

## PUBLIC FIXED INCOME

# Emerging Markets

## Market Review and Outlook

March 31, 2022

### Market Review

	End of Quarter STW	End of Quarter Yield	1st Quarter		1 Year	
			STW Change (bps)	YTW Change (bps)	STW Change (bps)	YTW Change (bps)
JP Morgan EMBI Global Diversified	399	6.42	32	115	46	116
EMBI GD IG	150	3.95	6	80	8	61
EMBI GD HY	684	9.26	44	137	64	153
JP Morgan CEMBI Broad Diversified	303	5.44	31	133	45	159
CEMBI BD IG	173	4.16	23	117	24	120
CEMBI BD HY	506	7.47	22	139	36	182
GBI-EM Global Diversified	-	6.23	-	51	-	124
Bloomberg US IG	116	3.60	24	127	25	132
Bloomberg US HY	325	6.01	42	180	15	178

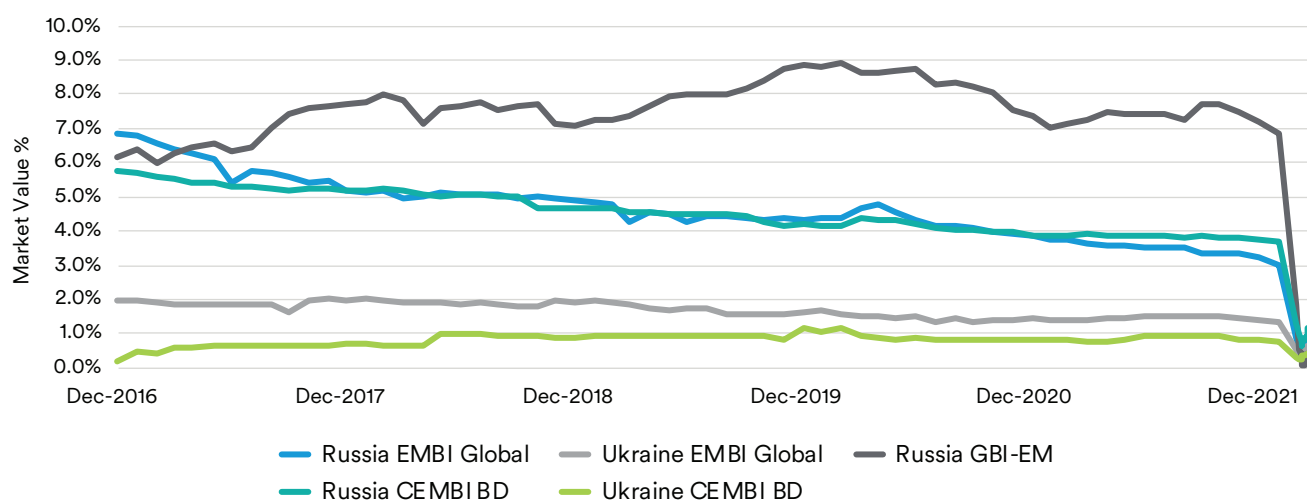
Sources: Bloomberg LP, JP Morgan as of 3/31/2022

	1st Quarter		1 Year	
	Total Return	Excess Return	Total Return	Excess Return
JP Morgan EMBI Global Diversified	-10.02%	-4.52%	-7.44%	-3.70%
EMBI GD IG	-12.39%	-6.65%	-9.27%	-6.13%
EMBI GD HY	-7.51%	-2.58%	-5.38%	-1.52%
JP Morgan CEMBI Broad Diversified	-8.82%	-5.08%	-7.25%	-4.38%
CEMBI BD IG	-9.57%	-5.38%	-7.93%	-4.83%
CEMBI BD HY	-7.88%	-4.74%	-6.38%	-3.86%
GBI-EM Global Diversified	-6.46%	-	-8.53%	-
Bloomberg US IG	-7.69%	-1.45%	-4.20%	-0.88%
Bloomberg US HY	-4.50%	-0.42%	-0.30%	3.30%

Sources: Bloomberg LP, JP Morgan as of 3/31/2022

Note: Index data will have some irregularities due to Russian and Belarus securities getting marked to zero on March 31st, and then subsequently removed from the index.

Market volatility in the first quarter of 2022 was driven by the rate selloff and geopolitical headlines. After months of buildup at the border, on February 24<sup>th</sup>, Russian troops crossed over into Ukrainian territory with significant forces as part of a multifront assault far exceeding the “minor incursion” scenario many envisioned. The West responded with far reaching economic sanctions against Russia, causing financial strain on the country for their actions. Companies across the globe cut off business dealings with Russia in a form of international solidarity from the west to punish the country for Putin’s unilateral actions. JP Morgan announced that effective the end of March, Russian and Belarusian securities would be removed from their indices. Fighting in Ukraine continues; however, Ukraine announced that its forces have retaken all areas around the capital of Kyiv, claiming control of the region for the first time since Russia launched its initial invasion. Low level peace talks between Russia and Ukraine continue, with talks not progressing far enough yet for a leaders’ meeting. The uncertainty remains high around Russia and sanctioned Russian corporates’ ability and willingness to stay current with bondholders as the war continues and sanctions remain in effect.



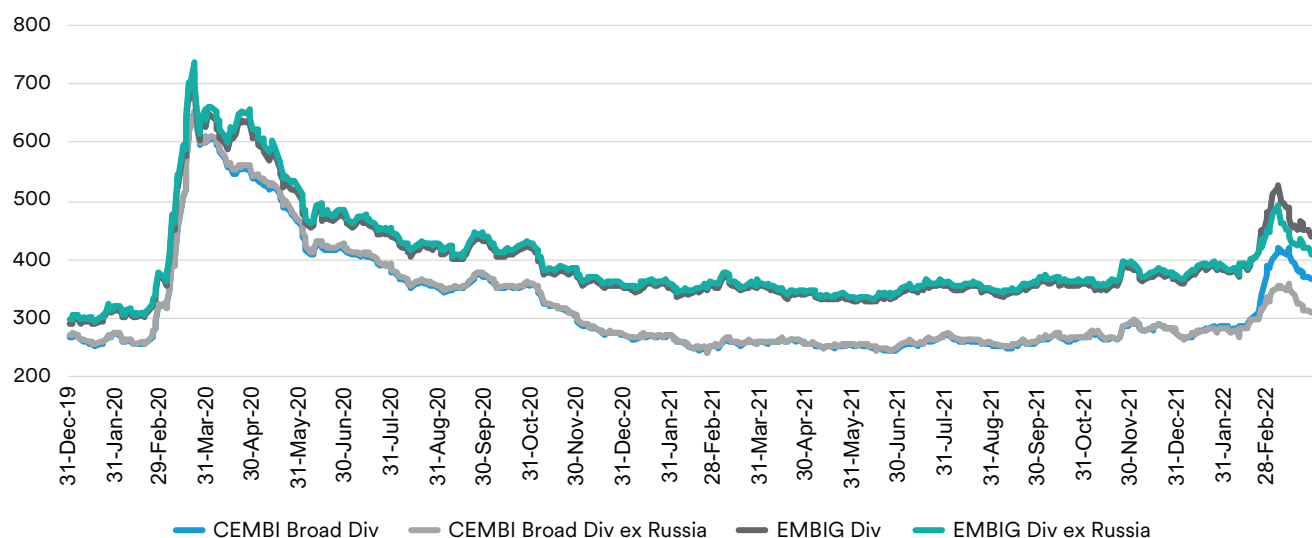
Sources: JP Morgan, Blackrock Aladdin

Emerging Market (EM) sovereigns kicked off January with the worst performance to start a year in over 20 years. On the quarter, the EMBI Global Diversified widened 32 basis points on top of 10-year Treasury's 80+ basis point sell off and returned -10.02% during the quarter. Excluding Russian assets from the index during the quarter, the EMBI GD returned -6.92%. Europe was by far the worst performing region, returning -32%, while the Middle East and Africa were able to remain relatively resilient, each returning -4%. Despite the move in rates, the GCC's fiscal surplus was supported by the elevated energy prices given the net exporter status of the overall region<sup>1</sup>.

Corporates also faced a challenging quarter, slightly outperforming sovereigns given the shorter duration of the space. The CEMBI Broad Diversified widened 31 basis points, returning -8.82%. Excluding the impact from Russian assets, the CEMBI BD returned -4.99%. Despite commodity strength, metals & mining and oil & gas were the worst performing sectors during the market volatility. EM corporate high yield bonds trading at distressed levels (\$70) reached \$166 billion, representing 18.5% of the EM corporate HY universe (including quasi-sovereigns). In 2008 this number was \$92.3 billion, and 2020 it peaked at \$121.6 billion<sup>2</sup>.

Local currency was the best performing pocket of EM; the GBI-EM Broad Diversified returned -6.46% during the quarter. With the exception of Russian assets, the return on the GBI-EM BD was positive 1%, highlighting the impact that the large selloff in Russia local bonds, which started the quarter representing 7.2% of the index, had on performance. Commodity prices helped EM FX outperform hard currency assets despite the US dollar strength. Investors rotated money out of European local and into Latin America amid the war uncertainty, helping Latin American currencies post some of the strongest returns<sup>3</sup>.

**Figure 2 | Indices Spreads With & Without Russia Exposure**



Source: JP Morgan

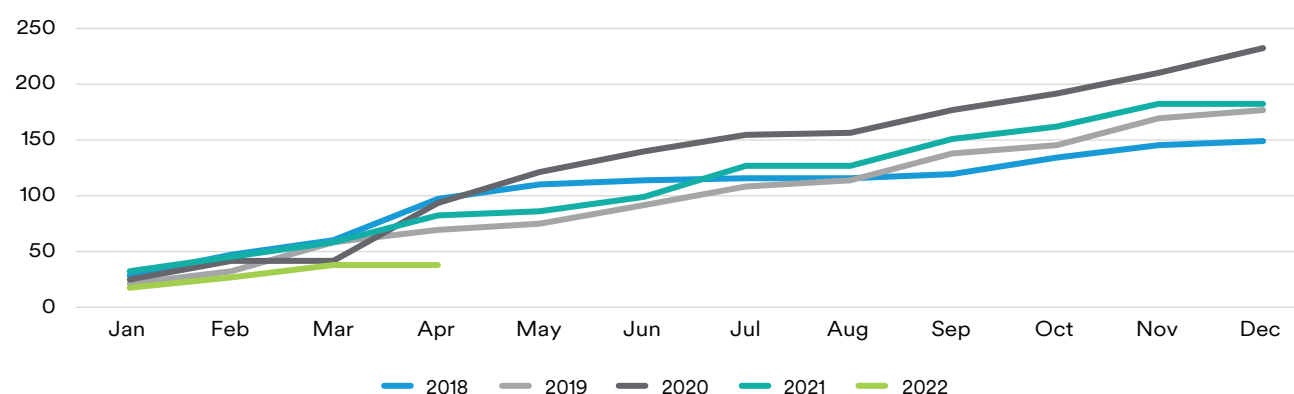
The commodity shock that we are witnessing strikes in a moment of already high inflation rates, rising interest rates, and economic deceleration. The 10-year Treasury yield ended 2021 at 1.51%, before rising over 80 basis points and peaking at 2.47% near the end of March. The European Central Bank has also shifted to a more hawkish tone amid rising inflation and the Russia-Ukraine war causing euro weakness. Despite Emerging Market countries being proactive and raising rates last year to curb inflation, this new unexpected inflation impulse is forcing some central banks to continue hiking further. Cumulatively, we have seen over 4,000 basis points of hikes in the first quarter, with many central banks still projecting further tightening.

**Figure 3 | Historical Stats**

	UST Change (bps)	UST Yield Range (bps)	EMBI Change (bps)	EMBI Spread Range (bps)	CEMBI Change (bps)	CEMBI Spread Range (bps)	GBI EM Return	Oil Price Change	Copper Price Change	Commodity Index Change
2022 YTD	83	96	32	168	31	157	-6.5%	38.7%	6.5%	27.0%
2021	60	83	17	63	2	54	-8.8%	62.9%	26.8%	38.5%
2020	(100)	37	61	433	3	401	2.7%	-21.5%	25.8%	-9.7%
2019	(77)	133	(125)	134	(85)	97	13.5%	22.7%	6.3%	9.4%
2018	28	79	31	148	128	152	-6.2%	-19.5%	-20.3%	-12.5%
2017	(4)	59	(58)	62	(69)	72	15.2%	17.7%	31.7%	2.0%
2016	17	124	(73)	183	(138)	226	9.9%	52.4%	17.4%	9.3%
2015	10	84	64	115	78	144	-14.9%	-35.0%	-24.4%	-23.9%

Source: Bloomberg LP, JP Morgan

Corporate issuance witnessed the slowest first quarter since 2016, with \$99 billion in deals priced. Just under 80% of the issuance was investment grade names, and \$67 billion was out of the Asia region. Sovereign issuance was fairly mute during the quarter, somewhat picking up at the end of March as the markets witnessed some credit spread stability despite continued aggressive rate moves. A total \$39.2 billion of primary deals priced, the lowest level in recent years. Of this, \$27 billion was investment grade sovereigns, including Mexico, Chile, and Romania. The investor focus on green, social, and sustainable (GSS) bond issuance continues. EM corporate GSS issuance has exceeded 20% of the total primary market every month since September 2021, with year-to-date volume of \$32 billion. Sovereigns have issued \$7 billion of GSS bonds thus far this year, led by Chile with all of the country's new deals in the form of sustainable bonds<sup>4</sup>.

**Figure 4 | Corporate Issuance Trends**

Source: JP Morgan

The China tech space has been under pressure given the potential de-listing from US equity markets as the companies fail to comply with required auditing and accounting guidelines. The Chinese government's heavy hand on the tech sector, the Zero-COVID policy, as well as the ongoing uncertainty within the China property sector, the country is facing economic pressures across multiple fronts.

Latin America's political noise continued into the new year. Chile's newest president Gabriel Boric was inaugurated and handed the task of transforming Chilean society and building a fairer, more inclusive country following the elevated violence in recent years. The Chilean Constitutional Convention is still ongoing, with the goal of completing a new national charter by July. In Peru, President Castillo has once



again avoided impeachment, the second attempt in his eight months in office, with lawmakers accusing him of “permanent moral incapacity” which has been used six times since 2017 to attempt removing presidents. Congress’ right-wing opposition voted in favor (55 votes) but could not reach the minimum quorum to approve the motion (87 votes). Colombia and Brazil are bracing for their upcoming elections. Colombia’s left gained seats from the right in Congress, but they are not close to simple majority. The left (Petro) will probably be able to reach simple majority in the Lower House with the support of the traditional Liberal Party; however, rightwing parties will likely retain control of the Senate, with a smaller margin. Early polls for the May first round Presidential election show a tight race between Petro and Gutierrez. Brazil’s presidential race is ramping up for the October election. Former president Lula has a notable leg ahead of Bolsonaro in polls, but regardless of who wins, they will need to moderate policies as Congress will be fragmented<sup>5</sup>.

The IMF has continued providing support to distressed countries. The Fund approved a \$44 billion loan for Argentina to help the country tackle high inflation, ease their debt burden, and encourage economic growth. As part of this agreement, the Argentine government agreed to cutting its hefty budget deficit from 3% of GDP down to 2.5% in 2022 and 1.9% in 2023<sup>6</sup>. Sri Lanka is in the early stages of discussions with the IMF, with technical negotiations beginning. The country is continuing down an unhealthy path, with public anger and civil unrest worsening as citizens are frustrated over how the government is handling the economic crisis. After Lebanon defaulted for the first time in 2020, the country is now looking to the IMF to secure a package to help them financially recover from the last three years of deteriorating financial conditions in the country.

## Outlook:

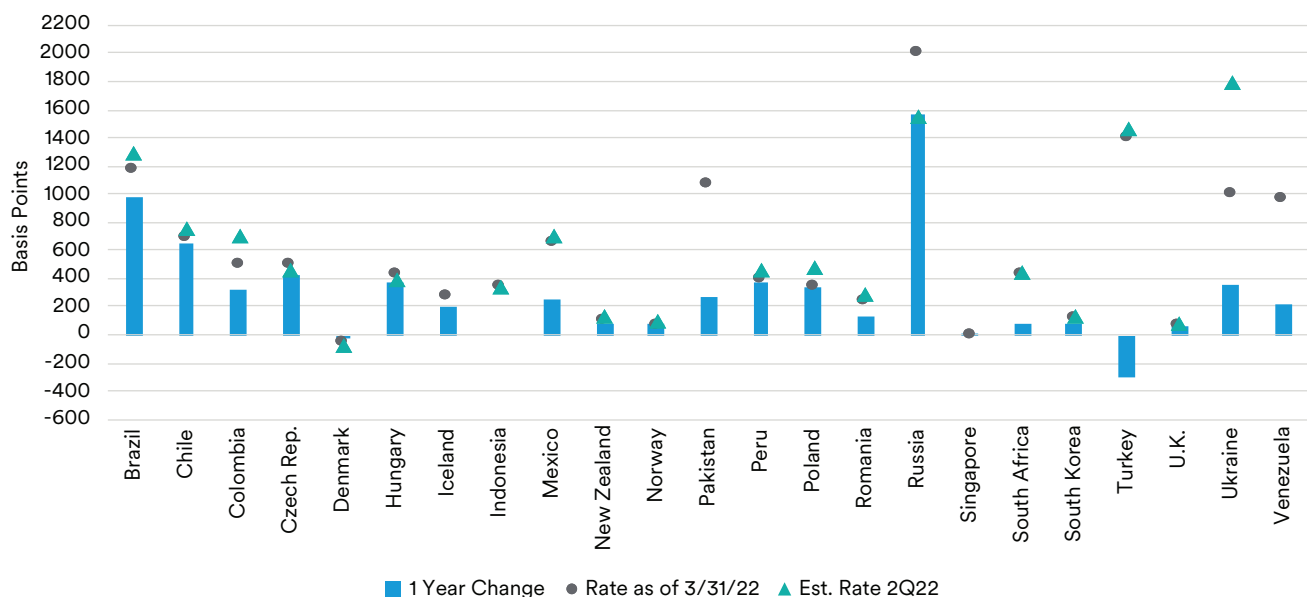
The last two years have proven challenging for countries across the globe, especially developing economies. Emerging Markets (EM) are battling the lingering effects of COVID-19, a slowing China, and increased global inflationary dynamics, while simultaneously trying to reignite their economies with limited policy flexibility. Now, Russia has re-opened the 2014 Ukraine conflict, but this time taking it even further with an assault on the country, bringing President Putin’s threats to reality after years of warnings and conjecture. The current environment for EM is trying, and as a result we have witness challenging relative



performance. However, consistent with our recent views, we believe that these valuations, disciplined policy makers, and investors searching for income and yield will serve the asset class well going forward. As such, we are committed to navigate the current environment carefully, but willing to take risk as opportunities present themselves.

The US 10-year treasury yield broke through 2% for the first time since 2019 amid inflation concerns. Since then, the Fed proceeded in line with expectations, hiking rates 25 basis points for the first time since 2018. Additionally, markets are expecting up to an additional 6 hikes this year and a balance sheet reduction in order to continue curbing this extended inflationary environment that the Russia-Ukraine war has made all the more complicated. This environment will challenge the Fed in a unique way—while prices continue going up, growth should be slowing and consumer confidence weakening. Yet, the moderating demand element that we would expect to see in this situation has yet to play out. One natural question we can ask ourselves is how much demand destruction needs to take place to dampen the current inflationary environment? The Fed cannot resolve labor and equipment shortages to help commodity producers. They cannot solve the uneven effects that the imposed sanctions are causing on other countries that are reliant on Russian and Ukrainian commodity imports. Their only tool at the moment is to tighten policy enough to dampen the demand for many of these supply strangled goods.

**Figure 5 | Central Bank Rate Changes**



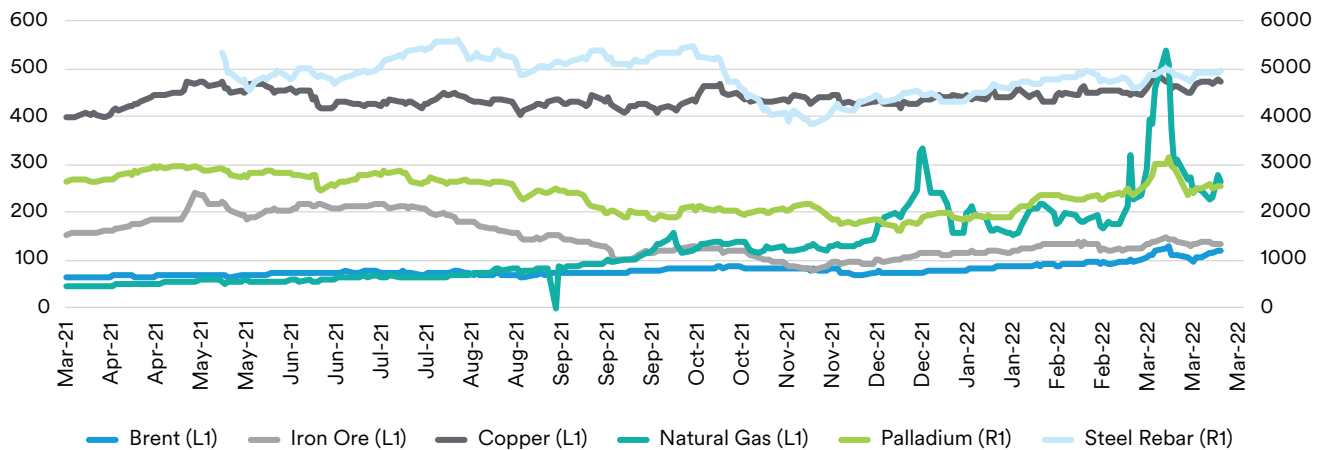
Source: Bloomberg LP

Despite Emerging Market countries being proactive and raising rates last year to curb inflation, this new unexpected inflation impulse, as a result of the war and extended supply chain disruptions, are forcing some central banks to continue hiking further. This commodity shock scenario makes it more difficult to gauge the impact on growth of a positive Terms of Trade (for commodity exporters) on one side, and higher inflation/rates and possibly lower global growth on the other.

Food prices are soaring on the back of supply concerns, increased transportation costs, anticipated fertilizer shortages, and weakened currencies. Therefore, despite the increase in prices benefiting net exporters of these raw materials, the inflationary environment pressures growth potential, especially for the poorest of countries. For many Emerging Market countries specifically, rising food prices causes extreme concern given a very high amount of real disposable income is spent on food.

Net exporters have started to benefit from these sharp rises in commodity prices, while net importers have begun to feel the burden, and will likely continue to feel the lingering effects even if extreme prices recede. Brent hit a peak of \$128/barrel on March 8th, after witnessing a low of \$20/barrel just 2 years prior. Given these extreme moves in energy and food prices, some governments that are net importers are looking for solutions. To avoid social unrest and/or political backlash, many countries may resort to price freezes or subsidies, which will have negative fiscal impacts, prolonging fiscal consolidation and leading to potentially higher financing needs for 2022.

**Figure 6 | Commodity Prices**



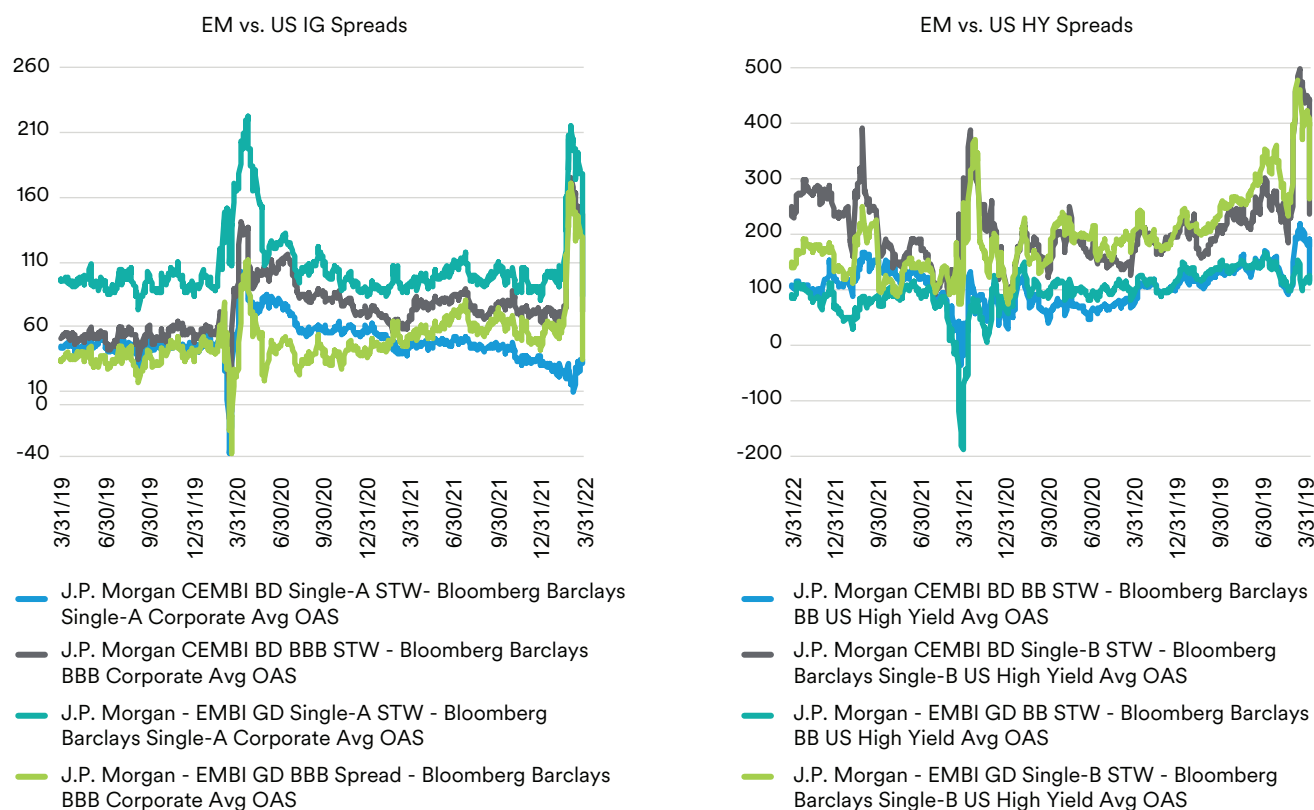
Source: Bloomberg LP

While we don't see a quick resolve to the challenges facing EM markets today, we do recognize that progress is being made to lessen the impact of pricing pressures, inflationary pressures, and supply chain disruptions – and the conversation is constantly evolving. EM economies are likely to feel the impact of each throughout the remainder of this year, and we will continue to evaluate opportunities prudently and add to risk in a very measured way.

Given the extremely low issuance in both sovereigns and corporates year-to-date, a pickup in issuance in the coming months, especially given the tightening financial conditions, will be important. Corporate scheduled cashflows will be high through July. Net issuance expectations remain low, coupled with these cashflows could be a positive technical for the asset class. The largest expected sovereigns who have yet to issue this year include China, Kuwait, and Saudi Arabia, with Saudi Arabia having a \$4.5 billion upcoming maturity due in April<sup>7</sup>. Some issuers who were projected to be done issuing for this year might have to return to the market earlier than expected to resolve unforeseen financial gaps.

The current market condition remains challenging given the geopolitical backdrop and rate volatility; however, we believe there are pockets of opportunity within the asset class. Commodity exporters' current accounts are benefiting from elevated levels. This is partially dampened by higher inflationary concerns, which may strain sovereign balance sheets, especially those that are commodity importers. Elevated rates and credit spreads leave us less cautious than we were in the sovereign space, while remaining conscious of fundamental concerns within select countries. Given the ongoing geopolitical backdrop we are being highly selective in idiosyncratic risk ideas. In the low beta space, we continue to like stable names such as Indonesia and Mexico, and prefer shorter duration securities given the rising rate environment.



**Figure 7 | EM vs US Spread Differentials**

Sources: Bloomberg LP, JP Morgan

The overall EM selloff has significantly impacted corporate valuations and we feel like asset prices are fair at these levels. Corporate balance sheets have remained intact, management teams are still being cautious, and cash flow is healthy. We admit that we should see margin compression as input costs rise but the majority of the companies we look at have the ability to absorb the margin compression without impacting fundamentals. We continue to have a bias towards both hard and soft commodity producers, as well as defensive, cash flow based sectors like telecom. There has been a rush for asset managers to raise funds and in the process some very high-quality companies have underperformed which we feel is an opportunity. We are being patient in adding risk as the macro environment will remain challenging but think value has been created within assets that will weather the storm quite well and we will prudently add those assets to the portfolio.

EM local currencies have potential room to rally in this current environment. For any commodity exporter, if demand remains strong, countries' terms of trade will remain strong as well. We have already seen local currencies of some of these strong commodity exporters such as South Africa and Colombia outperform as countries ramp up production to meet these demands. Additionally, EM rates have become even more enticing, as rates are shifting higher to adjust for elevated inflation levels and we are cautiously waiting to add to some of these beaten-up credits and curves.

## Endnotes

<sup>1</sup> Data in this paragraph sourced from JP Morgan  
<sup>2</sup> Data in this paragraph sourced from JP Morgan  
<sup>3</sup> Data in this paragraph sourced from JP Morgan  
<sup>4</sup> Data in this paragraph sourced from JP Morgan

<sup>5</sup> MIM  
<sup>6</sup> Bloomberg LP  
<sup>7</sup> JP Morgan



Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan prior written approval. Copyright 2022, J.P. Morgan Chase & Co. All rights reserved.

## Disclosure

This material is intended solely for Institutional Investors, Qualified Investors and Professional Investors. This analysis is not intended for distribution with Retail Investors.

This document has been prepared by MetLife Investment Management (“MIM”) solely for informational purposes and does not constitute a recommendation regarding any investments or the provision of any investment advice, or constitute or form part of any advertisement of, offer for sale or subscription of, solicitation or invitation of any offer or recommendation to purchase or subscribe for any securities or investment advisory services. The views expressed herein are solely those of MIM and do not necessarily reflect, nor are they necessarily consistent with, the views held by, or the forecasts utilized by, the entities within the MetLife enterprise that provide insurance products, annuities and employee benefit programs. The information and opinions presented or contained in this document are provided as the date it was written. It should be understood that subsequent developments may materially affect the information contained in this document, which none of MIM, its affiliates, advisors or representatives are under an obligation to update, revise or affirm. It is not MIM’s intention to provide, and you may not rely on this document as providing, a recommendation with respect to any particular investment strategy or investment. Affiliates of MIM may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned herein. This document may contain forward-looking statements, as well as predictions, projections and forecasts of the economy or economic trends of the markets, which are not necessarily indicative of the future. Any or all forward-looking statements, as well as those included in any other material discussed at the presentation, may turn out to be wrong.

All investments involve risks including the potential for loss of principle and past performance does not guarantee similar future results. Fixed income investments are subject interest rate risk (the risk that interest rates may rise causing the face value of the debt instrument to fall) and credit risks (the risk that the issuer of the debt instrument may default).

In the **U.S.** this document is communicated by MetLife Investment Management, LLC (MIM, LLC), a U.S. Securities Exchange Commission registered investment adviser. MIM, LLC is a subsidiary of MetLife, Inc. and part of MetLife Investment Management. Registration with the SEC does not imply a certain level of skill or that the SEC has endorsed the investment advisor.

This document is being distributed by MetLife Investment Management Limited (“MIML”), authorised and regulated by the UK Financial Conduct Authority (FCA reference number 623761), registered address Level 34 One Canada Square London E14 5AA United Kingdom. This document is approved by MIML as a financial promotion for distribution in the UK. This document is only intended for, and may only be distributed to, investors in the UK and EEA who qualify as a “professional client” as defined under the Markets in Financial Instruments Directive (2014/65/EU), as implemented in the relevant EEA jurisdiction, and the retained EU law version of the same in the UK.

**MIMEL:** For investors in the EEA, this document is being distributed by MetLife Investment Management Europe Limited (“MIMEL”), authorised and regulated by the Central Bank of Ireland (registered number: C451684), registered address 20 on Hatch, Lower Hatch Street, Dublin 2, Ireland. This document is approved by MIMEL as marketing communications for the purposes of the EU Directive 2014/65/EU on markets in financial instruments (“MiFID II”). Where MIMEL does not have an applicable cross-border licence, this document is only intended for, and may only be distributed on request to, investors in the EEA who qualify as a “professional client” as defined under MiFID II, as implemented in the relevant EEA jurisdiction.

**For investors in the Middle East:** This document is directed at and intended for institutional investors (as such term is defined in the various jurisdictions) only. The recipient of this document acknowledges that (1) no regulator or governmental authority in the Gulf Cooperation Council (“GCC”) or the Middle East has reviewed or approved this document or the substance contained within it, (2) this document is not for general circulation in the GCC or the Middle East and is provided on a confidential basis to the addressee only, (3) MetLife Investment Management is not licensed or regulated by any regulatory or governmental authority in the Middle East or the GCC, and (4) this document does not constitute or form part of any investment advice or solicitation of investment products in the GCC or Middle East or in any jurisdiction in which the provision of investment advice or any solicitation would be unlawful under the securities laws of such jurisdiction (and this document is therefore not construed as such).

**For investors in Japan:** This document is being distributed by MetLife Asset Management Corp. (Japan) (“MAM”), 1-3 Kioicho, Chiyoda-ku, Tokyo 102- 0094, Tokyo Garden Terrace KioiCho Kioi Tower 25F, a registered Financial Instruments Business Operator (“FIBO”) No. 2414.

For Investors in Hong Kong: This document is being issued by MetLife Investments Asia Limited (“MIAL”), a part of MIM, and it has not been reviewed by the Securities and Futures Commission of Hong Kong (“SFC”).

**For investors in Australia:** This information is distributed by MIM LLC and is intended for “wholesale clients” as defined in section 761G of the Corporations Act 2001 (Cth) (the Act). MIM LLC exempt from the requirement to hold an Australian financial services license under the Act in respect of the financial services it provides to Australian clients. MIM LLC is regulated by the SEC under US law, which is different from Australian law.

MetLife Investment Management (“MIM”) is MetLife, Inc.’s institutional management business and the marketing name for the following affiliates that provide investment management services to MetLife’s general account, separate accounts and/or unaffiliated/third party investors: Metropolitan Life Insurance Company, MetLife Investment Management, LLC, MetLife Investment Management Limited, MetLife Investments Limited, MetLife Investments Asia Limited, MetLife Latin America Asesorias e Inversiones Limitada, MetLife Asset Management Corp. (Japan), MIM I LLC and MetLife Investment Management Europe Limited.

L0422021908[exp0424][All States][DC,PR] L0422021912[exp1022][All States][DC,PR] L0422021943[exp0424][All States][DC,PR]  
L0422021821[exp1022][All States][DC,PR]

