

Emerging Market Debt

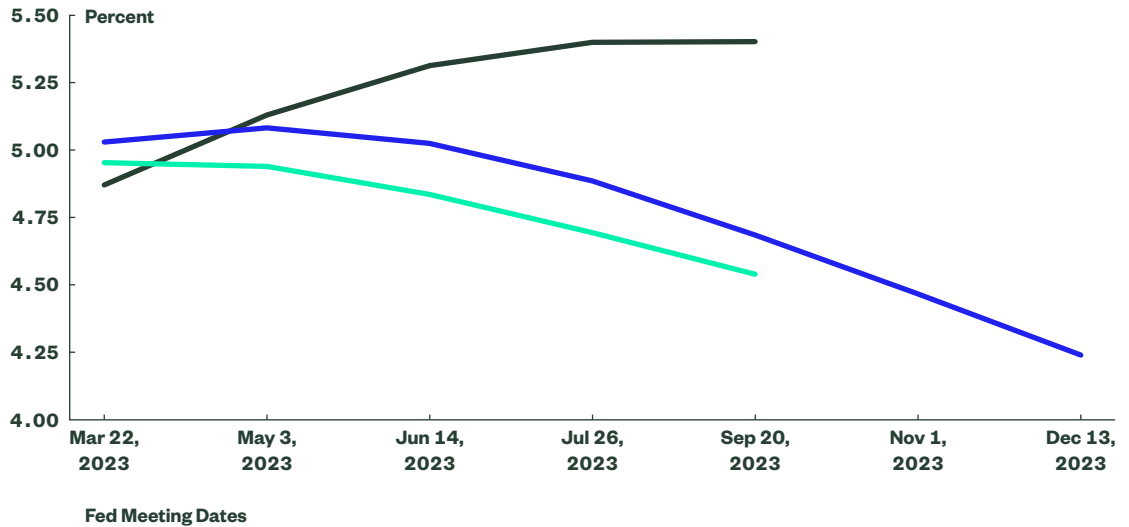
Market Commentary: April 2023

Chart of the Month: Trend in Implied Fed Funds Rate

Over the course of April, market expectations for when monetary easing would begin in the US was pushed out to later in 2023. The chart below reflects the trend in the implied Fed Funds Rate.

Figure 1
Implied Fed Funds Rate

■ As of 28 February
■ As of 31 March
■ As of 28 April



Source: Bloomberg Finance L.P., as of 28 April 2023. Past performance is not a reliable indicator of future performance.

EMD Commentary — April 2023

Emerging market (EM) debt in April benefited from recent macro tailwinds even in the midst of debt sustainability concerns. Investor conviction initially appeared low in the month as they sought further clarity on the Fed's policy path. Investor sentiment is skewed towards the outcome of the Fed's forthcoming meeting and the broader US economic outlook. However, the Fed's decisions are expected to have a relatively low impact on the policy stances of central banks in most EM economies, where domestic inflation dynamics dominate tightening cycles. Financial stability concerns that stemmed from banking sector turmoil in the US and Europe appear to have faded, helped by stronger US bank earnings. Easing inflation risks provide support for the cumulative policy tightening decisions undertaken by EM central banks to date.

The US dollar weakened during the month amid US fiscal tightening dynamics and the continued trend towards normalization in China. US dollar depreciation benefited the high beta EM currencies. China's Caixin manufacturing purchasing managers' index (PMI) surprisingly dipped to 49.9 in April from 50.0 in March, marking the first contraction since January (50 marks the level between expansion and contraction). However, sentiment showed improvement following supportive state policies and a decline in input costs. A rebound in crude oil prices (depicted by the WTI Index in Figure 3 shown) impacted the performance of Latin American countries with a higher beta towards commodity prices.

Volatility across global markets eased from the heightened levels seen in March, helping slow the pace of outflows from EM assets in April. Net flows during April for hard currency and local currency funds were -\$1.5bn and -\$0.2bn, respectively.¹

Figure 2
Emerging Market Debt Index Returns — As of 28 April, 2023

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	0.86	1.70	16.06	6.06	6.56	-0.13	-1.62
EMBI GD (EM Hard Currency)	0.53	-0.74	10.54	2.40	-0.89	-0.58	-0.20
CEMBI BD (EM Corporates)	0.88	0.09	10.27	3.14	1.33	1.52	2.07
In EUR							
GBI-EM GD (EM Local Currency)	-0.74	0.05	3.90	2.53	1.83	-0.39	0.17
EMBI GD (EM Hard Currency)	-1.07	-2.35	-1.04	-1.01	-5.29	-0.84	1.61
CEMBI BD (EM Corporates)	-0.72	-1.53	-1.29	-0.30	-3.17	1.25	3.93
In GBP							
GBI-EM GD (EM Local Currency)	-0.78	-0.39	6.31	1.51	6.44	-0.01	0.20
EMBI GD (EM Hard Currency)	-1.10	-2.78	1.25	-2.00	-1.00	-0.46	1.64
CEMBI BD (EM Corporates)	-0.76	-1.96	1.01	-1.29	1.22	1.64	3.95

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 28 April 2023. Past performance is not a reliable indicator of future performance. Index returns reflect capital gains and losses, income, and the reinvestment of dividends. Performance returns for periods of less than one year are not annualized.

Figure 3
Key EM and Macro Levels as of 28 April 2023

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-5 bps	-8 bps	-32 bps	6.53%
EMBI GD Yield	-4 bps	35 bps	-9 bps	8.46%
EMBI GD Spread	-1 bps	39 bps	31 bps	483 bps
CEMBI BD Yield	-8 bps	34 bps	-21 bps	7.18%
CEMBI BD Spread	-7 bps	39 bps	16 bps	392 bps
CDX.EM 5y	8 bps	16 bps	0 bps	238 bps
10y UST	-5 bps	-8 bps	-45 bps	3.42%
Dollar Index (DXY)	-0.83%	-0.43%	-1.80%	—
DOW 30	2.48%	0.04%	2.87%	34098
Oil (WTI)	1.47%	-2.65%	-4.34%	\$76.78

Source: JP Morgan, Bloomberg, as of 28 April, 2023. Past performance is not a reliable indicator of future performance. Index returns reflect capital gains and losses, income, and the reinvestment of dividends.

Local Currency Market Highlights

EM local currency debt returned 0.86% (in USD terms) in April 2023, as measured by the JP Morgan GBI-EM Global Diversified Index. The major contribution came from foreign exchange (FX) returns (+0.41%), driven by broader US dollar depreciation. Carry and growth in EM FX fueled gains versus the USD, especially for Latin American (LatAm) currencies. The local bond yields declined in April as markets continued to price in probable rate cuts by major EM central banks amid progress on cooling inflation.

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 \$)	0.86	1.70	6.06
FX Return (vs \$)	0.41	0.05	2.70
Price Return (Local currency)	0.03	0.34	1.61
Interest Return (Local currency)	0.42	1.31	1.75
In EUR			
Total Return (in €)	-0.74	0.05	2.53
FX Return (vs €)	-1.19	-1.60	-0.83
In GBP			
Total Return (in £)	-0.78	-0.39	1.51
FX Return (vs £)	-1.23	-2.04	-1.86

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 28 April, 2023. Past performance is not a reliable indicator of future performance. Index returns reflect capital gains and losses, income, and the reinvestment of dividends. 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***

April '23	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight (%)	Index Impact (bps)**
GBI-EM GD		0.86	0.45	0.41	—	—
Top 5 Performers	Hungary	6.8	3.1	3.7	3.1%	21
	Poland	4.6	0.8	3.9	7.4%	34
	Dominican Republic	3.9	3.6	0.3	0.2%	1
	Indonesia	3.3	1.1	2.2	10.0%	33
	Serbia	3.2	1.5	1.7	0.3%	1
Bottom 5 Performers	Thailand	-0.7	-0.6	-0.1	10.0%	-7
	Philippines	-1.3	0.5	-1.9	0.1%	0
	Chile	-2.7	-1.2	-1.4	2.1%	-6
	South Africa	-4.1	-1.1	-2.9	9.3%	-38
	Turkey	-13.1	-12.0	-1.1	1.0%	-13

Source: State Street Global Advisors, JP Morgan, Bloomberg, as of 28 April 2023. Past performance is not a reliable indicator of future performance. Index returns reflect capital gains and losses, income, and the reinvestment of dividends.

* 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.

Hungary was the best performer in April. The National Bank of Hungary (NBH) commenced its monetary easing, with the country's risk profile having improved. The NBH lowered the top end of the interest rate corridor for the collateralized overnight loan rate by 450 basis points (bps) to 20.5%, while keeping other policy rates unchanged. The Hungarian forint appreciated by 3.4% against the US dollar in April and closed at 338.62.

Poland was also a good performer in the month. The country's annual inflation rate eased to 14.7% in April from 16.1% in March, with core inflation expected to drop in the second half of the year. Narodowy Bank Polski reiterated that there would be no further rate hikes. The prospect of rate cuts, however, was pushed out towards 2024. The Polish zloty closed at 4.16 against the US dollar in April, appreciating by 3.6%.

Indonesia performed well in April. In line with the market expectations, Bank Indonesia kept its policy rate unchanged at 5.75% against the backdrop of headline inflation expected to reach the target range sooner than previously expected. Both headline and core inflation levels slowed in the latest monthly data amid moderating price pressures. The Indonesian rupiah closed at 14,670 against the dollar in April, appreciating by 2.2%.

Turkey was the worst performer in April reflecting ongoing concerns among investors about the lack of credible efforts to tame inflation. Inflation has stayed exceptionally high and the central bank has been selling gold reserves to meet local demand as people seek protection against rising prices. The economy is struggling in its post-earthquake rebuilding process ahead of the general election in May. The Central Bank of the Republic of Turkey left its key interest rate unchanged at 8.5%. The Turkish lira depreciated against the US dollar by 1.4% in April and closed at 19.45.

South Africa local bonds performed poorly as inflation touched 7.1% in March. Contrary to market expectations of a 25 bps rate hike, the central bank raised its key lending rate by 50 bps, taking the benchmark rate to 7.75%. The central bank continues to hold its target inflation band of 3% to 6%. The South African rand depreciated against the US dollar by 2.8% in April and closed at 18.29.

Hard Currency Market Highlights

EM hard currency sovereign debt returned 0.53% (in USD terms) in April 2023, as measured by the JP Morgan EMBI Global Diversified Index, with the Treasury component (+0.45%) being the most significant contributor. The US Treasury yields dipped (-5 bps) in April as the markets continue to assess the US economic outlook and clarity on probable timeline for Fed rate cuts. A partial reversal in investor risk-off sentiment and EM inflationary dynamics weighed in on the EMBI GD spread, which was relatively flat overall in April, tightening by just 1 basis point.

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	0.53	-0.74	2.40
Spread Return	0.08	-1.70	-1.26
Treasury Return	0.45	0.98	3.71
IG Sub-Index	1.41	1.61	4.25
HY Sub-Index	-0.40	-3.18	0.46

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 28 April 2023. Past performance is not a reliable indicator of future performance. Index returns reflect capital gains and losses, income, and the reinvestment of dividends. 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***

April '23	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Average Index Weight (%)	Index Impact (bps)**
EMBI Global Diversified		0.53	0.08	0.45	—	—
Top 5 Performers	Ecuador	11.1	10.5	0.5	1.0	12
	El Salvador	9.6	9.1	0.5	0.5	5
	Bolivia	7.0	6.4	0.5	0.2	1
	Ghana	4.5	4.1	0.4	0.8	4
	Zambia	3.9	3.7	0.2	0.2	1
Bottom 5 Performers	Lebanon	-7.5	-7.8	0.2	0.1	-1
	Tunisia	-8.9	-9.1	0.2	0.1	-1
	Egypt	-9.2	-9.6	0.4	2.1	-19
	Argentina	-12.2	-12.5	0.4	1.0	-13
	Venezuela	-15.3	-15.5	0.3	0.0	0

Source: State Street Global Advisors, JP Morgan, Bloomberg, as of 28 April 2023. Past performance is not a reliable indicator of future performance. Index returns reflect capital gains and losses, income, and the reinvestment of dividends.

* Country and currency performance of JPM EMBI Global Diversified Index.

** Index impact is calculated by multiplying the period ending weight by total return.

Ecuador was the best performer in April. Ecuador bonds benefited from an announced bond buyback, a broader refinancing operation to promote conservation and sustainability efforts. As part of the initiative, Ecuador is expected to issue an eco-friendly 'blue bond', which would be the biggest "debt-for-nature" swap. The annual inflation rate fell for the fourth consecutive month to 2.44% in April.

El Salvador performed well in April. The country's bonds rallied as investors welcomed signs that President Nayib Bukele's government is advancing efforts to bolster finances. Yields on notes maturing in 2025 dropped to 18%, in comparison to a peak of more than 70% last July. The annual inflation rate fell for the third consecutive month to 6.06% in March 2023.

Ghana also performed well in April as the country's annual inflation rate eased for the third consecutive month to a still-high rate of 45% in March (down from 52.8% in February). Bank of Ghana is optimistic on further slowing of inflation in the coming months. Ghana is closer to securing an International Monetary Fund (IMF) bailout of \$3 billion, after agreeing to end central bank lending to the government.

Argentina was one of the poorer performers in April. The economy is in the middle of a deepening financial crisis, with the exchange rate gap (the difference between official and back market rates) widening to 110%, from 85% in February. The short-term outlook for Argentina appears challenging, with net US dollar reserves of the central bank under pressure. Dollar deposits dropped from around \$16.4 billion on March 20th to approximately \$15.3 billion by the end of April, stoking speculation of a possible currency devaluation.

Egypt performed poorly in April. The annual urban inflation rate in Egypt stood at 32.7% in March, up from 31.9% in February. The economy is struggling with climbing inflation, foreign reserves depletion, and material delays in imports. Egypt's funding options to cover its external financing requirements appear limited. S&P Global Ratings revised its outlook on Egypt to Negative amid concerns about the potential for further currency weakness.

Endnote

1 Source: JP Morgan.

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* Pensions & Investments Research Center, as of December 31, 2021.

[†] This figure is presented as of March 31, 2023 and includes approximately \$65.03 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. Please note all AUM is unaudited.

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