

Emerging Market Debt

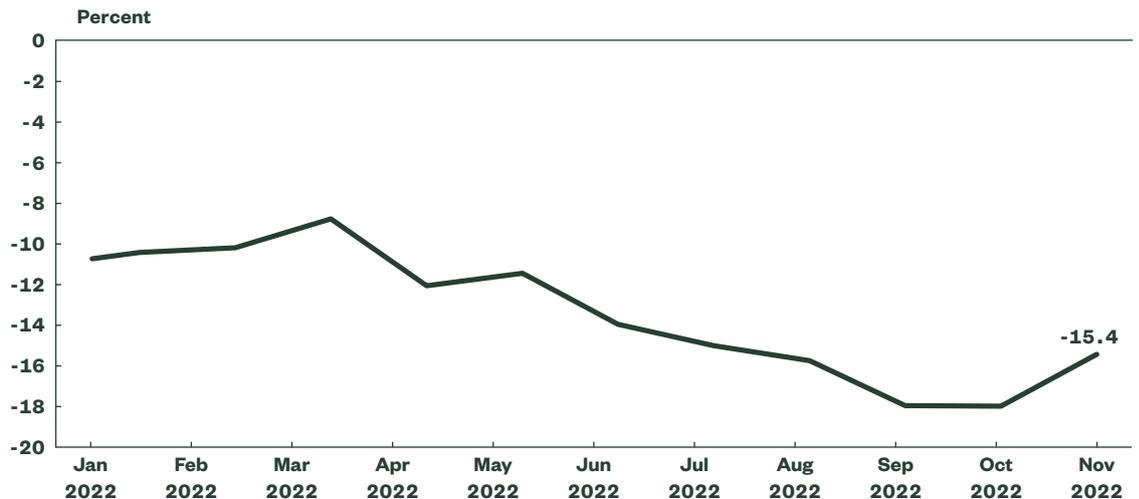
Market Commentary November 2022

Chart of the Month: Easing Dollar Strength Supports Recovery in EM Assets

Emerging market currencies regained some of the ground lost through 2022. This rebound was underpinned by improved macro sentiment as a result of recent US dollar weakness, lower inflation in the US, and consensus market expectations that the Federal Reserve will slow the pace of interest rate hikes.

Figure 1
EM FX Undervaluation
Improved in November

■ EM FX Valuation vs. USD (%)



Source: Bloomberg Finance L.P., JP Morgan, as of 30 November 2022. Past performance is not a reliable indicator of future performance. Composite valuation based on weights of the JPM GBI EM Global Diversified Index. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. Performance is calculated in USD. Estimate of fair value versus USD as of 30 November 2022 — valuations above 0% imply overvalued and below imply undervalued. This information should not be considered a recommendation to invest in a particular currency. It is not known whether EM currencies will be profitable in the future.

EMD Commentary — November 2022

The performance of emerging market debt in November reflected signs of investor optimism amid softer inflation data in the US, the anticipated reduction in the pace of Fed hikes, and rising prospects of China's economy reopening. The Chinese government is expected to announce some relaxation of its approach to combat COVID-19 to address mounting social frustrations. The weakening of the Omicron variant and the improvement in vaccination rates in China added to the optimism that the zero-COVID policy could be dropped.

The G20 summit in Bali, Indonesia, produced outcomes that were constructive for emerging markets, especially the meeting between US President Joe Biden and Chinese President Xi Jinping with an agreement reached on climate change cooperation. Despite the ongoing war, Russia and Ukraine announced an extension of the grain deal (on safe passage of Ukrainian vessels) for another 120 days from 19th November. The explicit condition on exports of Russian fertilizers was an important condition for the deal's extension.

The involvement of the International Monetary Fund (IMF) in frontier markets continued to be in focus. Elections in Turkey and Poland scheduled for 2023 have focused attention on rising spending and growth pressures. In Latin America (LatAm), markets are pricing in greater stability around interest rates, especially in Brazil and Chile. In Asia, central banks remain relatively hawkish in their approach to policy rate hikes, although a dovish pivot in the near term is increasingly expected.

During November 2022, hard currency net inflows were \$1.1bn, while local currency net outflows amounted to -\$2.5bn.¹

Figure 2
Emerging Market Debt Index Returns — As of 30 November 2022

| | 1m (%) | 3m (%) | 6m (%) | YTD (%) | 12m (%) | 3yrs (%) | 5yrs (%) |
|-------------------------------|--------|--------|--------|---------|---------|----------|----------|
| In USD | | | | | | | |
| GBI-EM GD (EM Local Currency) | 7.11 | 0.99 | -3.36 | -13.55 | -12.21 | -5.51 | -2.53 |
| EMBI GD (EM Hard Currency) | 7.59 | 0.90 | -3.56 | -18.05 | -16.90 | -4.75 | -1.23 |
| CEMBI BD (EM Corporates) | 5.29 | -0.82 | -2.67 | -13.59 | -13.25 | -1.93 | 0.83 |
| In EUR | | | | | | | |
| GBI-EM GD (EM Local Currency) | 2.81 | -1.37 | 0.55 | -4.52 | -4.03 | -3.33 | 0.37 |
| EMBI GD (EM Hard Currency) | 3.28 | -1.46 | 0.34 | -9.49 | -9.16 | -2.55 | 1.71 |
| CEMBI BD (EM Corporates) | 1.06 | -3.14 | 1.26 | -4.57 | -5.16 | 0.33 | 3.83 |
| In GBP | | | | | | | |
| GBI-EM GD (EM Local Currency) | 3.55 | -1.32 | 2.27 | -1.68 | -2.47 | -2.87 | 0.00 |
| EMBI GD (EM Hard Currency) | 4.02 | -1.41 | 2.07 | -6.80 | -7.69 | -2.09 | 1.33 |
| CEMBI BD (EM Corporates) | 1.79 | -3.09 | 3.00 | -1.73 | -3.62 | 0.81 | 3.45 |

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 November, 2022. 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 October 2022

| Item | Δ 1 Month | Δ 3 Months | Δ YTD | Current Level |
|--------------------|-----------|------------|---------|---------------|
| GBI-EM GD Yield | -57 bps | -3 bps | 115 bps | 6.86% |
| EMBI GD Yield | -115 bps | 14 bps | 321 bps | 8.51% |
| EMBI GD Spread | -74 bps | -33 bps | 100 bps | 468 bps |
| CEMBI BD Yield | -101 bps | 56 bps | 297 bps | 7.56% |
| CEMBI BD Spread | -57 bps | 13 bps | 72 bps | 384 bps |
| CDX.EM 5y | -70 bps | -101 bps | 38 bps | 226 bps |
| 10y UST | -44 bps | 41 bps | 210 bps | 3.61% |
| Dollar Index (DXY) | -5.00% | -2.53% | 10.75% | — |
| DOW 30 | 5.67% | 9.77% | -4.81% | 34,590 |
| Oil (WTI) | -6.91% | -10.05% | 7.10% | \$80.55 |

Source: JP Morgan, Bloomberg Finance L.P., as of 30 November, 2022. Past performance is not a guarantee of future results. Index returns reflect capital gains and losses, income, and the reinvestment of dividends.

Local Currency Market Highlights

EM local currency debt returned 7.11% in USD terms in November 2022, as measured by the JP Morgan GBI-EM Global Diversified Index. The major contribution was from FX returns (+3.78%), which was supported by the improved macro environment — this helped enable recovery, especially for the high beta EM currencies. Modest gains were also observed in EMEA and LatAm. The stabilization in yields, along with the Fed's expected reduction in the pace of rate hikes, contributed to the more constructive backdrop for EM debt.

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 \$) | 7.11 | 0.99 | -13.55 |
| FX Return (vs. \$) | 3.78 | -0.53 | -7.02 |
| Price Return (Local currency) | 2.87 | 0.15 | -11.22 |
| Interest Return (Local currency) | 0.45 | 1.37 | 4.68 |
| In EUR | | | |
| Total Return (in €) | 2.81 | -1.37 | -4.52 |
| FX Return (vs. €) | -0.51 | -2.89 | 2.01 |
| In GBP | | | |
| Total Return (in £) | 3.55 | -1.32 | -1.68 |
| FX Return (vs. £) | 0.23 | -2.84 | 4.85 |

Sources: State Street Global Advisors, Bloomberg, JP Morgan, as of 30 November, 2022. 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***

| November 2022 | Country | Total Return USD (%) | Bond Return (%) | FX Return (%) | Average Index Weight (%) | Index Impact (bps)** |
|----------------------------|--------------------|----------------------|-----------------|---------------|--------------------------|----------------------|
| GBI-EM GD | | 7.11 | 3.32 | 3.78 | — | — |
| Top 5 Performers | Hungary | 15.4 | 10.7 | 4.7 | 3.0 | 46 |
| | Poland | 12.5 | 7.0 | 5.5 | 7.1 | 89 |
| | Chile | 12.4 | 6.8 | 5.7 | 2.2 | 27 |
| | South Africa | 12.3 | 3.9 | 8.4 | 10.0 | 123 |
| | Czech Republic | 11.3 | 6.2 | 5.0 | 5.5 | 61 |
| Bottom 5 Performers | Philippines | 1.4 | -1.0 | 2.4 | 0.1 | 0 |
| | China | 1.2 | -0.9 | 2.2 | 10.0 | 12 |
| | Dominican Republic | 0.6 | 1.5 | -0.9 | 0.1 | 0 |
| | Egypt | 0.2 | 1.8 | -1.7 | 1.2 | 0 |
| | Brazil | -1.3 | -1.1 | -0.2 | 10.0 | -13 |

Source: State Street Global Advisors, Bloomberg, JP Morgan, as at 30 November, 2022. 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 average weight by total return.

Brazil underperformed in November amid concerns around the fiscal outlook. The incoming Lula administration has been in negotiations with Congress for a waiver from the spending cap to enable it to meet election campaign promises. The market is considered likely to remain sensitive to headline risks while negotiations are ongoing.

China underperformed in November amid a drop in exports and pressures on local government due to the zero-COVID policy. Manufacturing sector activity weakened in November according to the purchasing managers' index (PMI) reading of 49.4 in — PMI readings below 50 are indicative of contracting activity. China's broad fiscal deficit hit 6.66 trillion yuan for the first time in 2022.

Philippines underperformed in November as Bangko Sentral ng Pilipinas (BSP) increased policy rates by 75bps to 5.00%. Inflation pressures continue to persist (with the latest annual inflation rate standing at 7.7%), driven by rising electricity, LPG and agricultural prices. The central bank is expected to deliver another 50bps hike in December.

Hungary was one of the best performers. The Hungarian forint appreciated against the US dollar despite the European Commission recommending the freezing of €7.5 billion of EU funds due to the country unless it followed through with rule-of-law reforms. Also, the yields dropped after the government ruled that commercial banks cannot pay an interest rate higher than the three-month discount bill yield on deposits.

Poland performed well in November as the annual inflation rate fell for the first time since February to 17.4%, down from 17.9% in October, an outcome better than the consensus forecast. The Polish government introduced cuts on VAT for food and fuel in an effort to combat price rises. The 10-year government bond yield fell to 6.4% by the end of the month.

Hard Currency Market Highlights

EM hard currency (HC) sovereign debt delivered a return of 7.59% in November 2022, as measured by the JP Morgan EMBI Global Diversified Index. The spread tightening (-74 bps), coupled with the fall in 10-year US Treasury yields (-44 bps) were major contributing factors. Inflation risk premia and policy rate normalization generated investor interest in the EM hard currency markets, as reflected by the inflows in November.

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 | 7.59 | 0.90 | -18.05 |
| Spread Return | 4.40 | 3.29 | -5.77 |
| Treasury Return | 3.06 | -2.31 | -13.03 |
| IG Sub-Index | 6.28 | -1.64 | -19.87 |
| HY Sub-Index | 8.96 | 3.62 | -16.11 |

Source: State Street Global Advisors, Bloomberg, JP Morgan as of 30 November, 2022. 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***

| November 2022 | Country | Total Return (%) | Spread Return (%) | Treasury Return (%) | Index Weight (%) | Index Impact (bps)** |
|--------------------------------|-----------|------------------|-------------------|---------------------|------------------|----------------------|
| EMBI Global Diversified | | 7.59 | 4.40 | 3.06 | — | — |
| Top 5 Performers | Sri Lanka | 37.1 | 35.8 | 1.0 | 0.6 | 22 |
| | Ukraine | 31.9 | 29.5 | 1.9 | 0.7 | 22 |
| | Venezuela | 30.7 | 30.2 | 0.4 | 0.0 | 0 |
| | Pakistan | 24.7 | 22.9 | 1.5 | 0.6 | 15 |
| | Zambia | 22.4 | 21.8 | 0.5 | 0.2 | 5 |
| Bottom 5 Performers | Rwanda | 0.6 | -2.3 | 2.9 | 0.1 | 0 |
| | Croatia | 0.5 | 0.2 | 0.3 | 0.3 | 0 |
| | Suriname | -0.2 | -1.7 | 1.5 | 0.1 | 0 |
| | Bolivia | -0.5 | -2.5 | 2.1 | 0.3 | 0 |
| | Lebanon | -1.7 | -2.0 | 0.4 | 0.1 | 0 |

Source: State Street Global Advisors, Bloomberg, JP Morgan as of 30 November, 2022. 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 average weight by total return.

Lebanon was the worst-performing country in November. The Lebanese pound depreciated against the US dollar and the central bank is in the process of unifying exchange rates. The bank halted dollar purchases on its Sayrafa platform and consensus market expectations are that the Lebanese pound could hit new lows.

Bolivia underperformed in November amid ongoing nationwide strikes and blockades. Protesters are demanding an earlier census to be taken than the government's planned timeline of mid-2024. The current turbulence resulted in growth forecast downgrades and the agricultural sector has been among the hardest hit areas of the economy.

Sri Lanka was the top performer. The country's US dollar bonds hit a two-month high on the back on fiscal reforms and rising hopes of securing an IMF bailout. The government's budget plan to implement tax increases and reduce fiscal deficits contributed to positive investor sentiment.

Ukraine was also a strong performer as the war continued. Global bond market sentiment remained stable, despite significant damage to Ukrainian infrastructure. Hard currency supply persisted in the interbank market as the Ministry of Finance sold foreign exchange holdings.

Pakistan produced positive returns in November. Against market expectations (as depicted by the credit default swap (CDS) market), the Finance Minister stated that Pakistan would meet the debt obligation due in the first week of December. Late in November, the governor of the central bank confirmed the repayment would be made three days ahead of schedule, boosting market sentiment.

Endnote

1 Source: JP Morgan.

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

[†] This figure is presented as of September 30, 2022 and includes approximately \$55.12 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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