

August 2021

## Emerging Markets Fixed Income Commentary

EM began the month in summer mode with relatively flat spreads, but then tightened into the end of the month. EM sovereign credit generated a solid return on the month of 1% with spread tightening (1.4%) more than offsetting the loss from slightly higher U.S. rates (-.4%).

On a risk adjusted basis, high quality credit traded better with EM IG spreads tightening around 6% in August whereas EM HY was 2% tighter. EM IG was well positioned to absorb higher U.S. treasury yields after a period of weakness in July. Lower quality credit remained well supported especially in light of the announcement of the largest IMF SDR allocation in history totaling \$650bn. Several countries have considered actions to use IMF SDR's to pay down debt including Colombia which completed a transaction with its central bank at the end of the month.

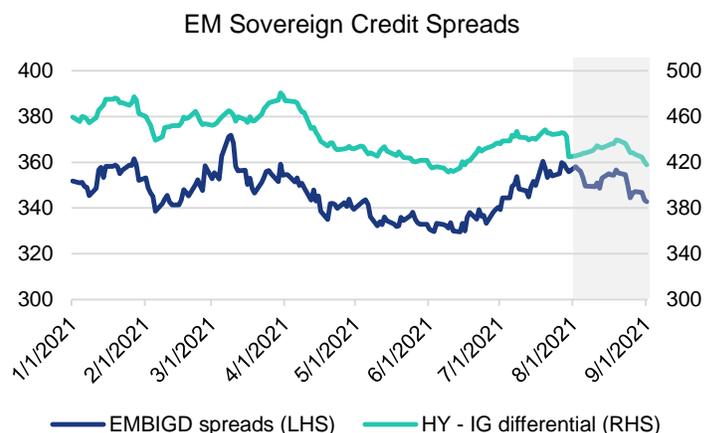
As anticipated, sovereign issuance was absent in August following abnormally large supply in July given attractive yields and prospects for rising rates. After accounting for amortizations and coupons, net sovereign supply was negative \$300mn. This helped support technicals as flows moderated. Hard currency funds experienced outflows for the first time since April (-\$400mn) while local currency funds had inflows of +700mn.

In line with seasonal trends, EM sovereign issuance is expected to increase meaningfully in September and October. Estimates suggest that remaining sovereign issuance is about \$75bn which is about 35% of total 2021 expected supply. Issuers out of the Middle East and high yield Sub-Saharan Africa are likely to be more prominent compared to the first half the year which was dominated by Latin America. Given supply has been well telegraphed, we expect deals to be supported.

EM local market performance was lackluster with a monthly return of .2%. EM FX began to recover from its downward trend with the dollar coming under pressure as the market recalibrated their expectations for Fed tapering. EM central banks across various regions continued to tighten monetary policy on the back of inflation concerns.

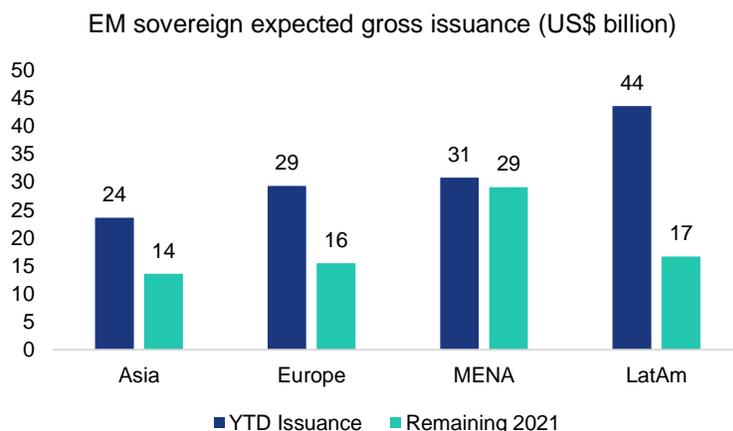
With the slow months behind us, we are positioned to take advantage of the upcoming supply and any dislocations it may create. We think opportunity exists in select local markets where central banks have made decent progress towards their terminal rate.

### EM spreads resumed tightening at the end of August following a quiet start to the month



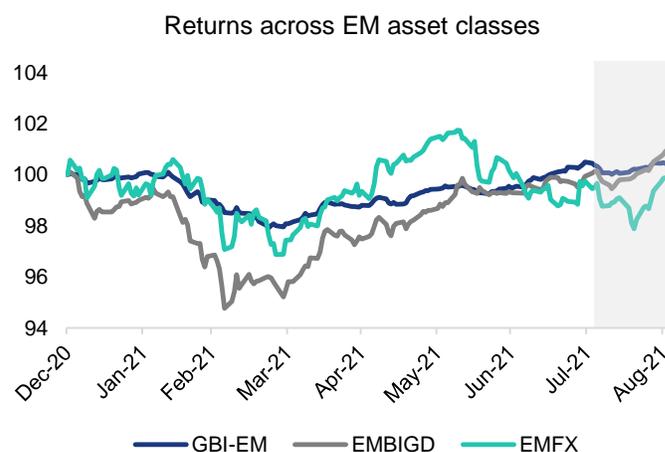
Sources: Bloomberg, JP Morgan, Vanguard.

### With the summer behind us, EM sovereign issuance is expected to increase meaningfully



Sources: JP Morgan and Vanguard calculations.

### EM FX began to recover during the middle of the month as investors recalibrated their expectations for Fed tapering



Sources: Bloomberg, JP Morgan, and Vanguard calculations.

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