

iBoxx USD Emerging Markets Monthly Commentary

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May 2024 Commentary

Market Overview

The U.S economy has recently started to show signs of cooling off. The Consumer Price Index increased 0.3% in April, after a 0.4%¹ uptick in March. On May 30, 2024, the Bureau of Economic Analysis report stated that real gross domestic product (GDP) for Q1 2024 increased at an annual rate of 1.3%, lower than the Q4 2023 real GDP growth of 3.6%.² The slowdown was influenced by decelerating consumer spending, exports, and state and local government spending. Imports, however, were up for the quarter. Another U.S. economic indicator is the Conference Board U.S. Leading Economic Index (LEI) which decreased 0.6 % in April, compared to a decrease of 0.3% in March.³ The LEI paints an ample picture of the U.S economy by measuring 10 components such as PMI, weekly hours worked, unemployment applications, manufacturer's new orders and building permits, among others. The unemployment rate was 3.9%⁴ in April, based on a press release of the Bureau of Labor Statistics.

In May, the overnight repo rate, a measure of market liquidity, ranged between 5.25%-5.42%,⁵ changed little from April. On the equities front, the **S&P 500**[®] was up 4.80% in May, led by Information Technology, Communication Services and Utilities.

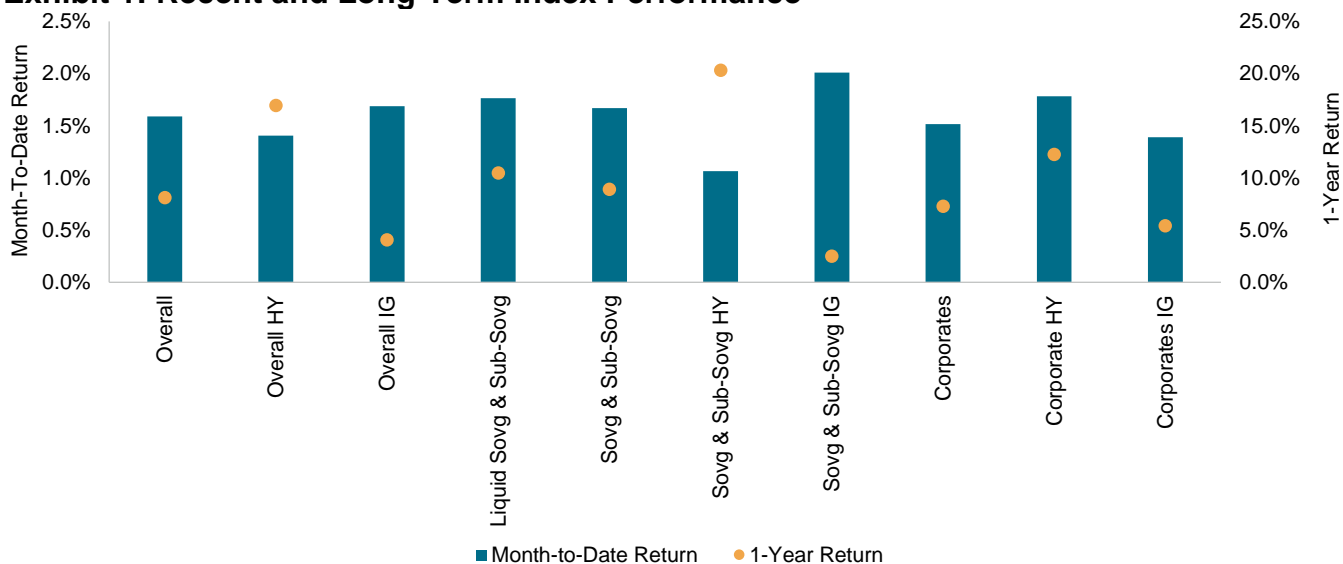
Latin America has had a challenging year so far. Mexico’s newly elected president, Claudia Sheinbaum, seems likely to continue Andrés Manuel López Obrador’s policies, perhaps shifting constitutional reforms further to the left with close to a parliamentary supermajority (two thirds of the seats) in the house and senate. This adversely impacted the market, with the Mexican peso falling 4% after the election results. In South America, Brazil’s GDP was up an estimated 0.8% in Q1 2024, with a 2.5% year-over-year increase according to the Brazilian Institute of Statistics (IBGE).

In Europe, the Eurostat report released on May 31, 2024, stated that eurozone inflation was up 2.6% in May, a small jump from 2.4% in April, fueled by services, food, industrial goods and energy.⁶ Lastly, in the Asian market, specifically India, the HSBC India Manufacturing PMI⁷ expanded at a lower rate when compared to previous months. The index posted 57.5 in May from a high of 58.8 in April, influenced by decreased working hours and rising production costs.

iBoxx USD Emerging Markets Broad Indices

May 2024 Performance

Exhibit 1: Recent and Long-Term Index Performance



Please refer to the Appendix at the end of this document for the abbreviated index names. Source: S&P Dow Jones Indices LLC. Data as of May 31, 2024. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

In May 2024, the best-performing indices were the iBoxx USD Emerging Markets Broad Sovereigns & Sub-Sovereigns Investment Grade at 2.01%, iBoxx USD Emerging Markets Broad Corporates High Yield at 1.78%, and iBoxx USD Emerging Markets Broad Investment Grade at 1.69%. Overall, investment grade bonds performed better than high yield. The iBoxx USD Liquid Emerging Markets Sovereigns & Sub-Sovereigns had a better performance for the

month than the broader benchmark at 1.77% versus 1.67%. In the corporates segment, high yield (up 1.78%) outperformed its investment grade counterpart (up 1.39%). All tracked indices had positive performance in May.

Focusing on the top 10 markets in the index by market value, all of them experienced a decrease in yield, notably China (down 40 bps), Chile (down 23 bps) and Mexico (down 23 bps). Indonesia, Mexico and Chile performed the best, returning 4.97%, 4.90% and 4.67%, respectively. Duration increased by 0.21 for UAE bonds, while for Brazil and Turkey, it was unchanged from last month. Year-to-date, the top three markets were China, Turkey and Brazil, while Saudi Arabia, Indonesia and Qatar formed the bottom of the top 10 markets. Indonesia, Chile, Qatar and Mexico had the highest increase in monthly return when compared to April 2024.

Exhibit 2: Top 10 Markets Performance

Market	Weight (%)	Delta from Last Month				May 2024			
		Δ Yield	Δ Duration	MTD Return (%)	YTD Return (%)	Yield	Duration	MTD Return (%)	YTD Return (%)
China	16.38	-0.40	0.03	1.76	1.38	5.92	2.87	1.36	2.61
Mexico	8.01	-0.23	0.05	4.90	2.50	7.18	7.15	2.53	1.17
Saudi Arabia	7.02	-0.20	0.09	4.23	1.86	5.65	7.01	1.92	-1.37
South Korea	6.74	-0.22	-0.02	1.75	1.07	5.35	2.71	1.07	0.99
UAE	6.60	-0.22	0.21	3.38	1.56	5.55	5.62	1.59	-0.20
Brazil	5.92	-0.19	0.00	3.31	1.50	6.99	5.14	1.51	1.36
Turkey	4.98	-0.04	-0.00	0.94	0.97	7.51	3.74	0.96	1.93
Indonesia	4.91	-0.25	0.12	4.97	2.13	5.67	6.95	2.20	-1.35
Chile	3.37	-0.23	0.12	4.67	2.29	6.01	7.78	2.34	0.04
Qatar	2.86	-0.20	0.03	4.34	1.83	5.39	7.06	1.89	-1.20

Source: S&P Dow Jones Indices LLC. Data as of May 31, 2024. Index performance based on total return in USD. Δ Yield refers to change in semiannual yield for the month in percent. Δ Duration refers to change in semiannual modified duration for the month. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

iBoxx USD Emerging Markets Sovereigns & Sub-Sovereigns

May 2024 Performance

For the iBoxx USD Emerging Markets Broad Sovereigns & Sub-Sovereigns, we looked deeper into the monthly returns by ratings and maturities. There was an evident decrease in the returns of the CCC 7-10 maturity sleeve at, -4.47%, influenced by Argentina's and Ecuador's bonds. The best performing was the A 10+ maturity bucket at 3.62%, followed by AA 10+ (3.39%) and BBB 10+ (3.10%). For sovereign and sub-sovereign bonds, the investment grade space performed better than high yield, at 2.01% versus 1.07%, with the BBB segment outperforming the group. The BBB space is dominated by bonds from Chile, Mexico, Indonesia and Philippines.

This month, the iBoxx USD Liquid Emerging Markets Sovereigns & Sub-Sovereigns index (up 1.77%) outperformed its benchmark (up 1.67%) by 10 bps. The 10+ year maturity bucket of the liquid sovereigns & sub-sovereigns had the highest performance, at 2.82%, while 1-3 years was the lowest, at 0.79%.

Exhibit 3: Rating and Maturity Monthly Index Performance

Rating	0-1 Year (%)	1-3 Year (%)	3-5 Year (%)	5-7 Year (%)	7-10 Year (%)	10+ Year (%)	Overall (%)
Investment Grade	0.55	0.77	1.24	1.59	1.98	3.25	2.01
AA	0.57	0.73	1.26	1.39	1.82	3.39	1.90
A	0.53	0.73	1.11	1.31	1.78	3.62	1.67
BBB	0.57	0.84	1.30	1.81	2.16	3.10	2.24
High Yield	0.43	0.84	0.77	1.56	0.23	1.97	1.07
BB	0.56	0.86	1.22	1.38	2.12	2.64	1.74
B	0.21	0.88	1.39	1.71	1.80	2.59	1.50
CCC	1.95	0.56	-1.35	1.98	-4.47	-2.30	-2.13
Sovereigns & Sub-Sovereigns	0.51	0.80	1.04	1.58	1.26	2.89	1.67
Liquid Sovereigns & Sub-Sovereigns	-	0.79	0.96	1.58	1.13	2.82	1.77

Source: S&P Dow Jones Indices LLC. Data as of May 31, 2024. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

We analyzed the monthly average bid-ask spread changes within the iBoxx USD Liquid Emerging Markets Sovereigns & Sub-Sovereigns index. This month, Iraq, Kazakhstan and Bahrain posted the largest increases in bid-ask spreads, by 62 bps, 47 bps and 38 bps, respectively.

Exhibit 4: Average Bid-Ask Spread

Country of Risk	May 31, 2024		April 30, 2024		Delta
	Average Bid-Ask Spread	Number of Bonds	Average Bid-Ask Spread	Number of Bonds	
Iraq	90.6	1	28.5	1	62.10
Kazakhstan	78.4	3	31.0	3	47.36
Pakistan	66.6	4	48.7	4	17.91
Bahrain	66.1	18	28.1	18	38.02
Senegal	66.0	2	32.8	2	33.22
Jordan	64.9	5	34.8	5	30.07
Turkey	61.9	31	28.4	31	33.46
Oman	60.6	13	23.4	13	37.17
Egypt	58.1	17	27.7	17	30.41
Angola	55.2	5	28.8	5	26.35

Source: S&P Dow Jones Indices LLC. Data as of May 31, 2024. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Four countries are capped at 7.5% of the index weight: Turkey, Saudi Arabia, Indonesia and Mexico. Turkey had an average bid-ask spread increase of 33 bps compared to last month, influenced by its sovereign bonds. Indonesia had an increase in bid-ask spreads of 7.76 bps, while Saudi Arabia and Mexico increased by 3.3 bps.

May 2024 Rebalancing

As of May 31, 2024, the iBoxx USD Emerging Markets Broad Sovereigns & Sub-Sovereigns Index had a semiannual modified duration of 6.61, a semiannual yield of 6.44% and an option-adjusted spread (OAS) of 205 bps. Compared to last month, this represents a decrease of 19 bps in yield, a 0.06 decrease in duration and a spread tightening of 7.6 bps.

The liquid index posted a semiannual yield decrease of 20 bps, while the semiannual modified duration decreased by 0.04 and the OAS tightened by 7.8 bps (see Exhibit 5).

Exhibit 5: Rebalancing Impact

Date	Semiannual Yield	Semiannual Modified Duration	OAS
iBoxx USD Emerging Markets Broad Sovereigns & Sub-Sovereigns			
April 30, 2024	6.80	6.38	212.6
May 31, 2024	6.61	6.44	205.0
iBoxx USD Liquid Emerging Markets Sovereigns & Sub-Sovereigns			
April 30, 2024	6.95	7.13	228.3
May 31, 2024	6.75	7.17	220.5

Source: S&P Dow Jones Indices LLC. Data as of May 31, 2024. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

The broad benchmark index dropped 9 bonds that matured in May 2024. These bonds were replaced by 16 bonds with maturities ranging from 2027 to 2049 from countries in Latin America, Asia and the Middle East. In the liquid index, two bonds were removed from the index due to the minimum time-to-maturity of one year.

Exhibit 6: Insertions and Deletions

Insertions						
Liquid index insertion	ISIN	Country of Risk	Coupon	Maturity Date	iBoxx Rating	Notional (USD Millions)
X	US718286DA23	Philippines	5.25	May 14, 2034	BBB	1,000
X	US718286DB06	Philippines	5.6	May 14, 2049	BBB	1,000
	US917288BA96	Uruguay	7.875	Jan. 15, 2033	BBB	841
	USP1027DHQ71	Chile	7.95	-	BBB	600
	USY4872AMX28	South Korea	5	May 14, 2027	AA	500
	XS2803406698	South Korea	5.375	May 2, 2027	AA	300
	XS2803407233	South Korea	5.25	May 2, 2029	AA	300
X	XS2816006303	UAE	5.375	May 8, 2029	AA	1,250
X	XS2816006725	UAE	5.5	May 8, 2034	AA	1,250
	XS2819738431	Thailand	5.354	May 16, 2029	BBB	400
X	XS2822506759	Qatar	4.625	May 29, 2029	AA	1,000
X	XS2822506833	Qatar	4.75	May 29, 2034	AA	1,500
	XS2826568250	Qatar	5.357	May 29, 2027	AA	300
	XS2827783437	Uzbekistan	6.9	Feb. 28, 2032	BB	600
X	XS2829701718	Latvia	5.125	July 30, 2034	A	1,250
X	XS2775892065	UAE	6.125	March 6, 2036	BB	1,000
Deletions						
Category	ISIN	Country of Risk	Coupon	Maturity Date	iBoxx Rating	Notional (USD Millions)
Broad Benchmark Index	US195325BD67	Colombia	8.125	May 21, 2024	BBB	659
	USP14486AM92	Peru	4.75	May 9, 2024	BB	497
	USP3R94GAA71	Peru	5.25	July 15, 2029	BB	255
	XS1017435352	UAE	3.875	May 6, 2024	AA	750
	XS1069870415	UAE	4.625	May 21, 2024	BBB	413
	XS1814962582	Turkey	6.125	May 3, 2024	B	500
	XS1989704843	China	3.25	May 21, 2024	A	500
	XS2176895469	Egypt	5.75	May 29, 2024	B	1250
	XS2475869975	China	2.7	May 6, 2024	A	250
Liquid Index	US71567RAD89	Indonesia	4.325	May 28, 2025	BBB	2,000
	USY7133MAC39	Indonesia	4.25	May 5, 2025	BBB	1,042

Source: S&P Dow Jones Indices LLC. Data as of May 31, 2024. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

iBoxx USD Emerging Markets Corporates

May 2024 Performance

All corporate sectors posted positive returns in May 2024. Corporate high yield performed better than investment grade at 1.78% MTD return versus 1.39%. Non-financials outperformed Financials at 1.70% compared to 1.17%. However, Financials outperformed YTD (3.08%) compared to Non-Financials (2.04%). The Real Estate sector was the best performer this month, with returns of 3.59% MTD and 9.41% YTD. Contrasting with the equity Information Technology sector, fixed income technology bonds underperformed the entire emerging markets corporates, with returns of 1.17% YTD and 0.28% QTD. The true sector laggards this month were Core Financials and Financial Services, while the winners were Energy (2.22%) and Real Estate. Real Estate outperformance was due to Chinese high yield bonds, while Energy sector performance was attributed to various corporate bonds issued by Brazil, Mexico, Thailand and South Korea, among others. Yields decreased for all sectors, with Real Estate tightening by 178 bps.

Exhibit 7: Corporate Indices Performance

Sector or Rating	Market Cap (USD Millions)	Semiannual Yield	Semiannual Modified Duration	Returns		
				MTD (%)	QTD (%)	YTD (%)
Financials	414,335	6.65	2.19	1.17	1.06	3.08
Core Financials	241,179	6.28	2.24	0.88	0.66	2.18
Financial Services	128,301	6.38	1.90	0.87	0.82	2.55
Real Estate	44,855	9.42	2.72	3.59	3.92	9.41
Non-Financials	775,063	6.62	4.92	1.70	0.36	2.04
Basic Materials	131,417	6.75	4.77	1.50	0.45	3.06
Consumer Goods	69,773	6.38	3.71	1.31	0.19	1.65
Consumer Services	45,201	6.45	5.29	1.72	0.00	2.17
Energy	206,935	7.24	6.03	2.22	0.35	1.64
Health Care	1,655	6.71	3.20	1.58	-0.03	1.87
Industrials	87,164	6.41	3.75	1.34	0.54	2.23
Technology	62,955	5.71	5.50	1.80	0.28	1.17
Telecommunications	39,129	6.55	4.83	1.88	0.73	3.21
Utilities	130,835	6.27	4.36	1.46	0.29	1.75
Investment Grade	805,326	5.83	4.26	1.39	0.30	1.18
High Yield	384,072	8.84	3.35	1.78	1.24	5.57
Corporates Overall	1,189,398	6.68	3.97	1.52	0.60	2.43

Source: S&P Dow Jones Indices LLC. Data as of May 31, 2024. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Investment grade corporates performed worse than high yield corporates across most maturity ranges. The 10+ year maturity bucket had the best MTD returns when compared across tenors and ratings.

The BB 10+ year bucket returned 3.80% MTD, influenced by corporate bonds from Latin America, such as: Pemex, Ecopetrol, Petrobras and BRF. Overall, short term 0-1 tenors performed the worst (0.71%), dominated by Chinese, Chilean and South Korean corporate bonds, among others. The CC 3-5 year return of -13.81% was primarily influenced by three Chilean and Chinese corporate bonds, while the CC 1-3 year return of 4.49% was attributed to four bonds from Ukraine, Peru and China.

Exhibit 8: Rating and Maturity Performance

Rating	0-1 Year (%)	1-3 Year (%)	3-5 Year (%)	5-7 Year (%)	7-10 Year (%)	10+ Year (%)	Overall (%)
Investment Grade	0.57	0.79	1.18	1.75	2.01	3.08	1.39
AA	0.56	0.85	1.08	1.64	1.91	3.21	1.64
A	0.54	0.74	1.15	1.82	1.77	3.05	1.31
BBB	0.59	0.82	1.23	1.73	2.10	3.08	1.41
High Yield	1.06	1.53	1.61	1.84	2.11	3.67	1.78
BB	0.95	1.15	1.78	1.93	2.25	3.80	1.83
B	1.27	1.69	1.49	1.55	1.40	0.75	1.51
CCC	0.79	3.99	1.88	1.48	3.44	-	2.37
CC	2.95	4.49	-13.81	-	-	-	0.41
C	-0.05	-	2.87	-	-	-	0.56
Overall (%)	0.71	1.04	1.33	1.79	2.05	3.21	1.52

Source: S&P Dow Jones Indices LLC. Data as of May 31, 2024. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

May 2024 Rebalancing

In May 2024, semiannual yield decreased by 24 bps, while duration edged up by 0.03. The OAS went down by 7.75 bps compared to April 2024.

At the end-of-month rebalance, 34 bonds with maturities ranging from May 2024 to May 2053 and an index weight of 1.16% exited the index. Meanwhile, 37 bonds entered the index, with maturities between 6 months and 30 years, representing 1.91% of the index weight; the new bonds were predominately from Latin American countries (Argentina, Chile and Brazil), as well as Morocco, Turkey and Philippines, among others.

Exhibit 9: Rebalancing Impact

Date	Semiannual Yield	Semiannual Modified Duration	OAS
April 30, 2024	6.91	3.93	217.18
May 31, 2024	6.67	3.96	209.43

Source: S&P Dow Jones Indices LLC. Data as of May 31, 2024. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Appendix

iBoxx USD Emerging Market Indices Overview

In January 2024, S&P Dow Jones Indices launched the iBoxx USD Emerging Markets Broad Overall Indices. The index suite represents the most comprehensive fixed income hard currency snapshot of the market due to its broad methodology construction. To enter the index, bonds must have a minimum notional amount of USD 250 million and no minimum time to maturity is required. As of May 31, 2024, the index has 2,989 bonds covering sovereigns, sub-sovereigns, corporates and covered bonds, and has a market value of USD 2.40 trillion.

The iBoxx USD Emerging Markets Broad Sovereigns & Sub-Sovereigns Index is one of the headline indices within the iBoxx USD Emerging Markets Broad Overall Series. The index is a market-capitalization-weighted benchmark covering sovereign and sub-sovereign entities domiciled in emerging markets. As of May 31, 2024, the index included 946 bonds from 138 issuers and a market value of USD 1.19 trillion. The index serves as the underlying benchmark for the iBoxx USD Liquid Emerging Markets Sovereigns & Sub-Sovereigns Index.

The iBoxx USD Liquid Emerging Markets Sovereigns & Sub-Sovereigns Index measures the performance of USD-denominated sovereign and sub-sovereign bonds issued by emerging market entities. The index rules select only bonds with at least USD 1 billion in notional amount outstanding and one year to maturity. Within the emerging markets, the index focuses on economies whose gross national income (GNI) per capita is below two times the World Bank high income GNI cut-off. Gulf Cooperation Council (GCC) countries are also eligible for the index regardless of their GNI. A country cap is applied and reviewed annually in December, and the current cap is 7.5%. The index is part of the iBoxx tradable ecosystem.

The iBoxx USD Emerging Markets Broad Corporates Index is a headline index within the iBoxx USD Emerging Markets Broad Overall Series. The index is a market-capitalization-weighted benchmark that covers corporate and covered bonds issued by emerging markets issuers. As of May 31, 2024, the index included 2,043 bonds from 858 issuers and a market value of USD 1.21 trillion.

Abbreviated Index Names

Please note the following abbreviated index names used throughout this paper:

- Overall: iBoxx USD Emerging Markets Broad Overall
- Overall HY: iBoxx USD Emerging Markets Broad High Yield
- Overall IG: iBoxx USD Emerging Markets Broad Investment Grade
- Sovg. & Sub-Sovg.: iBoxx USD Emerging Markets Broad Sovereigns & Sub-Sovereigns

- Liquid Sovg. & Sub-Sovg.: iBoxx USD Liquid Emerging Markets Sovereigns & Sub-Sovereigns
- Sovg & Sub-Sovg HY: iBoxx USD Emerging Markets Broad Sovereigns & Sub-Sovereigns High Yield
- Sovg. & Sub-Sovg. IG: iBoxx USD Emerging Markets Broad Sovereigns & Sub-Sovereigns Investment Grade
- Corporates: iBoxx USD Emerging Markets Broad Corporates
- Corporates HY: iBoxx USD Emerging Markets Broad Corporates High Yield
- Corporates IG: iBoxx USD Emerging Markets Broad Corporates Investment Grade

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