Emerging Market Debt Market Commentary

April 2021

Emerging market debt (in USD terms) experienced a good April, supported by a partial retracement in cross-market volatility, improvement in EM currencies' carry-to-vol ratios, and stabilization in US rates. COVID-19 remains a pertinent concern for EM amid increasing divergence between EM and DM in terms of COVID cases – a number of EM countries are struggling to contain new waves of infection, most notably in South East Asia and parts of Latin America (LatAm). Against the backdrop of a strong global growth recovery and highly accommodative policies ensuring liquidity, it seems likely that political and country-specific developments will continue to drive differentiation within the EM universe. However, overall the current environment seems favourable for a gradual compression of risk premia across EM assets, particularly higher-yielding EM FX appreciation, especially given this segment's recent underperformance. Overall positive flows of +$3.3bn and +$1.0bn into hard currency and local currency, respectively, were recorded in April. (Source for flows data: Morgan Stanley).

Figure 1 - Emerging Market Debt Index Returns – As of 30 April, 2021

	1m	3m	6m	YTD	12m	3yrs	5yrs
In USD							
GBI-EM GD (EM Local Currency)	2.26%	-3.54%	4.17%	-4.57%	11.22%	0.96%	3.02%
EMBI GD (EM Hard Currency)	2.22%	-1.35%	3.26%	-2.42%	15.97%	5.32%	5.14%
CEMBI BD (EM Corporates)	0.60%	-0.14%	3.95%	-0.21%	14.33%	6.58%	5.90%
In EUR							
GBI-EM GD (EM Local Currency)	-0.16%	-2.65%	0.80%	-3.00%	1.20%	1.08%	2.00%
EMBI GD (EM Hard Currency)	-0.20%	-0.44%	-0.08%	-0.82%	5.52%	5.45%	4.10%
CEMBI BD (EM Corporates)	-1.78%	0.78%	0.59%	1.43%	4.03%	6.71%	4.85%
In GBP							
GBI-EM GD (EM Local Currency)	1.90%	-4.33%	-2.72%	-5.78%	1.33%	0.78%	4.18%
EMBI GD (EM Hard Currency)	1.86%	-2.16%	-3.56%	-3.66%	5.65%	5.14%	6.34%
CEMBI BD (EM Corporates)	0.25%	-0.96%	-2.92%	-1.48%	4.16%	6.39%	7.10%

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 April, 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 30 April, 2021

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-6 bps	67 bps	72 bps	4.94%
EMBI GD Yield	-23 bps	33 bps	50 bps	5.05%
EMBI GD Spread	-15 bps	-13 bps	-12 bps	339 bps
CEMBI BD Yield	-10 bps	24 bps	34 bps	4.38%
CEMBI BD Spread	0 bps	-17 bps	-21 bps	301 bps
CDX.EM 5y	-19 bps	16 bps	16 bps	167 bps
10y UST	-11 bps	56 bps	71 bps	1.63%
Dollar Index (DXY)	-2.09%	0.77%	1.49%	
DOW 30	2.71%	12.98%	10.68%	33,875
Oil (WTI)	7.47%	21.80%	31.04%	$ 63.58

Source: JP Morgan, Bloomberg as of 30 April, 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 $)	**2.26%**	**-3.54%**	**-4.57%**
FX Return (vs $)	1.52%	-1.15%	-2.10%
Price Return (Local currency)	0.32%	-3.66%	-4.13%
Interest Return (Local currency)	0.42%	1.27%	1.66%
In EUR			
Total Return (in €)	**-0.16%**	**-2.65%**	**-3.00%**
FX Return (vs €)	-0.90%	-0.26%	-0.53%
In GBP			
Total Return (in €)	**1.90%**	**-4.33%**	**-5.78%**
FX Return (vs €)	1.16%	-1.94%	-3.31%

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 April, 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 debt returned +2.26% in US dollar terms in April, as measured by the JP Morgan GBI-EM Global Diversified Index. Broad USD weakness in April has led to EM gains across FX baskets and regions, with low yielding and low beta currencies in Asia and the Central and Eastern Europe (CEE) region gradually catching up to the broad market move. Recent stability in core rates has been supported by conviction around the US Federal Reserve's commitment to stay on hold, which has aided local currency bond returns.

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

April 2021	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight	Index Impact (bps)**
GBI-EM GD		**2.26**	**0.73**	**1.52**		
Top 5 Performers	Brazil	5.2	1.1	4.1	8.4%	43
	Czech Republic	4.5	1.0	3.5	4.3%	19
	Hungary	3.9	0.9	3.0	4.0%	16
	Poland	3.9	-0.3	4.1	8.2%	32
	South Africa	3.8	2.0	1.8	7.8%	30
Bottom 5 Performers	Thailand	1.2	0.9	0.2	8.7%	10
	Chile	-0.5	-1.1	0.6	2.4%	-1
	Colombia	-1.0	0.8	-1.8	4.7%	-5
	Philippines	-1.2	-2.0	0.8	0.1%	0
	Peru	-3.4	-2.7	-0.7	2.3%	-8

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

Brazil was the best performer (+5.2%) and the biggest contributor to index returns (43 bps) in April, bouncing back from recent months of underperformance. The Brazil government reached a deal with the Congress on the 2021 budget, reducing uncertainty – fiscal support is to continue, but at more modest pace. Market participants continue to expect the Central Bank of Brazil to increase its Selic interest rate by another 75bps at its May meeting to 3.50%, something that has been signaled by the bank's board.

The CEE countries of **Czech Republic, Hungary** and **Poland** all performed well, in total contributing 67 bps to index returns. Their currencies have benefited from a rebound in EUR/USD during April, which was driven by multiple factors, including negative USD seasonality, the progress of the EU vaccination program, and a small but meaningful shift in interest rate differentials between euro core yields and US Treasuries. The CEE countries are slowly coming out of lockdowns, with some CEE central banks closer to tightening than others. Market participants expect the Czech Republic to begin monetary policy normalization from September, given its stronger macro backdrop, while Hungary's central bank has become increasingly more hawkish with CPI risks being skewed to the upside. Poland's negative output gap may delay any potential interest rate hikes until 2022.

South Africa was a strong performer in April, returning 3.8%. Even though the country's poor fiscal metrics and structural issues persist, the intent of authorities to pursue a fiscal consolidation plan that relies on further revenue windfalls, as well as some reversal of what was a recent overreaction in the front end of South African curve, contributed to strong returns for the month.

Peru generated a return of -3.4% for the month. Peru assets have remained volatile amid political risks, even though the worst-case scenario of a second round run-off between two market-unfriendly candidates was avoided. However, continued strong support for Pedro Castillo, who proposes a radical shift in policies that could result in a significant deterioration in Peru's fundamentals, has increased the risk of ratings agencies downgrades from a governance perspective.

Philippines delivered a return of -1.2%. Bonds sold off as CPI inflation has averaged 4.5%, above the upper bound of the central bank's 2-4% target range, for four consecutive months. COVID cases have remained elevated, and vaccine progress has been slow; this contributed to markets pricing in a higher risk premium on the country's debt.

Colombia underperformed its peers, returning -1.0% as the government withdrew its tax reform bill from Congress amid severe social protests, which raised concerns about President Duque's dwindling political capital, and increased the degree of fiscal uncertainty. The key points of contention with the bill were the elimination of VAT exemptions, which is expected to increase the price of goods and services across the board, and the lowering of the threshold at which individuals start paying personal income tax.

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	**2.22%**	**-1.35%**	**-2.42%**
Spread Return	1.44%	1.97%	2.18%
Treasury Return	0.77%	-3.26%	-4.50%
IG Sub-Index	0.88%	-3.26%	-4.46%
HY Sub-Index	3.75%	0.87%	-0.05%

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 April, 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 total return of 2.22% in April, as measured by the JP Morgan EMBI Global Diversified Index. Spreads tightened by 15 bps over the month, in line with other risk asset classes over the month, as US rates risk has steadied. The degree of intra-EM volatility remained elevated, 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*

April 2021	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Index Weight	Index Impact (bps)**
EMBI Global Diversified		**2.22**	**1.44**	**0.77**		
Top 5 Performers	Ecuador	43.6	43.1	0.4	1.5%	66
	Lebanon	9.4	9.4	0.0	0.3%	2
	Angola	7.9	7.5	0.4	1.1%	9
	Tunisia	7.4	7.1	0.2	0.1%	1
	Sri Lanka	7.3	7.0	0.2	1.1%	8
Bottom 5 Performers	Poland	0.0	-0.1	0.1	1.2%	0
	Lithuania	0.0	0.0	0.0	0.2%	0
	Peru	-0.1	-1.4	1.4	2.7%	0
	Slovakia	-0.2	-0.2	0.0	0.2%	0
	Barbados	-0.4	-1.0	0.5	0.1%	0

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

Ecuador bonds recovered from their recent lows, aided by the victory of Guillermo Lasso in the presidential election – this turned Ecuador bonds from one of the worst performing EM sovereign credits in 2021 into the best performer. Markets have also taken comfort from the fact that Ecuador was able to contain fiscal and external deterioration relative to its rating peers, and since the country had already restructured debt in 2020, there is no pressure on cash-flows to restructure bonds again in the near future.

Lebanon bonds continued to recover from the extreme lows seen in January on expectations of financial aid from Qatar, once a new government is formed. Lebanon is still in the grip of its worst economic crisis in decades, facing political divisions, lack of a government, runaway inflation and a failure to secure support from the International Monetary Fund (IMF).

Angola bonds returned 7.9% for the month. Angola's decisive action to reduce non-essential outlays, while allocating much-needed resources to health and related infrastructure, has helped it to run fiscal surpluses that will see its debt/GDP ratio fall in the near term. The recent rebound in oil prices and, by extension, demand for Angola's oil exports have also aided performance.

Sri Lanka bonds generated a positive return of 7.3% on reports that the government had sealed a long-awaited $500 million loan deal with the China Development Bank, providing a further boost to Sri Lanka's FX reserves. This is separate to the $1.5bn Peoples Bank of China FX swap line approved in March.

There were no significant negative performers in spread return terms, apart from **Peru**, the reasons for which are outlined in the previous section.

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Expiry date 31 May 2022