

Emerging Market Debt

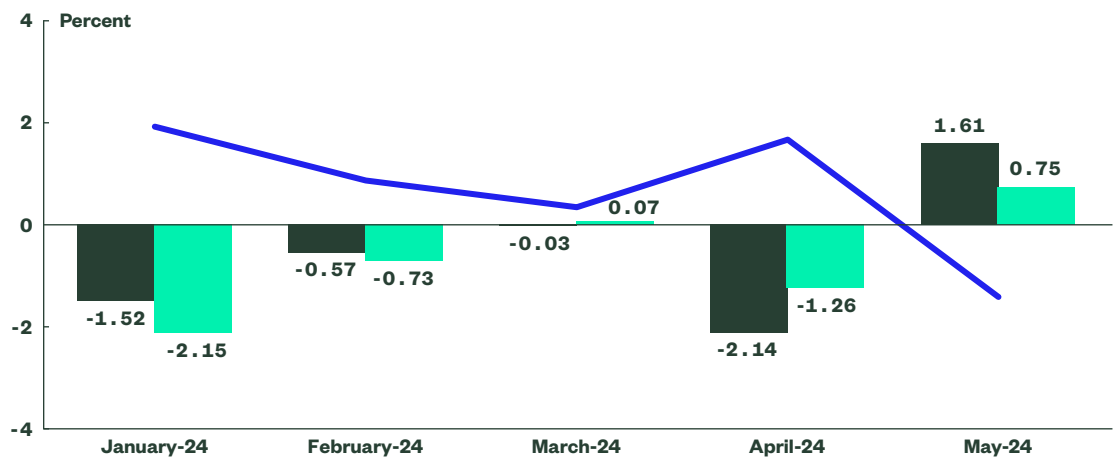
Market Commentary: May 2024

Chart of the Month: Tailwinds in May Supported EM Local Currency Bonds

EM local currency bonds delivered positive monthly returns for the first time in 2024, supported by the tailwinds from favorable US inflation data, a partial reversal in US dollar strength, and the ongoing monetary easing cycles in many countries.

Figure 1
**May Delivers Best
Monthly Gains 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 31 May 2024. Past performance is not a reliable indicator of future performance.

EMD Commentary: May 2024

Emerging market (EM) debt benefited from improved macro fundamentals, backed by the US Federal Reserve's meeting outcome on May 1. The Fed's policy rate was retained at the 5.25%-to-5.50% range, acknowledging resilient US economic activity and a softer if still high inflation print. Despite the Fed's data dependence, the possibility of lower rates followed by lower inflation and healthy economic activity were supportive of EM bond markets. The broad EM inflation outlook largely remained positive, bolstered by easing commodity prices. Against this backdrop, investor risk sentiment towards EM assets improved in May. The political backdrop remained uncertain, with Israel's operations in Rafah and elections in India, Mexico, and South Africa. Total returns were positive in May for both EM local currency and hard currency bonds. A partial reversal of US dollar strength in May and a downtrend in US Treasury yields aided EM local bonds. EM hard currency debt benefited from a reduction in risk-off sentiment and rallies in dollar bond markets.

On the monetary policy front, central bank rate cuts were delivered in Latin America (LatAm), Europe and Asia. The Central Bank of Chile reduced its benchmark interest rate by 50 basis points (bps) to 6.5% in May. In Europe, Hungary and Czech Republic each lowered their policy rates by 50bps to 7.25% and 5.25%, respectively. Turkey continued to be an outlier, maintaining its record high key one-week repo auction rate of 50% as the central bank continued to combat remarkably high inflation and the spillover effects from ongoing uncertainty in the geopolitical landscape. However, central banks in EM Asia (ex-China) continued to be cautious, with the Bank of Indonesia and the Central Bank of Malaysia keeping interest rates at 6.25% and 3.0%, respectively. In China, the government relaxed home buying restrictions and reduced down

payment ratios to support the prevailing sluggishness in its housing market. The People's Bank of China (PBoC) kept key lending rates unchanged in May, in line with market expectations. The 1-year loan prime rate, the benchmark rate for corporate and household loans, was retained at 3.45%. The 5-year rate, the reference rate for mortgages, was maintained at 3.95%.

Net flows in May were negative for both hard currency and local currency bonds, amounting to -\$0.6bn and -\$1.7bn respectively. (Source: JP Morgan).

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

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	1.61	-0.59	0.46	-2.66	5.09	-3.31	0.00
EMBI GD (EM Hard Currency)	1.80	1.77	6.53	1.72	10.98	-2.56	0.52
CEMBI BD (EM Corporates)	1.46	1.56	6.05	2.89	9.46	-0.36	2.48
In EUR							
GBI-EM GD (EM Local Currency)	0.08	-0.90	0.97	-0.95	3.20	0.60	0.52
EMBI GD (EM Hard Currency)	0.27	1.45	7.07	3.50	8.99	1.26	1.05
CEMBI BD (EM Corporates)	-0.07	1.24	6.58	4.70	7.49	3.55	3.02
In GBP							
GBI-EM GD (EM Local Currency)	-0.07	-1.23	-0.11	-2.54	2.30	0.30	-0.21
EMBI GD (EM Hard Currency)	0.12	1.11	5.93	1.85	8.04	1.00	0.32
CEMBI BD (EM Corporates)	-0.22	0.91	5.44	3.02	6.55	3.28	2.28

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

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-2 bps	42 bps	41 bps	6.61%
EMBI GD Yield	-11 bps	35 bps	57 bps	8.42%
EMBI GD Spread	7 bps	12 bps	-3 bps	381 bps
CEMBI BD Yield	-21 bps	1 bps	12 bps	7.13%
CEMBI BD Spread	-4 bps	-24 bps	-55 bps	293 bps
CDX.EM 5y	-15 bps	-3 bps	-3 bps	163 bps
10y UST	-18 bps	25 bps	62 bps	4.50%
Dollar Index (DXY)	-1.46%	0.49%	3.29%	—
DOW 30	2.30%	-0.80%	2.64%	38,686
Oil (WTI)	-6.03%	-1.62%	7.45%	\$ 76.99

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Local Currency Market Highlights

EM local currency debt returned +1.61% (in USD terms) in May 2024, as measured by the JP Morgan GBI-EM Global Diversified Index. A major contribution to the total return outcome came from bond returns (+0.86%). All regions contributed positively, with Europe being the outperformer. Contributions also came from EM Asia, especially Indonesia and Malaysia. However, a few Latin American countries lost some ground in May amid less conviction around their currencies. Overall, total contribution from foreign exchange (FX) returns was also positive (+0.75%) in the month. Fourteen out of the 18 currencies in the benchmark posted positive returns against the dollar. The GBI-EM GD Index yield decreased by 2bps in May.

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 \$)	1.61	-0.59	-2.66
FX Return (vs \$)	0.75	-0.49	-3.36
Price Return (Local Currency)	0.40	-1.47	-1.59
Interest Return (Local Currency)	0.47	1.38	2.29
In EUR			
Total Return (in €)	0.08	-0.90	-0.95
FX Return (vs €)	-0.78	-0.81	-1.65
In GBP			
Total Return (in £)	-0.07	-1.23	-2.54
FX Return (vs £)	-0.93	-1.13	-3.24

Source: State Street Global Advisors, Bloomberg, JP Morgan as of 31 May 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*

May' 24	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight (%)	Index Impact (bps)**
GBI-EM GD		1.61	0.86	0.75		
Top 5 Performers	Chile	5.0	0.9	4.1	1.8	9
	Turkey	4.0	3.5	0.5	1.5	6
	Czech Republic	3.8	0.3	3.5	6.3	24
	Hungary	3.6	1.9	1.8	3.0	11
	Poland	3.3	0.5	2.8	8.1	27
Bottom 5 Performers	Colombia	0.5	0.0	0.5	4.6	2
	Dominican Republic	0.4	1.5	-1.1	0.2	0
	China	0.4	0.4	0.0	10.0	4
	Uruguay	-0.6	0.4	-1.1	0.2	0
	Brazil	-0.8	0.6	-1.4	10.0	-8

Source: State Street Global Advisors, JP Morgan, Bloomberg as of 31 May 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 best performer in May. In its May fixing, the Central Bank of Chile reduced its benchmark interest rate by 50bps to 6.5% in May. As one of the largest producers of copper, the Chilean economy stands to benefit from the uplift in copper demand in May. The Chilean peso appreciated against the US dollar by 4.38% in May and closed at 918.25.

Turkey was another strong performer in May. Turkey's local bonds benefited from continued interest from international investors and also from the increase in the country's index weight by the index provider. The inflation picture continued to disappoint, with annual inflation rate soaring to 75.45% in May, up from 69.8% in April. The Turkish lira appreciated against the US dollar by 0.54% in May to close at 32.25.

Czech Republic was another good performer in the month. The Czech National Bank lowered its two-week repo rate by 50bps to 5.25% in May, in line with market expectations. This latest rate move marked the third consecutive 50bps reduction, with policymakers citing the continued disinflationary trend. The Czech koruna appreciated against the US dollar by 3.49% in May and closed at 22.76.

Poland was also among the outperformers in May. Poland's annual inflation rate came in at 2.5% in May, lower than market forecasts of 2.8%. The National Bank of Poland kept its benchmark reference rate unchanged at 5.75% for the seventh consecutive meeting in May, in line with market expectations. The Polish zloty appreciated against the US dollar by 3.01% in May and closed at 3.94.

Brazil was the worst performer in May. A major detraction from performance was due to currency weakness against the US dollar, offsetting positive bond returns. In its May meeting, the Central Bank of Brazil lowered its key Selic rate by 25bps to 10.5% as expected. The Brazilian real fell against the US dollar by 1.01% in May and closed at 5.25.

Hard Currency Market Highlights

EM hard currency sovereign debt returned +1.80% (in USD terms) in May 2024, as measured by the JP Morgan EMBI Global Diversified Index. The treasury component (+1.50%) was the major contributor to performance, which finally provided a tailwind after struggling for most of this year. There was also some assistance from spread returns (+0.29%). With both return drivers in positive territory, around 90% of countries enjoyed gains, with largely uniform gains seen across major credit and geographical sectors. The performance of hard currency treasuries was also influenced by country-specific factors and market repricing around the likely timing of rate cuts by the US Fed. The JPM EMBI GD yield decreased by 11bps in May and the investment grade (IG) sub-index outperformed their high yield (HY) 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	1.80	1.77	1.72
Spread Return	0.29	2.31	4.14
Treasury Return	1.50	-0.53	-2.32
IG Sub-Index	2.07	0.42	-1.54
HY Sub-Index	1.55	3.11	5.07

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Figure 7
**Best and Worst
Performers Across
EM Hard Currency
Government
Bond Markets***

May' 24	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Average Index Weight (%)	Index Impact (bps)**
EMBI Global Diversified		1.80	0.29	1.50		
Top 5 Performers	Maldives	8.9	8.2	0.6	0.1	1
	Lebanon	7.8	7.4	0.5	0.1	1
	Ghana	5.8	4.8	1.0	1.0	6
	Zambia	4.4	3.8	0.5	0.3	1
	Ukraine	4.1	3.2	0.8	0.8	3
Bottom 5 Performers	Mozambique	-0.8	-1.9	1.2	0.1	0
	Georgia	-1.2	-2.1	0.9	0.1	0
	Argentina	-3.2	-4.4	1.2	1.9	-6
	Ecuador	-4.9	-6.1	1.3	1.2	-6
	Venezuela	-7.1	-7.6	0.5	0.6	-4

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Ghana was one of the best performers in May, contributing 6bps to index returns. Ghana's plan to restructure its \$13 billion of Eurobond debt, which was rejected in April by the International Monetary Fund (IMF), was back on track due to stronger-than-expected economic growth. The country's Finance Ministry acknowledged that the reworked debt terms will align with the IMF Debt Sustainability Requirement.

Ukraine was another good performer in May, contributing 3bps to index returns. The IMF and Ukrainian authorities reached staff-level agreement (SLA) on the fourth review of the 4-year Extended Fund Facility Arrangement. Subject to approval by the IMF Executive Board, Ukraine would have access to about US\$2.2 billion. The IMF acknowledged that Ukraine met the quantitative performance criteria for the period under review.

Zambia was another good performer in May, contributing 1bp to index returns. Major contribution to the return outcome came from the spread component. The country's Ministry of Finance announced that more than 90% of holders of its \$3 billion outstanding international bonds had accepted its restructuring proposal. Markets priced out the near-term default risks as potential restructuring would pave the way for Zambia to emerge from a lengthy default.

Argentina was among the underperformers in May, detracting 6bps from index returns, with political uncertainty weighing on its dollar bond performance. President Javier Milei approached the six-month mark of his presidency tenure, without a single piece of legislation being approved in congress. Markets also reacted negatively to the cabinet shakeup that saw the sacking of cabinet chief Nicolás Posse and his replacement by Guillermo Francos, the interior minister.

Ecuador was among the underperformers in May, detracting 6bps from index returns, with the spread return component largely accounting for that. The country's dollar bond markets were impacted by outflows from the economy amid declining sentiment toward President Daniel Noboa just six months into his new term.

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

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