

The views expressed in these posts are those of the authors and are current only through the date stated. These views are subject to change at any time based upon market or other conditions, and Eaton Vance disclaims any responsibility to update such views. These views may not be relied upon as investment advice and, because investment decisions for Eaton Vance are based on many factors, may not be relied upon as an indication of trading intent on behalf of any Eaton Vance fund. The discussion herein is general in nature and is provided for informational purposes only. There is no guarantee as to its accuracy or completeness.

Unsere Emerging Markets und Global Income Inhalte sind auf Deutsch verfügbar.

[EMERGING MARKETS DEBT](#) | [INTERNATIONAL/GLOBAL](#)

## Outlook for EM Debt Shining Brighter at Second Quarter's Start

By: *Emerging Markets Debt* | April 25, 2023

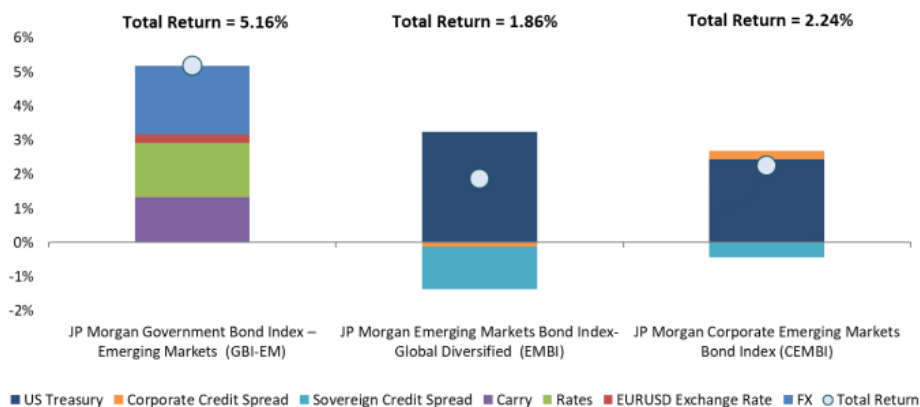
**Boston** - Emerging markets (EM) debt produced positive performance during the first quarter of the year despite a mixed backdrop for global capital markets. Optimism around China's reopening and expectations that the U.S. Federal Reserve's (the Fed) tightening cycle was nearing an end provided a strong start to the year, but the rally turned on high U.S. inflation readings, which led Fed officials to maintain their hawkish stance.

Banking stress in some developed markets acted as another headwind, fueling global volatility and leading performance across EM debt segments to diverge. Local markets (FX and rates) rallied strongly, while the USD-denominated hard currency segments (sovereign and corporate) were impacted by the broad widening in credit spreads globally.

All three segments in the EM sector posted positive returns in the first quarter:

- EM local-currency debt registered the strongest gains, at 5.16%, given strengthening currencies and falling local interest rates.
- Dollar-denominated, hard-currency debt gained 1.86% as returns from the rally in U.S. Treasuries more than offset the detraction from sovereign spreads.
- Corporate EM debt, the other hard-currency EM debt segment, also benefited from the strong performance of U.S. Treasuries, returning 2.24%.

Local currency led EM debt performance in 1Q23



Sources: JP Morgan, Morgan Stanley Investment Management, March 31, 2023. **Past performance is no guarantee of future results.** Data provided for informational purposes only. It is not possible to invest directly in an index. The vertical axis reflects the amount contributed by each factor to total return - adding the bars above 0% and below 0% (negative numbers) results in the total return. **FX** is the gain or loss in the GBI-EM from currency changes relative to the U.S. dollar. **EURUSD** reflects the portion of currency movement in the GBI-EM that is explained by the change of the euro versus the U.S. dollar. **Rates** refers to the contribution of change in local-currency interest rates in the GBI-EM. **Carry** refers to the risk-free returns in each GBI-EM country that cannot be attributed to FX, EURUSD or rates. **Sovereign credit spread** refers to the spread above U.S. Treasuries in the EMBI paid by a country. **Corporate credit spread** is the spread above the sovereign spread paid by an EM corporate issuer. **U.S. Treasury** refers to the contribution to return in the EMBI and CEMBI (both dollar-denominated indexes) due to interest-rate changes on the U.S. Treasury.

### Looking ahead

We see a number of reasons to be upbeat on the outlook for EM debt ahead. For starters, the Fed's tightening cycle is likely to end in the near term, which could blunt the persistent strength of the U.S. dollar while also providing central banks in the emerging world greater maneuverability to begin easing.

As many EM central banks have tightened policy more than their DM counterparts amid last year's strong inflation surge, they are also near the end of their tightening cycles with price pressures beginning to dissipate. As a result, real interest rates in emerging markets remain significantly higher than in developed markets, sitting at their widest levels of the past two decades.

At the same time, commodity prices have come off recent highs and the falls seen should feed through to lower CPI readings. That said, on

a 10-year basis prices for raw materials still remain elevated compared to longer term trends, which should support export receipts for commodity producing countries.

In terms of growth, looser monetary policy would be a boon. Already, economies in the EM world are forecast to outpace developed market peers, with upward revisions for projected GDP pointing to a rising gap in EM-DM growth differentials.

Not all economies are performing well, as the challenges of the past three years have left many countries with large-scale fiscal deficits. However, an increasing number appear to recognize the need to consolidate public accounts. Should a recovery in emerging markets further materialize in 2023, we will be looking for prudent, counter-cyclical fiscal policies to be implemented where appropriate.

With the outlook broadly improving, we believe that opportunities remain compelling across the EM debt universe and appear to offer particularly attractive compensation to investors at present.

**Bottom line:** We believe opportunities abound for EM debt investors today. However, growth, inflation and fiscal policy are quite divergent across the heterogeneous universe of countries that investors collectively refer to as *emerging markets*. Accordingly, we expect markets to place an emphasis on differentiation amongst countries and credits. That creates opportunities for investors with the research prowess and investment reach to access attractive credits across this wide and diverse asset class.

---

**Risk Considerations:** *The value of investments may increase or decrease in response to economic and financial events (whether real or perceived) in the U.S. and global markets. Investments in foreign instruments or currencies can involve greater risk and volatility than U.S. investments because of adverse market, economic, political, regulatory, geopolitical, currency exchange rates or other conditions. In emerging or frontier countries, these risks may be more significant. Investments in debt instruments may be affected by changes in the creditworthiness of the issuer and are subject to the risk of non-payment of principal and interest. The value of income securities also may decline because of real or perceived concerns about the issuer's ability to make principal and interest payments. Exposure to derivatives involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other investments. As interest rates rise, the value of certain income investments is likely to decline. The value of commodities investments will generally be affected by overall market movements and factors specific to a particular industry or commodity, including weather, embargoes, tariffs, or health, political, international and regulatory developments.*



Emerging Markets Debt

"With the outlook broadly improving, we believe that opportunities remain compelling across the EM debt universe and appear to offer particularly attractive compensation to investors at present."

# Marketing Communication

To report a website vulnerability, please go to [Responsible Disclosure](#).

Eaton Vance is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley.

This website is operated by MSIM Fund Management (Ireland) Limited (MSIM FMIL). The business of Eaton Vance Global Advisors Limited was transferred to MSIM FMIL on 1 October 2021. MSIM Fund Management (Ireland) Limited has been appointed as management company of the Eaton Vance International (Ireland) Funds plc and is responsible for the distribution of the funds together with the distribution of Eaton Vance strategies and strategies of Eaton Vance affiliates. For any queries in respect of the products and strategies referred to on this website, please contact MSIM FMIL at 7-11 Sir John Rogerson's Quay, Dublin 2, D02 VC42, Ireland. MSIM FMIL is regulated by the Central Bank of Ireland with Company Number: 616661.

The value of your investment can go up or down so you may get back less than your initial investment. Past performance is not a guide to future returns.

The information on this webpage is not intended for U.S. residents. To visit our U.S. website [please click here](#).

Eaton Vance Management (Registration No. 1121368) and Parametric Portfolio Associates (Registration No. 1217626) are the registered trade marks of Eaton Vance.