Emerging Market Debt Market Commentary

Third Quarter 2021

Emerging market debt (in USD terms) experienced a sharp sell-off in the third quarter, particularly so in September. Market sentiment towards EM turned negative as China's slowdown was exacerbated by challenges within its real estate segment and as the potential repercussions of the Evergrande debt situation increased. Furthermore, US Federal Reserve Chair Jerome Powell indicated the Federal Open Market Committee's intention to conclude asset purchases around the middle of next year, which seemed sooner than consensus market expectations. The easing of delta variant concerns also contributed to 10-year US Treasury yields rising 18 basis points (bps) in September to touch a quarterly high of 1.49%.

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

	1m	3m	6m	YTD	12m	3yrs	5yrs
In USD							
GBI-EM GD (EM Local Currency)	-3.43%	-3.10%	0.32%	-6.38%	2.63%	3.66%	2.06%
EMBI GD (EM Hard Currency)	-2.07%	-0.70%	3.33%	-1.36%	4.36%	5.65%	3.89%
CEMBI BD (EM Corporates)	-0.67%	0.25%	2.35%	1.53%	6.03%	7.13%	5.21%
In EUR							
GBI-EM GD (EM Local Currency)	-1.64%	-0.85%	1.74%	-1.16%	3.85%	3.74%	1.43%
EMBI GD (EM Hard Currency)	-0.26%	1.61%	4.79%	4.14%	5.59%	5.73%	3.25%
CEMBI BD (EM Corporates)	1.17%	2.58%	3.79%	7.19%	7.29%	7.21%	4.56%
In GBP							
GBI-EM GD (EM Local Currency)	-1.43%	-0.72%	2.66%	-5.08%	-1.59%	2.52%	1.30%
EMBI GD (EM Hard Currency)	-0.05%	1.74%	5.73%	0.00%	0.06%	4.48%	3.12%
CEMBI BD (EM Corporates)	1.39%	2.71%	4.73%	2.93%	1.67%	5.94%	4.43%

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

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	31 bps	31 bps	108 bps	5.30%
EMBI GD Yield	32 bps	22 bps	58 bps	5.13%
EMBI GD Spread	13 bps	17 bps	5 bps	357 bps
CEMBI BD Yield	20 bps	14 bps	36 bps	4.40%
CEMBI BD Spread	1 bps	3 bps	-15 bps	306 bps
CDX.EM 5y	30 bps	26 bps	30 bps	182 bps
10y UST	18 bps	2 bps	57 bps	1.49%
Dollar Index (DXY)	1.73%	1.94%	4.77%	
DOW 30	-4.29%	-1.91%	10.58%	33,844
Oil (WTI)	9.53%	2.12%	54.64%	$ 75.03

Source: JP Morgan, Bloomberg as of 30 September, 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 $)	**-3.43%**	**-3.10%**	**-6.38%**
FX Return (vs $)	-2.31%	-2.86%	-4.45%
Price Return (Local currency)	-1.56%	-1.54%	-5.75%
Interest Return (Local currency)	0.44%	1.30%	3.82%
In EUR			
Total Return (in €)	**-1.64%**	**-0.85%**	**-1.16%**
FX Return (vs €)	-0.52%	-0.61%	0.77%
In GBP			
Total Return (in €)	**-1.43%**	**-0.72%**	**-5.08%**
FX Return (vs €)	-0.31%	-0.48%	-3.16%

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 September, 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 -3.10% in US dollar terms in Q3, as measured by the JP Morgan GBI-EM Global Diversified Index. Broad USD strength triggered weakness in the EM FX complex as markets pushed up the expected trajectory of the US federal funds rate, while the likelihood of further tightening by EM central banks, particularly in Latin America (LatAm), kept returns from EM local rates relatively constrained.

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

Q3 2021	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight	Index Impact (bps)**
GBI-EM GD		**-3.10**	**-0.23**	**-2.86**		
Top 5 Performers	Dominican Republic	8.8	7.5	1.3	0.2%	1
	Indonesia	4.1	2.8	1.3	10.0%	41
	Uruguay	3.4	1.9	1.5	0.1%	0
	China	2.0	2.0	0.0	10.0%	20
	Russia	0.9	0.6	0.4	7.7%	7
Bottom 5 Performers	Romania	-5.1	-2.3	-2.8	3.1%	-15
	Hungary	-6.6	-2.1	-4.5	3.8%	-25
	Brazil	-10.5	-2.6	-7.9	8.3%	-87
	Peru	-13.6	-6.3	-7.3	1.9%	-26
	Chile	-15.2	-4.8	-10.4	1.9%	-30

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

Chile generated a negative return of -15.2% over the quarter. Political uncertainty ahead of the November elections that could potentially result in a leftist government has contributed to currency weakness. The Bank of Chile's hawkish surprise at the August meeting, when it hiked the policy rate by 75bps to 1.50%, as well as a rapidly deteriorating fiscal deficit situation (despite the economic recovery), resulted in local rates underperforming as well.

Peru was the worst performer in the quarter, recording a negative return of -13.6%, with both the FX and rates weakening in almost equal parts. The country faces increased political uncertainty as President Castillo's administration has entered an open confrontation with Congress, while risks of significant risks of upward revisions in the official fiscal deficit and debt levels due to an increase in social expenditure measures remain. Moody's downgraded Peru's local currency rating on September 1 to Baa1 from A3, and mentioned that the rating action was mainly driven by increased political risk and a deterioration in the policymaking backdrop.

Brazil performed poorly (-10.5%) and was the single biggest detractor from index returns (-87 bps). Political tensions persist, with President Jair Bolsonaro repeatedly attacking institutions while under investigation in four probes launched by the Supreme Court – the approval rates for his administration continue to slide. Upside risks to inflation led to higher interest rates throughout Q3, increasing uncertainty around whether the 2022 budget has space to accommodate court-ordered payments of BRL89bn. This increases risks to Brazil's spending cap and contributed to underperformance by Brazilian assets.

Indonesia performed well, with the rates component dominating, and was the top contributor to index returns (41 bps). Bank Indonesia left its policy rate unchanged at 3.50% during its September meeting, in line with market consensus expectations. The central bank governor downplayed the potential impact of Fed tapering on the IDR and stated that the central bank is now better able to stabilize the currency's exchange rate by coordinating with the government, intervening in the spot FX, government bond and domestic non-deliverable forward markets if necessary. Market participants expect the central bank to keep rates low for as long as possible to support economic growth, helped by still-benign CPI inflation. It is generally expected that policy normalization would start with a withdrawal of liquidity from the banking sector, rather than outright rate hikes.

China returned 2.0%, all from the interest rate component, and contributed 20 bps to index returns. Ongoing developments in China's equity and real estate markets has had a negligible impact on the currency, with bonds holding up well amid 'safe haven' demand. China's NBS manufacturing purchasing managers' index (PMI) has fallen for six straight months and decreased further in September to 49.6 – readings below 50 are indicative of contraction. Recent power curbs partially reflect China's broad decarbonization efforts and a coal shortage, with its structural headwinds on energy-intensive sectors such as chemicals, coal and steel considered likely to linger in the near term. The minutes of the People's Bank of China's Q3 meeting revealed a dovish tone and market participants expect a 50 bps cut to the reserve requirement ratio (RRR) in Q4 along with a renewal of medium-term lending facility loans to boost credit supply.

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	**-2.07%**	**-0.70%**	**-1.36%**
Spread Return	-0.74%	-0.55%	1.98%
Treasury Return	-1.34%	-0.15%	-3.27%
IG Sub-Index	-1.75%	-0.51%	-2.95%
HY Sub-Index	-2.39%	-0.90%	0.51%

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 30 September, 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 delivered a return of -0.70% for Q3, as measured by the JP Morgan EMBI Global Diversified Index. Spreads widened by 17 bps over the quarter, with most of that occurring in September, as risk assets weakened in response to more hawkish-than-expected outcomes from the US Fed and Bank of England meetings. Concerns about the impact of a China trade slowdown across EM Asia, as well as changes in recent months to China's regulatory environment, exacerbated the risk-off move.

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

Q3 2021	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Index Weight	Index Impact (bps)**
EMBI Global Diversified		-0.70	-0.55	-0.15		
Top 5 Performers	Lebanon	32.7	32.7	0.0	0.3%	11
	Belize	26.3	26.7	-0.3	0.0%	1
	Zambia	21.6	21.7	-0.1	0.3%	6
	Venezuela	9.2	9.1	0.0	0.0%	0
	Suriname	5.1	5.2	0.0	0.0%	0
Bottom 5 Performers	Ethiopia	-4.3	-4.4	0.1	0.1%	0
	Colombia	-4.6	-4.7	0.1	2.7%	-12
	Ghana	-5.4	-5.6	0.2	1.6%	-9
	Tunisia	-7.5	-7.5	0.1	0.1%	-1
	El Salvador	-16.5	-17.1	0.8	0.7%	-12

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

El Salvador bonds sold off over the quarter, with its move to embrace Bitcoin as legal tender resulting in volatility given the inherent uncertainty of pricing any form of risks over the longer term. Moody's downgraded its foreign currency issuer rating to Caa1 from B3 near the end of July and maintained a negative outlook, citing deterioration in the quality of policymaking and increased uncertainty about financing prospects. Fears have also been expressed about president Bukele's centralized decision-making and his accumulation of power, which may potentially lead to increased spending and further hurt his relationship with the US, a key ally.

Colombia (social unrest and protests, rating downgrade to sub investment grade status by Fitch in Q3, which follows S&P's downgrade in May) and **Ghana** (continued weak debt affordability, high gross borrowing requirements and ongoing liquidity challenges) experienced widening spreads in the quarter. Both countries were notable detractors from index returns in the period.

Lebanon's debt came off its lows in September and proved to be the best performing country in the index in Q3 (32.7%) amid news that the country's Finance Ministry is willing to negotiate with holders of its government bonds, start restructuring its debt burden and resume negotiations with the International Monetary Fund (IMF) on a potential $10bn loan program.

Zambia bonds rallied (21.6%) contributing 6 bps to index returns on hopes that the country will start talks on a lending program with the IMF in November, almost a year after it had become the first African country to default on foreign debt during COVID-19. The election of businessman President Hichilema, who has ensured stability and predictability and pledged to tackle corruption in the mining sector (an important part of Zambia's economy), has helped bolster sentiment as well.

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.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

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 30 September 2021 and are subject to change based on market and other conditions.

3437638.11.1.GBL.INST

Expiry date 31 October 2022