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

本ページには、翻訳が無く原文のみが掲載されているブログの投稿も含まれております

EMERGING MARKETS DEBT

Despite Promising Start, EM Debt Declines in Third Quarter 2022

By: Emerging Markets Debt | October 18, 2022

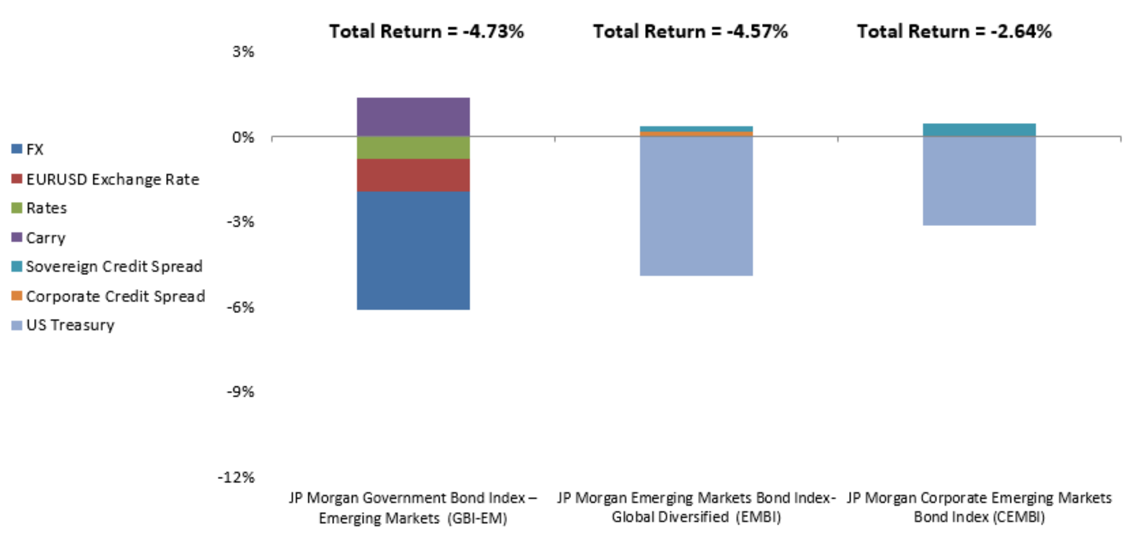
Boston - Emerging markets (EM) debt had strong performance from mid-July until mid-August, then took a turn down as the macro environment deteriorated.

Following the July meeting of the U.S. Federal Reserve, which the market largely took as a dovish pivot, the Fed sought to clarify its intentions in no uncertain terms. The Fed signaled it will continue its hawkish policy stance for the foreseeable future to get inflation under control and potentially at the expense of growth. This clarification put additional upward pressure on the U.S. dollar along with increased concerns over the potential for a global recession.

Other ongoing world events also weighed on the macro environment. Europe continued to struggle with the Russia/Ukraine war and, in particular, the resulting high energy prices. The U.K. battled inflation and a disorderly increase in yields, as markets reacted to the government's large-scale fiscal easing. That fiscal plan was ultimately scrapped, but not before the Bank of England was forced to intervene. In China, the combination of the ongoing stress in the property sector and zero-COVID policy continued to weigh on growth expectations as did the further deterioration of U.S./China relations.

- Corporate EM debt, while losing 64%, was the best-performing EM debt sector. Its relative outperformance reflected its higher-quality profile and the underlying relative strength of the issuers.
- Dollar-denominated, hard-currency debt performed modestly better than local currency, with a loss of 4.57%. Spreads over U.S. Treasury yields continued to widen, albeit with notable variance among credit qualities. Additionally, rising U.S. Treasury yields directly hurt both sovereign and corporate EM debt sectors because of their relatively long U.S. duration profiles.
- EM local-currency debt, with a loss of 4.73%, was the worst-performing EM sector, as the broad rally in the U.S. dollar continued to weigh on the space, while local interest rates also generally moved higher, reflecting the global trend.

War and rising rates are a one-two punch for EM debt



Data is provided is for informational use only. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

Sources: JP Morgan, Morgan Stanley Investment Management, 9/30/22. 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 in the headline. **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. Treasurys 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.

A look ahead

Looking forward to the remainder of 2022, we expect macro factors to continue driving market sentiment. However, today's valuations imply that investors are "pricing in" the risks of EM debt more aggressively than many other areas of global capital markets.

- The macro environment remains quite challenging, with hawkish monetary policy from most central banks seeking to rein in inflation, slowing global growth, a strong U.S. dollar, China's slowdown and the ongoing Russia/Ukraine war. We will watch the proceedings of China's the 20th Party Congress carefully and expect President Xi to maintain his ultimate authority.
- While we expect macro pressures to continue to drive market sentiment in the short term, the management of these factors varies quite broadly by country. We believe fundamentals will matter most over the intermediate to long term.
- Commodity prices eased on the heels of a large pull back in oil prices and remain an important factor for the global economy and EM debt, in particular.
- Some EM central banks appear to be at or near the end of their tightening cycles, having started sooner than developed markets. With global growth slowing, this is an important factor to watch and may represent relative strength for EM.
- Fiscal policy is becoming a more important factor, particularly for democracies with upcoming elections where politicians may be tempted to "blow out" budgets.

Bottom line: We expect markets to continue emphasizing differences among countries and credits. That creates investment opportunities for those with research capabilities and due diligence that are up to the task. That is why we focus on country-level macroeconomic and political research, and stand-alone analysis of specific risk factors such as currency, credit spreads and interest rates — an approach we have followed for more than two decades.

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. The strategy employs an "absolute return" investment approach, benchmarking itself to an index of cash instruments and seeking to achieve returns that are largely independent of broad movements in stocks and bonds. 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
Morgan Stanley Investment Management

"Looking forward for the remainder of 2022, we expect macro factors to continue driving market sentiment. However, today's valuations imply that investors are 'pricing in' the risks of EM debt more aggressively than many other areas of global capital markets."