Commentary
Fixed Income

January 2024

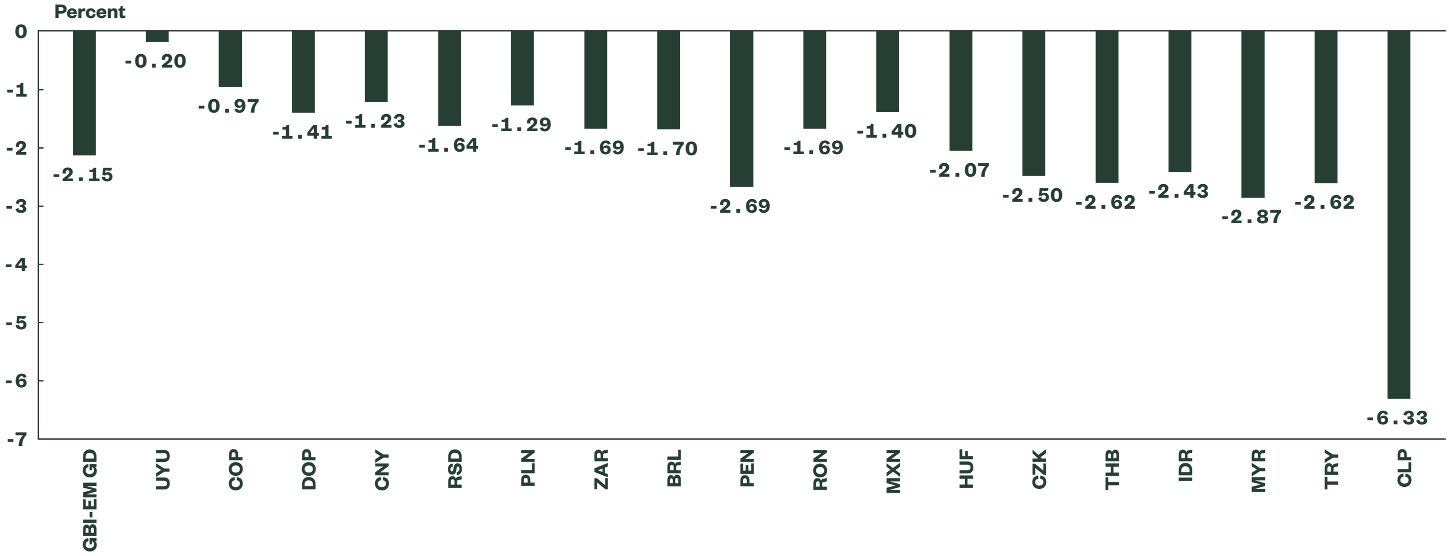
Emerging Market Debt

Market Commentary: January 2024

Chart of the Month: US Dollar Rebound Hits Local Currency Returns

The US dollar recovered some of the ground lost in late-2023 and was largely responsible for the negative performance of emerging market local currency bonds in January. All 18 currencies that are components in the JP Morgan GBI-EM GD Index recorded negative returns in the month, which skewed the total returns towards the negative side.

Figure 1
EM Currency Returns vs. US Dollar in January 2024



Source: Bloomberg, JP Morgan; as of 31 January 2024. Past performance is not a reliable indicator of future performance.

EMD Commentary — January 2024

Emerging market (EM) debt had a cautious start to the year, having experienced a strong rally towards the end of 2023. Inflation continued to soften across the board, with the consumer price index (CPI) data for December maintaining the downward trend. Hopes that the Israel-Hamas war would not be prolonged for an extended period ebbed, with rising fears of a further escalation weighing on risk sentiment. The threat of a wider Middle East conflict and ongoing attacks on shipping in the Red Sea contributed to a higher in oil price in January, with a knock-on impact on the local bond returns of some of the EM economies with a higher beta towards commodity prices. In China, weakness in property and consumption sectors continued to be a drag on economic progress. The People's Bank of China (PBoC) held its lending rates unchanged in its January meeting. However, the PBoC announced a reduction in the reserve requirement ratio (RRR) for all banks of 50 basis points (bps) to 10% from February 5, releasing up to 1 trillion yuan ($139.45 billion) to the market to boost the economic recovery.

The US Federal Reserve (Fed) left its overnight federal funds rate unchanged at the current range of 5.25%-to-5.5%. A more resilient US economy and a stronger dollar impacted the monetary policy stances of some central banks in EM Asia, with the market pushing out the timing of rate cuts to later in the year. By comparison, central banks in Latin America (LatAm) (especially Brazil and Chile) continued on their monetary easing path. Meanwhile, the approach to monetary policy in central Europe was more mixed. While Poland's central bank kept interest rates unchanged, Hungary has commenced lowering its benchmark rate. The broad investor optimism on probable convergence of monetary policies between emerging markets and their developed markets counterparts improved as the month progressed.

Net flows in January were negative for both hard currency and local currency funds, amounting to -$1.9bn and -$0.7bn, respectively.[1]

Figure 2
Emerging Market Debt Index Returns — As of 31 January 2024

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	-1.52	6.99	0.08	-1.52	6.42	-3.30	-0.23
EMBI GD (EM Hard Currency)	-1.02	9.53	3.66	-1.02	6.58	-3.54	0.58
CEMBI BD (EM Corporates)	0.59	7.45	4.84	0.59	6.49	-0.94	2.76
In EUR							
GBI-EM GD (EM Local Currency)	0.15	4.11	1.58	0.15	6.40	0.37	0.87
EMBI GD (EM Hard Currency)	0.65	6.58	5.21	0.65	6.56	0.13	1.69
CEMBI BD (EM Corporates)	2.29	4.55	6.42	2.29	6.47	2.83	3.89
In GBP							
GBI-EM GD (EM Local Currency)	-1.42	1.95	1.12	-1.42	2.88	-0.84	0.41
EMBI GD (EM Hard Currency)	-0.92	4.37	4.73	-0.92	3.04	-1.08	1.24
CEMBI BD (EM Corporates)	0.69	2.38	5.93	0.69	2.94	1.58	3.43

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 January 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 31 January 2024

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-5 bps	-71 bps	-5 bps	6.14%
EMBI GD Yield	23 bps	-129 bps	23 bps	8.09%
EMBI GD Spread	18 bps	-34 bps	18 bps	402 bps
CEMBI BD Yield	2 bps	-126 bps	2 bps	7.02%
CEMBI BD Spread	-7 bps	-33 bps	-7 bps	342 bps
CDX.EM 5y	15 bps	-45 bps	15 bps	183 bps
10y UST	3 bps	-102 bps	3 bps	3.91%
Dollar Index (DXY)	1.92%	-3.18%	1.92%	—
DOW 30	1.22%	15.42%	1.22%	38150
Oil (WTI)	5.86%	-6.38%	5.86%	$ 75.85

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Local Currency Market Highlights

EM local currency debt returned -1.52% (in USD terms) in January 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 (-2.15%). The recent surge in US dollar strength due to the resilience in the US economy weighed on local currency returns. Although all regions had negative results, Africa and Asia underperformed mainly due to the FX performance. The bond returns were positive for January, aided by the macro backdrop of lower inflation and the ongoing monetary easing cycle in some regions. The GBI-EM GD Index yield decreased by 5bps 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 (%)
In USD			
Total Return (in $)	**-1.52**	**6.99**	**-1.52**
FX Return (vs $)	-2.15	1.68	-2.15
Price Return (Local currency)	0.17	3.94	0.17
Interest Return (Local currency)	0.46	1.37	0.46
In EUR			
Total Return (in €)	**0.15**	**4.11**	**0.15**
FX Return (vs €)	-0.48	-1.20	-0.48
In GBP			
Total Return (in €)	**-1.42**	**1.95**	**-1.42**
FX Return (vs €)	-2.05	-3.36	-2.05

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 January 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 5
Best and Worst Performers Across EM Local Government Bond Markets in USD*

January 2024	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight (%)	Index Impact (bps)**
GBI-EM GD		**-1.52**	**0.63**	**-2.15**		
Top 5 Performers	Uruguay	1.9	2.1	-0.2	0.2	0
	Colombia	1.4	2.4	-1.0	4.8	7
	Dominican Republic	0.1	1.5	-1.4	0.2	0
	China	-0.3	1.0	-1.2	10.0	-3
	Serbia	-0.4	1.3	-1.6	0.3	0
Bottom 5 Performers	Thailand	-2.0	0.6	-2.6	9.8	-20
	Indonesia	-2.2	0.3	-2.4	10.0	-22
	Malaysia	-2.3	0.6	-2.9	10.0	-23
	Turkey	-4.3	-1.7	-2.6	0.9	-4
	Chile	-5.9	0.4	-6.3	1.8	-11

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

Chile was the worst performer in January. In its January meeting, the Central Bank of Chile lowered its benchmark interest rate by 100 bps to 7.25%. The decision was backed by a decline in annual inflation to 3.9% in December from 4.8% in November. The Chilean peso depreciated against the stronger US dollar by 5.70% in January and closed at 929.08.

Malaysia was another underperformer in January. The country's annual inflation rate stood at 1.5% in December, in line with market expectations and unchanged for the second consecutive month. In January, the central bank held its overnight policy rate unchanged at 3% for the fourth consecutive meeting. The Malaysian ringgit depreciated against the US dollar by 3.03% in the month and closed at 4.73.

Indonesia also underperformed in January. The Bank of Indonesia held its interest rate unchanged at 6% for the third consecutive meeting as it strived to ensure that inflation stays within one percent of the central bank's target of 2.55. The central bank also retained the overnight deposit facility and the lending facility rates at 5.25% and 6.75%, respectively. The Indonesian rupiah depreciated against the US dollar by 2.49% in January and closed at 15,780.

Uruguay was the best performer in the month. The country's annual inflation rate edged lower to 5.09% in January from 5.11% in December. Sentiment remained positive after the late-December move by the Central Bank of Uruguay to cut its benchmark policy rate by 25bps to 9%, which had followed its first 25bps cut in November. The Uruguayan peso depreciated against the US dollar by 0.67% in January and closed at 39.11.

Colombia was another good performer in January. After pausing for four meetings, the country's central bank lowered its benchmark interest rate by 25bps to 12.75% in January. The country's annual inflation rate eased to 9.28% in December, recording the lowest level since May 2022. The Colombian peso depreciated against the US dollar by 1.56% in January and closed at 3,914.90.

Hard Currency Market Highlights

EM hard currency sovereign debt returned -1.02% (in USD terms) in January 2024, as measured by the JP Morgan EMBI Global Diversified Index. The spread component (-0.99%) was the major detractor to performance, with the JPM EMBI GD spreads widening by 18bps in January. There were losses in approximately two-thirds of countries, which mainly came from the spread component of high-grade sovereigns. By contrast, where gains did occur, they were in lower-rated countries where returns tend to be driven by more idiosyncratic factors. The EMBI GD Index yield increased by 23bps 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 (%)
Total Return	**-1.02**	**9.53**	**-1.02**
Spread Return	-0.99	1.99	-0.99
Treasury Return	-0.04	7.40	-0.04
IG Sub-Index	-1.36	9.01	-1.36
HY Sub-Index	-0.68	10.06	-0.68

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

January 2024	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Average Index Weight (%)	Index Impact (bps)**
EMBI Global Diversified		**-1.02**	**-0.99**	**-0.04**		
Top 5 Performers	Ecuador	14.6	14.3	0.3	0.9	14
	Bolivia	8.2	7.8	0.3	0.2	1
	Pakistan	7.7	7.4	0.3	0.8	6
	Tunisia	4.7	4.3	0.4	0.1	1
	Tajikistan	3.3	3.0	0.4	0.1	0
Bottom 5 Performers	Ukraine	-2.8	-3.1	0.3	0.7	-2
	Colombia	-3.1	-2.8	-0.3	2.9	-9
	Jamaica	-3.3	-3.1	-0.2	0.7	-2
	Senegal	-3.3	-3.2	-0.1	0.3	-1
	Lebanon	-3.5	-3.9	0.4	0.1	0

Source: State Street Global Advisors, JP Morgan, Bloomberg as of 31 January 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.
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Colombia was one of the worst performers in January, detracting 9bps from index returns. The major drag on the total return came from spread component. Colombia's exports declined by 4.2% from a year earlier to US$4,445 million in December, the thirteenth consecutive monthly drop. The yield on Colombia's 10-year USD-denominated bond ended January at 7.14%, up from 6.71% at the end of December.

Ukraine was another underperformer in January, detracting 2bps from index returns. Ukraine's foreign exchange reserves fell to US$38,500 million in January, from US$40,514.43 million in December. In December, Ukraine agreed with creditors from the G7 and the Paris Club to extend debt restructuring to 2027 in an effort to reduce the fiscal burden and improve hard currency liquidity. Ukraine's bond market spreads were impacted by investor sentiment around restructuring. The yield on Ukraine's 10-year USD-denominated bond ended January at 37.98%, increasing from 36.52% a month earlier.

Jamaica was another underperformer in January, detracting 2bps from index returns. The International Monetary Fund (IMF) and the Jamaican authorities reached staff-level agreement on the second reviews of the Precautionary and Liquidity Line (PLL) and the Resilience and Sustainability Facility (RSF). The agreement is subject to approval by the IMF Executive Board. The completion of the review will make available US$255 million under the RSF.

Ecuador was one of the best performers in January, contributing 14bps to index returns. Ecuador's dollar bonds rebounded after significant underperformance in Q4. The major contribution to total return came from the spread component. Bond spreads, which had widened late in 2023 due to elevated risks of a financial downturn, narrowed in January.

Pakistan was another good performer in January, contributing 6bps to index returns. The country is scheduled to hold parliamentary elections on February 8. Pakistan's dollar bonds rallied in January as the IMF board approved around $700 million loan under the $3 billion bailout agreement. As per the IMF staff, the country is showing signs of a pick-up in economic activity and easing external pressures.

Endnote

1 Source: JP Morgan.

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* Pensions & Investments Research Center, as of December 31, 2022.
† This figure is presented as of December 31, 2023 and includes approximately $64.44 billion USD of 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.

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