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## LO Funds

# Emerging Local Currency Bond Fundamental

## Newsletter

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Global Fixed Income • Fixed Income

31 October 2024

### REVIEW

The average yield of the JP Morgan Global EM Diversified index rose by c. 30 bps to 6.38% in September, while the 10-year UST yield rose 50 bps to 4.29%. Most emerging market currencies lost ground in October on the back of a strong USD.

A number of EMs continued their easing cycles during the month, with rate cuts by central banks in Chile, Colombia, the Philippines and Thailand.

However, the rise in US bond yields had a negative impact on most EM bond markets, where monetary easing was not sufficient to bring bond yields down. India was the positive exception, with bond yields almost unchanged on balance in October and the INR holding steady against the USD.

### PERFORMANCE

As emerging bond yields in local currency rose in October, the index saw a negative return in local terms. With almost all EM currencies losing ground against the USD in October, the return of the JP Morgan Global EM Diversified index was also negative in USD terms.

India (-0.32%) and China (-1.08%) were the best performers in the Fund, while Chile (-8.83%), Colombia (-8.32%) and Hungary (-8.07%)

performed the worst.

Our large overweight in India had a substantial positive impact on relative returns. The underweight in Malaysia and Poland also contributed positively, while our overweight in Chile had a negative impact.

### OUTLOOK

For emerging markets, the normalisation of economic cycles globally has improved the backdrop for sovereign debt. Having begun their tightening cycles sooner, most emerging economies have inflation under control, and commodity prices are supportive.

The FOMC's September decision to cut rates by 50 bps underscored the bank's commitment to its maximum employment objective. The Fed's proactive stance should be broadly positive for EMs, supporting local currencies and enabling some EM central banks to deliver additional monetary policy easing.

Investors should, however, keep in mind that the recent election of Donald Trump as US president is significant for inflation prospects and thus for bond markets, with the Republican 'red sweep' of the presidency and Congress the most bearish outcome due to proposed tariff increases and tax cuts.

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