

Emerging Market Debt

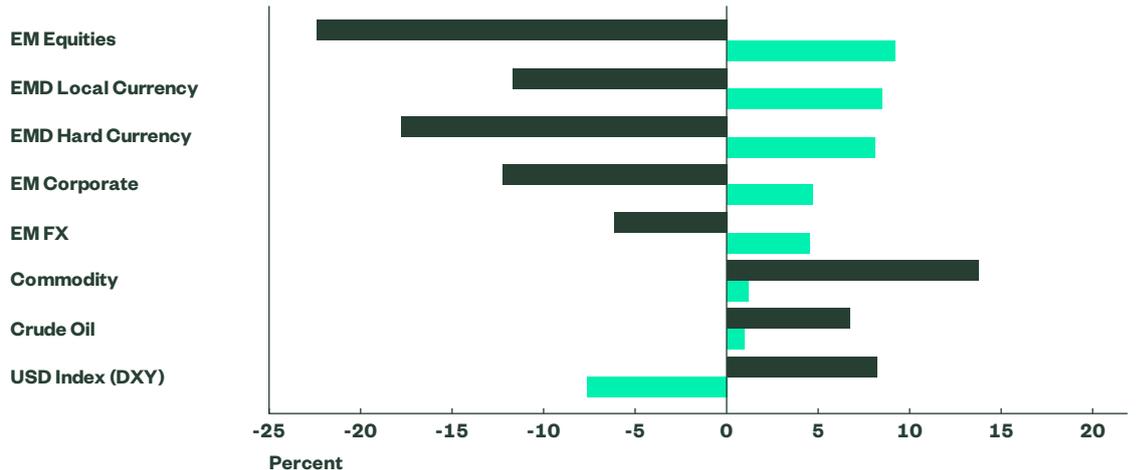
Market Commentary Q4 2022

Chart of the Quarter: EM Assets Rebound

In a year of significant negative returns, EM assets rebounded during the final quarter of 2022 amid an improving macroeconomic backdrop and more favourable investor sentiment going into the new year.

Figure 1
EM Asset Performance
in 2022

■ 2022
■ Q4 2022



Source: Bloomberg Finance LP as of 31 December 2022. Past performance is not a reliable indicator of future performance. Returns are in USD unless otherwise stated. Index returns reflect capital gains and losses, income and the reinvestment of dividends. EM Equities = MSCI Emerging Markets Index (USD); EMD Local Currency = J.P. Morgan GBI-EM Global Diversified Composite Unhedged (USD); EMD Hard Currency = J.P. Morgan EMBI Global Diversified Composite (USD); EM Corporates = J.P. Morgan Corporate EMBI Broad Diversified Composite (USD); EM FX = J.P. Morgan GBI-EM Global Diversified FX return (USD); Commodities = Bloomberg Commodities Index (USD); Crude Oil = Generic 1st 'CL' Future (USD); US Dollar (DXY) = US Dollar Index Spot (USD).

EMD Commentary — Q4 2022

Emerging market debt in the final quarter of 2022 delivered overall positive returns, with momentum fueled by improved investor sentiment. This was evident in EM credit and local currency markets, where positive performance was achieved in November and December. The accelerated pace of COVID policy relaxation in China, alongside easing US dollar strength, and the squaring of bear market positions contributed significantly. There was also a growing consensus that global inflation may have peaked and expectations grew that the pace of US Federal Reserve rate hikes would slow, providing additional tailwinds for EM performance during the fourth quarter.

China's shifting away from its zero COVID policy and political developments in Latin America (LatAm) continued to be pivotal factors for investors considering allocations in EM portfolios. During Q4, Asian central banks generally remained relatively hawkish in their approach to policy rate hikes, especially in the Philippines and Taiwan. At the end of 2022, most central banks in Europe, Middle East, Africa (EMEA) and in LatAm were considered to be in the advanced stages of their monetary tightening cycles. The EM economies producing commodities are also viewed as likely to benefit from stronger global demand for commodities in the aftermath of Chinese reopening.

Over the course of the fourth quarter, net flows were negative for both EM hard currency and local currency funds, amounting to $-\$6.4\text{bn}$ and $-\$9.9\text{bn}$, respectively. Over 2022, net flows pertaining to hard and local currency funds were $-\$44.3\text{bn}$ and $-\$45\text{bn}$, respectively.¹

Figure 2
**Emerging Market Debt
Index Returns — As of 31
December, 2022**

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	2.16	8.45	3.33	-11.69	-11.69	-6.11	-2.51
EMBI GD (EM Hard Currency)	0.33	8.11	3.17	-17.78	-17.78	-5.28	-1.31
CEMBI BD (EM Corporates)	1.54	4.72	1.95	-12.26	-12.26	-1.75	1.08
In EUR							
GBI-EM GD (EM Local Currency)	-1.44	-0.45	1.22	-5.90	-5.90	-4.52	-0.18
EMBI GD (EM Hard Currency)	-3.21	-0.77	1.06	-12.39	-12.39	-3.67	1.04
CEMBI BD (EM Corporates)	-2.04	-3.88	-0.13	-6.51	-6.51	-0.08	3.49
In GBP							
GBI-EM GD (EM Local Currency)	1.14	0.65	4.32	-0.56	-0.56	-3.04	-0.19
EMBI GD (EM Hard Currency)	-0.67	0.32	4.16	-7.42	-7.42	-2.18	1.03
CEMBI BD (EM Corporates)	0.53	-2.82	2.93	-1.21	-1.21	1.46	3.48

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 December, 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 December, 2022**

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	0 bps	-46 bps	114 bps	6.86%
EMBI GD Yield	5 bps	-102 bps	326 bps	8.56%
EMBI GD Spread	-16 bps	-107 bps	84 bps	453 bps
CEMBI BD Yield	-16 bps	-55 bps	281 bps	7.39%
CEMBI BD Spread	-8 bps	-29 bps	64 bps	376 bps
CDX.EM 5y	12 bps	-92 bps	50 bps	239 bps
10y UST	27 bps	5 bps	236 bps	3.87%
Dollar Index (DXY)	-2.29%	-7.67%	8.21%	—
DOW 30	-4.17%	15.39%	-8.78%	33147
Oil (WTI)	-0.36%	0.97%	6.71%	\$ 80.26

Source: JP Morgan, Bloomberg Finance LP as of 31 December, 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 8.45% in USD terms in Q4 2022, as measured by the JP Morgan GBI-EM Global Diversified Index. The major contribution came from foreign exchange (FX) returns (+4.69%), as high beta EM currencies gained amid US dollar depreciation in the quarter. The decrease in local bond yields and stabilization in rate-hiking cycles of most of EM central banks (with expected terminal rates being approached) contributed significantly to positive bond returns (+3.76%).

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 \$)	2.16	8.45	-11.69
FX Return (vs. \$)	1.47	4.69	-5.84
Price Return (Local currency)	0.24	2.41	-11.01
Interest Return (Local currency)	0.45	1.35	5.16
In EUR			
Total Return (in €)	-1.44	-0.45	-5.90
FX Return (vs. €)	-2.13	-4.21	-0.05
In GBP			
Total Return (in £)	1.14	0.65	-0.56
FX Return (vs. £)	0.45	-3.11	5.29

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

Q4 2022	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Average Index Weight (%)	Index Impact (bps)**
GBI-EM GD		8.45	3.76	4.69	—	—
Top 5 Performers	Chile	25.2	11.3	13.9	2.2	56
	Hungary	21.3	5.4	15.9	3.1	65
	Poland	16.6	3.6	13.1	7.1	118
	Romania	14.2	4.8	9.4	3.4	48
	Czech Republic	14.0	2.9	11.1	5.6	78
Bottom 5 Performers	China	2.3	0.2	2.0	10.0	23
	Indonesia	1.8	4.0	-2.3	10.0	18
	Dominican Republic	-3.5	1.5	-5.0	0.1	0
	Colombia	-5.0	0.3	-5.3	3.6	-18
	Egypt	-20.6	0.6	-21.2	1.2	-24

Source: State Street Global Advisors, Bloomberg, JP Morgan as at 31 December, 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.

Egypt underperformed in Q4 amid elevated inflationary pressures that took the annual rate to 18.70% and a high current account deficit. In December, the IMF Executive Board approved a 46-month arrangement under the Extended Fund Facility (EFF) for Egypt in an amount of about US\$3 billion. The Egyptian pound continued to depreciate, falling to 24.70 pounds against the US dollar.

Colombia underperformed in Q4 amid high inflation and weaker employment statistics. The currency weakened further in the latest quarter to take the full-year decline versus the US dollar to around 16%. To combat the continued uptrend in inflation, the Central Bank of Colombia raised the interest rate by 100 bps to 12.0% in December.

Chile was the best performer in the quarter. The Chilean peso gained against the dollar as the central bank extended its FX intervention program to June 2023. Having raised interest rates by 50bps in October to 11.25%, the central bank's meeting in December resulted in the reference rate being kept unchanged. The policymakers unanimously agreed to maintain the rate until economic conditions warrant an intervention.

Hungary was also a strong performer. The Hungarian forint appreciated against the US dollar as the central bank pledged to maintain tight monetary conditions and continue to meet FX liquidity requirements. The Hungarian inflation rate is expected to decline as a result of recovering production chains, falling food prices and lower transaction costs.

Poland performed well in Q4 as the 10-year Government bond yield increased by 73bps. The central bank paused its tightening cycle, which is expected to end in 2023, with the inflation rate expected to fall by the second quarter. The Polish government introduced cuts on VAT for food and fuel in an effort to combat price rises.

Hard Currency Market Highlights

EM hard currency (HC) sovereign debt delivered a return of 8.11% in Q4 2022, as measured by the JP Morgan EMBI Global Diversified Index. The spread return (+7.56%) contributed significantly, with spreads tightening by 107 bps during the quarter, a trend predominantly observed in the LatAm regions. The expectations for slower-paced Fed rate hikes, coupled with China's relaxation of its zero COVID policy, added to the positive momentum, creating opportunities in the hard currency space.

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	0.33	8.11	-17.78
Spread Return	1.47	7.56	-4.39
Treasury Return	-1.13	0.51	-14.01
IG Sub-Index	0.15	5.19	-19.76
HY Sub-Index	0.51	11.24	-15.68

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

Q4 2022	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Index Weight (%)	Index Impact (bps)**
EMBI Global Diversified		8.11	7.56	0.51	—	—
Top 5 Performers	Ecuador	39.3	38.0	0.9	1.4	54
	Argentina	37.6	36.3	1.0	1.2	46
	Ethiopia	26.8	25.8	0.8	0.1	3
	El Salvador	24.9	24.0	0.8	0.4	10
	Gabon	22.8	21.7	0.9	0.4	8
Bottom 5 Performers	Maldives	-0.1	-1.2	1.1	0.1	0
	Lebanon	-2.6	-3.3	0.8	0.1	0
	Ghana	-5.8	-6.5	0.8	0.8	-5
	Zambia	-6.7	-7.3	0.5	0.2	-1
	Suriname	-11.1	-12.1	1.2	0.1	-1

Source: State Street Global Advisors, Bloomberg, JP Morgan as of 31 December, 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.

Suriname was the worst-performing country in the quarter. The spreads continued to widen as the indebted country negotiates with the International Monetary Fund (IMF) for a solution to its debt problems. In December, S&P affirmed the selective default (SD) Foreign Currency LT credit rating for Suriname foreign currency bonds.

Zambia underperformed as the country attempts to overhaul the existing debt burden. Investor sentiment weakened against the backdrop of low expected recovery rates of 45% (although recovery rates subsequently hit 49%). Zambia continues to renegotiate its debt restructuring with China, a process being mediated by the IMF.

Ghana underperformed in Q4 as bond prices fell following the country's decision to suspend payments on \$13 billion of Eurobonds, commercial loans, and most bilateral obligations pending an agreement with creditors. Ghana secured a staff-level agreement with the IMF in December for a \$3 billion three-year Extended Credit Facility.

Ecuador was the best performer in Q4. Ecuador has completely financed its budget for 2023 and is not looking for a new credit agreement with the IMF. The country's bonds rallied after the government announced its planned bond buyback, which is to be financed through the issuance of a guaranteed Blue Bond.

Argentina produced positive returns for the latest quarter. The IMF reviewed the country's credit line and approved a disbursement of US\$6 billion in fresh funds as the economy showed signs of slowing. Argentina's agreement with the IMF is expected to help control the country's chronic inflation, which saw prices rise 85.3% in the first 11 months of 2022.

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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