Emerging Market Debt Market Commentary

April 2020

Figure 1 - Emerging Market Debt Performance – As of 30 April 2020[1]

	1m	3m	6m	YTD	12m	3yrs	5yrs
In USD							
GBI-EM GD (EM Local Currency)	3.92%	-10.74%	-9.91%	-11.89%	-2.68%	0.09%	0.44%
EMBI GD (EM Hard Currency)	2.25%	-12.77%	-10.08%	-11.44%	-4.97%	0.67%	2.94%
CEMBI BD (EM Corporates)	4.09%	-7.91%	-5.23%	-6.49%	-0.21%	2.54%	3.68%
In EUR							
GBI-EM GD (EM Local Currency)	4.11%	-9.69%	-8.24%	-9.70%	-0.43%	-0.10%	0.90%
EMBI GD (EM Hard Currency)	2.43%	-11.74%	-8.41%	-9.24%	-2.77%	0.47%	3.41%
CEMBI BD (EM Corporates)	4.28%	-6.83%	-3.47%	-4.17%	2.10%	2.35%	4.15%

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.

Strong liquidity support from both developed market (DM) and emerging market (EM) central banks, sizeable fiscal packages from governments around the world, and some easing in select EM countries' funding strains through USD swaps with the Fed, have all helped to improve risk sentiment in EM. This helped to partially reverse the sharp sell-off between mid-February and mid-March. Sentiment was further boosted in late April by positive preliminary findings from an anti-viral drug trial. Most EM countries remain in some form of a lockdown, though they are expected to gradually reopen their economies over the coming months.

A sharp collapse in oil demand and technical factors in the futures market led to renewed volatility in oil markets, which is a concern for EM investors, given historical correlation of EM performance to oil. This has raised questions on the longer-term viability of oil production, particularly for those countries where marginal production costs are higher than the current level of oil prices. Some EM countries with weak balance sheets and economies, which were further exacerbated by COVID-19, have started debt restructuring and negotiations with bondholders and other creditors.

Figure 2: Key EM related levels as of 30 April, 2020

Item	Δ 1 Month	Δ YTD	Current Level
GBI-EM GD Yield	-49 bps	-35 bps	4.87%
EMBI GD Yield	-20 bps	+188 bps	6.80%
EMBI GD Spread	-16 bps	+320 bps	610 bps
CEMBI BD Yield	-62 bps	+100 bps	5.97%
CEMBI BD Spread	-52 bps	+232 bps	542 bps
CDX.EM 5y	-20 bps	+158 bps	332 bps
10y UST	-3 bps	-128 bps	0.64%
Dollar Index (DXY)	-0.03%	+2.73%	
DOW 30	+11.08%	-14.69%	24,346
Oil (WTI)	-8.01%	-69.15%	$ 18.84

[1] Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 April 2020.

Local Currency Market Highlights[2]

Figure 3 - Key return drivers of EM local government bond markets[1]

GBI-EM GD (EM Local Currency)	Monthly Return	3 Month Return	YTD Return
In USD			
Total Return (in $)	**3.92%**	**-10.74%**	**-11.89%**
FX Return (vs $)	1.12%	-10.96%	-13.34%
Price Return (Local currency)	2.30%	-1.14%	-0.19%
Interest Return (Local currency)	0.50%	1.39%	1.88%
In EUR			
Total Return (in €)	**4.11%**	**-9.69%**	**-9.70%**
FX Return (vs €)	1.31%	-9.94%	-11.39%
Price Return (Local currency)	2.30%	-1.14%	-0.19%
Interest Return (Local currency)	0.50%	1.39%	1.88%

EM Local Currency debt returned +3.9% in US dollar terms in April, as measured by the JP Morgan GBI-EM Global Diversified Index; both the bond and foreign exchange (FX) component contributed positively. EM central banks have cut rates in response to the crisis and have purchased government bonds to strengthen financial stability and inject liquidity, albeit not to the extent and scale seen in large developed markets. This has provided some support to bonds, and EMFX has been relatively stable in a more positive environment for risk and as markets expect EM economies in EMEA (such as Russia and South Africa) and Latin America (LatAm) to ease lockdown restrictions or consider an early re-opening (Mexico, Brazil). Political risk has risen in LatAm, complicating the policy outlook in the region, with higher risks for Brazil, in particular, as President Bolsonaro could face potential criminal proceedings.

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

April 2020	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight	Index Impact (BP)**
GBI-EM GD		**3.92**	**2.80**	**1.12**		
Top 5 Performers	Chile	11.3	9.2	2.0	2.5%	28
	Indonesia	11.2	1.5	9.6	10.0%	112
	Russia	10.2	4.3	5.7	8.6%	88
	Colombia	6.7	3.1	3.6	5.5%	37
	Uruguay	6.7	5.2	1.5	0.1%	1
Bottom 5 Performers	Romania	1.2	1.3	-0.1	3.0%	4
	South Africa	1.0	3.9	-2.7	7.1%	7
	Turkey	0.7	6.9	-5.7	3.2%	2
	Brazil	-2.8	1.4	-4.2	9.9%	-28
	Dominican Rep	-3.6	-2.4	-1.2	0.2%	-1

Source: State Street Global Advisors, JP Morgan as at 30 April 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.

[2] The returns stated in this section are based on the local currency returns according to JP Morgan GBI-EM Global Diversified. Returns calculated in USD.

Chile was the month's best performer, returning +11.3%, with most of it coming from the bond channel. The Bank of Chile lowered its overnight rate to an all-time low of 0.5% and announced an extension of its FX intervention program until January 2021. Chilean assets also benefitted from a modest rebound in copper prices in April, while the fact that Chile is a net importer of oil means it stands to gain from the recent collapse in energy prices.

Indonesia was the second-best performer in the index, delivering a strong return of +11.2% and contributing the most to index returns (+112 bps). Positive performance was almost all from the recovery of IDR as the Bank of Indonesia used DNDFs (Domestic Non-Deliverable Forwards) and purchased bonds aggressively, supplied US dollars and stepped up its defense of the currency. This followed a ~15% cheapening in Q1 when foreign investor unwinding contributed to it being Asia's worst-performing FX in the quarter.

Russia achieved strong returns (+10.2%), with both the bond and FX components performing well, and was the second highest contributor to index returns (+88 bps). The Central Bank of Russia cut its policy rate by 50bp to 5.50% and held open the prospect of further reductions at upcoming meetings. Market participants expect a cut of 50 bps at its June meeting, keeping the policy rate below the CBR's definition of neutral policy rate of 6-7%. The central bank clarified that the CBR's neutral rate definition will not hinder the easing process. Bonds found some buying appetite among investors, as the real rate offered by Russia remains higher than its EM peers.

Brazil was among the worst performers (-2.8%), and a significant detractor from index returns (-28 bps). Political headlines have complicated the policy outlook for the country as President Bolsonaro was accused by the recently-resigned Minister of Justice Sergio Moro of interference with the Federal Police. An investigation has been launched and any evidence of significant wrongdoing could lead to Bolsonaro stepping down or even being impeached. Headline risks exist, depending on Bolsonaro gaining stable support from congress and changes in his approval ratings against the backdrop of the COVID-19 recession and rising unemployment.

Turkey and **South Africa** underperformed the index, largely because of concerns surrounding increasing debt burdens and its sustainability (South Africa) and low real interest rate levels after central bank cuts (Turkey).

Hard Currency Market Highlights[3]

Figure 5 - Key return drivers of EM hard currency government bond markets in USD[1]

EMBI GD (EM Hard Currency)	Monthly Return	3 Month Return	YTD Return
Total Return	**2.25%**	**-12.77%**	**-11.44%**
Spread Return	1.88%	-18.85%	-20.10%
Treasury Return	0.36%	7.50%	10.85%
IG Sub-Index	2.32%	-5.40%	-3.24%
HY Sub-Index	2.14%	-21.28%	-20.78%

EM Hard Currency sovereign debt returned +2.3% in April, as measured by the JP Morgan EMBI Global Diversified Index. Spreads tightened 16 bps over the month, but still remain at multi-year wide levels at 610 bps. The US Federal Reserve's announcement of liquidity facilities that allow foreign central banks without established swap lines to get USD liquidity through repo of their Treasury holdings have been helpful in reducing stress for EMs where USD funding issues have increased. The G-20 is also planning on freezing debt service for six to nine months to support lower income countries, while the International Monetary Fund (IMF) has been extending support through its short-term liquidity facility. However, weaker growth and lower oil prices have kept market participants wary, as concerns shift from liquidity to solvency. Higher funding requirements would lead to increases in already-elevated debt levels and the need to deliver on much-needed structural reforms to access such IMF funding. Some countries, such as Lebanon and Ecuador, have started negotiations with bondholders to avoid a disorderly default.

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

April 2020	Country	Total Return (%)	Spread Return (%)	TSY Return (%)	Index Weight	Index Impact (BP)**
EMBI Global Diversified		**2.25**	**1.88**	**0.36**		
Top 5 Performers	Angola	15.0	14.8	0.2	0.7%	10
	Gabon	11.5	11.3	0.2	0.3%	4
	Nigeria	10.6	10.3	0.3	1.4%	15
	Jordan	9.8	9.6	0.2	0.5%	5
	Ghana	8.4	8.2	0.3	1.2%	10
Bottom 5 Performers	Mozambique	-10.0	-10.3	0.4	0.1%	-1
	Lebanon	-13.1	-13.2	0.1	0.4%	-5
	Zambia	-14.4	-14.5	0.2	0.2%	-3
	Venezuela	-15.8	-15.9	0.0	0.0%	0
	Suriname	-40.9	-41.0	0.2	0.0%	-2

Source: State Street Global Advisors, JP Morgan as at 30 April 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 among the best performers in the month, recovering from significant underperformance in Q1. The country remains committed to its existing IMF program, and economic reform measures implemented this year are

[3] The returns stated in this section are based on the hard currency returns according to JP Morgan EMBIG Diversified. Returns calculated in USD.

expected to lead to savings of about $3 billion. The country has strong FX reserves of ~$15bn, and expectations of a near-term default remains reasonably low.

Nigeria also featured among the best performers in the index, returning +10.6% and contributed +15 bps to index returns. Spreads tightened in a relief rally as the IMF approved $3.4 billion in funding, the largest such allocation yet to an African country, to assist with the coronavirus pandemic. Nigeria also requested another $3.5 billion in total from the World Bank and the African Development Bank.

Ghana delivered a strong return of +8.4% over the month and contributed +10 bps to headline index returns. Ghana received $1.0bn via the IMF's Rapid Credit Facility, and it is on track for another US$1.0bn in debt relief from official bilateral creditors as part of the G-20 agreement. Bloomberg consensus expectations are for the economy to grow 5.4% in 2020, which would be a solid outcome if slower than the 6.1% it experienced in 2019.

Lebanon bonds continued their drawdown from Q1, recording losses of -13.1% in April and detracting -5 bps from index returns. Lebanon has already defaulted on its sovereign bonds in March and could potentially default on two more international bonds maturing in May and June for an additional US$1.3bn. Its currency has been pegged to the dollar at an exchange rate of roughly 1,500, but is now trading in the black market at multiples of this rate. A fully-funded IMF program seems unlikely given a lack of political will. All these elements complicate any potential restructuring.

Suriname was the worst performer, generating -41% over the month. Moody's downgraded Suriname's rating to B3 and changed its outlook to 'negative'; S&P downgraded its debt to CCC+ from B, citing increased financing challenges in the wake of falling oil prices. Uncertainty regarding a clear majority in the upcoming elections are expected to add to the government's pressure in taking fiscal and economic policy measures in a timely manner.

Hard Currency Corporate Bond Markets[4]

Figure 7 - Key return drivers of EM hard currency corporate bond markets[1]

CEMBI BD (EM Corporates)	Monthly Return	3 Month Return	YTD Return
Total Return	**4.09%**	**-7.91%**	**-6.49%**
Spread Return	3.92%	-12.26%	-12.58%
Treasury Return	0.17%	4.96%	6.96%
IG Sub-Index	3.46%	-4.32%	-2.80%
HY Sub-Index	5.05%	-12.79%	-11.50%

[4] The returns stated in this section are based on the hard currency returns according to JP Morgan CEMBIB Diversified. Returns calculated in USD

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