Emerging Market Debt Market Commentary

November 2020

EM debt (in USD terms) enjoyed positive momentum in November, boosted by two major events: the outcome of the US elections and positive vaccine news. The change in US administration could mark a structural shift for US engagement with a number of EM countries and a return to multilateralism. Meanwhile, the discovery of effective vaccines is expected to drive a rebound in economic growth. Both hard currency and local currency debt saw healthy inflows in the month of November, underpinned by the risk-on mood, strong returns and excess liquidity and the chase for yield.

Figure 1 - Emerging Market Debt Index Returns – As of 30 November, 2020

	1m	3m	6m	YTD	12m	3yrs	5yrs
In USD							
GBI-EM GD (EM Local Currency)	5.49%	3.80%	7.09%	-0.76%	3.34%	2.52%	5.52%
EMBI GD (EM Hard Currency)	3.86%	1.90%	9.96%	3.30%	5.38%	4.65%	6.38%
CEMBI BD (EM Corporates)	2.66%	2.43%	8.66%	5.59%	6.61%	5.61%	6.55%
In EUR							
GBI-EM GD (EM Local Currency)	2.72%	3.78%	-0.42%	-6.87%	-4.74%	2.41%	2.92%
EMBI GD (EM Hard Currency)	1.14%	1.88%	2.26%	-3.07%	-2.87%	4.54%	3.76%
CEMBI BD (EM Corporates)	-0.03%	2.41%	1.05%	-0.92%	-1.73%	5.50%	3.93%

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 November 2020. Past performance is not a guarantee of future results. 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 2: Key EM and Macro levels as of 30 November 2020

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-11 bps	-9 bps	-86 bps	4.36%
EMBI GD Yield	-44 bps	-30 bps	-17 bps	4.76%
EMBI GD Spread	-41 bps	-43 bps	89 bps	380 bps
CEMBI BD Yield	-42 bps	-25 bps	-78 bps	4.19%
CEMBI BD Spread	-40 bps	-39 bps	34 bps	344 bps
CDX.EM 5y	-53 bps	-7 bps	-9 bps	165 bps
10y UST	-3 bps	13 bps	-108 bps	0.84%
Dollar Index (DXY)	-2.31%	-0.30%	-4.69%	
DOW 30	11.84%	4.25%	3.86%	29,639
Oil (WTI)	26.68%	6.41%	-25.75%	$ 45.34

Source: JP Morgan, Bloomberg as of 30 November 2020

Local Currency Market Highlights

Figure 3 - 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 $)	**5.49%**	**3.80%**	**-0.76%**
FX Return (vs $)	4.30%	2.16%	-7.27%
Price Return (Local currency)	0.75%	0.34%	2.01%
Interest Return (Local currency)	0.40%	1.27%	4.98%
In EUR			
Total Return (in €)	**2.72%**	**3.78%**	**-6.87%**
FX Return (vs €)	1.57%	2.17%	-13.86%
Price Return (Local currency)	0.75%	0.34%	2.01%
Interest Return (Local currency)	0.40%	1.27%	4.98%

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 November 2020. Past performance is not a guarantee of future results. 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.

EM Local Currency debt returned +5.49% in US dollar terms in November, as measured by the JP Morgan GBI-EM Global Diversified Index. The FX component of return was by far the key driver of return during the month, though price and interest return also contributed positively. EM FX was boosted by the risk-on rally as well as by the continued US dollar weakness, with the DXY index down -2.31% over the month.

Figure 4 - Best and worst performers across EM local government bond markets in USD*

November 2020	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight	Index Impact (bps)**
GBI-EM GD		**5.49**	**1.14**	**4.30**		
Top 5 Performers	Turkey	13.8	6.2	7.2	2.0%	28
	Colombia	9.4	1.8	7.5	5.5%	52
	South Africa	8.5	3.4	5.0	7.5%	64
	Mexico	8.0	2.3	5.6	9.6%	77
	Brazil	7.6	0.5	7.1	8.5%	64
Bottom 5 Performers	China	1.7	-0.1	1.8	9.0%	15
	Uruguay	1.6	0.8	0.8	0.1%	0
	Malaysia	1.0	-0.9	2.0	6.9%	7
	Philippines	0.5	-0.2	0.7	0.2%	0
	Chile	0.1	-0.8	0.9	2.6%	0

Source: State Street Global Advisors, JP Morgan as at 30 November 2020. Past performance is not a guarantee of future results. 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 end weight by total return.

Turkey performed best, returning 13.8% and contributing +28 bps to index returns amid a supportive market backdrop. The country witnessed a rally in its currency (+7.2%) as Turkey's central bank took a major step of returning to a conventional monetary policy by tightening the interest rate to 15% from 10.25%. In addition, with the lifting of most virus-related restrictions in the third quarter, domestic tourism gained pace.

Colombia was among the best performers in returning +9.4% over the month and contributing +52 bps to index returns. Colombian assets and particularly the peso benefitted from an economic rebound after the government eased lockdown measures.

South Africa returned 8.5% over the month and was the second largest contributor to index returns (64 bps). Even though Moody's and Fitch downgraded South Africa's rating to Ba1 and BB- respectively due to worsening fiscal outlook, high beta South African local rates and FX benefited from the risk-on rally in November. South African assets were further boosted by economic and business confidence recovery after the easing of lockdown restrictions amid a relatively stable rate of coronavirus infections. Against this backdrop, the country's central bank kept its benchmark rate at 3.5%.

Mexico and Brazil returned +8.0% and 7.6% respectively, and were the largest contributors to index return (+77 bps and +64 bps respectively). Mexican assets were supported by the sharpest economic expansion for at least three decades with Q3 GDP adding 12.1% from the previous quarter. Despite the sharp rebound however, Mexico's central bank still expects the economy to shrink 8.9% this year in the worst economic downturn the country has experienced since the Great Depression. In another boost to Mexican assets this month, the country also posted a record trade surplus on the back of strong exports to the US combined with weak internal demand. This was particularly good news for the Mexican peso, which was the main driver of performance. Meanwhile, Banxico paused its rate cutting cycle as it awaited confirmation of a slowdown in inflation.

Brazil's better-than-expected employment and budget numbers were interpreted as a sign that the economic recovery was well under way, boosting the Brazilian real. Meanwhile, inflation also accelerated; however, comments by the central bank president that policymakers were relatively comfortable with inflation meant that rates had a positive, albeit small, contribution to return over the month.

Malaysia was among the underperformers, returning 1.0% in November. Malaysia lagged the rally as a resurgence of COVID infections resulted in renewed restrictions that dampened the economic outlook for the country. Against this backdrop, Bank Negara Malaysia (BNM) kept its policy rate unchanged at 1.75%, reiterating that it considers monetary policy to be "appropriate and accommodative".

Hard Currency Market Highlights

Figure 5 - 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	**3.86%**	**1.90%**	**3.30%**
Spread Return	3.57%	2.81%	-5.21%
Treasury Return	0.27%	-0.88%	8.98%
IG Sub-Index	2.07%	1.55%	8.08%
HY Sub-Index	6.09%	2.32%	-2.36%

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 November 2020. Past performance is not a guarantee of future results. 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.

EM Hard currency sovereign debt was up 3.86% in November, as measured by the JP Morgan EMBI Global Diversified Index. Performance was driven by spread tightening though US treasuries had a positive contribution too albeit small. High yield credits outperformed in tandem with the overall risk on mood and on index level the EMBIG spread tightened by 41bps.

Figure 6 - Best and worst performers across EM hard currency government bond markets*

November 2020	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Index Weight	Index Impact (bps)**
EMBI Global Diversified		**3.86**	**3.57**	**0.27**		
Top 5 Performers	Angola	13.4	13.5	0.0	1.0%	13
	Sri Lanka	12.7	12.6	0.1	1.1%	14
	Nigeria	10.0	9.9	0.1	1.5%	15
	Ghana	9.7	9.6	0.0	1.4%	14
	El Salvador	9.2	9.2	0.0	0.9%	8
Bottom 5 Performers	Peru	-0.5	-1.1	0.6	2.7%	-1
	Ecuador	-1.6	-2.0	0.4	1.2%	-2
	Ethiopia	-1.7	-1.8	0.1	0.1%	0
	Lebanon	-9.7	-9.7	0.0	0.3%	-2
	Suriname	-11.2	-11.3	0.2	0.0%	0

Source: State Street Global Advisors, JP Morgan as at 30 November 2020. Past performance is not a guarantee of future results. 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 end weight by total return.

Angola was the best performer in November, returning +13.4% and contributing +13 bps to index returns. Angola has seen a significant improvement of its fiscal metrics, reducing the risk of default.

Sri Lanka was among the best performers, returning +12.7% and was the second-largest contributor to index returns after it repaid $4.2bn foreign debt in an attempt to avoid sovereign default. However, Fitch downgraded the country’s long-term foreign currency debt rating to CCC from B-, citing default as a real possibility. The country has seen its foreign exchange reserves dwindle to $6bn and currently has $4bn of debt repayments every year until 2025.

Nigeria also delivered solid returns of 10.0% and added 15bps to index returns, making it the largest contributor over the month. Performance was boosted by Central Bank of Nigeria's (CBN) announcement that beneficiaries of diaspora remittances and transfers into domiciliary accounts can receive their money in foreign currency; the move was aimed at boosting dollar supply into the economy and ensuring stability of the foreign exchange market. Meanwhile, the CBN paused its rate-cutting cycle saying Nigeria should exit recession by the end of the year after the country's GDP contracted by 3.6% in Q3 on the back of dropping oil output and coronavirus headwinds.

Suriname was among the worst performers, returning -11.2%. Suriname's authorities requested financial assistance from the International Monetary Fund (IMF) and Suriname's government asked creditors for a payment deferral on its two bonds, due in 2023 and 2026, totaling $675m. This follows Fitch's downgrade of the country's Long-term Foreign Currency Issuer Debt Rating to C from CC in October after missing a $25m interest payment on its bonds.

Lebanon was the second worst performer, returning -9.7% as the absence of a restructuring plan and heightened political and economic uncertainty continued to weigh on Lebanese assets. The turmoil was further deepened in November after the international audit firm Alvarez & Marsal – which was engaged to audit the accounts of Lebanon's central bank (Banque du Liban) – terminated its contract after it was unable to obtain the data that it needed. The audit of Banque du Liban had been a crucial step in the process of devising a restructuring plan and a prerequisite for an IMF deal.

Elsewhere, **Ethiopia** and **Peru** were among the top five underperformers, albeit with modestly negative returns and minor impacts on index returns.

Ethiopia faced deepening civil conflict in Tigray after the Prime Minister Abiy Ahmed ordered the military to respond to an alleged attack on an army camp in the region.

Peru delivered small negative returns of -0.5% – a relatively limited drawdown considering the unprecedented political turbulence that the country witnessed over the month. Firstly, Martin Vizcarra – the country's president and one of the most popular politicians – was impeached just five months before the presidential election. The procedure was led by head of congress Manuel Merino, who assumed the presidency afterwards in a a move that was seen as a power grab. Following a week of violent demonstrations, during which two people died, congress swiftly installed a new president – Francisco Sagasati. Sagasati is seen as a conciliatory figure and his election was greeted positively by the markets. The political turbulence was counterbalanced by a solid economic recovery in Q3, with GDP growing 29.9% compared to the previous quarter. In November, Peru also sold $4bn of bonds, including century bonds which were sold at the lowest yield ever for an emerging market country.

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