

# 2024 Outlook: Emerging Markets Debt

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## Technical Tailwind Expected for Emerging Markets Debt in 2024

### KEY POINTS

1. Many emerging markets (EM) central banks were early and more aggressive in tightening policy than their developed market peers, which is helping to tame inflation and opening the way for more growth-friendly policy.
2. We expect net inflows to rebound into EM debt in 2024, providing a technicals tailwind for the asset class.
3. The asset class remains susceptible to macro sensitivity, which places an added emphasis on in-depth country and company research to guide judicious credit selection.

### What We Are Seeing

We believe there is further upside across the EM debt asset class as we look to 2024, which follows from stabilization in performance for a relatively good result in 2023. We continue to favor local interest rates, currencies and corporate spread exposures, while staying more neutral on sovereign spreads. Of course, these broad-brush views come along with many exceptions.

From our perspective, many emerging markets central banks have run better and more orthodox monetary policy than their developed markets peers. The result of being early and aggressive to tighten policy in the beginning stages of this global inflationary cycle is threefold: High current real yields, falling inflation and either the end of tightening cycles or the beginning of easing cycles. This combination is a strong backdrop for local interest rates.

We foresee a technical tailwind for EM debt in the coming year. As 2023 draws to a close, the year is on track to be another *annus horribilis* for flows with roughly \$30 billion in net outflows from EM debt funds globally. While this marks two years of record withdrawals (the nadir came in 2022), we believe that outflows have nearly bottomed out. We are currently seeing significant interest from global institutional investors around the world, which to us signals strong potential for inflows to materialize in 2024 from asset allocators into dedicated EM debt funds.

At the individual country level, there remains broad dispersion from a fundamental perspective. That said, we would be remiss to not highlight some of the surprising, unfolding reformers across emerging markets. Specifically, Turkey and Nigeria have implemented major, positive turns in policy from what we viewed to be concerning levels. Greece continued down its path back to a "developed market" country. And, while too early to make any definitive statements, Argentina's political direction has likely and necessarily changed for the better with its recent election.

### What We Are Doing

Based on our constructive views, we have been adding select opportunities across our EM debt portfolios. We remain particularly optimistic about EM local interest rates and this is where our portfolios tend to be overweight. While off their peak, real yields remain substantially elevated relative to the past decade plus.

We have also recently upgraded our view on EM currencies, which, together with local interest rates, speaks to the emerging opportunities in the EM local currency segment.

Within sovereign and corporate hard currency segments, we continue to find mispriced assets - both underpriced and overpriced - relative to our view of the state of policies and economic institutions.

### What we are watching

We continue to evaluate all opportunities on a bottom-up, country-by-country and company-by-company basis, as we believe this to be the best way to find attractive EM turnaround stories.

We recognize, however, that the broad asset class remains more sensitive to macro conditions and market sentiment at present. So we continue to monitor developments in key global markets, such as the U.S. and China, and their impact on the asset class.

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