

Portfolio Manager Perspectives

BlueBay Emerging Market Debt Update

Weekly Update April 29, 2021

The performance in equity markets was mixed this week, with the S&P 500 flatlining, European stocks losing around 0.5% and emerging-market (EM) equities gaining around 0.3%. The main headwind for US markets was a renewed focus on President Joe Biden's plans to implement a 39.6% capital-gains tax on the wealthiest Americans. This news also helped to keep a lid on US Treasury yields. The US 10-year notes trended another 2 basis points (bps) lower in yield over the week to make it an impressive 18bps rally over the month so far.

On the data front, US purchasing managers' index (PMI) data continued to show the economy in a solid rebound phase. Meanwhile, European PMI data also showed improvement, helped by progress on vaccinations, with over 20% of the European population now vaccinated.

In EM fixed income, it was a rather lacklustre week, with both credit and local-currency markets eking out small gains. In credit markets, high-yield names generally outperformed while, in local markets, foreign exchange (FX) outperformed, helped by a recovery in Brazil.

Market review

- The reality of India's struggle with Covid was laid bare for all to see this week. News headlines ran stories detailing how the country's health system has become overwhelmed with patients as they also run short of oxygen supplies. International assistance has now been forthcoming from the US, Europe and the UK to name a few but it will take time to bring the crisis in India under control, and the risk of further virus mutations in the meantime is high.
- Russia began to withdraw its military forces from the border with Ukraine after an easing of tensions, which allowed for a solid recovery in Russian assets. President Vladimir Putin achieved one objective – a summit proposed between himself and President Biden to be held some time over the summer months, perhaps as early as June.

Market outlook

The global recovery continues to be uneven as we increasingly see the positive impact on mobility and economic growth experienced by those countries that have successfully deployed Covid vaccines across their populations. Most recently, it has been Europe making inroads on this front, with more than 20% of the population now vaccinated, joining countries such as the US and the UK in making significant progress on the path to achieving herd immunity. However, the graphic images we have all seen from India this week are a reminder that this virus will only be brought under control when vaccinations are rolled out globally.

For markets, the solid but uneven growth rebound is likely to result in greater dispersion across and within asset classes, in our opinion. US Treasury yields have rallied so far in April, despite the positive data coming out of the US, reflecting heavy positioning and some consolidation after the solid moves in the first quarter. As US data continues to improve, it is likely that US yields will resume their upwards trajectory, although tax plans such as President Biden's capital gains increase are likely to temper the move. In our view, an improving European vaccination programme is another positive, which will also help to improve global growth.

We think the weak spot on the virus remains the developing world. Vaccine availability is far lower than in the developed world and a lower provision of social welfare means the virus is spreading more quickly. This raises the threat of EM growth lagging developed-market growth in the second quarter, with the notable exception of China. We believe a degree of caution is therefore warranted in the more growth-sensitive areas of EM for now until more progress is made on the vaccine front.

Index Review – Weekly Market Snapshot as of 04/23/2021

	Total return			Spread / yield change (bps)			Spread (bps)	Yield (%)
	Weekly	MTD	YTD	Weekly	MTD	YTD		
Hard Currency Sovereign	0.01%	2.45%	-2.20%	1	-14	-12	340	5.00
Hard Currency Corporate	0.12%	0.71%	-0.29%	0	6	-28	289	4.29
Local Currency Corporate	-0.17%	1.85%	-1.27%	-3	-8	-64	132	5.41
Local Currency Sovereign	0.05%	2.59%	-4.26%	2	-12	66		4.87

Source: Bloomberg, JP Morgan

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