Emerging Market Debt Market Commentary

November 2021

Chart of the Month: Turkey

A history of high inflation, alongside at times unorthodox monetary policy decisions from Turkey's central bank, have resulted in significant Turkish lira weakness over the last five years.

Source: Bloomberg Finance LP as of 6 December 2021. Past performance is not a reliable indicator of future performance

Monthly Commentary

Emerging market debt (in USD terms) recorded negative returns on US Federal Reserve Chair Jerome Powell's more hawkish-than-expected congressional testimony in late November and as concerns mounted that the spread of the Omicron COVID-19 variant could have an adverse effect on global supply chains, thus delaying the recovery of travel-and-tourism dependent EM economies. EM hard currency inflows were modestly positive at $39m, while local currency outflows amounted to -$2.2bn last month.

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

	1m	3m	6m	YTD	12m	3yrs	5yrs
In USD							
GBI-EM GD (EM Local Currency)	-2.74%	-7.32%	-8.13%	-10.15%	-7.02%	1.98%	2.88%
EMBI GD (EM Hard Currency)	-1.84%	-3.85%	-1.79%	-3.15%	-1.31%	5.93%	4.64%
CEMBI BD (EM Corporates)	-0.55%	-1.67%	0.07%	0.50%	1.98%	7.04%	5.44%
In EUR							
GBI-EM GD (EM Local Currency)	0.00%	-2.80%	-0.21%	-2.33%	-1.19%	2.19%	1.67%
EMBI GD (EM Hard Currency)	0.92%	0.83%	6.29%	5.28%	4.88%	6.13%	3.40%
CEMBI BD (EM Corporates)	2.25%	3.12%	8.29%	9.25%	8.37%	7.25%	4.19%
In GBP							
GBI-EM GD (EM Local Currency)	0.78%	-3.59%	-1.30%	-7.16%	-6.17%	0.76%	1.71%
EMBI GD (EM Hard Currency)	1.70%	0.02%	5.25%	0.07%	-0.41%	4.65%	3.45%
CEMBI BD (EM Corporates)	3.04%	2.29%	7.24%	3.84%	2.91%	5.75%	4.24%

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

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	3 bps	69 bps	146 bps	5.68%
EMBI GD Yield	28 bps	61 bps	87 bps	5.42%
EMBI GD Spread	33 bps	48 bps	40 bps	392 bps
CEMBI BD Yield	13 bps	41 bps	58 bps	4.62%
CEMBI BD Spread	15 bps	19 bps	3 bps	325 bps
CDX.EM 5y	28 bps	62 bps	63 bps	214 bps
10y UST	-11 bps	14 bps	53 bps	1.44%
Dollar Index (DXY)	1.99%	3.64%	6.73%	
DOW 30	-3.73%	-2.48%	12.67%	34,484
Oil (WTI)	-20.81%	-3.39%	36.40%	$ 66.18

Source: JP Morgan, Bloomberg as of 29 October, 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 $)	**-2.74%**	**-7.32%**	**-10.15%**
FX Return (vs $)	-2.87%	-4.97%	-7.11%
Price Return (Local currency)	-0.29%	-3.64%	-7.73%
Interest Return (Local currency)	0.43%	1.29%	4.70%
In EUR			
Total Return (in €)	**0.00%**	**-2.80%**	**-2.33%**
FX Return (vs €)	-0.13%	-0.45%	0.71%
In GBP			
Total Return (in €)	**0.78%**	**-3.59%**	**-7.16%**
FX Return (vs €)	0.64%	-1.24%	-4.13%

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 November, 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 -2.74% in US dollar terms in November, as measured by the JP Morgan GBI-EM Global Diversified Index – almost all of which was the result of FX weakness. Unfavourable performance has been driven by a range of factors including: political discord (particularly in Latin America (LatAm)); persistently high inflation that is keeping EM central banks ahead of developed market (DM) counterparts in the monetary policy normalization cycle; and expectations of continued global supply disruptions.

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

November 2021	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight	Index Impact (bps)**
GBI-EM GD		**-2.74**	**0.14**	**-2.87**		
Top 5 Performers	Brazil	2.1	2.3	-0.2	8.6%	18
	China	1.3	0.8	0.4	10.0%	13
	Chile	-0.1	2.5	-2.7	2.0%	0
	Indonesia	-0.6	0.4	-1.1	10.0%	-6
	Thailand	-0.7	0.5	-1.2	9.0%	-6
Bottom 5 Performers	Russia	-4.9	-0.3	-4.6	7.5%	-36
	Poland	-6.0	-2.5	-3.5	7.2%	-43
	Colombia	-6.4	-1.2	-5.2	4.1%	-26
	Hungary	-7.7	-3.7	-4.0	3.5%	-27
	Turkey	-29.8	-3.1	-26.7	1.2%	-36

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

Turkey was the worst performer in November with the lira volatility in October sustained into the latest month. Investors were concerned about the central bank going ahead with a 100 bps reduction in interest rates at its policy meeting on 18 November at a time when inflation (19.9% y/y, October CPI) is still far above the central bank's 5% target. Investors believe that the resulting expansion in consumer credit – as expectations of Turkey's GDP growth have risen from 4% at the start of 2021 to 9% – would pressure the country's external accounts and FX reserves.

Central and Eastern Europe (CEE) countries **Hungary** and **Poland** underperformed as markets continue to price in steeper tightening cycles against the backdrop of their strong economic reopening leading to real GDP recovering to pre-pandemic levels and narrowing output gaps. Hungary and Poland also face potential delays and suspensions in EU transfers owing to recent tensions over the rule of law.

Colombia experienced a strong recovery in economic data, contributing to market consensus GDP growth forecasts for 2021 gradually moving higher to stand at close to 10%. High levels of consumer and business confidence, as well as the recent upward trend in oil prices, have led to markets expecting BanRep will accelerate its rates normalization process in upcoming meetings, resulting in local rates selling off. Risk premia related to fiscal and political uncertainties have led the COP to underperform.

Brazil returned +2.1%, partly recovering from October's sharp sell-off. Annual IPCA inflation approached a six-year high as it accelerated to 10.67% y/y in October, from 10.25% in September. Investors have been concerned as the country's fiscal situation continues to deteriorate, and high inflation expectations remain entrenched even as growth has slowed. While the proposal to ease fiscal austerity had earlier triggered a sell-off, investors expect that financing President Bolsonaro's Auxilio Brasil program through additional cash handouts (that wouldn't be subject to the spending cap) would result in a similar outcome.

China achieved positive performance of +1.3%, with the local rates component contributing a majority of that. The country's manufacturing purchasing managers' index (PMI) bounced back to 50.1 in November after seven straight months of decline, aided by authorities' efforts to boost coal and power supply to ease the previous stringent power rationing. Consensus GDP growth forecast for 2021 is at 8% y/y and at 5.3% for 20221, but much depends on the transmission of the Omicron variant as China's persistence with its zero-COVID policy might lead to services and consumption getting significantly impacted from any new COVID outbreaks in early 2022.

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	**-1.84%**	**-3.85%**	**-3.15%**
Spread Return	-2.34%	-3.15%	-0.49%
Treasury Return	0.51%	-0.73%	-2.67%
IG Sub-Index	-0.22%	-1.66%	-2.85%
HY Sub-Index	-3.49%	-6.06%	-3.26%

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 November, 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 returned -1.84% in November, as measured by the JP Morgan EMBI Global Diversified Index. Spreads widened in a poor month for risk assets as commentary from the Fed became progressively more hawkish – Jerome Powell commented on November 30th that the Fed may consider ending tapering asset purchases earlier than previous guidance. News of the Omicron COVID-19 variant that emerged after the US Thanksgiving holiday, along with concerns around the debt repayment capability of frontier countries as debt servicing costs rise from extremely low levels, also contributed to weakness.

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

November 2021	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Index Weight	Index Impact (bps)**
EMBI Global Diversified		**-1.84**	**-2.34**	**0.51**		
Top 5 Performers	Malaysia	0.8	-0.1	0.8	2.8%	2
	Barbados	0.7	0.4	0.3	0.1%	0
	Honduras	0.6	0.2	0.3	0.2%	0
	China	0.5	0.2	0.3	4.6%	2
	Chile	0.4	-0.5	0.9	3.0%	1
Bottom 5 Performers	Argentina	-9.3	-9.8	0.6	1.0%	-10
	Sri Lanka	-10.6	-10.8	0.2	1.0%	-10
	El Salvador	-13.8	-14.3	0.7	0.6%	-9
	Ethiopia	-18.9	-18.8	0.0	0.1%	-2
	Lebanon	-25.4	-25.3	-0.2	0.2%	-6

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

Lebanon bonds continued to sell off as the country faces difficulties in emerging from what has been the worst social and economic crisis since its 1975-1990 civil war. Hyperinflation, shortages of essentials, and significant power blackouts continue to be features. The country has started initial technical discussions with the International Monetary Fund (IMF), the first step needed before negotiation of the actual terms on the monetary and economic policies that the country must undertake in order to benefit from the IMF's assistance.

Among the poorer performers in the month were frontier countries **Ethiopia** (bonds weaker after the US announced its intention to cut off Ethiopia from duty free access in response to the Tigray conflict and S&P's one notch downgrade to CCC on 10th November); and **El Salvador** (investor concerns that the announcement of a bitcoin bond issuance may lead to a break from traditional IMF funding, leaving it with a highly uncertain funding model).

Also underperforming was **Sri Lanka,** with Moody's downgrading its rating by one notch to Caa2 amid concerns about depleting FX reserves and the increasing net indebtedness of the central bank due to liquidity injections. **Argentina** underperformed amid high inflation above 50% and investor concern around lack of progress on talks with the IMF to restructure $45bn worth of debt.

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