.3	0.7	4
	Gabon	4.7	3.7	1.0	0.2	1
	Dominican Republic	3.5	2.0	1.5	2.9	10
Bottom 5 Performers	Ethiopia	-1.6	-2.3	0.7	0.1	0
	Lebanon	-3.8	-4.4	0.5	0.1	0
	Sri Lanka	-5.6	-6.4	0.9	0.8	-5
	Venezuela	-8.4	-8.9	0.6	0.6	-5
	Maldives	-20.1	-20.8	0.8	0.0	-1

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Argentina was the best performer in August, contributing 11bps to index returns. Senators in Argentina approved a bill in the month that defies President Javier Milei's bid to balance the government's books by reworking the calculation methodology for pension payments. Argentina's 10-year USD-denominated government bond yield closed at 17.2% ending August, down from 18.07% at the end of July.

Ecuador was another good performer in August, contributing 7bps to index returns. Ecuador benefited in August from a US\$500 million loan with a seven-year maturity, approved by the board of directors of the Inter-American Development Bank. The loan is intended to cover short-term lending needs and to stabilize the economy. Ecuador's international reserves increased to US\$7,223 million in July from US\$7,090 million in June.

El Salvador was another good performer in August, contributing 4bps to index returns. The International Monetary Fund (IMF) issued a statement following multiple discussions with the Salvadoran authorities. The IMF acknowledged the progress made in negotiations on a support program that focused on policies to strengthen public finances, boost bank reserve buffers, improve governance and transparency, and mitigate the risks from Bitcoin.

Sri Lanka was among the underperformers in August, detracting 3bps from index returns, with the spread component largely accounting for that. Sri Lanka continued to struggle in its effort to negotiate with creditors following its default in 2022 and as it sought to move past its worst financial crisis. The South Asian nation will hold elections in September with the incumbent leader Ranil Wickremesinghe seeking a new mandate on the back of tough fiscal reforms.

Maldives was among the underperformers in August, detracting 1bp from index returns. Fitch Ratings downgraded Maldives' long-term foreign currency issuer default rating in August to CC, from an earlier rating of CCC+, citing the country's falling reserves. The other key drivers for the downgrade included the country's deteriorating external financing and liquidity metrics that have made a default event more likely within the rating horizon.

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

[†] This figure is presented as of June 30, 2024 and includes ETF AUM of \$1,393.92 billion USD of which approximately \$69.35 billion USD is 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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