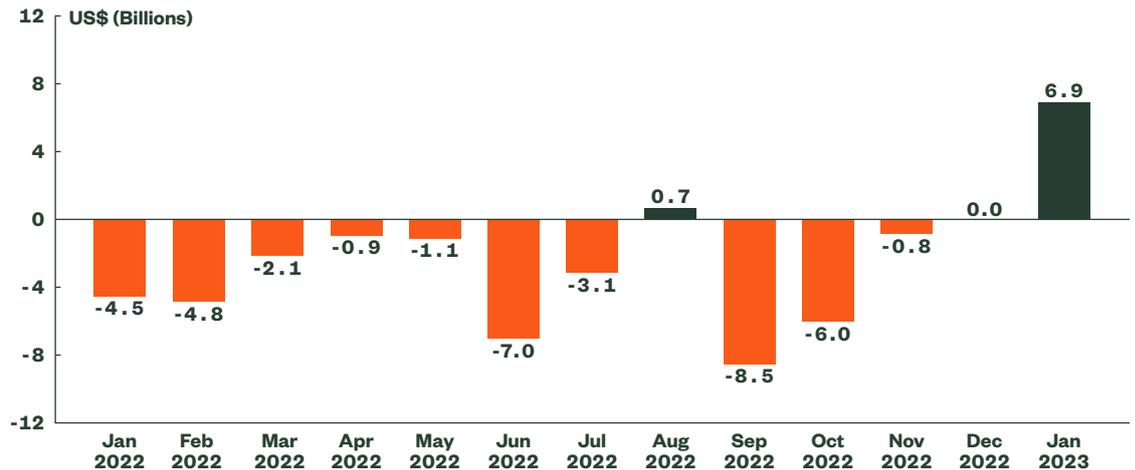


# Emerging Market Debt

## Market Commentary: January 2023

### Chart of the Month: Renewed Interest in EMD Hard Currency

Figure 1  
Recovery in EMD Hard  
Currency Inflows



Source: JP Morgan, as of 31 January 2023. Past performance is not a reliable indicator of future performance.

### EMD Commentary — January 2023

Emerging market debt in January 2023 recorded positive returns amid improved investor sentiment towards EM assets. Consensus optimism driven by improved economic data is evident, with EM bonds being factored into long-term asset allocations. The EM performance rebound witnessed late in 2022, coupled with Chinese reopening, bolstered investor sentiment. The cascading effects from China's scrapping of pandemic restrictions is expected to enhance momentum in EM through improved tourism, trade and commodity demand.

Inflation dynamics along with the stabilization in the US dollar increased the possibility of EM central bank policy detaching from the US Federal Reserve (Fed). Most EM central banks are nearing the end of their tightening cycles, with inflation having peaked nearly everywhere. The prospect of monetary policy easing contributed to a tightening of EM investment grade (IG) Sovereign spreads compared to US IG credit of similar rating and duration.

During January 2023, net flows were positive for both EM hard currency and local currency funds, amounting to \$6.9bn and \$1.4bn, respectively.<sup>1</sup>

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

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
<b>In USD</b>							
GBI-EM GD (EM Local Currency)	4.29	14.12	7.45	4.29	-7.89	-4.38	-2.54
EMBI GD (EM Hard Currency)	3.17	11.36	3.45	3.17	-12.70	-4.77	-0.69
CEMBI BD (EM Corporates)	3.04	10.16	3.96	3.04	-8.05	-1.26	1.67
<b>In EUR</b>							
GBI-EM GD (EM Local Currency)	2.49	3.85	0.88	2.49	-4.92	-3.73	0.17
EMBI GD (EM Hard Currency)	1.38	1.34	-2.88	1.38	-9.88	-4.13	2.07
CEMBI BD (EM Corporates)	1.26	0.25	-2.39	1.26	-5.10	-0.60	4.50
<b>In GBP</b>							
GBI-EM GD (EM Local Currency)	1.90	6.72	6.21	1.90	0.38	-2.17	0.31
EMBI GD (EM Hard Currency)	0.81	4.15	2.26	0.81	-4.85	-2.57	2.22
CEMBI BD (EM Corporates)	0.68	3.03	2.76	0.68	0.20	1.01	4.64

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 31 January, 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 31 January, 2023**

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-24 bps	-82 bps	-24 bps	6.61%
EMBI GD Yield	-44 bps	-154 bps	-44 bps	8.12%
EMBI GD Spread	-9 bps	-99 bps	-9 bps	444 bps
CEMBI BD Yield	-55 bps	-172 bps	-55 bps	6.84%
CEMBI BD Spread	-24 bps	-88 bps	-24 bps	353 bps
CDX.EM 5y	-17 bps	-74 bps	-17 bps	222 bps
10y UST	-37 bps	-54 bps	-37 bps	3.51%
Dollar Index (DXY)	-1.38%	-8.46%	-1.38%	—
DOW 30	2.83%	4.13%	2.83%	34086
Oil (WTI)	-1.73%	-8.85%	-1.73%	\$ 78.87

Source: JP Morgan, Bloomberg Finance L.P., as of 31 January 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 4.29% in USD terms in January 2023, as measured by the JP Morgan GBI-EM Global Diversified Index. A major contribution came from foreign exchange (FX) returns (+2.59%). Broader bearishness towards the US dollar added to the FX returns, as evident in the decline of the Dollar Index (-1.38%) in January. Expectations around EM central banks ending tightening cycles helped push local bond yields lower. This contributed to positive bond returns (+1.70%) in January.

Figure 4  
**Key Return Drivers of EM Local Government Bond Markets**

GBI-EM GD (EM Local Currency)	Monthly Return (%)	3-Month Return (%)	YTD Return (%)
<b>In USD</b>			
<b>Total Return (in \$)</b>	<b>4.29</b>	<b>14.12</b>	<b>4.29</b>
FX Return (vs \$)	2.59	8.35	2.59
Price Return (Local currency)	1.27	4.43	1.27
Interest Return (Local currency)	0.44	1.34	0.44
<b>In EUR</b>			
<b>Total Return (in €)</b>	<b>2.49</b>	<b>3.85</b>	<b>2.49</b>
FX Return (vs €)	0.78	-1.92	0.78
<b>In GBP</b>			
<b>Total Return (in £)</b>	<b>1.90</b>	<b>6.72</b>	<b>1.90</b>
FX Return (vs £)	0.20	0.96	0.20

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 31 January 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\***

January 2023	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Average Index Weight (%)	Index Impact (bps)**
<b>GBI-EM GD</b>		<b>4.29</b>	<b>1.70</b>	<b>2.59</b>	—	—
<b>Top 5 Performers</b>	Colombia	<b>10.1</b>	5.4	4.7	3.8	<b>38</b>
	Hungary	<b>8.9</b>	4.7	4.2	3.1	<b>27</b>
	Uruguay	<b>6.7</b>	3.7	2.9	0.2	<b>1</b>
	Thailand	<b>6.1</b>	1.0	5.2	10.0	<b>61</b>
	Chile	<b>6.1</b>	-0.5	6.6	2.2	<b>14</b>
<b>Bottom 5 Performers</b>	South Africa	<b>0.4</b>	2.8	-2.4	10.0	<b>4</b>
	Peru	<b>-1.1</b>	-0.3	-0.8	2.3	<b>-2</b>
	Dominican Republic	<b>-1.3</b>	-0.4	-0.9	0.1	<b>0</b>
	Turkey	<b>-3.2</b>	-2.7	-0.5	1.0	<b>-3</b>
	Egypt	<b>-20.6</b>	-3.2	-17.4	0.9	<b>-18</b>

Source: State Street Global Advisors, Bloomberg, JP Morgan, as of 31 January 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 average weight by total return.

**Colombia** was the best performer in January, partly driven by appreciation of the Colombian peso against the US dollar. The Central Bank of Colombia's decision to raise interest rates by 75 basis points (bps) in January, despite consensus expectations of a 100 bps hike, fueled speculation that the bank is at an advanced stage in the tightening cycle.

**Hungary** was also a strong performer. The Hungarian forint continued to maintain a strong footing against the US dollar amid improved demand and tourist revenues. Hungary's central bank retained the base rate at 13% as inflation is expected to peak in the coming months before gradually decelerating.

**Thailand** performed well in January as the economy continues to strengthen. Chinese reopening improved the prospect of a brighter economic outlook. Headline inflation in Thailand reached its lowest level (5.02%) since April 2022 and this is likely to ease further as the central bank is expected to continue raising interest rates.

**Egypt** underperformed in January as the country is in the grip of an economic crisis. Soaring inflation continued to persist and materially impacted prices of food, housing and medical services — the headline inflation rate hit 21.3% in December. The Egyptian pound further depreciated, falling to around 30.18 pounds against the US dollar.

**Turkey** underperformed in January against the backdrop of potential balance of payment issues. The country's current account deficit was in focus as a result of increased government spending ahead of the upcoming election in May. Valuations are beginning to factor in possible volatility as the elections near.

## Hard Currency Market Highlights

EM hard currency sovereign debt returned 3.17% in January 2023, as measured by the JP Morgan EMBI Global Diversified Index, largely driven by the Treasury (+2.70%) component. A rally in US Treasuries was observed as the Fed is expected to slow the pace of tightening, with terminal rate levels considered to be approaching.

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 (%)
<b>Total Return</b>	<b>3.17</b>	<b>11.36</b>	<b>3.17</b>
Spread Return	0.46	6.42	0.46
Treasury Return	2.70	4.65	2.70
IG Sub-Index	2.60	9.20	2.60
HY Sub-Index	3.76	13.64	3.76

Source: State Street Global Advisors, Bloomberg, JP Morgan as of 31 January 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\***

January 2023	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Index Weight (%)	Index Impact (bps)**
<b>EMBI Global Diversified</b>		<b>3.17</b>	<b>0.46</b>	<b>2.70</b>	—	—
<b>Top 5 Performers</b>	Argentina	23.4	20.9	2.1	1.4	33
	El Salvador	22.4	20.1	1.9	0.5	10
	Sri Lanka	14.7	13.7	0.9	0.6	9
	Zambia	12.3	11.7	0.6	0.2	3
	Pakistan	11.5	10.1	1.3	0.6	7
<b>Bottom 5 Performers</b>	Armenia	-0.1	-2.1	2.0	0.2	0
	Turkey	-0.4	-2.3	1.9	4.3	-2
	Bolivia	-3.4	-5.1	1.8	0.2	-1
	Tunisia	-3.9	-4.5	0.7	0.1	0
	Suriname	-5.1	-6.2	1.2	0.1	0

Source: State Street Global Advisors, Bloomberg, JP Morgan, as of 31 January 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 average weight by total return.

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**Argentina** was the best performer in January. The Argentine government announced its plan to buy back US\$1 billion in foreign debt, with the intention of improving the nation's external debt profile. The focus is on bonds maturing in 2029 and 2030. The markets reacted positively to this surprise news.

**El Salvador** produced positive returns in January. The nation's president announced the repayment of 2023 bonds. El Salvador's legislative assembly passed a bill that would allow the issue Bitcoin-backed government bonds, termed "Volcano Bonds". The bill is set to become law once signed by President Nayib Bukele.

**Sri Lanka** also performed well in January. A group of Sri Lanka's dollar bondholders formally wrote to the International Monetary Fund (IMF), expressing their intention to engage in debt restructuring talks. This would enable the country to improve its debt sustainability and gain access to international capital. Sri Lanka also benefited from an increase in tourist revenues in January.

**Suriname** was the worst-performing country in January. Fitch affirmed Suriname's Long-Term Foreign Currency IDR at 'RD', indicating that Suriname is not servicing its 2023 and 2026 USD notes. Fitch considers this to be a default event. Suriname agreed a deal with India for debt restructuring in January.

**Tunisia** underperformed as the country's probability of default increased amid a shortfall in government funding needs. An IMF program is yet to materialize despite an agreement in 2022. The long-term issuer rating of Tunisia's government was downgraded to Caa2 by Moody's.

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## Endnote

1 Source: JP Morgan.

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- Build from breadth
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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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