

Emerging Market Debt

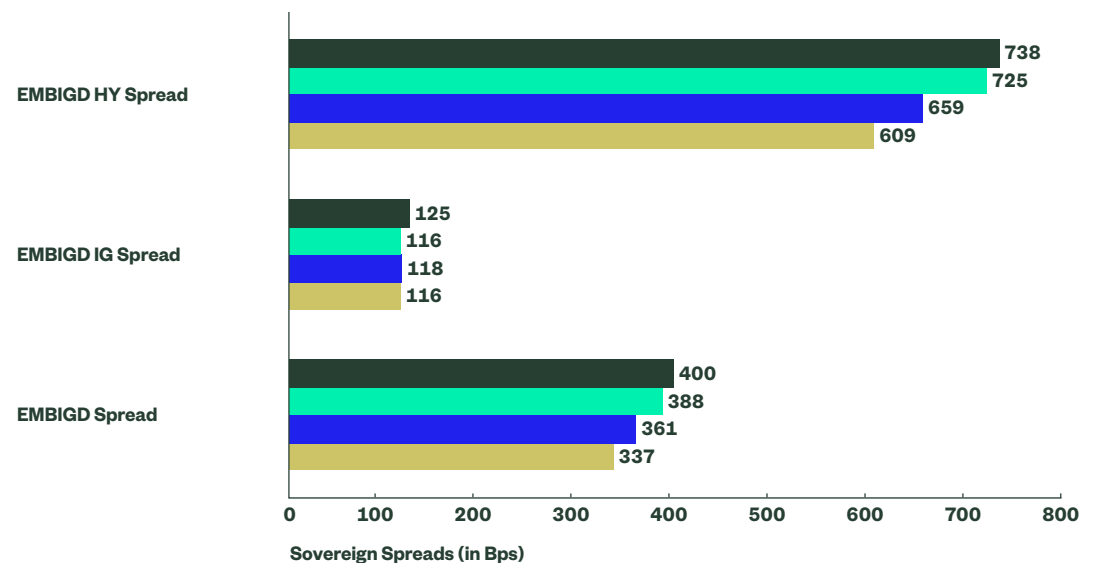
Market Commentary: October 2024

Chart of the Month: Hard Currency Sovereign Spreads Narrow

Figure 1
Change in EMD Spreads (July-October 2024)

07/31/2024
08/30/2024
09/30/2024
10/31/2024

Emerging market hard currency sovereign spreads continued to narrow in October amid risk-off market sentiment. The consequent compression in High Yield-Investment Grade spreads gained momentum on firming expectations for a US soft landing and speculation around the impact from US election outcome possibilities.



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

EMD Commentary: October 2024

Emerging market (EM) debt in October was impacted by a broad reduction in investor risk appetite, fueled by geopolitical risks stemming from the widening conflict in the Middle East and market uncertainty around the US elections. The potential spillover impact of the US election on long-term economic prospects raised some intermittent market concerns for EM macro prospects. Tailwinds from the US Federal Reserve's (Fed) September rate cut weakened somewhat after the strong US payroll report and a higher-than-expected US CPI print released in October. Overall, total returns were negative for both EM local currency and hard currency bonds in the month. Market repricing of US core rates and expectations of near-term caution around the monetary easing cycle from EM central banks pushed EM local market yields higher, while US dollar strength in October also weighed on returns. EM hard currency debt posted negative returns in October as the treasury component returns were negative across the board.

In terms of monetary easing, markets factored in the likelihood of major EM central bank decisions being driven by domestic inflation and growth factors, rather than US elections and the Fed's rate cut dynamics. In Latin America (LatAm), the Central Bank of Colombia lowered its benchmark interest rate by 50 basis points (bps) to 10.75% in October. The Central Bank of Chile trimmed its interest rate by 25bps to 5.25%. In EM Asia (ex-China), the Bank of Thailand and the Central Bank of Philippines each cut interest rates by 25bps to 2.25 and 6.0%, respectively. In China, the property sector continued to weigh on performance and the People's Bank of China (PBoC) maintained its accommodative approach by lowering its policy rates to record lows in October. The one-year loan prime rate and the five-year mortgage reference rate were reduced by 25bps to 3.1% and 3.6%, respectively. China's long-term benchmark yields remained near multi-decade lows amid expectations of additional rate cuts. According to the data released for Q3, gross domestic product (GDP) rose by 4.6% (on an annual basis), which was below the government's target of 5%.

Net flows in October for hard currency and local currency bonds amounted to -\$1.8bn and \$0bn, respectively. (Source: JP Morgan).

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

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	-4.61	1.65	4.50	0.10	8.76	-0.53	-0.92
EMBI GD (EM Hard Currency)	-1.72	2.42	6.87	6.78	18.16	-0.99	0.47
CEMBI BD (EM Corporates)	-0.86	2.05	6.07	7.57	14.90	0.92	2.44
In EUR							
GBI-EM GD (EM Local Currency)	-1.94	1.32	2.92	1.86	5.89	1.61	-0.38
EMBI GD (EM Hard Currency)	1.03	2.08	5.25	8.64	15.04	1.14	1.01
CEMBI BD (EM Corporates)	1.92	1.72	4.47	9.45	11.87	3.10	3.00
In GBP							
GBI-EM GD (EM Local Currency)	-0.48	1.56	1.78	-0.74	2.65	1.62	-0.80
EMBI GD (EM Hard Currency)	2.54	2.32	4.08	5.87	11.53	1.15	0.60
CEMBI BD (EM Corporates)	3.44	1.96	3.30	6.66	8.45	3.10	2.57

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

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	27 bps	1 bps	19 bps	6.38%
EMBI GD Yield	24 bps	-46 bps	-13 bps	7.73%
EMBI GD Spread	-23 bps	-63 bps	-46 bps	338 bps
CEMBI BD Yield	36 bps	-10 bps	-32 bps	6.68%
CEMBI BD Spread	-9 bps	-18 bps	-55 bps	294 bps
CDX.EM 5y	6 bps	-1 bps	2 bps	168 bps
10y UST	50 bps	25 bps	41 bps	4.28%
Dollar Index (DXY)	3.17%	-0.12%	2.61%	—
DOW 30	-1.34%	2.25%	10.81%	41763
Oil (WTI)	1.60%	-11.10%	-3.34%	\$ 69.26

Source: JP Morgan, Bloomberg as of 31 October, 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

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 \$)	-4.61	1.65	0.10
FX Return (vs \$)	-3.50	0.33	-4.49
Price Return (Local Currency)	-1.61	-0.08	-0.07
Interest Return (Local Currency)	0.49	1.41	4.66
In EUR			
Total Return (in €)	-1.94	1.32	1.86
FX Return (vs €)	-0.83	-0.01	-2.73
In GBP			
Total Return (in £)	-0.48	1.56	-0.74
FX Return (vs £)	0.64	0.23	-5.33

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 October, 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.

EM local currency debt returned -4.61% (in USD terms) in October 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 (-3.50%), with 17 out of the 19 currencies in the index weakening against the US dollar in the month. Headwinds from this dollar strength meant that most index currencies retreated by more than the magnitude of the DXY Index move. Total bond return was also negative (-1.61%), with the GBI-EM GD Index yield increasing 27bps in October. All regions were affected, with Asia contributing the most to the index's loss due to its overall weight (around 44%). Six countries in the index lost over 6% (Chile, Colombia, Hungary, Malaysia, Poland and Brazil) and another six countries lost over 4%.

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

October '24	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight (%)	Index Impact (bps)**
GBI-EM GD		-4.61	-1.11	-3.50		
Top 5 Performers	Uruguay	3.2	2.5	0.7	0.2%	1
	Dominican Republic	0.2	0.0	0.3	0.2%	0
	India	-0.4	0.0	-0.3	5.0%	-2
	China	-1.1	0.3	-1.4	10.0%	-11
	Serbia	-1.2	1.6	-2.8	0.3%	0
Bottom 5 Performers	Brazil	-6.0	-0.1	-5.9	7.9%	-47
	Poland	-6.0	-1.8	-4.2	7.3%	-44
	Malaysia	-6.3	-0.5	-5.8	10.0%	-63
	Hungary	-7.9	-2.6	-5.2	2.6%	-20
	Chile	-8.7	-2.2	-6.5	1.8%	-15

Source: State Street Global Advisors, JP Morgan, Bloomberg as of 31 October, 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 October. The fluctuations in oil and copper prices as a result of tensions in the Middle East impacted performance. In its October meeting, the Central Bank of Chile unanimously voted to reduce its policy interest rate by 25bps to 5.25%. Inflation slowed to 4% in September, which was slightly below expectations. The Chilean peso depreciated against the US dollar by 7.08% in October and closed at 962.33.

Hungary was another underperformer in October. In line with expectations, Hungary's central bank kept its base rate unchanged at 6.5% in its October meeting, following a 25bps cut in September. The Hungarian forint plunged to its weakest levels since September 2022, sparking concern among investors. The currency depreciated against the US dollar by 5.15% in October and closed at 375.03.

Malaysia was another poor performer in October. The Central Bank of Malaysia kept its overnight policy rate unchanged at 3% for the ninth consecutive fixing in October. Similar to other Asian countries in the index, headwinds from a stronger US dollar hurt the Malaysian ringgit which lost 6.17% against the US dollar in October and closed at 4.38.

Brazil was another poor performer in October. Brazil's annual inflation rate increased to 4.42% in September, up from 4.24% in August, with the upward pressure from the cost of housing a major contributor. Similar to the country's LatAm currency counterparts the Brazilian Real depreciated against the strong US dollar, losing 6.20% in October to close at 5.79.

Uruguay was the best performer in October. In its October meeting, the Central Bank of Uruguay maintained its benchmark policy rate at 8.5%, thereby maintaining its efforts to converge inflation towards the target of 4.5%. The country's annual inflation rate dipped to 5.01% in October from 5.32% a month earlier. The Uruguayan peso was marginally flat against the US dollar in October and closed at 41.65.

Hard Currency Market Highlights

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 (in \$)	-1.72	2.42	6.78
Spread Return	1.13	2.67	5.78
Treasury Return	-2.81	-0.24	0.94
IG Sub-Index	-2.96	0.66	2.03
HY Sub-Index	-0.50	4.16	11.69

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 October, 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.

EM hard currency sovereign debt returned -1.72% (in USD terms) in October 2024, as measured by the JP Morgan EMBI Global Diversified Index. The treasury component return (-2.81%) was the major detractor to performance, although losses were partly offset by positive spread returns (+1.13%). This meant that while high-grade bonds ended the month noticeably lower (-2.96%), high yield bond returns were only slightly negative (-0.50%). There were significant positive returns among some of the lower rated components of the benchmark. The JPM EMBI GD spread narrowed by 23bps in October with the yield increasing by 24bps amid broad risk-off sentiment in the month.

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

October '24	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Average Index Weight (%)	Index Impact (bps)**
EMBI Global Diversified		-1.72	1.13	-2.81		
Top 5 Performers	Argentina	12.8	15.1	-2.0	2.3%	29
	Bolivia	12.7	13.9	-1.0	0.2%	2
	Sri Lanka	11.3	11.9	-0.6	1.0%	11
	Lebanon	6.5	6.4	0.1	0.2%	1
	Ukraine	6.4	9.4	-2.8	1.2%	8
Bottom 5 Performers	Chile	-3.5	0.2	-3.7	3.1%	-11
	Latvia	-3.5	-0.1	-3.4	0.2%	-1
	Peru	-3.8	0.0	-3.8	2.6%	-10
	Colombia	-4.4	-1.3	-3.2	2.7%	-12
	Panama	-5.9	-2.6	-3.4	2.6%	-15

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

Panama was one of the underperformers in October, detracting 15bps from index returns. During the month, Panama's congress unsettled investors in approving a bill that increased the country's deficit ceiling under the fiscal responsibility law from 2% to 4% of GDP in 2025 and 3.5% in 2026.

Colombia was another underperformer in October, detracting 12bps from index returns. Colombia's hard currency bonds plunged on concerns surrounding the country's fiscal sustainability after lawmakers and the Gustavo Petro administration failed to agree on the 2025 budget. Colombia's foreign exchange reserves increased to USD 63,581.90 million in September from USD 62,778.50 million in August.

Chile was another underperformer in October, detracting 11bps from index returns. Fitch Ratings stated that Chile is unlikely to meet its fiscal deficit target for 2024, and that it faces challenges in reducing deficits in line with its medium-term debt-reduction goal. The yield on Chile's 10-year USD-denominated bond closed October at 5.63%, up from 5.17% at the end of September.

Argentina was among the outperformers in October, contributing 29bps to index returns. Consistent with the other lower-rated countries in the benchmark, the spread component largely accounted for the return outcome. Investors exhibited renewed optimism for President Milei's progress in reversing the country's budget deficits. However, further positive bond performance would be contingent on the Milei administration's ability to keep inflation low and the budget balanced.

Sri Lanka was another good performer in October, contributing 11bps to index returns. Sri Lanka reached a draft agreement with creditors to restructure \$12.5 billion of bonds. However, the deal is yet to be finalized. The country is also experiencing substantial political changes with the election of a new left-wing President Anura Kumara Dissanayake in September and with parliamentary elections scheduled for the 14 November.

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

[†]This figure is presented as of September 30, 2024 and includes ETF AUM of \$1,515.67 billion USD of which approximately \$82.59 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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ID2462000-3437638.541.GBL.RTL 1124
Exp. Date: 30/11/2025