

# iBoxx USD Emerging Markets Monthly Commentary

## Contributor

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## September 2024 Commentary

### Market Overview

The U.S. Federal Reserve cut rates by 50 bps on Sept. 18, bringing the target range for the federal funds rate to 4.75%-5.00%,<sup>1</sup> citing a slowing job market, higher unemployment and inflation moving closer to the 2% target. The following day, the **S&P 500**<sup>®</sup> went up 1.70% and ended the month at a record 5,762.48, up 2.02% versus August. The revised unemployment rate was 4.2% in August 2024, compared to 3.7% at the end of December 2023.

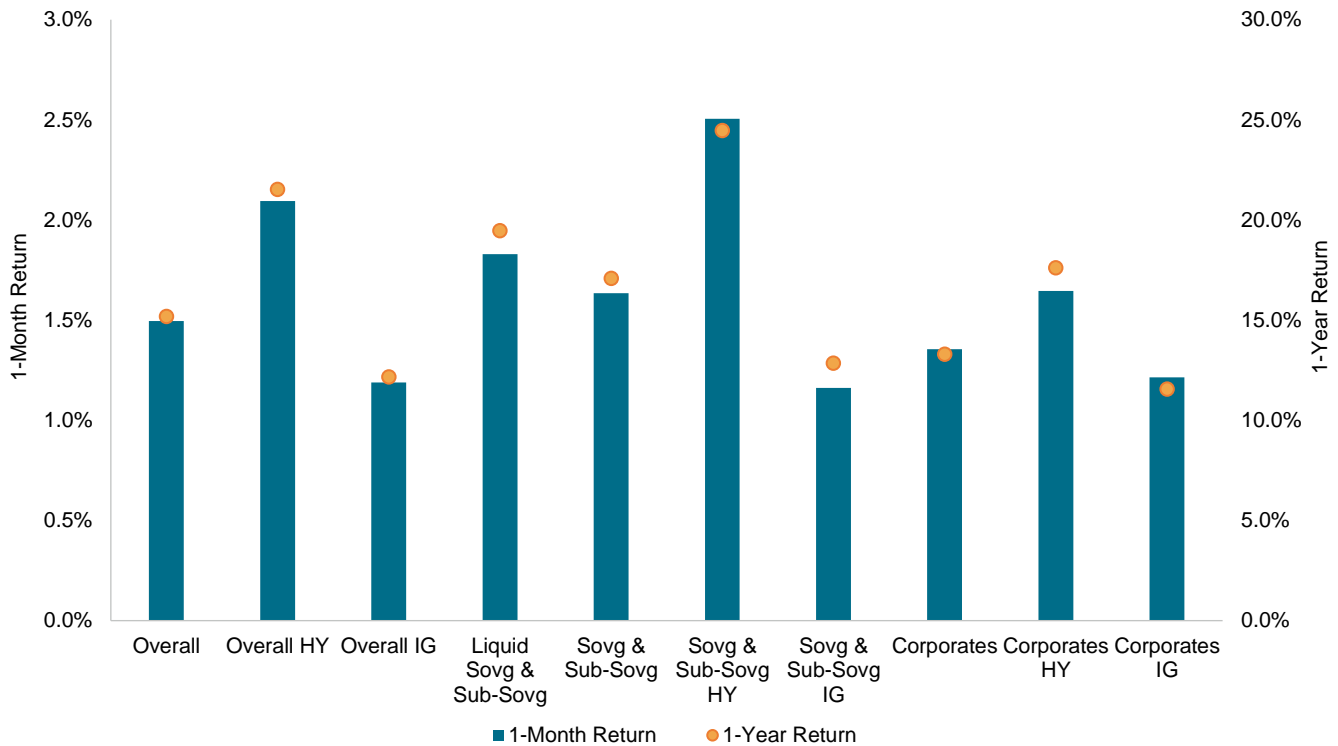
Central banks around the world also acted on their monetary policies. Mexico's central bank lowered rates by 25 bps to a target of 10.50%,<sup>2</sup> with the economy undergoing a period of weakness and the Mexican peso remaining volatile. The Central Bank of Chile decided to lower rates by 25 bps to 5.5%,<sup>3</sup> concerned about the weakening U.S. economy and geopolitical factors. In contrast, Brazil moved forward with an increase of 25 bps, citing inflationary pressure, bringing the rate up to 10.75%.<sup>4</sup>

The European Central Bank also cut rates by 25 bps to 3.5%,<sup>5</sup> projecting additional decreases over the course of the year due to slower economic growth. The overall economic softness was also reflected in the HSBC India Manufacturing PMI. The index went down to 56.5 in September from 57.5 in August due to a deceleration in export demand, particularly new export orders, which were the lowest in 18 months.<sup>6</sup>

# iBoxx USD Emerging Markets Broad Indices

## September 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 Sept. 30, 2024. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Changes in monetary policies across the globe influenced the performance of the iBoxx USD Emerging Market Indices. In September 2024, the Overall index (up 1.50%) returned 37 bps lower than last month. Overall HY outperformed its benchmark by 60 bps, while Overall IG underperformed by 31 bps. The Liquid Sovg & Sub-Sovg beat its benchmark by 20 bps, at 1.83%, but its return was 78 bps lower compared to last month. High yield emerging market bonds outperformed in terms of one-year returns. Notably, Sovg & Sub-Sovg HY was up 24.47% and Corporate HY was up 17.60%. The performance was largely influenced by bonds in countries across Latin America, the Middle East and Africa.

The yield compression pattern followed into September. China was the only top 10 country that increased its yield, by 78 bps, compared to last month. Turkey’s bond yields fell the most, by 38 bps, followed by Brazil at 26 bps and South Korea at 21 bps. Saudi Arabia underwent a drop across all measured dimensions this month, with a notable decline in its monthly return of 183 bps.

**Exhibit 2: Top 10 Markets Performance**

Market	Weight (%)	Delta from Last Month				September 2024			
		Yield (%)	Duration (Months)	1 Month Return (%)	YTD Return (%)	Yield (%)	Duration (Years)	1 Month Return (%)	YTD Return (%)
China	14.98	0.78	0.05	0.33	1.26	6.25	2.96	1.19	7.03
Mexico	7.91	-0.16	0.04	0.10	1.97	6.69	7.29	1.87	7.39
Saudi Arabia	7.63	-0.05	-0.08	-1.83	0.79	5.14	7.11	0.77	4.27
UAE	6.74	-0.09	0.10	-1.25	0.96	4.90	5.85	0.92	5.34
South Korea	6.82	-0.21	-0.01	0.03	0.98	4.45	2.70	0.94	5.15
Brazil	5.92	-0.26	-0.01	-0.31	1.61	6.44	5.20	1.52	7.43
Turkey	4.99	-0.38	0.01	0.40	2.06	6.62	3.82	1.94	8.04
Indonesia	5.02	-0.13	0.07	-1.01	1.40	5.03	7.11	1.35	5.02
Chile	3.37	-0.16	0.09	-1.01	1.66	5.33	7.96	1.56	7.67
Qatar	2.87	-0.10	0.04	-1.20	1.14	4.73	7.19	1.09	5.20

Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 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

### September 2024 Performance

In September 2024, the Sovereigns & Sub-Sovereigns index returned 1.63%, a decrease of 71 bps from the previous month. Of note, the performance of the investment grade sleeve was lower than high yield across all maturity and ratings. The BBB 10+year segment (up 1.88%) outperformed the higher graded peers.

High yield bonds had a great month as well, up 2.50%, influenced by the 10+ year segments. The shorter dated bonds (0-1-year, 1-3 year) had the lowest returns across all credit ratings for the month, except for the CCC 1-3 year, which returned 4.14%. The best performer was the CCC 10-year credit, at 8.22%, boosted by bonds from Argentina, Ecuador and El Salvador.

Overall, the Liquid Sovereigns & Sub-Sovereigns index outperformed its benchmark again in September, with its performance largely attributed to longer-dated bonds.

**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>	0.44	0.85	1.03	1.23	1.26	1.40	1.16
AA	0.47	0.83	0.87	0.94	1.29	0.85	0.86
A	0.42	0.81	0.95	1.08	1.03	0.63	0.83
BBB	0.41	0.91	1.23	1.44	1.45	1.88	1.53
<b>High Yield</b>	0.68	1.41	1.92	2.64	2.18	3.89	2.50
BB	0.49	0.81	1.16	1.48	1.83	2.01	1.50
B	0.82	1.53	1.95	2.04	2.47	3.22	2.12
CCC	1.06	4.14	6.23	5.53	6.49	8.22	6.82
<b>Sovereigns &amp; Sub-Sovereigns</b>	0.53	1.07	1.36	1.85	1.57	2.15	1.63
<b>Liquid Sovereigns &amp; Sub-Sovereigns</b>	-	1.03	1.42	1.97	1.61	2.26	1.83

Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2024. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

## September 2024 Rebalancing

As of Oct. 1, 2024, the iBoxx USD Emerging Markets Broad Sovereigns & Sub-Sovereigns Index had a yield of 5.87%, a duration of 6.65 years and OAS (bps) of 204.6. This represents a decrease in yield of 6 bps, an increase in duration of 0.04 years and a slight decrease in OAS by 1.5 bps.

The liquid index posted a yield of 6.03%, a duration of 7.36 years and OAS of 219.6. (see Exhibit 4).

**Exhibit 4: Rebalancing Impact**

Date	Yield (%)	Duration (Years)	OAS (bps)
<b>iBoxx USD Emerging Markets Broad Sovereigns &amp; Sub-Sovereigns</b>			
Sept. 30, 2024	5.93	6.61	206.1
Oct. 1, 2024	5.87	6.65	204.6
<b>iBoxx USD Liquid Emerging Markets Sovereigns &amp; Sub-Sovereigns</b>			
Sept. 30, 2024	6.08	7.32	220.0
Oct. 1, 2024	6.03	7.36	219.6

Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 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

## September 2024 Performance

The iBoxx USD Emerging Markets Corporates gained 1.36% in September, with high yield bonds (up 1.65%) outperforming their investment grade counterparts (up 1.21%). For Q3 2024, Corporates HY outperformed its benchmark by 42 bps while Corporates IG underperformed by 20 bps. Year-to-date, Real Estate, Telecommunications and Basic Materials led the sectors, with returns of 16.65%, 9.53% and 9.05%, respectively.

Non-Financials outperformed Financials by 46 bps while providing higher yield. The best-performing sector this month was Energy at 1.94%, followed by Real Estate at 1.84% and Health Care at 1.75%. Compared to last month, the Real Estate sector's monthly return increased 89 bps, influenced by bonds from China, Saudi Arabia and Mexico. Yield compressed across sectors, excluding Energy, which had a 64 bps increase in September.

### Exhibit 5: Corporate Indices Performance

Sector or Rating	Market Cap (USD Millions)	Yield (%)	Duration (Years)	Returns (%)		
				1-Month	QTD	YTD
<b>Financials</b>	<b>415,757</b>	<b>5.67</b>	<b>2.23</b>	<b>1.06</b>	<b>3.38</b>	<b>7.34</b>
Core Financials	243,854	5.40	2.25	1.00	3.37	6.32
Financial Services	129,458	5.44	1.96	0.92	2.86	6.21
Real Estate	42,445	7.89	2.92	1.84	5.03	16.65
<b>Non-Financials</b>	<b>800,854</b>	<b>6.21</b>	<b>5.04</b>	<b>1.52</b>	<b>4.93</b>	<b>7.99</b>
Basic Materials	138,957	6.20	5.03	1.31	4.66	9.05
Consumer Goods	67,606	5.60	3.79	1.39	4.41	7.04
Consumer Services	45,319	5.86	5.49	1.42	4.45	7.37
Energy	218,850	7.54	6.16	1.94	5.84	8.38
Health Care	1,725	5.29	3.03	1.75	5.67	8.62
Industrials	88,137	5.75	3.89	1.23	4.24	7.34
Technology	64,004	4.93	5.63	1.82	5.45	7.54
Telecommunications	39,839	5.75	4.75	1.29	4.70	9.53
Utilities	136,417	5.56	4.28	1.25	4.41	7.12
<b>Investment Grade</b>	<b>816,271</b>	<b>5.14</b>	<b>4.42</b>	<b>1.21</b>	<b>4.18</b>	<b>6.20</b>
<b>High Yield</b>	<b>400,341</b>	<b>8.91</b>	<b>3.38</b>	<b>1.65</b>	<b>4.80</b>	<b>11.71</b>
<b>Overall</b>	<b>1,216,612</b>	<b>6.21</b>	<b>4.08</b>	<b>1.36</b>	<b>4.38</b>	<b>7.80</b>

Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2024. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Gains were observed across most of the yield curve and rating segments this month, particularly in the BB 10+ year maturity range. High yield short-dated bonds led, with CC 1-3

year at 5.59%, CC 3-5 year at 4.81% and CCC 1-3 year at 2.75%. CCC 0-1 year underperformed, at -5.51%, influenced by bonds from Argentina, Nigeria, Turkey and Mexico, among others. The B 0-1 year bonds had an increase of 128 bps, bringing the return to 2.17% in September. The best performer in Corporate IG was the A 10+ year sleeve at 1.76%, despite a decrease of 76 bps when compared to its August returns.

### 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>1.10</b>	<b>1.16</b>	<b>1.30</b>	<b>1.02</b>	<b>1.10</b>	<b>1.49</b>	<b>1.21</b>
AA	1.15	1.24	1.11	0.74	0.75	1.27	1.15
A	1.14	1.05	1.40	1.04	1.10	1.76	1.27
BBB	1.06	1.22	1.26	1.05	1.13	1.26	1.18
<b>High Yield</b>	<b>0.91</b>	<b>1.66</b>	<b>1.49</b>	<b>1.73</b>	<b>1.57</b>	<b>2.78</b>	<b>1.65</b>
BB	1.15	1.65	1.58	1.48	1.57	2.98	1.72
B	2.17	1.42	1.45	1.92	1.39	2.02	1.59
CCC	-5.51	2.75	0.45	2.69	2.49	1.16	0.78
CC	2.72	5.59	4.81	1.89	-	2.84	3.58
<b>Overall</b>	<b>1.04</b>	<b>1.34</b>	<b>1.37</b>	<b>1.26</b>	<b>1.27</b>	<b>1.81</b>	<b>1.36</b>

Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2024. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

## September 2024 Rebalancing

As of Oct. 1, 2024, no significant index changes were noticed. The yield decreased by 1 bp and duration went up by 0.03 years.

### Exhibit 7: Rebalancing Impact

Date	Yield (%)	Duration (Years)	OAS (bps)
Sept. 30, 2024	6.21	4.08	214.6
Oct. 1, 2024	6.20	4.11	217.1

Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 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 Sept. 30, 2024, the index had 2,978 bonds covering sovereigns, sub-sovereigns, corporates and covered bonds, and had a market value of USD 2.51 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 Sept. 30, 2024, the index included 970 bonds from 141 issuers and had a market value of USD 1.27 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 Sept. 30, 2024, the index included 2,009 bonds from 844 issuers and had a market value of USD 1.24 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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