

# iBoxx USD Emerging Markets Monthly Commentary

## Contributor

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## August 2024 Commentary

### Market Overview

August 2024 was an unseasonably active month for the markets. On August 5, the Nikkei 225—Japan’s benchmark index—suffered a collapse of 12%, the largest single-session drop since Black Monday in 1987. This sent chills throughout global markets, with the S&P 500® dipping 3% on the same day, while the Dow Jones Industrial Average® fell 2.6%. The CBOE Volatility Index (VIX®) had its largest one-day spike in history at 65.7 intraday, closing at 38.57, 15.18 above its previous day close. The “culprit” was the “yen carry trade” triggered by Bank of Japan’s historic interest rate hike of 0.25%.

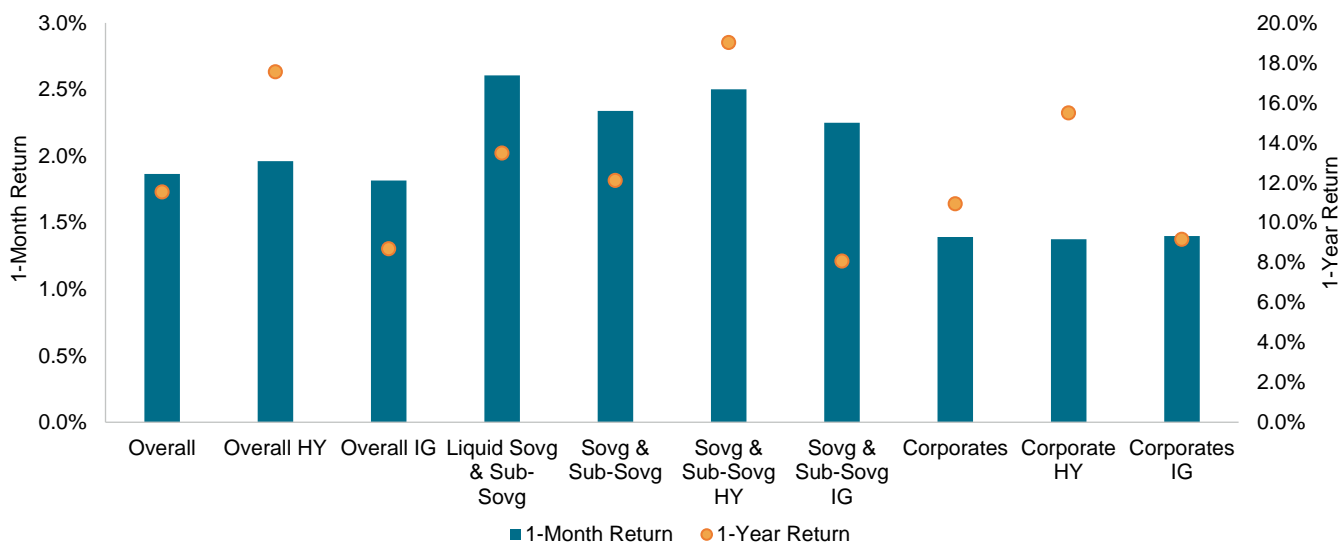
In the U.S., on August 2, the Bureau of Labor Statistics released the unemployment rate, which rose to 4.3%,<sup>1</sup> while non-farm payrolls increased by only 114,000, a sharp slowdown from previous months. The second release from the Bureau of Economic Analysis confirmed that U.S. GDP increased at an annual rate of 3%<sup>2</sup> in Q2 2024, while Q1 2024 GDP growth was revised from X% to 1.4%. The CPI rose by 0.2%<sup>3</sup> on a seasonally adjusted basis, after a decline of 0.1% in June. Considering these statistics, the U.S. Federal Reserve is widely expected to make its first interest rate cut in September.

In other markets, a slowing economy triggered Mexico’s central bank to cut its interest rate by 25 bps in early August, bringing its key rate to 10.75%. Mexico’s GDP was revised down to 0.8%<sup>4</sup> on an annualized basis; exports declined to 0.6% month-over-month; and inflation increased to 5.6%. In the eurozone, inflation decreased to 2.2%<sup>5</sup> in August, down from 2.6% in July. India’s HSBC Manufacturing PMI is one of the key indicators of economic output for emerging markets; this month, it was 57.5,<sup>6</sup> down from July’s reading, signaling an overall softness in economic growth.

# iBoxx USD Emerging Markets Broad Indices

## August 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 Aug. 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 August 2024, Overall HY outperformed the EM Broad Overall index by 9 bps, while Overall IG underperformed by 5 bps. The best performer was the Liquid Sovg. & Sub-Sovg. at 2.61%, outperforming the credit segment of emerging markets, which were the lowest performers, though they still registered a return of 1.39%. This month, it was a close contest between Corporate IG and Corporate HY, with the latter marginally outperforming the former by 2 bps. Year-to-date, the best performer was the Sovg & Sub-Sovg. HY at 19.01%, driven by countries in Latin America and the Middle East, while the worst performer was Sovg & Sub-Sovg. IG at 8.06%.

Looking at the top 10 markets by overall index weight, yields compressed across all of them, with the UAE decreasing the most, down 30 bps to 4.99%. The best performer in August was Saudi Arabia at 2.59%, a 129 bps increase from last month. Year-to-date, the best-performing

market was Chile at 6.01%. China, the highest-weighted market, rose 0.86%, 0.63% less than in July amidst a slight decrease in bond yields of 8 bps to 5.47%.

## Exhibit 2: Top 10 Markets Performance

Market	Weight (%)	Delta from Last Month				August 2024			
		Yield (%)	Duration (Years)	1-Month Return (%)	YTD Return (%)	Yield (%)	Duration (Years)	1 Month Return (%)	YTD Return (%)
China	15.39	-0.08	0.00	-0.63	0.90	5.47	2.92	0.86	5.77
Mexico	7.81	-0.17	0.03	-0.42	1.83	6.85	7.25	1.77	5.42
Saudi Arabia	7.61	-0.26	0.28	1.29	2.62	5.19	7.19	2.59	3.48
UAE	6.78	-0.30	0.07	0.88	2.22	4.99	5.75	2.17	4.38
South Korea	6.67	-0.17	-0.01	-0.39	3.31	4.67	2.71	0.91	4.17
Brazil	5.91	-0.18	0.03	0.07	1.90	6.69	5.21	1.83	5.83
Turkey	5.04	-0.20	0.08	-0.01	1.61	7.00	3.81	1.54	5.98
Indonesia	5.00	-0.27	0.08	0.46	2.39	5.16	7.04	2.36	3.63
Chile	3.34	-0.27	0.05	0.79	2.66	5.49	7.87	2.57	6.01
Qatar	2.89	-0.24	0.03	0.58	2.34	4.83	7.15	2.30	4.07

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2024. Index performance based on total return in USD.  $\Delta$  Yield refers to change in semiannual yield for the month in percent. Delta 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

## August 2024 Performance

In August 2024, the sovereigns & sub-sovereigns index inched up 2.34%, led by the 10+ year maturity sleeve with a return of 3.61%. Of note, the performance of the CCC 10+ year bucket—comprised of longer-dated bonds from Argentina, Pakistan, Ecuador and El Salvador—stood out, returning 5.64%. Additionally, the liquid sovereigns & sub-sovereigns index had a stellar performance, returning 2.61% overall, with the 10+year maturity sleeve leading at 3.58% for the month.

**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 (%)
<b>Investment Grade</b>	0.54	1.02	1.54	1.94	2.10	3.44	2.25
AA	0.50	0.88	1.37	2.21	2.14	4.12	2.03
A	0.55	1.06	1.70	2.04	2.24	4.07	2.45
BBB	0.59	1.14	1.52	1.77	1.96	2.99	2.23
<b>High Yield</b>	0.66	1.11	1.80	2.69	2.43	4.01	2.50
BB	0.53	1.09	1.90	2.25	2.51	3.95	2.52
B	0.59	1.30	1.67	1.92	2.32	2.71	1.84
CCC	1.90	-0.57	2.26	4.84	2.51	5.64	4.52
<b>Sovereigns &amp; Sub-Sovereigns</b>	0.58	1.06	1.64	2.26	2.21	3.61	2.34
<b>Liquid Sovereigns &amp; Sub-Sovereigns</b>		1.18	1.70	2.36	2.27	3.58	2.61

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

In general, longer-dated segments outperformed shorter-dated ones, with the 0-1 year segment at the bottom across all rating groups, with an overall return of 0.58%. Of note was the decrease of 0.57% for the CCC 1-3 Year sleeve, attributed to bonds from Argentina and Pakistan.

**August 2024 Rebalancing**

As of Aug. 31, 2024, the iBoxx USD Emerging Markets Broad Sovereigns & Sub-Sovereigns Index had a semiannual modified duration of 6.08, a semiannual yield of 6.57% and an option-adjusted spread (OAS) of 205.9 bps. Compared to last month, this represented a decrease of 27 bps in yield and a spread decrease of 14.5 bps.

The liquid index posted a semiannual yield decrease of 28 bps, while its duration increased by 0.09 years. At the same time, its OAS decreased by 15 bps (see Exhibit 4).

**Exhibit 4: Rebalancing Impact**

Date	Yield (%)	Duration (Years)	OAS (bps)
<b>iBoxx USD Emerging Markets Broad Sovereigns &amp; Sub-Sovereigns</b>			
July 31, 2024	6.35	6.47	220
Aug. 31, 2024	6.08	6.57	205
<b>iBoxx USD Liquid Emerging Markets Sovereigns &amp; Sub-Sovereigns</b>			
July 31, 2024	6.51	7.22	236
Aug. 31, 2024	6.23	7.31	221

Source: S&P Dow Jones Indices LLC. Data as of Aug. 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

## August 2024 Performance

In August, all corporate sectors were positive, with Non-Financials returning 1.58%, performing better than their Financials counterpart by 54 bps. The best-performing sectors for the month were Health Care (up 2.78%), Energy (up 1.75%) and Basic Materials (up 1.71%), while the worst performers (still registering gains) were Financial Services (up 0.82%), Real Estate (up 0.96%) and Consumer Services (up 1.26%). Year-to-date, Corporate High Yield led at 9.90% compared to 4.93% from Corporate Investment Grade.

### Exhibit 5: Corporate Indices Performance

Sector or Rating	Market Cap (USD Millions)	Yield (%)	Duration (Years)	Returns (%)		
				1-Month	QTD	YTD
<b>Financials</b>	<b>423,021</b>	<b>5.91</b>	<b>2.22</b>	<b>1.04</b>	<b>2.29</b>	<b>6.18</b>
Core Financials	250,144	5.63	2.25	1.17	2.35	5.27
Financial Services	131,135	5.69	1.93	0.82	1.92	5.24
Real Estate	41,741	8.27	2.92	0.96	3.13	14.54
<b>Non-Financials</b>	<b>800,008</b>	<b>6.18</b>	<b>5.01</b>	<b>1.58</b>	<b>3.36</b>	<b>6.37</b>
Basic Materials	140,121	6.36	4.96	1.71	3.31	7.64
Consumer Goods	68,633	5.84	3.74	1.43	2.97	5.57
Consumer Services	45,142	6.03	5.49	1.26	2.99	5.87
Energy	216,667	6.90	6.12	1.75	3.82	6.32
Health Care	1,696	5.71	3.08	2.78	3.85	6.76
Industrials	88,685	5.92	3.92	1.39	2.97	6.03
Technology	64,152	5.18	5.52	1.50	3.56	5.61
Telecommunications	39,556	5.94	4.85	1.47	3.37	8.14
Utilities	135,356	5.76	4.32	1.55	3.12	5.80
<b>Investment Grade</b>	<b>824,236</b>	<b>5.32</b>	<b>4.37</b>	<b>1.40</b>	<b>2.93</b>	<b>4.93</b>
<b>High Yield</b>	<b>398,793</b>	<b>8.40</b>	<b>3.38</b>	<b>1.38</b>	<b>3.10</b>	<b>9.90</b>
<b>Overall</b>	<b>1,223,029</b>	<b>6.19</b>	<b>4.04</b>	<b>1.39</b>	<b>2.99</b>	<b>6.36</b>

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

Similar to the sovereigns & sub-sovereigns index, the 10+ year corporate maturity sleeve led the returns this month at 2.69%, 130 bps above the overall corporates index. Within the 10+ year segment, investment grade outperformed high yield by 30 bps with a 2.76% return. The laggard this month was the 0-1 year maturity sleeve across all rating categories, along with the CCC 5-7 year bucket, which had a return of -2.13%.

**Exhibit 6: Rating and Maturity Performance**

Rating	0-1 Year (%)	1-3 Year (%)	3-5 Year (%)	5-7 Year (%)	7-10 Year (%)	10+ Year (%)	Overall (%)
<b>Investment Grade</b>	<b>0.53</b>	<b>0.93</b>	<b>1.31</b>	<b>1.59</b>	<b>2.09</b>	<b>2.76</b>	<b>1.40</b>
AA	0.54	0.94	1.11	1.49	1.22	3.24	1.57
A	0.51	0.89	1.30	1.30	1.83	2.52	1.24
BBB	0.56	0.97	1.34	1.80	2.27	2.84	1.50
<b>High Yield</b>	<b>0.65</b>	<b>1.03</b>	<b>1.45</b>	<b>1.58</b>	<b>1.85</b>	<b>2.46</b>	<b>1.38</b>
BB	0.60	1.02	1.42	2.05	1.99	2.58	1.52
B	0.89	1.08	1.52	1.25	1.18	-0.18	1.20
CCC	0.09	1.02	1.46	-2.13	1.56		0.50
CC	1.71	0.36	1.05				1.04
<b>Overall</b>	<b>0.56</b>	<b>0.96</b>	<b>1.36</b>	<b>1.59</b>	<b>2.00</b>	<b>2.69</b>	<b>1.39</b>

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

## August 2024 Rebalancing

In August 2024, the overall index yield decreased 19 bps, while duration increased 0.63 years. The OAS decreased 11.47 bps compared to July 2024.

**Exhibit 7: Rebalancing Impact**

Date	Yield (%)	Duration (Years)	OAS (bps)
July 31, 2024	6.37	3.41	226
Aug. 31, 2024	6.18	4.04	214

Source: S&P Dow Jones Indices LLC. Data as of Aug. 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

The iBoxx USD Emerging Markets Broad Overall Index measures the performance of USD-denominated bonds issued by entities domiciled in emerging markets. To qualify for the index, bonds must have a minimum notional amount of USD 250 million and no minimum time to maturity is required. As of Aug. 31, 2024, the index had 2,976 bonds covering sovereigns, sub-sovereigns, corporates and covered bonds, and had a market value of USD 2.47 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 Aug. 31, 2024, the index included 958 bonds from 140 issuers and had a market value of USD 1.25 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 markets 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 designed to be used as 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 Aug. 31, 2024, the index included 2,017 bonds from 855 issuers and had a market value of USD 1.23 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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