January 2024

A positive macroeconomic backdrop, improving corporate fundamentals, limited supply, a majority local buyer base, attractive yields and expectations that defaults will remain range bound we believe make a compelling case for emerging market corporates in 2024.
The growth differential is expected to widen in favour of emerging markets (EM) in 2024 as developed economies slow down (Fig. 1).

Global central banks switch from inflation concerns to growth preservation, especially in EM. Frontier markets fully adopt orthodox policy (i.e., Argentina, Turkey, Nigeria).

China has “hard pivoted” to support growth through monetary and regulatory loosening, proactive fiscal and direct property support. The loosening process has been slow, and lags are difficult to estimate; but a positive impulse is underestimated.

Disinflation is on track.

The US dollar is expected to weaken gradually in 2024, driven by policy loosening, fiscal/election concerns and growth differentials.

Commodity prices have normalized and are expected to be range bound; precious metals slightly higher, industrial metals slightly lower, West Texas Intermediary (WTI) oil to average US$79 per barrel. (Weather/El Nino, geopolitics, supply constraints offset weaker growth in developed economies) (Fig. 2).

Forecasts mentioned are not a reliable indicator of future results and should not be the sole factor of consideration when selecting a product or strategy.

Source: Bloomberg, as of 8th January 2023

Forecasts mentioned are not a reliable indicator of future results and should not be the sole factor of consideration when selecting a product or strategy.

Source: JP Morgan, as of 28th November 2023. For illustrative purposes only.
NEGATIVES

- Politics - a heavy global election calendar for 2024. Russia/Ukraine conflict to continue through 2024. Middle East tensions only likely to dissipate in Q2. China/US relationship improved last year, but tension will remain in an election year for the US.
- Uncertainty regarding timing of policy loosening and the type of economic landing remains.
- Deglobalisation toward regional hubs.

CONCLUSION

In our view, the main drivers of fundamentals are overwhelmingly supportive for emerging markets in 2024 (supportive central banks, weak US dollar, stable growth, commodities & disinflation).

We believe widening growth differentials from developed markets will be supportive for capital inflows and the aggressive policy pivot in Q4 from China has stabilised the economy.

The main concern for EM remains linked to macro sentiment from politics/geopolitics and short-term uncertainty as investors recalibrate the type of landing and the speed of loosening from the US.
FUNDAMENTALS

POSITES

- Company EDITDA (ex-commodities) exhibiting robust year on year growth +11%, led by Asia (Fig. 3).
- Banks’ stable profitability and robust asset quality (non-performing loan ratio expected to improve from 2.5% - 2.2% in 2024).
- Leverage is low, and significantly better than developed markets.
- Downgrades and defaults have peaked leaving what we believe to be the best-in-class survivorship universe (everything that could default/be downgraded has potentially already happened).
  - Net rating action is trending to neutral as downgrades roll off.
  - Pick up in “Rising Stars” momentum.
  - Defaults have normalised at 2.7% (excluding Chinese property, Russia/Ukraine which is all at distressed prices).

CONCLUSION

A slight pick-up in leverage from ultra-low levels but bottom up doesn’t get much better; rising EBITDA, clean universe, pick up in rising stars, low leverage.

FIG. 3 COMPANY REVENUE IMPROVES Y/Y

<table>
<thead>
<tr>
<th>Revenue</th>
<th>3Q23/3Q22</th>
<th># Issuers</th>
<th>% Up</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer</td>
<td>6%</td>
<td>39</td>
<td>64%</td>
</tr>
<tr>
<td>Diversified</td>
<td>3%</td>
<td>7</td>
<td>71%</td>
</tr>
<tr>
<td>Gaming</td>
<td>492%</td>
<td>3</td>
<td>100%</td>
</tr>
<tr>
<td>Industrials</td>
<td>-5%</td>
<td>30</td>
<td>47%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>1%</td>
<td>13</td>
<td>46%</td>
</tr>
<tr>
<td>Metals &amp; Mining</td>
<td>-8%</td>
<td>26</td>
<td>54%</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>-11%</td>
<td>33</td>
<td>24%</td>
</tr>
<tr>
<td>Pulp &amp; Paper</td>
<td>-28%</td>
<td>4</td>
<td>0%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>-1%</td>
<td>14</td>
<td>64%</td>
</tr>
<tr>
<td>TMT</td>
<td>4%</td>
<td>28</td>
<td>75%</td>
</tr>
<tr>
<td>Transport</td>
<td>-2%</td>
<td>8</td>
<td>75%</td>
</tr>
<tr>
<td>Utilities</td>
<td>2%</td>
<td>31</td>
<td>58%</td>
</tr>
</tbody>
</table>

Source: JP Morgan, Bloomberg Finance L.P., CapitalIQ, as of September 30th, 2023. Note: Quarterly metrics reflect 3Q23 data for 236 issuers and exclude 100% quasi-sovereigns, Russian corporates. For illustrative purposes only.

DEMAND

POSITIVES

- Local investors are now the largest buyers/holders (56%) (Fig. 5).
- Risk-on environment coupled with falling yields in the second half will increase demand for EM debt.

NEGATIVES

- EM experienced outflows in the last two years (Fig. 4).

CONCLUSION

After two years of outflows, we believe investors must be underweight EM, with the largest buyers local, (sticky and unlikely to sell), and net negative supply. Technically it will be significantly more difficult to buy securities once demand returns.

SUPPLY

POSITIVES

- Net negative supply - US$190bn.²
- No debt wall - only US$69bn of HY maturing - US$52bn ex China. ²

FIG. 4 EM OUTFLOWS

Source: JP Morgan, as of 28th November 2023. Most recent data available used. For illustrative purposes only.

FIG. 5 LOCAL INVESTORS LARGEST EM BUYERS

Source: JP Morgan, as of 28th November 2023. For illustrative purposes only.

² JP Morgan, as of 28th November 2023.
VALUATIONS

POSITIVES

- In our opinion, it is very unlikely investors will lose money from defaults in 2024. We would need defaults to rise to 9.5% (this is due to securities priced below par, and yield collection) (Fig. 9).
- Yields are very compelling: short duration 6.59%, full duration 6.54%, EMIG 5.33% EMHY 9.36%, (Fig. 10).
- Bond indexes are priced below par.

NEGATIVES

- In line with very strong fundamentals, credit spreads are only pricing in 2% defaults, making spreads slightly tight compared to our estimate of 3%, (Fig. 9).

CONCLUSION

It’s likely to be difficult to lose money, especially if we assume that central bank policy tightening has finished. We expect equity-like returns without the volatility.
Index Descriptions

EMHB - The ICE BofA High Yield Emerging Markets Corporate Plus Index is a subset of the ICE BofA ML Emerging Markets Corporate Plus Index (EMCB) including all securities rated BB1 or lower.

EMIB - The ICE BofA High Grade Emerging Markets Corporate Plus Index is a subset of the ICE BofA ML Emerging Markets Corporate Plus Index (EMCB) including all securities rated AAA through BBB3, inclusive.

Q690 - The ICE BofA ML Custom Emerging Markets Short Duration Index tracks the performance of short term US dollar and euro denominated emerging markets non-sovereign debt publicly issued in the major domestic and eurobond markets.

EMCL - The ICE BofA US Emerging Markets Liquid Corporate Plus Index tracks the performance of the U.S. dollar denominated emerging markets non-sovereign debt publicly issued in the major domestic and eurobond markets. Qualifying issuers must have risk exposure to countries other than members of the FX G10, all Western European countries, and territories of the U.S. and Western European countries.

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