# Emerging market weekly update

## Performance for the week ending 13 December 2024

### Summary

Equity markets gave back some of their recent gains this week, with the S&P 500 down -0.6% and the Euro Stoxx 50 down -0.2%, while emerging-market (EM) equities eked out small gains of +0.2%. The US rates curve bear-steepened, with 2-year yields 14 basis points (bps) higher and 30-year yields 27bps higher. US 10-year real yields were 15bps higher at 2.05%.

In EM credit markets, corporate and sovereign spreads were 12bps and 9bps tighter, respectively, while total returns were -0.3% for corporates and -0.8% for sovereigns. In EM corporates, outperformance came from the pulp & paper and real estate sectors, while the financials and transportation sectors lagged. In the sovereign space, Argentina, Venezuela and Ukraine all outperformed, while Nigeria lagged after a recent solid run.

In EM local markets, total returns were down -0.2% on the week. In the foreign-exchange (FX) space, Asia underperformed, with the Philippine peso, Malaysian ringgit and Indonesian rupiah all under pressure. Latin America managed a small recovery as FX intervention in Brazil halted the slide in the real, while the Colombian peso contributed. Meanwhile, in the rates space, China was the outperformer as the economic backdrop there continues to underwhelm market expectations.

### Market highlights

- In Brazil, President Luiz Inacio Lula da Silva appeared to recover well from emergency surgery to remove a brain bleed, as he was able to make a statement alongside his doctors. Brazilian assets traded in a wide range as volatility continues to spike due to market fears around a lack of fiscal discipline; meanwhile, the central bank continues to work hard to stabilise markets with aggressive rate hikes – as well as FX auctions – to reduce volatility in the currency.

### Market outlook

The main macro event remaining this year is the Federal Reserve (Fed) meeting on Wednesday evening, where a 25bp rate cut is widely expected. This would bring the total easing from the Fed this year to 100bps, while markets are currently pricing a further 50bps of easing over the course of 2025. As witnessed this year, the market's pricing of the Fed can change quickly, and this is especially the case in 2025, given the lack of clarity over the extent of President-elect Donald Trump's policy agenda. Away from the US, market themes remain similar, with economic weakness in Europe and China leading to divergent global monetary policy, which continues to drive FX markets.

In EM fixed-income markets, the recent backup in core yields has weighed somewhat on total returns in credit markets. Spreads remain well behaved, however, despite the positive fundamental backdrop and the lack of supply, given the primary market is effectively shut until January. In local markets, the strong US dollar theme continues to act as a headwind to performance, but high levels of real yield in some areas mean that running shorts in a range-trading environment is quite expensive. We can therefore see conditions for a tactical rally in local markets as we approach year-end. As we look ahead to 2025, we expect a busy start to the year, with many issuers likely to try to issue in the credit market ahead of Trump's inauguration.

## Appendix: Index review – weekly market snapshot as at 13/12/2024

| | Total return | | | Spread / yield change (bps) | | | | |
|---|---|---|---|---|---|---|---|---|
| | Weekly | MTD | YTD | Weekly | MTD | YTD | Spread (bps) | Yield (%) |
| **Hard Currency Sovereign** | -0.76% | -0.01% | 8.03% | -9 | -15 | -63 | 322 | 7.68 |
| **Hard Currency Corporate** | -0.26% | 0.05% | 8.04% | -12 | -12 | -74 | 232 | 6.68 |
| **Local Currency Sovereign** | -0.19% | -0.15% | -0.61% | 2 | 5 | 15 | | 6.35 |

Source: Bloomberg, JPMorgan

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