Emerging Market Debt Market Commentary

July 2021

Emerging market debt (in USD terms) recorded modest moves in July as worries related to regulatory crackdown in China and a recent surge in infections from the Delta variant of coronavirus were balanced by reduced expectations of the US Federal Reserve (Fed) going ahead with an earlier and more aggressive normalization of monetary policy. Spread widening in EM hard currency (HC) markets was offset by the rally in treasury yields as investors continued to look through the sharp uptick in realized inflation, considering it to be a transitory rise. EM currencies underperformed, particularly so in the Latin American (LatAm) region amid political uncertainty in some countries. Even as flows slowed down in the week of the Federal Open Market Committee (FOMC) meeting, July experienced overall positive flows of +$1.9bn and +$1.8bn into hard currency and local currency, respectively (Source for flows: Morgan Stanley).

Figure 1 - Emerging Market Debt Index Returns – As of 31 July, 2021

	1m	3m	6m	YTD	12m	3yrs	5yrs
In USD							
GBI-EM GD (EM Local Currency)	-0.43%	0.82%	-2.75%	-3.79%	3.00%	3.32%	3.03%
EMBI GD (EM Hard Currency)	0.42%	2.23%	0.84%	-0.25%	4.11%	5.96%	4.57%
CEMBI BD (EM Corporates)	0.22%	1.71%	1.56%	1.50%	6.44%	7.07%	5.51%
In EUR							
GBI-EM GD (EM Local Currency)	-0.42%	2.35%	-0.36%	-0.73%	2.72%	2.86%	1.83%
EMBI GD (EM Hard Currency)	0.43%	3.78%	3.32%	2.93%	3.82%	5.49%	3.35%
CEMBI BD (EM Corporates)	0.23%	3.25%	4.06%	4.73%	6.14%	6.59%	4.28%
In GBP							
GBI-EM GD (EM Local Currency)	-1.06%	0.40%	-3.95%	-5.41%	-2.77%	1.34%	2.09%
EMBI GD (EM Hard Currency)	-0.23%	1.80%	-0.40%	-1.93%	-1.72%	3.93%	3.61%
CEMBI BD (EM Corporates)	-0.42%	1.28%	0.31%	-0.21%	0.48%	5.01%	4.54%

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 July, 2021. 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 2: Key EM and Macro levels as of 31 July, 2021

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-7 bps	-2 bps	70 bps	4.92%
EMBI GD Yield	-3 bps	-17 bps	33 bps	4.88%
EMBI GD Spread	16 bps	16 bps	4 bps	356 bps
CEMBI BD Yield	1 bps	-11 bps	23 bps	4.27%
CEMBI BD Spread	14 bps	17 bps	-5 bps	317 bps
CDX.EM 5y	9 bps	13 bps	13 bps	164 bps
10y UST	-25 bps	-40 bps	31 bps	1.22%
Dollar Index (DXY)	-0.28%	0.98%	2.49%	
DOW 30	1.25%	3.13%	14.14%	34,935
Oil (WTI)	0.65%	16.31%	52.41%	$ 73.95

Source: JP Morgan, Bloomberg as of 31 July, 2021

Local Currency Market Highlights

Figure 3 - 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 $)	**-0.43%**	**0.82%**	**-3.79%**
FX Return (vs $)	-1.17%	-0.60%	-2.75%
Price Return (Local currency)	0.31%	0.15%	-3.98%
Interest Return (Local currency)	0.44%	1.26%	2.94%
In EUR			
Total Return (in €)	**-0.42%**	**2.35%**	**-0.73%**
FX Return (vs €)	-1.16%	0.93%	0.31%
In GBP			
Total Return (in €)	**-1.06%**	**0.40%**	**-5.41%**
FX Return (vs €)	-1.81%	-1.02%	-4.37%

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 July, 2021. 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.

EM local currency (LC) debt returned -0.43% in US dollar terms in July, as measured by the JP Morgan GBI-EM Global Diversified Index. Higher beta foreign exchange (FX) baskets and regions suffered amid concerns about loss of momentum in growth data from China and the US, as well as the impact of the Delta variant on economic activity, given that EM countries continue to lag in vaccination efforts. Differentiation in monetary policy remains a feature within the EM universe, with central banks in countries such as China responding to decelerating economic activity with cuts to reserve requirement ratios (RRR), while those in Brazil, Mexico and Chile are among those already embarking on the process of normalizing monetary policy.

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

July 2021	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight	Index Impact (bps)**
GBI-EM GD		**-0.43**	**0.74**	**-1.17**		
Top 5 Performers	Turkey	5.5	2.3	3.2	2.0%	11
	Indonesia	2.1	1.9	0.3	9.7%	21
	China	1.7	1.6	0.1	10.0%	17
	Russia	1.5	1.7	-0.1	7.4%	12
	Dominican Republic	1.5	1.5	0.0	0.1%	0
Bottom 5 Performers	Colombia	-2.5	0.9	-3.4	4.4%	-11
	Philippines	-2.6	-0.3	-2.3	0.1%	0
	Chile	-3.0	1.1	-4.1	2.2%	-7
	Brazil	-3.3	-0.9	-2.5	8.3%	-28
	Peru	-10.4	-5.3	-5.1	2.0%	-21

Source: State Street Global Advisors, JP Morgan as at 31 July, 2021. 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.

Peru was the worst performer, returning -10.4% over the month. Peruvian assets have experienced capital outflows as newly-elected President Pedro Castillo reaffirmed his agenda of deep structural changes and a rewrite of the constitution, raising concerns about the potentially significant risks for Peru's economic fundamentals. This has increased downgrade risks from rating agencies from a governance perspective, and recent FX market interventions from the central bank have not been enough to prevent currency depreciation.

Brazil performed poorly (-3.3%) and was the biggest detractor from index returns (-28 bps). The Brazilian real sold off early in the month in the wake of corruption allegations against the government related to vaccine procurement, before partially recovering as the country's growth and inflation data surprised to the upside,. This prompted market participants to price in additional central bank rate hikes.

Chile generated returns of -3.0% in July. The Central Bank of Chile's July statement was less hawkish than expected, disappointing the markets and driving currency weakness. Other concerns related to Chile's drafting process of a new constitution, which investors fear could introduce radical changes to market policy.

Colombia underperformed in returning -2.5%, led by the peso selling off on fears of renewed civil unrest, which started over discontent with the new $3.95bn tax reform bill. The government has been struggling with a growing net public debt and weak fiscal management – leading to Fitch downgrading its local currency debt to BB+ from BBB- on 1 July.

Turkey was the best performer, returning 5.5%. Turkish assets rebounded from their steep decline of earlier in the year as the central bank left interest rates unchanged, despite speculation it would cut rates even as inflation accelerated. Although the central bank governor shares President Erdogan's view that "rate hikes fuel inflation", he reiterated his pledge to maintain tight monetary policy and keep the benchmark interest rate above inflation until indicators point to a more permanent decline in inflation.

Indonesia performed well, mostly from its rates component, while its FX component was flat. The country's central bank governor described its policies as being pro-growth for 2021, pushing back against expectations of near-term policy normalization. Market participants expect the central bank to leave its policy rate unchanged at 3.50% through the rest of this year and the first half of 2022.

China returned 1.7%, driven by the interest rate component. Ongoing developments in China's equity markets had a negligible impact on the FX, and bonds have been supported by 'safe haven' demand. The People's Bank of China announced a 50bps blanket RRR cut effective July 15, which boosted expectations of further cuts to come in Q4 given the softer consumption and services data in recent months.

Hard Currency Market Highlights

Figure 5 - 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	**0.42%**	**2.23%**	**-0.25%**
Spread Return	-1.14%	-0.78%	1.38%
Treasury Return	1.57%	3.03%	-1.60%
IG Sub-Index	0.48%	2.59%	-1.98%
HY Sub-Index	0.35%	1.82%	1.77%

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 July, 2021. 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.

EM hard currency sovereign debt generated a return of 0.42% in July, as measured by the JP Morgan EMBI Global Diversified Index. Spreads widened by 16 bps over the month, in line with other risk asset classes, but the strong rally in underlying rates led to positive total returns. The degree of intra-EM volatility remained prominent, with political and idiosyncratic developments dominating relative price action and investor attention.

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

July 2021	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Index Weight	Index Impact (bps)**
EMBI Global Diversified		**0.42**	**-1.14**	**1.57**		
Top 5 Performers	Argentina	3.1	1.7	1.4	1.2%	4
	Zambia	2.5	2.2	0.3	0.2%	1
	Venezuela	2.5	2.4	0.0	0.0%	0
	Belarus	2.3	1.5	0.8	0.5%	1
	Cote D'Ivoire	2.0	0.6	1.4	0.4%	1
Bottom 5 Performers	Sri Lanka	-1.8	-2.4	0.6	1.1%	-2
	Ethiopia	-2.8	-3.2	0.4	0.1%	0
	El Salvador	-2.9	-4.4	1.5	0.8%	-2
	Lebanon	-4.6	-4.6	0.1	0.2%	-1
	Tunisia	-8.3	-8.7	0.5	0.1%	-1

Source: State Street Global Advisors, JP Morgan as at 31 July, 2021. 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.

The International Monetary Fund's (IMF) package of $212 billion of reserve assets is expected to be approved shortly and this has raised market expectations that it would boost reserves of vulnerable countries such as **Argentina** and **Zambia**, providing additional support to high-yield and frontier EM countries in the second half of 2021.

Belarus recorded a good performance of 2.3% over the month. Even as the European Union imposed wide-ranging sanctions on Belarus last month, its finance ministry sees little impact from sanctions on its ability to service its external debt obligations.

Tunisian bonds performed poorly as investors became risk-averse on the back of President Said's decision to activate Article 80 of the constitution, dismissing the prime minister, suspending the parliament and imposing a curfew.

Lebanon bond spreads widened as it faces another crisis in the form of suspected embezzlement and money laundering linked to the central bank governor Riad Salameh.

El Salvador bonds sold off over the month, with Moody's downgrading its foreign-currency issuer rating to Caa1 from B3 and maintaining a negative outlook, citing deterioration in the quality of policymaking and increased uncertainty about financing prospects.

Important Risk Information:

For institutional/professional investors use only.

https://www.ssga.com/uk/en_gb/institutional/ic/footer/state-street-global-advisors-worldwide-entities

Web: www.ssga.com

The information provided does not constitute investment advice as such term is defined under the Markets in Financial Instruments Directive (2014/65/EU) and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell any investment. It does not take into account any investor's or potential investor's particular investment objectives, strategies, tax status, risk appetite or investment horizon. If you require investment advice you should consult your tax and financial or other professional advisor.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication is directed at professional clients (this includes eligible counterparties as defined by the Appropriate Regulator) who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description (including retail clients) should not rely on this communication.

Past performance is no guarantee of future results. Investing involves risk including the risk of loss of principal.

Index returns reflect capital gains and losses, income, and the reinvestment of dividends.

Diversification does not ensure a profit or guarantee against loss. It is not possible to invest directly in an index. Index performance does not reflect charges and expenses associated with the fund or brokerage commissions associated with buying and selling a fund. Index performance is not meant to represent that of any particular fund.

Investing involves risk including the risk of loss of principal. Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond values and yields usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. International Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. Investing in high yield fixed income securities, otherwise known as junk bonds, is considered speculative and involves greater risk of loss of principal and interest than investing in investment grade fixed income securities. These Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Increase in real interest rates can cause the price of inflation-protected debt securities to decrease. Interest payments on inflation-protected debt securities can be unpredictable.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Currency Risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

This document may contain certain statements deemed to be forward-looking statements. All statements, other than historical facts, contained within this document that address activities, events or developments that SSGA expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by SSGA in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances, many of which are detailed herein. Such statements are subject to a number of assumptions, risks, uncertainties, many of which are beyond SSGA's control. Please note that any such statements are not guarantees of any future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

All information contained in this document reflects index information only, and does not represent the actual ETF product.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

The views expressed in this material are the views of the EMEA Fixed Income Specialists of SSGA's Global Fixed Income Group through the period ended 31 July 2021 and are subject to change based on market and other conditions.

3437638.8.1.GBL.INST

Expiry date 31 August 2022