RBC Global Asset Management

BlueBay Emerging Markets Debt Desk Note April 2025

Market review

- Risk markets faced significant volatility this month following President Trump's "Liberation Day" on April 2nd when he announced unexpected worldwide reciprocal tariffs. The S&P 500 fell over 12% in the week following the announcement and experienced a one-day surge of 9.5% on April 9th when President Trump again surprised the market with a 90-day pause on new tariffs for all countries, excluding China and opting for a flat 10% rate instead. Market optimism was cut short by a tit-for-tat escalation of retaliatory tariff threats between China and the US, leading to a 125% tariff on US imports to China and a 145% tariff on Chinese imports to the US. However, smartphones, computers, chip-making equipment and other electronics have been spared from the US tariffs on China, lending comfort to the panic-stricken US tech sector. The S&P ended the month down 0.8%. Several countries have begun trade negotiations with the White House before the pause ends. President Trump's haphazard handling of trade led to questions to US exceptionalism and a sell-off of traditional US safe havens. The benchmark ten-year Treasury yield fell 8bps to end the month at 4.17%, after spiking as high as 4.5% during the fallout of Liberation Day. The value of the US dollar also deteriorated relative to other global currencies. The trade tensions dampened expectations of global economic growth, rattling commodity markets, with Brent crude oil ending the month at $63.12/bbl, down 16% from its pre-Liberation-Day price.

- Emerging markets (EM) fared reasonably well amidst the turmoil with EM equity markets outperforming (+1%) as investors searched for alternative to volatile US equites. In the EM hard currency fixed income space, sovereign markets were down -0.3% while corporate markets were down -0.4% with spreads 23bps wider and 25bps wider respectively. In the sovereign space, high yield, higher beta names underperformed vs investment grade. Commodity-linked credits were particularly hard hit, with oil exporters like Angola underperforming heavily. Elsewhere, high beta credits in frontiers like Gabon, Mozambique and Senegal were notable underperformers. Ecuador greatly outperformed following the election of centre-right President Daniel Noboa and Argentina outperformed on positive news of an IMF agreement. In the corporate space, oil & gas was the most underperforming sector, while infrastructure had a notably strong performance. In contrast, EM local performance has been exceptionally strong, the sovereign local index has gained 3.3%, with both the rates and FX components contributing to the gains. Overall, local currency assets have benefited from the recent USD weakness and are supported by relatively high real rates, benign inflation, and substantially more favourable debt and fiscal dynamics in EM compared to developed economies.

- In Ecuador, centre-right President Daniel Noboa, a Trump ally, was re-elected for a full term in an election seen as a referendum on his military crackdown on violent gangs. His win implies a mandate to continue the "war on drugs". Ecuador's sovereign bonds surged following the election results, with the 2030 bond up 23 cents on the dollar for the month of April.

- In Gabon, military coup leader Brice Oligui Nguema won the presidential election with over 90% of the vote, which international observers determined to be free and fair. Gabon Eurobonds rallied on the hopes of a new IMF program for the country and a change in fiscal strategy.

- In Trinidad & Tobago, elections have seen the return of the opposition UNC Party led by Kamla Persad-Bissessar, which won the majority of seats in parliament, ending a decade of PNM Party rule. However, the country's energy outlook would continue to drive economic and fiscal conditions.

- Tensions between India and Pakistan have escalated following a deadly terrorist attack in Indian-administered Kashmir believed to have been perpetrated by a political resistance group with ties to Pakistan. The attack resulted in a severe diplomatic standoff – India suspended the Indus Waters Treaty (a water sharing agreement between both countries), expelled Pakistani diplomats, revoked visas to Pakistanis and closed its land border with Pakistan. Pakistan suspended the Simla agreement (a peace treaty between both countries following the 1971 war), closed its airspace to India, expelled Indian diplomats and halted trade. Pakistan dollar bonds (-4% MTD) and stocks (-3%MTD) had their worst month since 2023, while Indian assets proved relatively immune, with local bonds and stocks up for the month.
- IMF Spring Meetings were held in Washington D.C. in April with the key discussions focussing on the impact of US policymaking on global growth and inflation. Discussions at the individual country level also took place with Argentina standing out as a positive story given the recently agreed IMF programme while newsflow was mixed elsewhere but generally had a supportive tone.

Outlook

Risk assets have recently rebounded as President Trump appeared to moderate his previously aggressive stance on trade. However, early signs of economic softness have begun to emerge, with the advance estimate of Q1 2025 GDP revealing a disappointing -0.3% annualized contraction alongside a hotter-than-expected core PCE inflation reading of 3.5% (vs. 3.1% expected). This combination of slowing growth and elevated inflation presents a challenging backdrop for markets.

While some of the risk-off tone has been mitigated by the President's apparent willingness to dial back rhetoric—likely in response to pushback from business leaders and market participants—his unpredictable approach to policy continues to undermine business confidence. We believe that the damage done to confidence in the US will inhibit capital spending decisions of the corporate sector and will continue as a drag on growth. We then expect to see more weak data numbers that are likely to weigh on risk markets over the coming weeks as the US economy struggles under the weight of not only tariffs but also the environment of uncertainty that is surely curtailing capital spending decisions in the corporate sector.

Emerging market fixed income has delivered strong performance year-to-date, particularly in local currency markets, which has benefitted from EM FX strength relative to the weaker USD. In this environment, we see a compelling case for increasing allocations to EM local rates, which not only offer portfolio diversification but also gain from relatively high real yields across many markets. In EM credit, spreads have partially recovered in recent weeks. However, more highly leveraged issuers and credits linked to the dampening energy sector remain under pressure, still struggling to reverse the sharp widening experienced in early April. Lastly, discussions at the recent IMF Spring Meetings highlighted the growing dispersion within credit markets, reflecting a more nuanced and complex global macro backdrop.

Asset class performance

Hard Currency Corporate	MTD Change (%)	YTD Change (%)
CEMBI Diversified	-0.32	2.09
Investment Grade	0.09	2.58
Non-Investment Grade	-0.88	1.43
Spreads (Δbps)	27	50
IG Spreads (Δbps)	19	39
HY Spreads (Δbps)	42	70
Africa	-1.35	0.82
Asia	-0.03	2.35
CEEMEA	-0.30	1.85
Europe	-0.76	1.52
Latin	-0.85	2.02
Middle East	0.33	2.41
Consumer	-0.53	1.94
Diversified	0.14	2.34
Financial	0.20	2.33
Industrial	-0.81	1.80
Infrastructure	0.65	2.60
Metals & Mining	-0.40	2.12
Oil & Gas	-2.10	0.70
Pulp & Paper	-0.83	2.19
Real Estate	-0.03	3.55
TMT	-0.02	2.23
Transport	-0.87	0.68
Utilities	-0.12	2.61
AA	0.64	3.30
A	0.43	2.73
BBB	-0.17	2.42
BB	-0.55	1.82
B	-1.75	0.12
C	-0.56	3.48
Not Rated	-0.83	1.36

Source: JPMorgan EMBI Global Diversified Index, JPMorgan GBI-EM Global Diversified Index, JPMorgan CEMBI Diversified Index, ICE BofA Diversified Local EM Non-Sovereign Index

Hard Currency Sovereign	MTD Change (%)	YTD Change (%)
EMBI Global Diversified	-0.22	2.02
Investment Grade	0.15	2.93
Non-Investment Grade	-0.58	1.13
Spreads (Δbps)	19	43
IG Spreads (Δbps)	6	20
HY Spreads (Δbps)	37	75
Africa	-2.68	-1.52
Asia	-0.35	2.06
Europe	-0.47	1.39
Latin	-0.58	3.02
Middle East	-0.29	3.09
Non Latin	-0.63	1.50
AA	0.23	2.99
A	0.42	3.15
BBB	-0.03	2.79
BB	-0.33	1.94
B	-1.88	-0.76
C	1.18	1.45
Not Rated	-9.89	7.35

Local Currency Sovereign	MTD Change (%)	MTD Change (%)
GBI-EM Global Div Composite	3.25	7.70
Asia	2.46	3.99
Europe	5.87	11.95
Latin America	3.82	13.17
Mid-East Africa	-0.30	2.87
Brazil	4.60	18.88
Chile	0.74	7.21
China	1.08	1.00
Colombia	0.84	7.44
Czech Republic	6.95	13.48
Dominican Republic	5.01	1.41
Hungary	7.19	13.56
Indonesia	1.13	0.39
Malaysia	4.07	6.29
Mexico	5.51	14.82
Peru	1.08	5.31
Poland	6.08	15.43
Romania	5.41	11.93
Serbia	4.99	10.57
South Africa	-0.30	2.87
Thailand	2.66	5.88
Turkey	-0.34	8.99
Uruguay	0.40	7.34

Local return rates	MTD Change (%)	YTD Change (%)
Local rates	1.51	3.69
Asia	1.38	2.91
Europe	1.78	2.90
Latin America	1.73	6.56
Mid-East Africa	0.86	1.43
Brazil	3.39	8.94
Chile	1.21	3.10
China	1.24	0.49
Colombia	1.60	3.01
Czech Republic	1.44	2.42
Dominican Republic	-1.96	-2.33
Hungary	2.20	1.70
Indonesia	1.37	3.54
Malaysia	1.20	2.57
Mexico	0.95	8.10
Peru	1.42	3.00
Poland	2.92	5.15
Romania	0.17	2.02
Serbia	-0.26	0.92
South Africa	0.86	1.43
Thailand	0.85	3.07
Turkey	0.97	-1.01
Uruguay	0.04	3.29

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