

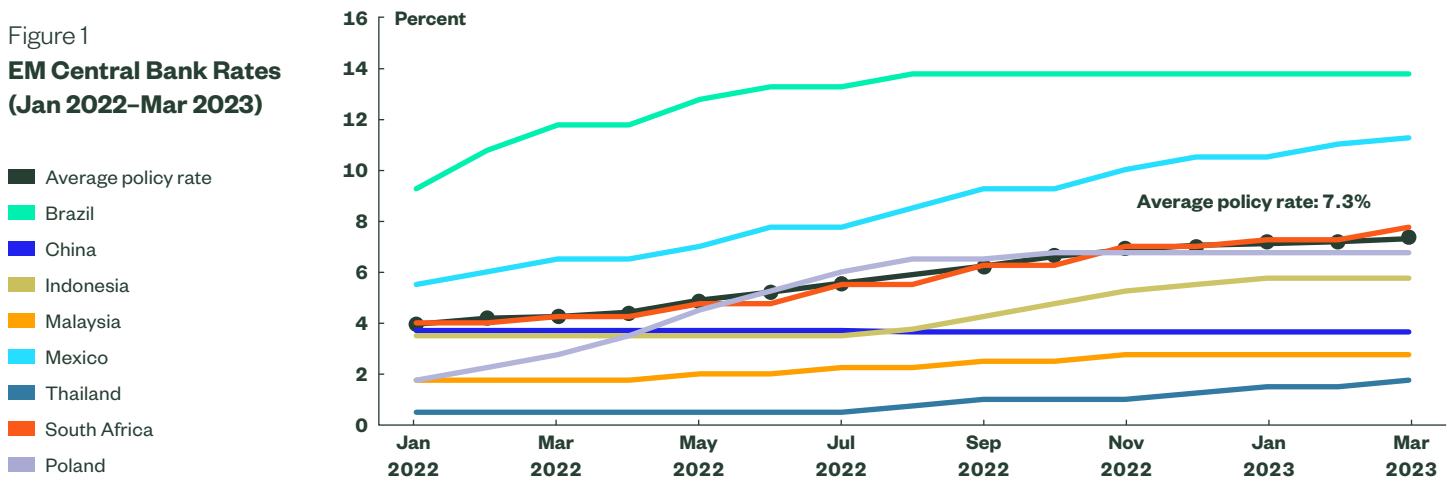
Emerging Market Debt

Market Commentary: Q1 2023

Chart of the Month: EM Central Banks Slow Tightening Pace

Inflation in emerging markets appears likely to have peaked in the early part of the first quarter. Most of the major EM central banks have slowed or paused their tightening cycle.

Figure 1
EM Central Bank Rates
(Jan 2022–Mar 2023)



Source: Bloomberg Finance LP, JP Morgan as of 31 March 2023. Weighted average policy rate is based on the weights in the JPM GBI EM Global Diversified Index, with the exception of Uruguay. Past performance is not a reliable indicator of future performance.

EMD Commentary — Q1 2023

Emerging market (EM) debt had a strong start to Q1 2023 with traction building towards EM assets in January. This trend reversed in February due to stronger growth data in developed economies and a shift to higher terminal rate expectations. However, the quarter ended on a firmer note for EMD, with positive year-to-date returns in both local and hard currency markets. During the quarter, markets witnessed two 25 basis points (bps) hikes from the US Federal Reserve to take its federal funds rate range to 4.75–5.00%. The Fed decisions are expected to have a lesser impact on the policy stance of central banks in most EM economies, where domestic inflation dynamics dominate tightening cycles. EM inflation seems most likely to have peaked, with year-on-year EM CPI inflation standing at 8.8% at the end of February.

The effects of the recent events in the banking sector with the collapse of Silicon Valley Bank and Credit Suisse have not adversely impacted EMD assets significantly. In China, manufacturing activity data indicated strong demand, coupled with recoveries in the services sector and housing market. On the geopolitical front, there are few signs that a resolution of the Russia-Ukraine War is on the horizon as the conflict reached its first anniversary in February. The quarter witnessed a decline in crude oil prices (depicted by WTI Index in Figure 2), which impacted the performance of Latin American countries with a higher beta towards commodity prices.

A global flight-to-quality and de-risking amid banking sector uncertainty dented market sentiment and impacted flows. Over the course of the quarter, the net flows were negative for both hard currency and local currency funds, amounting to -\$4.7bn and -\$1.8bn, respectively.¹

Figure 2
Emerging Market Debt Index Returns — As of 31 March 2023

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	4.12	5.16	14.05	5.16	-0.72	0.87	-2.37
EMBI GD (EM Hard Currency)	0.96	1.86	10.12	1.86	-6.92	-0.02	-0.60
CEMBI BD (EM Corporates)	0.83	2.24	7.06	2.24	-1.62	2.58	1.75
In EUR							
GBI-EM GD (EM Local Currency)	1.64	3.30	2.84	3.30	1.68	1.21	0.08
EMBI GD (EM Hard Currency)	-1.45	0.06	-0.70	0.06	-4.68	0.31	1.90
CEMBI BD (EM Corporates)	-1.58	0.43	-3.47	0.43	0.75	2.92	4.31
In GBP							
GBI-EM GD (EM Local Currency)	1.95	2.31	2.97	2.31	5.72	0.97	0.13
EMBI GD (EM Hard Currency)	-1.14	-0.90	-0.58	-0.90	-0.89	0.08	1.94
CEMBI BD (EM Corporates)	-1.27	-0.54	-3.34	-0.54	4.76	2.68	4.36

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 March 2023. 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 3
Key EM and Macro levels as of 31 March 2023

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-22 bps	-27 bps	-27 bps	6.59%
EMBI GD Yield	-8 bps	-5 bps	-5 bps	8.51%
EMBI GD Spread	37 bps	32 bps	32 bps	484 bps
CEMBI BD Yield	-5 bps	-13 bps	-13 bps	7.27%
CEMBI BD Spread	48 bps	23 bps	23 bps	399 bps
CDX.EM 5y	-11 bps	-9 bps	-8 bps	229 bps
10y UST	-45 bps	-41 bps	-41 bps	3.47%
Dollar Index (DXY)	-2.25%	-0.98%	-0.98%	—
DOW 30	1.89%	0.38%	0.38%	33274
Oil (WTI)	-1.79%	-5.72%	-5.72%	\$ 75.67

Source: JP Morgan, Bloomberg as of 31 March 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 5.16% (in USD terms) in Q1 2023, as measured by the JP Morgan GBI-EM Global Diversified Index. The major contribution came from foreign exchange (FX) returns (+2.25%), driven by US dollar depreciation amid expectations that the Fed is nearing the end of its tightening cycle. Sixteen out of the 20 currencies within the index ended the quarter with gains against the dollar. The local currency bond yields rallied as markets priced in that major EM central banks are likely at or close to their respective terminal rates.

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 \$)	4.12	5.16	5.16
FX Return (vs \$)	2.35	2.25	2.25
Price Return (Local currency)	1.30	1.58	1.58
Interest Return (Local currency)	0.48	1.33	1.33
In EUR			
Total Return (in €)	1.64	3.30	3.30
FX Return (vs €)	-0.14	0.39	0.39
In GBP			
Total Return (in £)	1.95	2.31	2.31
FX Return (vs £)	0.17	-0.60	-0.60

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 March 2023. 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 5
**Best and worst
performers across EM
local government bond
markets in USD***

Q1 '23	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight (%)	Index Impact (bps)**
GBI-EM GD		5.16	2.91	2.25	—	—
Top 5 Performers	Colombia	13.9	9.5	4.5	4.0	55
	Hungary	11.6	4.1	7.5	3.1	36
	Mexico	10.7	2.5	8.1	10.0	107
	Philippines	10.0	7.3	2.7	0.1	1
	Chile	9.8	1.9	7.9	2.2	22
Bottom 5 Performers	Malaysia	2.0	2.2	-0.2	10.0	20
	China	1.8	0.6	1.2	10.0	18
	South Africa	-0.9	3.3	-4.2	9.8	-9
	Turkey	-9.6	-7.3	-2.3	1.2	-11
	Egypt	-21.6	-2.5	-19.1	0.9	-18

Source: State Street Global Advisors, JP Morgan, Bloomberg as of 31 March 2023. 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 ending weight by total return.

Colombia was the best performer in the quarter. In line with market expectations, the Central Bank of Colombia slowed its tightening pace, increasing its interest rate by 25bps to 13% in March. Annual food inflation dropped to 21.8% in March from 24.1% in February. The manufacturing purchasing managers' index (PMI) rose to 51.5 in March from 49.8 in February (readings above 50 are indicative of expansion). The Colombian Peso closed at 4,623.09 against the dollar.

Hungary was also a good performer during the quarter. Hungary’s government affirmed that inflation is retreating, with prices for food, electricity and fuel moderating. The annual inflation rate came down to 25.4% in February. The Hungarian central bank kept its benchmark rate unchanged at 13%, in line with analyst forecasts. The Hungarian forint closed the quarter at 350.56 against the dollar.

Mexico performed well in the three months. The annual inflation rate came down to 6.86% in March, the lowest level since October 2021, broadly in line with market expectations. Banxico, the country’s central bank, raised its key rate to 11.25%, lowering the tightening pace amid evidence of decelerating inflation. The Mexican economy is expected to grow 3% in 2023 and 2024. The Mexican peso closed March at 18.05 against the dollar.

Egypt was the worst performer in the first quarter. The country is in the middle of an inflation crisis with expectations that annual inflation will hit an all-time high in March, up from 31.9% in February. The central bank raised its overnight interest rate by 200 bps in March, taking it to 18.25%. The Egyptian pound continues to depreciate against the dollar and has lost around 20% of its value since the beginning of the year — it ended March at 30.85 versus the dollar.

Turkey’s local bonds performed poorly with volatility fueled by events around the upcoming general election weighing on returns. The Central Bank of Turkey held its interest rate at 8.5% at its March 2023 meeting, having implemented a cut of 50 bps in February in response to the tragic earthquake. S&P Global Ratings revised its outlook on Turkey down to “Negative”, with local currency bonds rated “B”. The Turkish lira closed at 19.18 against the dollar.

Hard Currency Market Highlights

EM hard currency sovereign debt returned 1.86% (in USD terms) in Q1 2023, as measured by the JP Morgan EMBI Global Diversified Index, with the Treasury component (+3.24%) being the most significant contributor. In the aftermath of recent events in the banking sector, US Treasury yields moved lower on expectations of Fed rate cuts before the end of the year. However, spreads widened by 32 bps over the three months amid a pick-up in risk-off sentiment.

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	0.96	1.86	1.86
Spread Return	-2.27	-1.34	-1.34
Treasury Return	3.31	3.24	3.24
IG Sub-Index	2.27	2.80	2.80
HY Sub-Index	-0.40	0.87	0.87

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 March 2023. 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 7
**Best and Worst Performers
 Across EM Hard
 Currency Government
 Bond Markets***

Q1 '23	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Average Index Weight (%)	Index Impact (bps)**
EMBI Global Diversified		1.86	-1.34	3.24	—	—
Top 5 Performers	Venezuela	37.2	35.6	1.2	0.0	0
	El Salvador	24.1	21.0	2.6	0.5	11
	Sri Lanka	19.7	17.8	1.6	0.7	13
	Ethiopia	14.9	13.3	1.4	0.1	2
	Maldives	11.4	9.4	1.8	0.1	1
Bottom 5 Performers	Egypt	-9.8	-11.8	2.4	2.3	-23
	Ukraine	-9.9	-11.7	2.0	0.6	-5
	Tunisia	-14.7	-15.9	1.4	0.1	-1
	Ecuador	-25.9	-27.9	2.8	1.0	-25
	Bolivia	-30.7	-32.3	2.4	0.2	-5

Source: State Street Global Advisors, JP Morgan, Bloomberg as of 31 March 2023. 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 ending weight by total return.

Venezuela was the best performer during the quarter. Although Venezuela is under international economic sanctions and its bonds are trading at low levels, its bond market rallied as the country was on track to ship three million barrels of crude oil to the US as a part of the license issued by the US Treasury Department after a three-year ban. President Nicolas Maduro's administration announced that Venezuela will push back the legal deadline on \$60 billion of defaulted debt to prevent creditors from filing lawsuits.

El Salvador performed well during the latest quarter. The country's legislative assembly passed the bill on issuing Bitcoin-backed bonds, termed "Volcano Bonds". El Salvador repaid one of two outstanding \$800 million bonds, alleviating concerns that the government could default as a result of its decision to make cryptocurrency bitcoin legal tender. El Salvador's annual inflation rate fell to 6.82% in February 2023 from 7.03% in January.

Sri Lanka also performed well during the quarter. The inflation rate slowed in March for the sixth consecutive month, aided by improvements in supply conditions. On March 20th, the International Monetary Fund (IMF) approved an Extended Fund Facility to Sri Lanka, amounting to \$ 2.9 billion. Earlier in the quarter, the country's currency was allowed to trade in wider bands in an effort to convince the IMF of its reform intentions.

Bolivia was the poorest performing country during the review period. Bolivia has over \$2 billion in outstanding foreign currency bonds. The country is in the middle of a balance of payments crisis, with its foreign exchange reserves reaching low levels. Coupon payments are now heavily dependent on hard currency reserves, as evidenced by the recent coupon payment of \$22.5 million.

Ecuador performed poorly during the quarter amid rising political risks. The dollar bond market sold off in February after President Guillermo Lasso's proposed constitutional changes were rejected by the voters. The markets priced in a worst-case scenario of Lasso being removed from office as the opposition majority in the National Assembly signaled their intent to initiate impeachment hearings.

Endnote

1 Source: JP Morgan.

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

[†] This figure is presented as of December 31, 2022 and includes approximately \$58.60 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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