



BlueBay Emerging Markets Debt Desk Note

January 2025

Market review

- Risk markets struggled into year-end as discouraging conversation around a hawkish pivot from the Fed led to higher US yields and lower equity markets. While the Fed did ultimately deliver a 25bps cut in December, their forward guidance outlined 50bps of cuts for 2025 which was a significant revision from prior guidance. Against this backdrop, 10yr US Treasury yields moved 40bps higher while 10yr real yields moved more than 30bps higher. Meanwhile, in Europe, the ECB also delivered a rate cut in December but they were not as dovish as market expectations which led to a selloff in German Bunds. However, it was French bonds that underperformed the most as the government of Michel Barnier fell after a no-confidence vote. The Bank of Japan kept interest rates unchanged, noting the need to analyse more data on wage momentum and the incoming U.S. administration's economic policies.
- With the move higher and steeper in core rates and a stronger US dollar, EM fixed income returns were negative across the board. The hard currency sovereign index returned -1.40% while the corporate index was down 0.59% with spreads tighter 11bps and 9bps respectively. In sovereigns, Argentina, El Salvador and Ukraine were the top performers while Brazil was a notable laggard. In the corporate space, the pulp & paper and transport sectors outperformed while real estate was a clear laggard. In the local markets, the index was down -1.93% on the month with FX the key detractor (-1.65%) while local rates markets proved much more resilient (-0.29%). In the FX world, Latin America was the worst performer as weakness from BRL led to contagion in other FX pairs, while generalised USD strength compounded the EM FX woes. Elsewhere, ZAR was also a notable underperformer on the month despite still positive fundamental news flow. In local rates, Brazil and Colombia were the main laggards with continued fiscal concerns in the former and a higher than expected minimum wage hike in the latter.
- In emerging markets (EM) news, in Colombia, President Petro replaced Finance Minister Bonilla with his deputy, Diego Guevara, who is expected to try and push through spending cuts to sure up the fiscal accounts. In Ecuador, the government executed a debt-for-nature swap in which they took out expensive debt / bonds in the market and replaced this with concessional financing targeted to conservation projects in the Amazon. Finally, in Brazil, President Lula recovered well from an emergency surgery to remove a brain bleed. Brazilian assets traded in a very wide range during the month as volatility continued to spike on market fears around a lack of fiscal discipline, while the central bank worked hard to stabilise markets with aggressive rate hikes as well as FX auctions to reduce volatility in the currency. In China, equities outperformed, pushing aside U.S. trade-related anxieties, driven by fresh domestic policy support and a shift in the country's monetary policy at the Central Economic Work Conference. China announced that it would adopt an "appropriately loose" monetary policy in 2025 to support economic growth.

Outlook

- 2024 in emerging markets can be defined as a year of change, with a record number of elections, shifting economic and monetary policies, and geopolitical tensions influencing markets. Amidst the volatility, emerging market debt (EMD) performance has, on the whole, been strong. While local currency assets faced headwinds due to a stronger U.S. dollar (USD), hard currency assets were amongst the top performing fixed income asset classes, with the hard currency sovereign and corporate index gaining 6.54% and 7.34% respectively.

Hard Currency Corporate			
	MTD Change (%)	QTD Change (%)	YTD Change (%)
CEMBI Diversified	-0.59	-0.97	7.34
Investment Grade	-0.84	-1.59	5.06
Non-Investment Grade	-0.25	-0.09	10.65
Spreads (Δbps)	-9	-22	-71
IG Spreads (Δbps)	-9	-25	-49
HY Spreads (Δbps)	-11	-26	-114
Africa	-0.14	-0.34	12.08
Asia	-0.70	-1.02	6.94
CEEMEA	-0.27	-0.40	7.88
Europe	-0.42	0.05	9.62
Latin	-0.90	-1.77	7.19
Middle East	-0.27	-0.59	5.65
Consumer	-0.40	-0.80	8.22
Diversified	-0.94	-1.00	7.58
Financial	-0.11	-0.10	6.99
Industrial	-0.86	-1.69	6.47
Infrastructure	0.03	-0.84	5.99
Metals & Mining	-0.73	-0.86	9.65
Oil & Gas	-1.91	-2.45	4.51
Pulp & Paper	-1.09	-3.56	5.66
Real Estate	-1.39	-2.38	12.90
TMT	-0.66	-1.21	7.30
Transport	-0.70	-0.11	10.17
Utilities	-0.51	-1.47	6.69
AA	-0.97	-1.71	3.26
A	-0.56	-1.21	4.77
BBB	-1.01	-1.83	5.40
BB	-0.35	-0.58	8.31
B	0.06	1.06	13.92
C	0.73	2.60	19.54
Not Rated	-1.08	-1.41	9.95

Local Currency Sovereign			
	MTD Change (%)	MTD Change (%)	YTD Change (%)
GBI-EM Global Div Composite	-1.93	-6.98	-2.38
Asia	-0.23	-4.46	4.30
Europe	-2.06	-7.87	-4.01
Latin America	-3.91	-10.12	-14.68
Mid-East Africa	-4.57	-8.23	11.79
Brazil	-5.93	-15.13	-22.24
Chile	-3.48	-12.39	-8.64
China	0.88	-0.88	4.80
Colombia	-3.61	-10.79	-10.89
Czech Republic	-2.45	-8.16	-5.62
Dominican Republic	1.70	1.92	7.47
Hungary	-2.07	-10.95	-9.44
Indonesia	-1.68	-7.01	-0.25
Malaysia	-0.38	-7.29	6.94
Mexico	-3.54	-7.55	-15.52
Peru	-0.17	-1.64	6.30
Poland	-2.53	-8.07	-1.69
Romania	-1.53	-8.68	-4.17
Serbia	-1.55	-4.89	4.39
South Africa	-4.57	-8.23	13.71
Thailand	0.54	-3.87	6.05
Turkey	0.42	1.74	-0.48
Uruguay	-0.66	-1.96	-2.52

Hard Currency Sovereign			
	MTD Change (%)	QTD Change (%)	YTD Change (%)
EMBI Global Diversified	-1.40	-1.94	6.54
Investment Grade	-2.21	-4.59	0.32
Non-Investment Grade	-0.63	0.67	13.00
Spreads (Δbps)	-11	-36	-59
IG Spreads (Δbps)	-3	4	1
HY Spreads (Δbps)	-30	-101	-142
Africa	-1.10	-0.78	12.53
Asia	-1.94	-2.27	4.37
Europe	-0.95	-1.75	5.86
Latin	-1.65	-2.02	7.81
Middle East	-1.12	-2.44	3.17
Non Latin	-1.27	-1.90	5.91
AA	-1.92	-4.41	0.18
A	-2.08	-3.52	0.98
BBB	-2.35	-5.25	-0.02
BB	-1.78	-3.41	2.86
B	-0.61	-0.20	11.21
C	2.54	13.60	50.27
Not Rated	4.65	-0.30	-5.37

Source: JPMorgan EMBI Global Diversified Index, JPMorgan GBI-EM Global Diversified Index, JPMorgan CEMBI Diversified Index, ICE BofA Diversified Local EM Non-Sovereign Index

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