JPMB: The Macro Case

JP Morgan ETFs (Ireland) ICAV

USD Emerging Market Sovereign Bond UCITS ETF

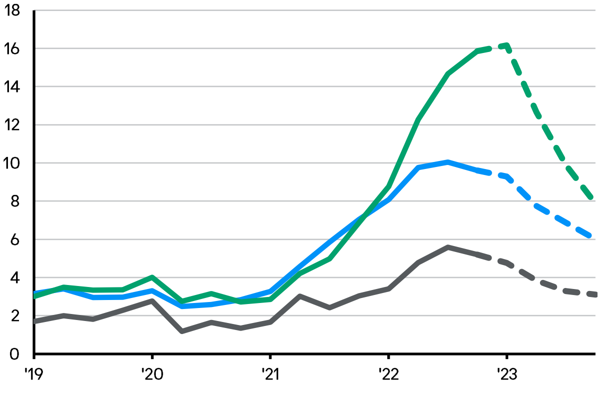
EM inflation is peaking, but with regional differentiation

China is likely to see a services-driven rebound over the coming quarters thanks to the loosening of Covid restrictions at the start of the year, with its consumers having built up around USD 2.5trn of excess savings. That should contribute to healthy emerging market (EM) growth alpha over developed economies this year and next. Indeed, the IMF forecasts emerging economies to grow at triple the rate of developed markets in both 2023 and 2024, although with significant variation across countries. Inflation is also peaking across EM, although the expected pace of disinflation in coming months also varies. Given this, select EM central banks may be able to bring policy rates lower in H2 2023, where deflation trends are strong and growth remains muted.

Source: Bloomberg, J.P. Morgan Asset Management. Data as of 31 March 2023. Opinions, estimates, forecasts, projections and statements of financial market trends are based on market conditions at the date of the publication, constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

Exhibit 1: EM headline inflation levels

% year on year



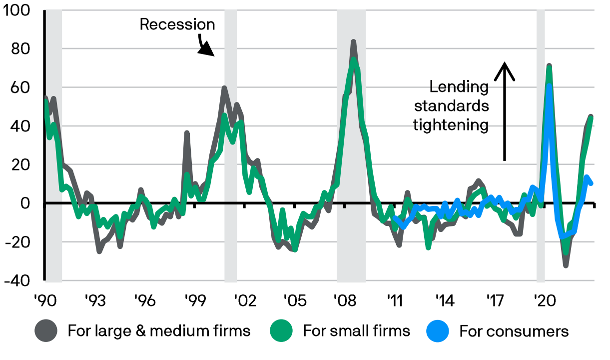
DM hiking cycles are nearing their end

After a bounce in developed market (DM) activity at the start of the year, the risk of a higher US terminal rate was rising. However, a potential additional tightening in credit conditions linked to recent banking sector stress now makes this scenario less likely. Indeed, market expectations for DM terminal rates have come down from their Q1 highs. Given this, the Fed (and other DM central banks) appear to be approaching a pause. This would help dampen rates volatility, a positive for EM debt. It may also contribute to a weaker dollar – measures of the dollar's real effective exchange rate have already fallen over recent months, and could do so further if the Fed does indeed decide to end its hiking cycle soon.

Source: Federal Reserve, Refinitiv Datastream, J.P. Morgan Asset Management. Data is from the Senior Loan Officer Opinion Survey. Periods of "recession" are defined using US National Bureau of Economic Research (NBER) business cycle dates. Data as of 31 March 2023.

Exhibit 2: US credit conditions

% of banks tightening lending standards



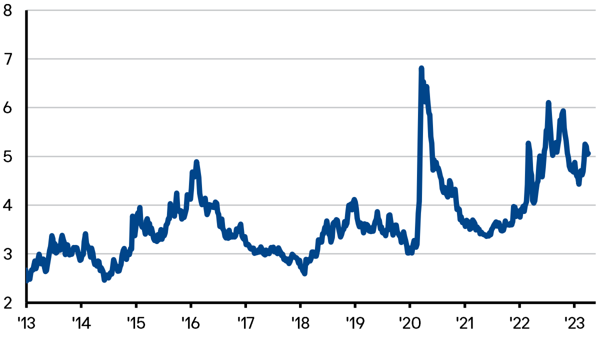
Headline spreads are attractive, but risks lie below the surface

Headline EM index spreads are attractive, remaining well above their long-run averages. This is particularly true when looking relative to other riskier parts of the fixed income universe like US high yield, where spreads are much tighter compared to their history. However, enticing index levels ignore substantial differentiation below the surface of the market. Indeed, the spread contribution of the lowest quality parts of the EM universe (those bonds rated CCC and below) has hit record levels. Given this, while current spread levels do look inviting, a focus on the less risky, higher quality segments of the market may be prudent.

Source: Bloomberg, J.P. Morgan Economic Research, J.P. Morgan Asset Management. Index shown is the J.P. Morgan EMBI Global Diversified Sovereign index. Data as of 31 March 2023.

Exhibit 3: $ emerging market debt spreads

% points, option adjusted spread



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