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Value in Government bonds ahead of the Fed

By Jan Dehn

This Weekly takes a closer look at valuations in global bond markets ahead of next week's likely first hike by the Fed. It includes a review of the stocks of government in debt in Emerging Markets (EM) and developed economies and the current level of yields, which, in EM, is now the same as in 2006 when the Fed had rates at 5.375%. The Weekly also includes a discussion of Bank of International Settlements (BIS's) claim – based on a newly published paper – that sovereign ratings are not biased against EM issuers. Finally, we cover the Venezuelan election, impeachment in Brazil, fiscal shenanigans in Sri Lanka, bond swaps in China, term limits in Ecuador, Russia's credit rating, early indications of the new government's direction of policy in Argentina and Azerbaijan's falling reserves.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	11.0	–	-1.69%
MSCI EM Small Cap	12.2	–	-0.44%
MSCI Frontier	9.0	–	-0.57%
MSCI Asia	11.5	–	-0.51%
Shanghai Composite	13.7	–	2.58%
Hong Kong Hang Seng	7.1	–	-0.22%
MSCI EMEA	9.2	–	-4.44%
MSCI Latam	12.8	–	-1.95%
GBI-EM-GD	6.88%	–	0.14%
ELMI+	4.30%	–	0.20%
EM FX spot	–	–	0.19%
EMBI GD	6.20%	390 bps	-0.82%
EMBI GD IG	4.90%	255 bps	-0.55%
EMBI GD HY	8.25%	607 bps	-1.16%
CEMBI BD	6.20%	408 bps	-0.54%
CEMBI BD IG	4.71%	259 bps	-0.38%
CEMBI BD Non-IG	8.84%	671 bps	-0.80%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	16.3	–	0.12%
1-3 year UST	0.96%	–	-0.03%
3-5 year UST	1.72%	–	-0.18%
7-10 year UST	2.28%	–	-0.36%
10+ years UST	3.00%	–	-0.06%
US HY	8.54%	691 bps	-0.13%
European HY	5.00%	503 bps	-0.28%
Barclays Ag	–	226 bps	-0.31%
VIX Index*	14.81	–	-0.31%
DXY Index*	98.76	–	-1.41%
EURUSD	1.0807	–	2.34%
USDJPY	123.44	–	0.24%
CRY Index*	183.24	–	0.00%
Brent	42.8	–	-4.17%
Gold spot	1083	–	1.73%

Note: Additional benchmark performance data is provided at the end of this document. *See last page for index definitions.

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- **Value in government bonds:** The Fed is preparing to hike interest rates for the first time in many years. This marks the beginning of the end of a rally in fixed income that originated in the early 1980s when 10 year US treasury yields were 16%. How the end of the benign environment for bonds unfolds depends crucially on how well or badly borrowers behaved during the good times. In the US, total debt levels (public and private) more than doubled over the period from 163% of GDP in 1980 to 337% of GDP as of the end of 2014. US government debt to GDP has doubled from 51% in 2000 to 100% in 2014. A similar pattern exists in other heavily indebted developed countries. Eurozone government debt to GDP went up by a whopping 44% from 65% of GDP to 94% of GDP between 2007 and 2015, according to the IMF. Rising debt to GDP is not necessarily a problem per se; what matters is how the debt is priced. A very high yield can still make debt attractive even if the issuer is heavily indebted. The big problem in developed economies right now is that debt levels are very high at a time when bond yields are very low. This suggests that investors are simply not being paid for the risk.

The situation in EM is starkly different. At the end of 2014, the average government debt to GDP ratio in EM had fallen to just 41% from 55% as recently as 2002. More importantly, the compensation investors are being paid for taking exposure has not declined. The chart overleaf shows absolute bond yields across EM fixed income markets today compared with yields at the end of 2006, that is, before the developed market (DM) crisis began. Index weighted average EM bond yields are today just 1bp lower than at the end of 2006. Local bond yields and yields on sub-IG corporate and sovereign debt are actually higher today than in 2006 when the Fed Funds rate was 5.375%. Only EM IG sovereign and corporate bonds trade at marginally lower yields today than before the crisis. For comparison, the chart also shows how US treasury yields have fallen over the period. German and Japanese bond yields have fallen even more.

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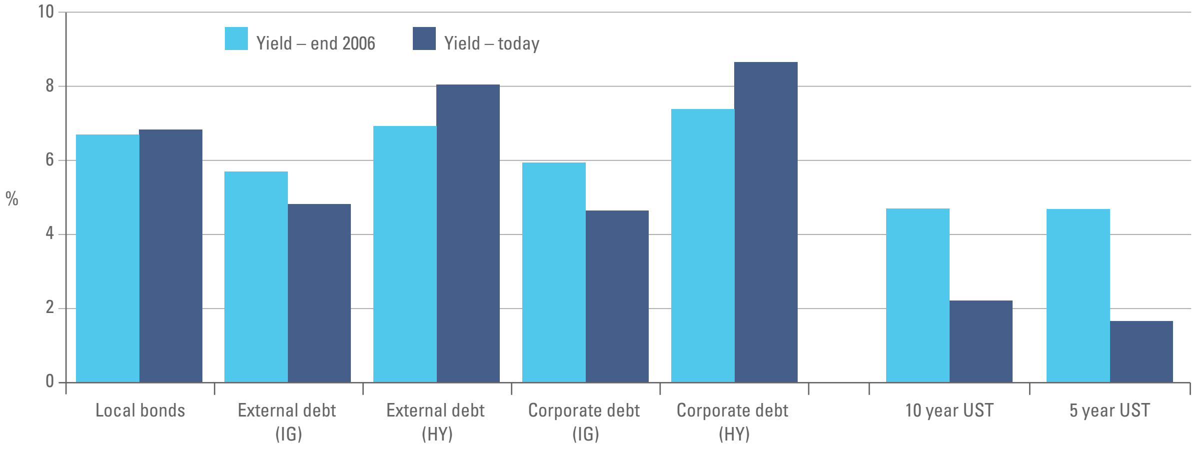
Fig 1: **Bond yields today versus pre-crisis: EM versus DM**



Source: Ashmore, Bloomberg.

What should investors make today of this sharp contrast in the yields on EM and DM government bonds? One perspective is that markets are pricing risks correctly and that EM bonds simply have to offer higher yields because they are that much more risky. But if that reasoning is applied to DM bonds it would imply that DM bonds have become significantly safer since 2007 despite the fact that DM government debt levels have risen by more than 30% of GDP on average over that period. This seems a little bit illogical.

Still, it is not just markets that are sending this message. A new piece of research published by the Bank of International Settlements (BIS) reaches the same conclusion.[1] BIS looks at the question of ratings of EM and DM bonds and concludes that the significantly higher ratings given by ratings agencies to DM bonds – despite much higher debt levels – are entirely justified by fundamentals.

BIS reaches this conclusion by using regression analysis of sovereign ratings by the three major ratings agencies (Moody's, S&P and Fitch) on a number of explanatory variables. They use data from more than 80 EM and DM economies. They find that an EM 'dummy variable' – an econometric device that seeks to measure biases in EM ratings relative to those in DMs – is not statistically significant. In other words, there is no bias at all in EM ratings.

Unfortunately, BIS's analysis suffers from several problems that render this conclusion invalid, in our view. Firstly, it is likely that the ratings bias is picked up by a more powerful explanatory variable they call 'Default History'. This variable is highly significant and very powerful in terms of its explanatory power. It measures actual defaults in the 1970s and 1980s. Very few developed markets defaulted outright in this period, while many EM countries did. This means that the variable acts as a de facto EM dummy variable, only more powerfully.

The other problem is that EM's default history in the 1970s and 1980s is largely irrelevant to today's default risk. EM was a very different place during the Cold War. It would have been far more appropriate to measure defaults from 2000 onwards after EM had fully adjusted to the structural break that was the end of the Cold War.

Finally, BIS's 'Default History' variable only captures EM-type default events, not DM-type defaults. Developed economies generally do not default by non-payment. Instead, they use financial repression to force pension funds and other institutional investors to buy more bonds than they want and to accept losses through inflation. They also pass losses onto foreign central banks by debasing their currencies. They are able to do this because of the limited choice of global reserve currencies. If the BIS analysis only measures defaults of the type you find in EM then no wonder EM looks more risky. In reality, of course, the losses for the end-investor are the same regardless of how the pain is handed out.

Indeed, BIS notes in the paper that ratings agencies have recently downgraded the importance of inflation as a negative for ratings and upgraded global reserve currency status as a positive for ratings. Clearly, being able to inflate and having a 'captured market' in Central Bank reserves is positive for issuers, but is it also good for investors? Issuers of global reserve currencies are far more likely to engage in Quantitative Easing (QE), which eventually leads to inflation and currency debasement. Such policies are clearly and unambiguously negative for bond holders over the longer term. Why, then, do ratings agencies view these factors as supportive for ratings? Could it be that the QE bond issuers are the very biggest of their clients?

Investors can therefore be forgiven for feeling confused. Not only are yields the lowest for the most indebted countries, ratings agencies also appear to entirely ignore entire classes of default types. What, then, should investors pay attention to if they want to stay on top of risks?

[1] Sovereign ratings of advanced and emerging economies after the crisis, BIS Quarterly, December 2015. https://www.bis.org/publ/qtrpdf/r_qt1512.htm

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First, recognise that all markets are risky. None are risk free. If you bought a bond there is always a risk that you don't get all your money back, regardless of where you invest. The only difference is how you lose your money; the pain is the same in terms of the loss of purchasing power of your money which is ultimately the same.

Second, recognise the type of potential defaulter you are dealing with. The countries where default risk manifests itself principally via inflation and currency debasement tend to be issuers of global reserve currencies. They have large pension systems and powerful regulators. It is precisely these features that give them the means to avoid outright defaults. They have the freedom to abuse their currencies by printing loads of money knowing that foreign Central Banks are de facto forced buyers. Indeed, it is no wonder that existing countries with global reserve currency status insist on such high institutional hurdles for new entrants. It is also no coincidence that QE policies have only been pursued in the four countries that together account for 93% of global reserve currencies (the US, Eurozone, the UK and Japan).

In addition to exploiting their reserve currency status, this group of countries also tend to use their regulatory regimes to secure demand for their bonds. Regulations are very strongly biased in favour of domestic bonds, which are given risk free ratings, while capital requirements on investments, notably lower rated securities are steep. This is pure financial repression institutionalised in Basel II and III and Solvency II. Financial repression intensifies during crises, when governments need to 'create' new demand for their bonds.

All other countries – call them 'outright defaulters' – tend to default by ceasing to service debt when they get into trouble. They do not have captive investor bases, neither at home or among foreign Central Banks. If they try to inflate or debase their currencies their currencies merely fall, because they do not have any representation in the global reserve currency system. EM countries also have shallower domestic pools of capital, including pension systems and insurance.

Thirdly, approach the assessment of risk in accordance with the type of potential defaulter you are dealing with. Investors in DM bonds should pay particular attention to overall quality of macroeconomic policy, particularly monetary policy. The best way to hedge is not by buying credit protection, because conventional defaults are rare. Instead, it would be wise to hedge against inflation, bubbles and currency weakness.

In EM, investors should pay more attention to ability and willingness to pay, and, if hedging is required, just get out of the risk.[2] The source of FX movements is important. EM is an inefficient asset class. Not all currency movements are caused by irresponsible monetary policies; recent EM FX weakness has happened despite responsible monetary policies in EM (and very profligate monetary policies in DMs). Even protracted and large currency movements may reverse if they are not based on fundamentals. The really dangerous kind of currency move is that which does not reverse, which is caused by unsustainable macroeconomic policies.

The toolset of modern asset management is poorly equipped for dealing with many of these risks. Modern asset management entirely lacks macroeconomic foundations. The industry still almost universally subscribes to the outdated 'apartheid-like' notion of 'risky' and 'risk free' countries. Passive management practices are becoming more widespread even as bond yields decline and debt levels rise (one of the dangerous consequences of QE). Price volatility is still widely used as a proxy for risk although it is abundantly obvious that volatility is the upwards and downwards movement of prices, while risk is large permanent loss. The inefficiency of markets is ignored and liquidity is equated with default risk. For example, EM consists of more than 60 regular issuers of sovereign debt in a universe that accounts for 57% of global GDP, yet they have only issued USD 15trn of the world's outstanding tradable debt of nearly USD 115trn. Naturally, this makes them less liquid and therefore more prone to bouts of volatility. But does this make them more prone to large permanent loss?[3]

Given these complexities, as 2016 approaches, where does the value lie in government bonds? And where does the risk lie? Value is not just about absolute levels of yields. It is also about fundamentals. Are investors being paid for the risk? Deutsche Bank reported last week that some 40% of European government bonds are now trading with negative yields.[4] Those that see value here appear to have lost sight of fundamentals, perhaps eyeing only the flows orchestrated by the ECB and regulators.

EM bonds have neither QE nor regulatory sponsorship. It ought to be reassuring for investors that no one ever gives EM issuers the benefit of the doubt, because it reduces bubble risks and forces EM issuers to reform, which keeps them strong. EM countries have faced a barrage of shocks in recent years, including:

- The Subprime and banking crisis of 2008/09 with associated capital stops to EM and a massive slowdown in DM growth
- The European debt crisis of 2011
- The Taper Tantrum of 2013
- The crash of commodity prices in 2014
- The 40% US dollar rally of the past few years
- Endless unfounded scare stories about EM, including the Fragile Five, China hard landings, etc.
- Sustained outflows accompanying all the above events

[2] The crisis in 2008/2009 showed that CDS was weak protection against credit risk, because they embedded exposure to the risk that the bank issuing the CDS would default.
[3] It is worth remembering that EM is 57% of global GDP, but has only issued about 21% of all tradable bonds and domestic credit.
[4] Torsten Slok, *"Negative interest rates in Europe"*, Monday 30 November 2015.

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EM countries have for the most part weathered these shocks. There have been no major systemic signs of balance of payments crises, no countries have run out of reserves, and there have been just two sovereign defaults in EM (in Ukraine and Argentina, two countries so dysfunctional that they can default quite on their own without any outside assistance whatsoever). Sure, two or three EM countries make serious mistakes up each year, but that is normal. There has been no contagion, no signs of Soros Reflexivity, despite EM's higher relative debt service costs and occasional loss of access to international financial markets, notably during bouts of risk aversion.[5] Nor have EM countries lost control of fiscal policy or overall debt levels.

The obvious thing to do now is to take profits on bonds in the QE markets and buy bonds in the non-QE markets. This would also lower risk by increasing exposure to countries with better macroeconomics, stronger growth, recently improved external balances, much more competitive currencies, better debt profiles and, critically, markets that pay investors for the risk. Granted, value has never been a powerful driver of flows in financial markets, where strong herd dynamics prevail. Global policy makers, investment bank analysts, ratings agencies and the media also strongly reinforce prevailing sentiments. But investors with the ability to independently and objectively evaluate reality should do so by looking beyond the fads to the real value.

- Venezuela: After sixteen years in retreat, Venezuela's opposition last night took back control of the National Assembly (NA) following Sunday's parliamentary election. At the time of writing, the final tally is not yet in, but it is already clear that the opposition will control the NA and could yet go on to securing a two-thirds majority if the final count pushes the opposition's tally beyond 112 seats (out of the 167 available). This would be sufficient to change Venezuela's institution, such as the courts. President Maduro has accepted the results and there has been no violence. While the election outcome is positive the market will now focus on the most important question of all: What will happen to economic policy? Can the Executive and the Legislature – now on opposite sides – find a way to work together to reform the economy? The opposition will act as a brake on the government through its majority in the legislature. The effectiveness of that brake depends not just on the opposition's final tally in the NA, but also on the Maduro government's ability to learn to be democratic. It must make this change, or risk going down. So far, the opposition has stated that it wants to use its new powers to (a) increase transparency about the public finances and (b) seek to free jailed opposition leaders. President Maduro's term does not expire until 2019. Left-wing populist governments from Argentina via Brazil to Venezuela have been pushed into serious retreat as their economic policies have been revealed as flawed. Other left-wing governments, such as the Bachelet administration in Chile, have maintained sound economic policies and the countries have not gone off the rails.

- Brazil: Lower House speaker Eduardo Cunha formally commenced an impeachment process against President Dilma Rousseff. The outcome could be that Dilma is replaced as President by PMDB party President Michel Temer within the next six to nine months. Under ordinary circumstances, the removal of a president would be bad news. But things are now so bad in Brazil that even the possibility of a resolution of some kind – this is the promise implied by impeachment – offers hope. Hence, this is good news.

The current Brazilian government is a lame duck administration mired in corruption and growing disunity. Brazil needs strong political and economic leadership. Almost all potential bad news is priced in. The fiscal deterioration is known, the bad growth picture is known, the judiciary crusade against corrupt officials is understood, downgrades are anticipated and USDBRL seems to really struggle to defend.

The main remaining risk not fully priced is the possibility of a bank run triggered by the troubles that have engulfed BTG Pactual, an investment bank. BTG Pactual faces the risk of going under (unless it either merges with a larger deposit funded institution or finds a strategic investor and increases its disclosure of assets), but there is very little systemic risk. The main consequence could be further weakness in smaller banks, which depends on interbank and large institutional investors' deposits, but even if a few of these banks go under the system is likely to remain solid.

The impeachment process offers a potential trajectory for asset prices similar to that of Argentina, where investors started to buy a long time in advance in anticipation of regime change. Six to nine months is a very suitable period over which to build a decent position in Brazil.

It is worth remembering that Brazil's problems are entirely self-inflicted and ultimately cyclical in nature. Brazil will get through this very bad patch without a balance of payments crisis, without a sovereign default, they will not even need to bring in the IMF, in our view, due to Brazil's strong deeper fundamentals. The impeachment process, if it succeeds, will take place within known and tested constitutional framework.

In other news, the minutes of the last COPOM meeting showed that the Central Bank was more hawkish than expected. The minutes show that the Central Bank is committed to bringing inflation back within its target range by 2017. Fiscal developments will be particularly important to the Central Bank's decision.

- Sri Lanka: Some countries have recurring nightmares. Sri Lanka's is fiscal in nature. There is too much domestic demand and past fiscal spending pressures have pushed debt levels to uncomfortable levels. The government is now considering inviting the IMF to offer help. This makes Sri Lanka one of the first non-basket

[5] Soros Reflexivity refers to the phenomenon whereby asset prices movements create fundamental problems, not the other way around.

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case countries to seek assistance from Washington. There is no immediate urgency. Sri Lanka's reserves cover 4.5 months of imports. But the debt profile for 2016 is ominous. Better that the government faces up to this fact now than later. The required adjustment will be painful, but the pain only gets bigger if they wait.

- China: The government has increased the target size of its program to swap local government loans into tradable municipal bonds to RMB 15trn from RMB 11trn. We think the Chinese municipal bond market will become the world's second largest municipal bond market once the swaps are completed (swaps of RMB 4trn are expected to be completed in 2015). The new municipal bonds will form a key link in the monetary transmission mechanism in the new Chinese growth model, where domestic demand will principally be regulated by the interest rate policies of the PBOC. In an economy where growth will be driven mainly by consumer demand there is a need for a large and liquid domestic bond market to transmit rate changes into the wider economy. Local governments have been barred from financing using old-style financing vehicles. Instead, they will issue tradable bonds with 1, 3, 5 and 7 year maturities. Services and manufacturing PMIs continue to point to a sluggish pace of expansion.

Where will demand come from to buy these bonds? There are several sources. The big picture is that China has a savings rate close to 50%, but savers have access only to equities and property. There is structural demand for fixed income in savings portfolios. The critical challenge is to get the bonds into the savings portfolios. This will happen in several ways: (i) Provincial pension funds will buy more bonds, (ii) the mutual fund industry will grow in size and influence and (iii) Chinese banks will increase asset management businesses as their balance sheets are freed up from local government loans. In addition, we expect foreigners to buy Chinese government bonds, which will push down yields and therefore make local government bonds relatively more attractive. Real yields in China are still high and positive. For commentary on Renminbi's inclusion in the SDR please see *"RMB in the SDR: The Start of a New Era"*, Market Commentary, 2 December 2015.

- Ecuador: Congress has approved constitutional amendments that lift term limits for elected officials. The lifting of term limits does not apply to President Rafael Correa. The Supreme Court still has to rule on the constitutionality of the change.

- Russia: The outlook for Russia's credit-rating was raised to stable from negative by Moody's ratings agency. Moody's cited stabilisation of external finances and declining expectations of further shocks over the next twelve to eighteen months. Headline inflation declined to 15% yoy in November from 15.6% yoy in October. The yoy rate of core inflation dropped by 0.5% over the month.

- Azerbaijan: The Central Banks foreign currency reserves have declined by 58.4% compared to this time last year. Reserves now stand at USD 6.2 billion. Much of the reserve loss has been incurred defending the currency.

- Argentina: Incoming Finance Minister Alfonso Prat-Gay has indicated that a unification of the official and the parallel exchange rates could take place by the middle of January 2016 pending the appointment of a new Central Bank Governor and the replenishment of reserves. Prat-Gay also said the government will end subsidies for all but the most needy. Subsidies make up several percentage points of GDP and currently benefit mainly the wealthiest parts of the population. The newly elected Macri administration takes office on 10 December.

Asset class news

The number of EUR denominated bonds in the JP Morgan's Euro denominated EM sovereign bond index has increased from 51 to 87 since January 2014. Over the same period, the number of EM countries in the same index has increased from 16 to 21, that is, a 30+% increase in less than 2 years. The market cap for the Euro denominated EMBI index has increased from EUR 67bn to EUR 100bn, that is up 50%.The index yield is 2.4% with a spread of 216bps for an average duration of 5.6 years. The yield on the German 6 year bond that offers roughly similar duration is -0.1%.

Snippets:

- Brazil: Real GDP contracted at a 4.5% yoy pace in Q3 compared to -4.2% yoy expected. Industrial production declined at a rate of 11.2% yoy versus -10.4% yoy expected.
- Chile: Unemployment declined to 6.3% in October versus 6.4% expected.
- India: The Reserve Bank of India left rates unchanged at 6.75%, but signalled that inflation risks are tilted to the downside. Real GDP expanded at a rate of 7.4% yoy in Q3, up from 7.0% yoy in the previous quarter.
- Indonesia: CPI inflation declined to 4.89% yoy in November from 6.24% yoy in October.
- Malaysia: PMI was 47 in November versus 48.1 in October. Exports were extremely strong in October, rising 16.7% yoy versus +8.4% yoy expected. This took the trade surplus to MYR 12.2bn versus MYR 9bn expected.
- Mexico: Consumer confidence rose to 93 in November from 91.3 in October.

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- **Philippines:** November CPI was higher than expected at 1.1% yoy (0.7% expected). Core inflation rate rose to 1.8% yoy versus 1.7% yoy expected and 1.5% yoy last month.
- **South Africa:** S&P revised the outlook for South African debt to negative from stable. South Africa's sovereign rating is BBB-.
- **South Korea:** CPI inflation rose 1.0% yoy versus 0.9% yoy expected. The trade surplus in November reached the highest level ever at USD 10.4bn versus USD 7.0bn expected.
- **Taiwan:** PMI rose to 49.5 in November from 47.8 in October.
- **Thailand:** CPI inflation was -1% yoy in November versus -0.9% yoy expected.
- **Turkey:** CPI inflation was higher than expected in November at 8.1% yoy (versus 7.8% yoy expected).

Global backdrop

The important global events of last week did not change the consensus view that the Fed will hike on 16 December. Janet Yellen's two public speeches last week did, however strike a slightly more dovish tone. The result was a sharp rise in EURUSD and steeper yield curves as investors were forced to cover short positions in short dated bonds by selling long dated bonds. Yellen justified a December rate hike with reference to a better outlook for China. The data did the rest; despite a weak ISM number, nonfarm payrolls were marginally stronger than expected. Mario Draghi provided the biggest surprise, delivering a decidedly less dovish message than expected. Why did he do that? The main reason was not the better growth outlook in Europe. The real reason, in our view, is that Draghi expects the Fed to deliver a very dovish hike. The ECB's QE program is not about fighting deflation or creating growth. After all, Europe's economy may have structural challenges of all sorts, but growth is not bad. German factory orders were strong, rising 1.8% mom versus 1.2% mom expected and ECB's staff actually revised upwards its growth forecasts for the Eurozone. No, the real purpose of the ECB's QE program is to defend the EUR against dissolution. The biggest threat to the EUR is another European debt crisisand the most likely trigger of a European debt crisis is if the Fed hikes. The only defence against the detrimental effects of Fed hikes on periphery bonds is to have in place a massive bond buying program. In accordance with this logic, Draghi will size his stimulus package in accordance with his expectations about Fed hawkishness. In delivering less than expected last week Draghi is sending a very clear signal: Yellen will deliver a very dovish hike. So what exactly does a dovish hike mean? Perhaps it means, "We will hike 25bps and then leave rates alone for some time to see how the hike is digested". One reason for being dovish is that the trade balance was again disappointing, taking the likely qoq growth rate in Q4 2015 to less than 1%, in our view.

Europe is not just under threat from the Fed hikes. Nationalism also continues to grow, posing a clear threat to the very idea of the European Union. In France's regional elections, Marine Le Pen's Front Nacional appears to have taken control of at least two regions after the party gained up to 1/3 of the votes cast. Last week saw Denmark's increasingly xenophobic voters reject a merger of local law with European law in a number of key areas, notably sharing of information between Danish policy and Europol. Meanwhile, the probability of a suspension of the Schengen Agreement – a treaty that eliminates border checks – is also rising. The trend towards greater nationalism is consistent with the global economic crisis as is likely to grow, because the real economic costs of the events of 2008/2009 have yet to be borne.

Finally, OPEC was unable to agree on output cuts. Unity is difficult in the best of time. In the worst of times it is almost impossible. Brent 1st future declined to USD 42.8 per barrel, the lowest price since 2004.

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Benchmark performance

Emerging Markets	Month to date	Year to date	1 year	3 years	5 years
MSCI EM	-0.24%	-12.97%	-15.41%	-4.33%	-3.58%
MSCI EM Small Cap	0.40%	-6.40%	-8.46%	0.06%	-2.31%
MSCI Frontier	0.45%	-14.02%	-16.77%	5.68%	1.26%
MSCI Asia	0.42%	-8.19%	-9.21%	1.08%	0.74%
Shanghai Composite	2.31%	10.70%	23.50%	24.52%	6.98%
Hong Kong Hang Seng	0.45%	-15.42%	-11.69%	1.53%	-1.88%
MSCI EMEA	-3.28%	-16.32%	-22.36%	-10.05%	-7.09%
MSCI Latam	1.79%	-26.53%	-29.63%	-15.78%	-12.74%
GBI EM GD	0.81%	-12.28%	-15.89%	-8.49%	-2.73%
ELMI+	0.44%	-6.16%	-7.66%	-4.89%	-2.61%
EM FX Spot	0.86%	-15.62%	-18.50%	-12.17%	-8.88%
EMBI GD	-0.66%	1.94%	0.07%	1.41%	5.22%
EMBI GD IG	-0.47%	-0.30%	-1.12%	0.46%	4.53%
EMBI GD HY	-0.90%	4.98%	1.16%	2.77%	6.25%
CEMBI BD	-0.34%	2.21%	1.03%	2.45%	4.72%
CEMBI BD IG	-0.22%	1.68%	0.98%	2.57%	4.97%
CEMBI BD Non-IG	-0.54%	3.02%	0.81%	2.27%	4.32%

Global Backdrop	Month to date	Year to date	1 year	3 years	5 years
S&P 500	0.58%	3.60%	3.08%	16.55%	13.66%
1-3 year UST	-0.02%	0.42%	0.27%	0.36%	0.61%
3-5 year UST	-0.21%	1.57%	1.39%	1.11%	1.71%
7-10 year UST	-0.45%	1.98%	2.45%	1.16%	4.45%
10+ years UST	-0.56%	-1.35%	1.97%	1.68%	8.40%
US HY	-0.24%	-2.32%	-2.98%	3.00%	6.19%
European HY	-0.32%	3.30%	2.69%	7.73%	10.07%
Barclays Ag	-0.33%	0.12%	0.70%	2.60%	4.63%
VIX Index*	-8.18%	-22.86%	25.30%	-6.86%	-17.68%
DXY Index*	-1.41%	9.41%	10.55%	22.82%	23.67%
CRY Index*	0.38%	-20.31%	-27.38%	-37.82%	-41.94%
EURUSD	2.34%	-10.69%	-12.25%	-16.40%	-18.76%
USDJPY	0.24%	3.00%	2.23%	49.64%	48.24%
Brent	-4.17%	-25.43%	-38.11%	-60.05%	-53.22%
Gold spot	1.73%	-8.87%	-9.28%	-36.47%	-23.15%

*VIX Index = Chicago Board Options Exchange SPX Volatility Index. *DXY Index = The Dollar Index. *CRY Index = Thomson Reuters / CoreCommodity CRM Commodity Index.
Source: Bloomberg, JP Morgan, Barclays, Merrill Lynch, Chicago Board Options Exchange, Thomson Reuters, MSCI, total returns.
Figures for more than one year are annualised other than in the case of currencies, commodities and the VIX, DXY and CRY which are shown as percentage change.

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