Commentary
Fixed Income

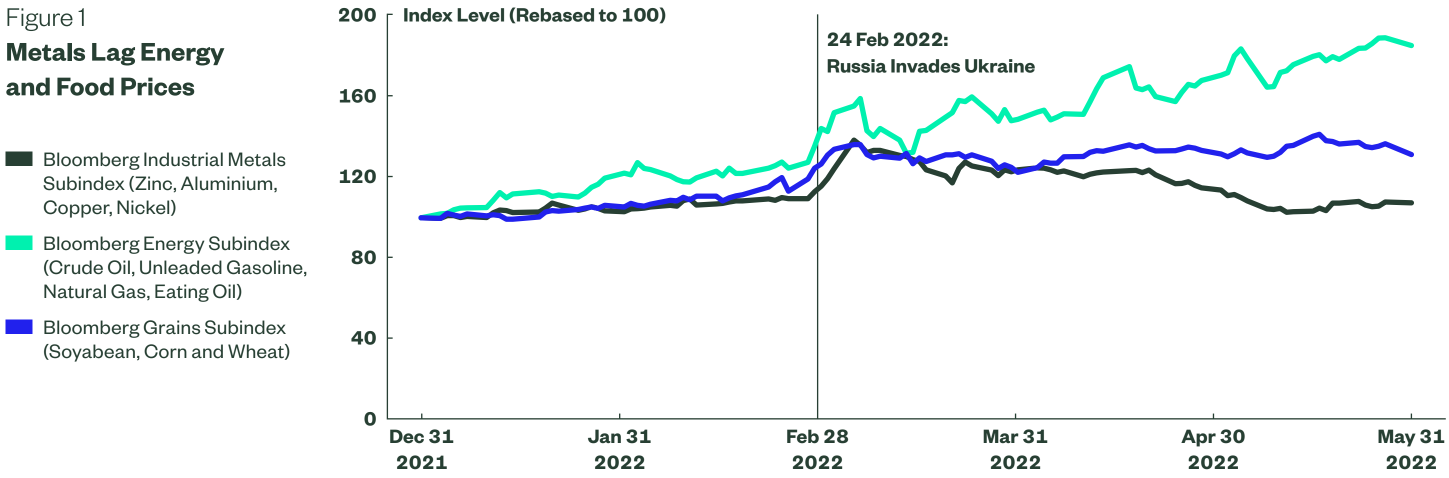
May 2022

Emerging Market Debt Market Commentary

Chart of the Month: Divergence in Commodity Prices

Crude oil and food prices have surged sharply in 2022 amid ongoing supply issues, but industrial metals prices are flat against the backdrop of growing recessionary concerns.

Figure 1
Metals Lag Energy and Food Prices



Source: Bloomberg Finance L.P., as of 31 May 2022. Past performance is not a reliable indicator of future performance. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

EMD Commentary — May 2022

Emerging markets (EM) debt experienced a minor rally in May, mostly driven by EM local currency assets as the macro backdrop became somewhat more favourable for some commodity-linked EM economies. Recession concerns moved centre stage and heightened inflation fears subsided to a certain extent, resulting in stabilisation of core yields. However, those recession worries weighed on EM hard currency debt and credit spreads. The COVID situation in China improved with lockdown restrictions being relaxed in Shanghai as the national daily cases count fell below 500; however, there were small outbreaks in pockets of Beijing and Tianjin. EM foreign exchange (FX) proved a bright spot in the month and recorded positive returns amid China's improving COVID situation and surging commodity prices. Meanwhile, high inflation, mostly due to elevated food and oil prices (as illustrated in Figure 1), continues to keep EM central banks in hawkish mode.

US CPI inflation eased a little with the headline annual rate of 8.3% in April ticking down from 8.5% in March. In response to elevated inflation levels, the US Federal Reserve raised the federal funds rate by 50 basis points (bps) in its May meeting and said it will begin balance sheet normalisation in June. The Fed also stated that 75 bps hikes are not being actively considered, leading to a stabilisation in US Treasury core yields. The US dollar depreciated against most EM currencies in the month as the demand for 'safe haven' assets moderated. Over the course of May 2022, hard currency outflows were -$4.2bn, while local currency outflows amounted to -$11.1bn.[1]

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

	1m (%)	3m (%)	6m (%)	YTD (%)	12m (%)	3yrs (%)	5yrs (%)
In USD							
GBI-EM GD (EM Local Currency)	1.76	-5.83	-9.16	-10.55	-16.55	-2.63	-1.32
EMBI GD (EM Hard Currency)	0.03	-6.41	-13.84	-15.03	-15.38	-2.09	0.06
CEMBI BD (EM Corporates)	-0.59	-5.12	-10.87	-11.22	-10.81	0.64	1.92
In EUR							
GBI-EM GD (EM Local Currency)	0.21	-1.27	-4.55	-5.04	-4.75	-1.34	-0.36
EMBI GD (EM Hard Currency)	-1.50	-1.88	-9.47	-9.80	-3.78	-0.80	1.03
CEMBI BD (EM Corporates)	-2.10	-0.52	-6.34	-5.76	1.43	1.97	2.91
In GBP							
GBI-EM GD (EM Local Currency)	1.38	0.25	-4.64	-3.87	-5.87	-2.63	-0.85
EMBI GD (EM Hard Currency)	-0.35	-0.37	-9.55	-8.68	-4.80	-2.09	0.54
CEMBI BD (EM Corporates)	-0.97	1.01	-6.43	-4.59	0.34	0.64	2.41

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 May, 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 annualised.

Figure 3
Key EM and Macro Levels as of 31 May, 2022

Item	Δ 1 Month	Δ 3 Months	Δ YTD	Current Level
GBI-EM GD Yield	-1 bps	47 bps	104 bps	6.76%
EMBI GD Yield	7 bps	81 bps	216 bps	7.45%
EMBI GD Spread	9 bps	-22 bps	80 bps	448 bps
CEMBI BD Yield	18 bps	65 bps	180 bps	6.38%
CEMBI BD Spread	25 bps	-37 bps	40 bps	352 bps
CDX.EM 5y	-13 bps	-16 bps	83 bps	272 bps
10y UST	-9 bps	102 bps	133 bps	2.84%
Dollar Index (DXY)	-1.17%	5.22%	6.36%	—
DOW 30	0.04%	-2.66%	-9.21%	32,990
Oil (WTI)	9.53%	19.80%	52.47%	$ 114.67

Source: JP Morgan, Bloomberg as of 31 May, 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 1.76% in US dollar terms in May 2022, as measured by the JP Morgan GBI-EM Global Diversified Index. It was mostly driven by FX returns (1.29%), which were bolstered by easing COVID restrictions in China and elevated commodity prices; the currencies of commodity-linked EM economies in Latin America were among the top performers. Overall EMFX gains were also aided by the moderation in safe haven demand for the US dollar. As recessionary concerns took centre stage and core yields stabilised, this contributed to positive/flat EM local yield returns.

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 $)	**1.76**	**-5.83**	**-10.55**
FX Return (vs $)	1.29	-1.20	-1.13
Price Return (Local Currency)	0.04	-5.66	-11.28
Interest Return (Local Currency)	0.43	1.03	1.87
In EUR			
Total Return (in €)	**0.21**	**-1.27**	**-5.04**
FX Return (vs €)	-0.26	3.37	4.37
In GBP			
Total Return (in €)	**1.38**	**0.25**	**-3.87**
FX Return (vs €)	0.90	4.89	5.55

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 May, 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 annualised.

Figure 5
Best and Worst Performers Across EM Local Government Bond Markets in USD*

May 2022	Country	Total Return USD (%)	Bond Return (%)	FX Return (%)	Index Weight (%)	Index Impact (bps)**
GBI-EM GD		**1.76**	**0.47**	**1.29**	—	—
Top 5 Performers	Peru	7.2	2.9	4.3	2.4	17
	Mexico	6.0	2.4	3.6	10.0	60
	Chile	5.9	2.2	3.7	2.2	13
	Brazil	5.0	0.5	4.5	10.0	50
	Poland	4.0	0.2	3.8	7.1	28
Bottom 5 Performers	Dominican Republic	-2.3	-1.9	-0.3	0.2	0
	Hungary	-3.4	-0.1	-3.2	3.0	-10
	Serbia	-3.7	-5.3	1.6	0.3	-1
	Philippines	-5.1	-4.7	-0.3	0.1	0
	Turkey	-10.3	-1.0	-9.2	1.0	-10

Source: State Street Global Advisors, JP Morgan, Bloomberg as at 31 May, 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 ending weight by total return.

Turkey was the worst performing country in May, returning -10.3% in USD terms and detracting 10 bps from the index return. Most of the returns were driven by the lira's weakness, which stemmed from deteriorating external positions, rising inflation (consumer prices rose at an annual rate of 70% in April, up from 61% in March) and its unconventional monetary policy approach to deal with it, and political divergence with other members of NATO. Surging energy costs and a sharp drawdown of its FX reserves ($60 bn as of 20th May) drove the country's weaker external positions.

Hungary also underperformed in May, returning -3.4% in USD terms and detracting 10 bps from the index return. The returns were driven by the forint's weakness as the newly-elected government introduced a "windfall tax" on extra profits earned by companies in various sectors. The central bank increased the benchmark interest rate by 50 bps to 5.9% on 31 May, which was half the rate hike level implemented in February and March and contributed to the currency's weakness.

Mexico was one of the outperformers, returning 6.0% in USD terms and contributing 60 bps to the index return, with both FX and bond returns making positive contributions. Mexico's central bank delivered another 50 bps hike to take the overnight rate to 7% while also adopting a more hawkish outlook. The 10-year government bond yield fell by 46 bps in May to settle at 8.65% at month-end. The Mexican peso strengthened by 3.88% in May against USD, mostly on the attractive carry and tight fiscal and monetary policies.

Brazil also outperformed, returning 5.0% in USD terms and contributing 50 bps to the index return. The return was mostly driven by a rally in BRL as it strengthened by over 5% relative to USD in May. Brazil's central bank raised the policy rate by 100 bps to 12.75% in May and left the door open for further tightening. The hawkish stance supported BRL along with the existing attractive carry.

Peru was the best performing country in May, returning 7.2% in USD terms and contributing 17 bps to the index return. The rally was mostly driven by the Peruvian sol as the currency strengthened by 3.33% relative to USD in May. The central bank raised the policy rate by 50 bps to a 13-year high of 5.0% at its May meeting in response to the annual CPI inflation rate surging to 8.09% in May.

Hard Currency Market Highlights

EM hard currency sovereign debt returned 0.03% in May 2022, as measured by the JP Morgan EMBI Global Diversified Index, with the treasury and spread components largely offsetting each other. US Treasury yields stabilised as the US Federal Reserve confirmed that it was not actively considering a 75 bps hike and the headline annual US CPI inflation rate for April printed marginally lower than March. As recessionary concerns increased, EM hard currency spreads widened by 9 bps over May.

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	**0.03**	**-6.41**	**-15.03**
Spread Return	-0.27	0.47	-6.58
Treasury Return	0.30	-6.85	-9.05
IG Sub-Index	0.68	-7.72	-16.97
HY Sub-Index	-0.62	-5.03	-12.96

Sources: State Street Global Advisors, Bloomberg, JP Morgan as of 31 May, 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 annualised.

Figure 7
Best and Worst Performers Across EM Hard Currency Government Bond Markets*

May 2022	Country	Total Return (%)	Spread Return (%)	Treasury Return (%)	Index Weight (%)	Index Impact (bps)**
EMBI Global Diversified		**0.03**	**-0.27**	**0.30**	—	—
Top 5 Performers	Ukraine	16.9	16.3	0.6	1.1	19
	Serbia	3.6	3.0	0.7	0.1	1
	Colombia	3.2	3.3	-0.1	2.8	9
	Peru	2.5	2.6	-0.1	2.9	7
	Egypt	2.3	1.9	0.3	2.6	6
Bottom 5 Performers	Ethiopia	-8.7	-9.3	0.6	0.1	-1
	Sri Lanka	-9.6	-10.1	0.6	0.7	-7
	Ghana	-9.8	-10.4	0.6	1.2	-12
	Tunisia	-12.8	-13.3	0.6	0.1	-1
	Lebanon	-22.4	-22.6	0.3	0.2	-5

Source: State Street Global Advisors, JP Morgan, Bloomberg as at 31 May, 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 ending weight by total return.

Lebanon was the worst performer, returning -22.4% in USD terms and detracting 5 bps from the index return. Top Lebanese officials admitted little headway has been made in meeting the conditions set by the International Monetary Fund (IMF) as part of a preliminary agreement. Lebanese officials made a rare outreach to bondholders with debt restructuring plans more than two years after the government's debt default. The country is banking on $3 billion aid from the IMF to restore its financial credibility and unlock future aid, but the inconclusive parliamentary election results cast doubt on the country's ability to deliver requisite reforms.

Ghana also featured among the poorer performers, returning -9.8% and detracting 12 bps from index returns, The annual inflation rate surged to 23.6% in April, a 12-year high, driven largely by the impact from supply shocks related to the Russia-Ukraine War that has stoked increases in food, fuel and fertiliser prices. Concerns around growth increased as soaring inflation is likely to reduce private consumption and investment. In response to soaring inflation and capital outflows, the central bank raised its benchmark interest rate by 200 bps to 19%.

Ukraine was the best performer, returning 16.9% in USD terms and contributing 19 bps to the index return. Ukrainian bonds recovered after the sharp drop caused by the Russian invasion, although Moody's downgraded its foreign currency long-term issuer ratings to Caa3 from Caa2 with a negative outlook. Ukraine is benefitting from large commitments of international financial support which allowed it to avert an immediate liquidity crisis. Concerns around the government's high debt burden persist and it remains to be seen whether access to international financing continues in upcoming months.

Colombia was one of the outperformers, returning 3.2% in USD terms and contributing 9 bps to the index return. It was mostly on the back of news flow around the presidential elections. Independent outsider candidate Rodalfo Hernandez posted a stronger-than-expected performance in the presidential election, to square off against left-leaning politician Gustavo Petro in a run-off election in June. The Colombian economy is expected to grow by 5.8% this year, according to the IMF's forecast, which would make it the fastest growing economy in the region. The central bank raised its key interest rate by 100 bps to 6% in response to surging inflation (annual CPI inflation for April rose to 9.23% from 8.53% in March).

Endnote

1 Source: JP Morgan.

About State Street Global Advisors

Our clients are the world's governments, institutions and financial advisors. To help them achieve their financial goals we live our guiding principles each and every day:

- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world. Helping millions of people secure their financial futures. This takes each of our employees in 30 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's fourth-largest asset manager* with US $4.02 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2020.
† This figure is presented as of March 31, 2022 and includes approximately $73.35 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.

ssga.com

Marketing communication.
For investment professional use only.

State Street Global Advisors Global Entities

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 unfavourable 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 May, 2022 and are subject to change based on market and other conditions.

ID1083050-3437638.20.1.GBL.INST 0622
Exp. Date: 30/06/2023