

EM Corporate Strategy

Your EM Corporates-Wrapped: what drove total returns in 2023

We analyze 2023 Total Rate of Return (TRR) % performance to highlight drivers across the duration, asset quality, geography, and sector dimensions. The broader EM Corporate index returned +7.7% in 2023, with returns broadly shared across segments. Please note on methodology: the TRR shown in this report excludes transaction costs. The headline index return published by ICE includes transaction costs and might be slightly lower.

BBBs were the sweet-spot for risk-adjusted returns

EM A's returned +6.6%, BBBs +8.4%, BBs +8.8%, Bs +9.5%, and CCCs +14.1% in 2023. Considering that 2023 started with a lot of overhanging uncertainty, BBBs likely offered relatively attractive risk-adjusted returns throughout the year.

Rates had little effect, spread compression was key

Rates came full circle, ending 2023 around where they started it, adding at most 60 to 80bps at the belly and little elsewhere. The top-performing duration bucket was 10 to 12yrs that outperformed on spread compression and carry, with no rates contribution.

Argentina, Ukraine corporates outperformed in 2023

Argentina and Ukraine were the two countries with the highest returns in 2023 for EM corporates. Chinese Property (-19%) continued to be a drag to the index's performance. Panama corporates lagged the index at +1.4%, following the shuttering of the Minera Panama mine. Argentine corporates outperformed at +20%, with a significant portion of the returns occurring after the November elections. Other countries that outperformed in 2023 were Nigeria +18%, Kazakhstan +15.7%, Türkiye +13.7%, and Macau +13%.

Mexico outperformed Brazil, driven by Pemex

Mexico's corporates returned +10.3% in 2023, outperforming Brazil's that returned +7.5%. Mexico's outperformance was largely driven by Pemex, excluding which Mexican corporates returned +8.7%, closer to Brazil's performance.

Top sectors: Arg Provinces, Macau, LatAm Energy, Airlines

Top sectors were Argentine Provinces +22%, that trade at low dollar value and rallied around Argentina's presidential elections, LatAm Airlines +21%, with some bonds returning after a post-bankruptcy restructuring, Macau Gaming +13%, on concessions clarity and China's reopening around the start of the year, and LatAm Energy +12.5%.

Quasis slightly outperformed their sovereigns in 2023

EM Quasis slightly outperformed a basket of matched-maturity sovereigns by +0.43%, which highlights a nice, consistent performance pickup for Quasis in a year where the EM Sovereign index returned +10% vs. +7.7% for EM Corporates.

EM Fins outperforming Corps since 2022, but go unloved

EM Financials O/S has declined faster than Corps since 2022 (-21% vs. -17%), despite better performance, lower defaults, and shorter duration reducing rates-based volatility.

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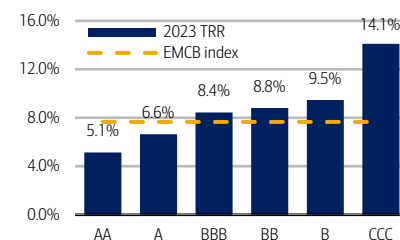
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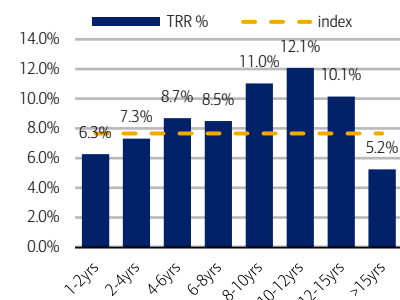
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Exhibit 1: BBB's had best risk-return
EM Corp. 2023 TRR % by Credit Rating



Source: BofA Global Research, ICE Data Indices LLC
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Exhibit 2: Best returns for 8-15yrs bonds
EM Corp. 2023 TRR % by Effective Duration



Source: BofA Global Research, ICE Data Indices LLC
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TRR: Total Rate of Return

O/S: Face Value Outstanding.

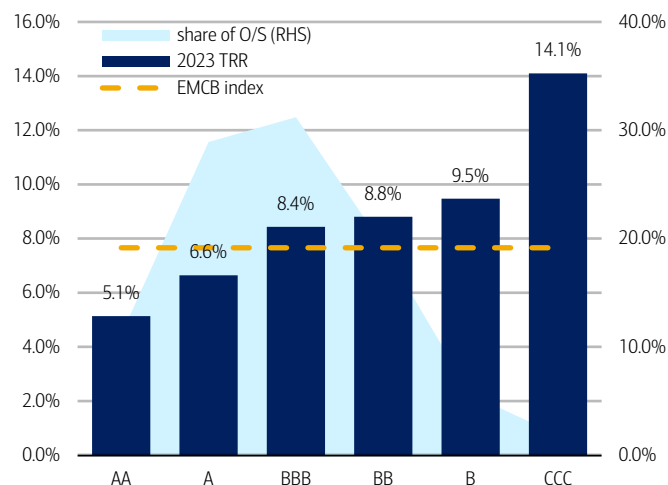
For a full list of acronyms used, please see the appendix.

Asset Quality

The bulk of HY outperformance came from CCCs (+14.1%). BBs and single-Bs only marginally outperformed BBBs (at +8.8% and +9.5% vs. +8.4% respectively in 2023), likely not compensating for the incremental risk. Given defaults in the HY ratings, successful name selection would have been key in order to outperform. Conversely, in IG single-As significantly underperformed BBBs, with Codelco (\$16.9bn O/S and +2.4% TRR, below index) being a driver for the segment's underperformance.

Exhibit 3: The bulk of HY outperformance came from CCCs

TRR % in 2023 by Credit Rating, share of O/S shown for context.

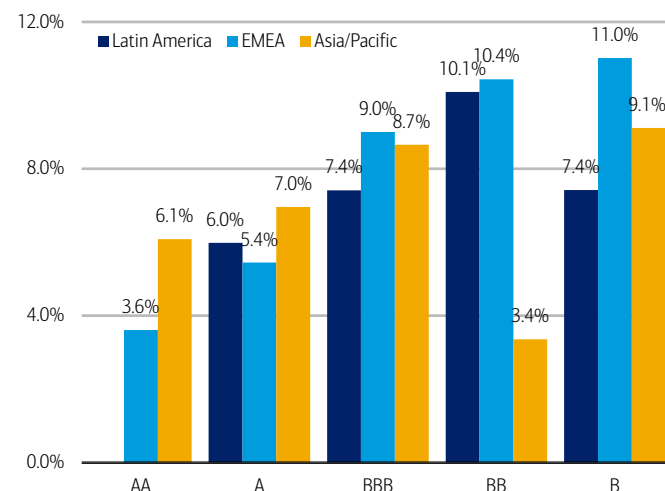


Source: BofA Global Research, ICE Data Indices LLC

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Exhibit 4: BB's in Asia and single-B's in LatAm underperformed

TRR % in 2023 by Credit Rating and Region



Source: BofA Global Research, ICE Data Indices LLC

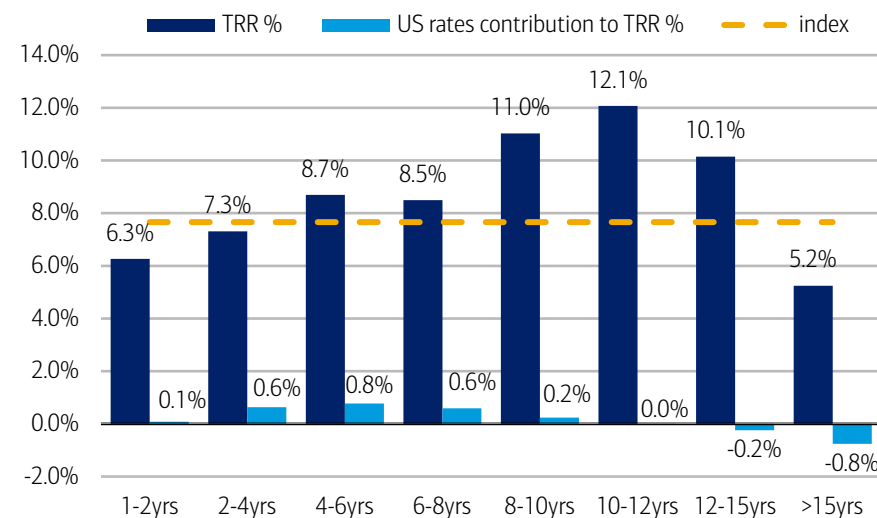
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Duration

Bonds with 8-15yr duration outperformed on spread compression and carry, as rates contributed a lot of volatility but came full-circle through 2023. USD Rates boosted TRR performance at the belly of the curve by 60bps to 80bps but detracted 80bps from bonds >15yrs in maturity and had low net impact elsewhere.

Exhibit 5: Spread compression and carry drove returns YTD

USD rates despite the volatility had little impact on 2023 TRR



Source: BofA Global Research, ICE Data Indices LLC

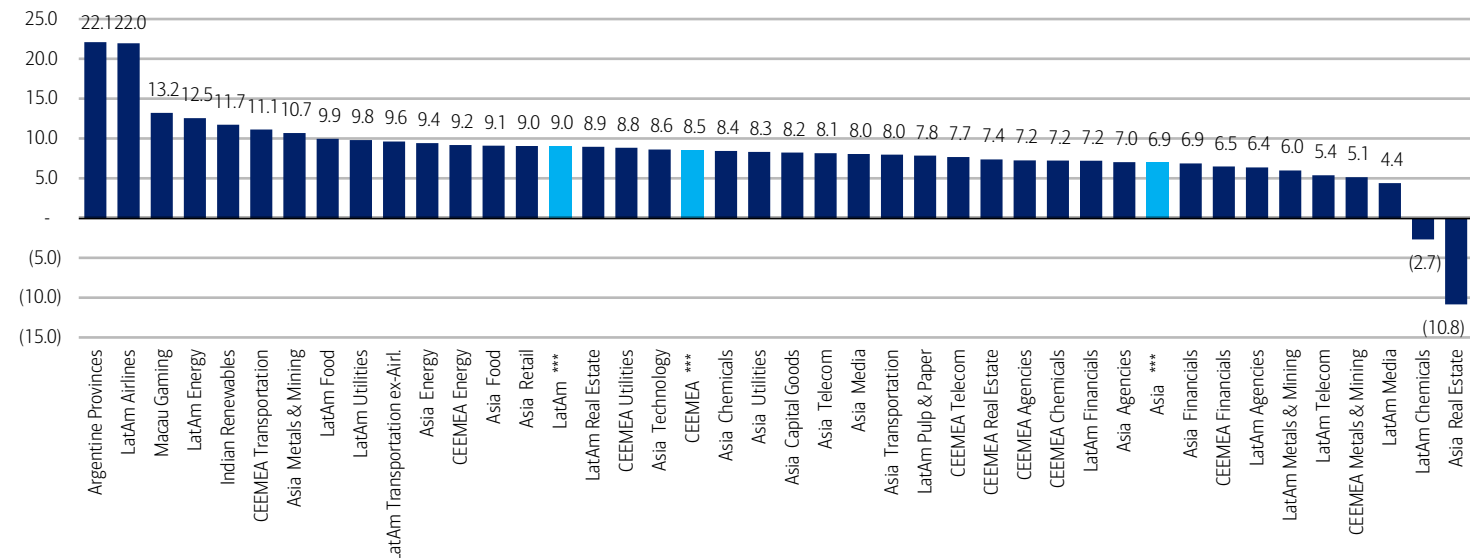
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Sector Returns in 2023

By sector, the top performers were Argentine provinces—that traded at low dollar prices—followed by LatAm Airlines, Macau Gaming, that was boosted by the reopening in 2023, and Energy in LatAm. Bottom performers were Asia Real Estate driven by China and LatAm Chemicals driven by sector-wide pricing headwinds for Petrochemicals.

Exhibit 6: Top sectors were: Arg. Provinces, LatAm Airlines, Macau Gaming, LatAm Energy, Indian Renewables. Asia Real Estate and LatAm Chems dragged.

Total Rate of Return (TRR) % in 2023 by sector



Source: BofA Global Research, ICE Data Indices LLC

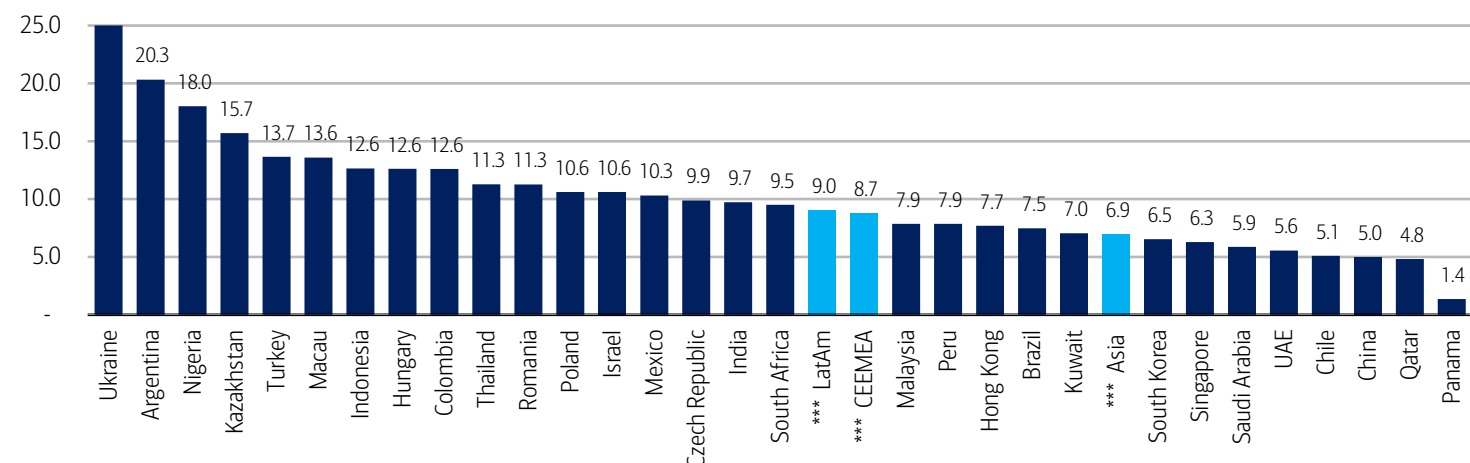
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Country Returns in 2023

Best 2023 performers: Kazakhstan, Indonesia in IG countries; Ukraine and Argentina in HY. Türkiye outperformed on more orthodox monetary policy and Macau gaming outperformed on an improved outlook after China's reopening. Mexico (+10.3%) outperformed Brazil (+7.5%) on near-shoring and Pemex tailwinds. Panama corporates underperformed (+1.4%) following the closure of the mine operated by Minera Panama. China returns lagged (+5.0%) on persisting property headwinds.

Exhibit 7: Ukraine, Argentina, Nigeria, Kazakhstan, Türkiye, and Macau outperformed in 2023

EM Corporates TRR % in 2023 by country



*Ukraine returned 79.8% in 2023 (y-axis truncated for clarity) ** Returns exclude transaction costs.

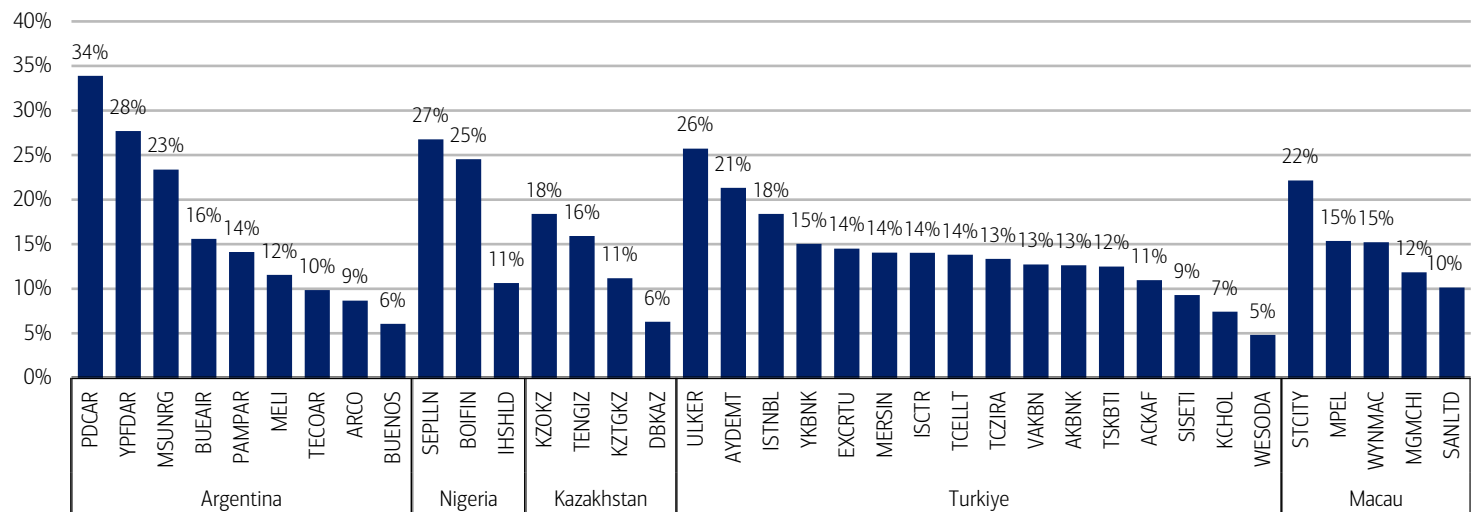
Source: BofA Global Research, ICE Data Indices LLC.

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Exhibit 8: Top-performing countries had broadly good performance, with no names with negative returns

Weighted average 2023 TRR % by Ticker in selected top-performing countries



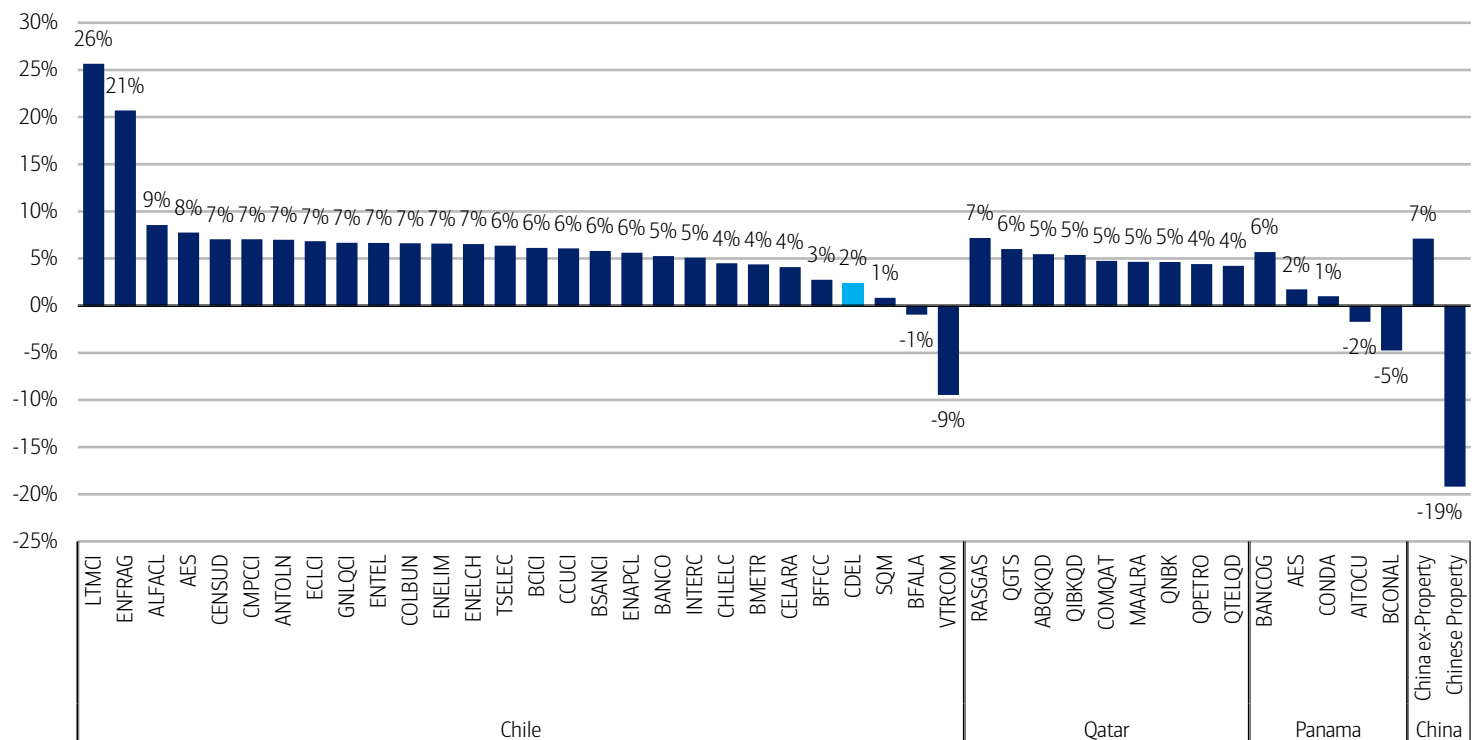
* Ukrainian issuer returns (not shown) ranged—at the ticker level—between 44% and 236%. ** Returns exclude transaction costs.

Source: BofA Global Research, ICE Data Indices LLC.

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Exhibit 9: Bottom performing countries had decent median returns: Chile (6%), China 6%, Qatar 5%

In Panama, Quasi BCONAL underperformed as sovereign came under pressure (sovereign was flat YoY).



* Returns exclude transaction costs.

Source: BofA Global Research, ICE Data Indices LLC.

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Quasis slightly outperformed Sovereigns

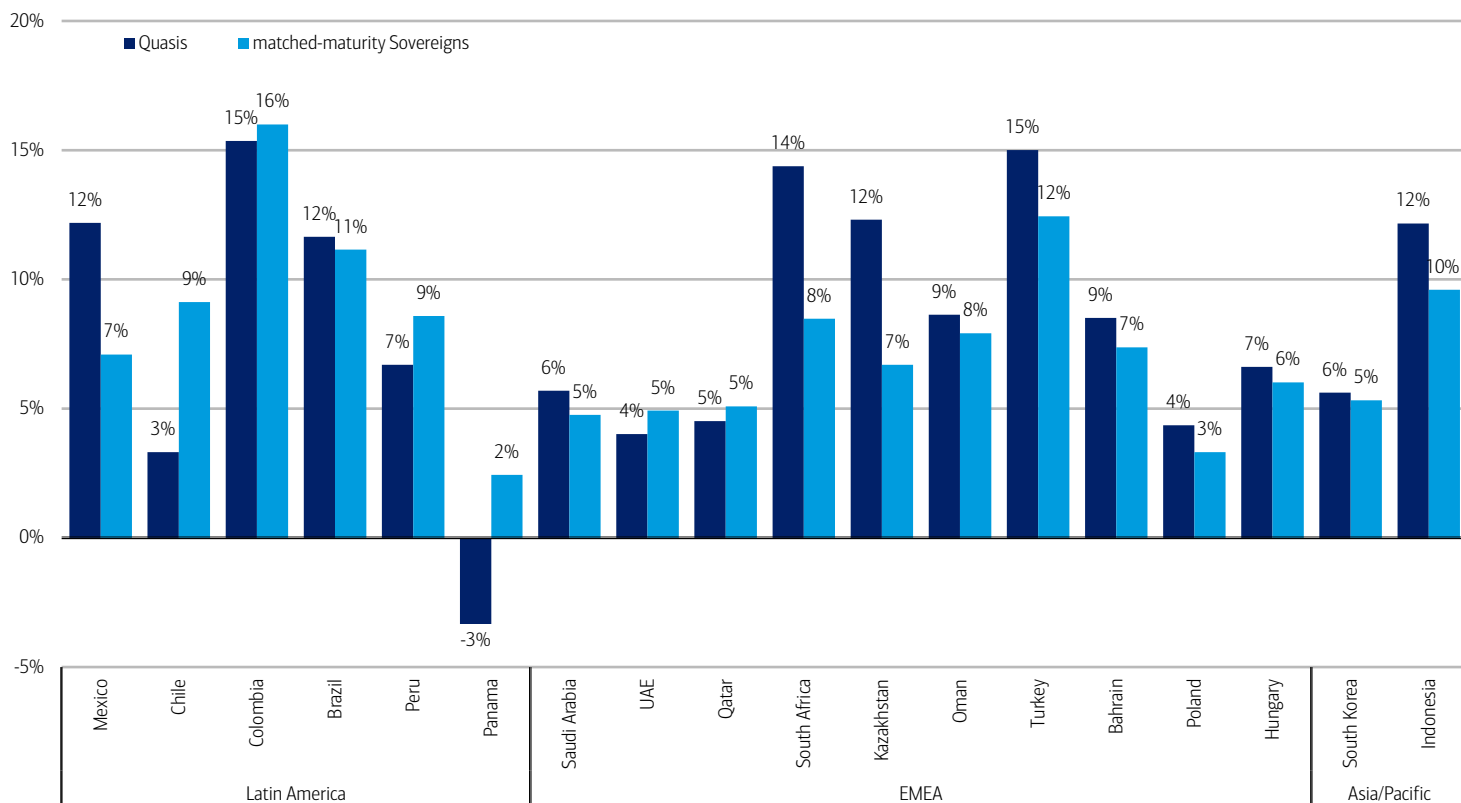
While EM Sovereigns had double-digit returns (+10%) and outperformed Corporates (+7.7%) in 2023, but the comparison is imperfect at the index level. The sovereign index has significant weight in countries in Central America and Africa that have little or no corporate presence, and the corporate index has large concentrations in countries like China or Brazil, with relatively smaller amounts of sovereign bonds outstanding.

To compare performance of Corporates vs. Sovereigns more directly, we prefer to focus on Quasi-sovereigns, that have historically offered an annualized total return pickup of +0.86% vs. a maturity-matched portfolio of sovereign bonds in the same countries. See July 26 2023 EM SoS (Spread over Sovereign) report for details on the methodology.

In 2023 EM Quasis outperformed a portfolio of maturity-matched sovereigns by +0.43%. ESKOM, KazMunayGas, and Pemex notably outperformed their sovereigns, while Codelco and Banco Nacional de Panama bonds underperformed sovereign bonds with similar maturities.

Exhibit 10: EM Quasis slightly outperformed a portfolio of matched-maturity Sovereigns in 2023

TRR % in 2023 of EM Quasis vs a portfolio of maturity-matched sovereigns, weighted by the corporate index weight



Not shown for clarity: Argentina Quasis returned +27% in 2023 while a portfolio of matched-maturity sovereigns returned +52%

Source: BofA Global Research, ICE Data Indices LLC

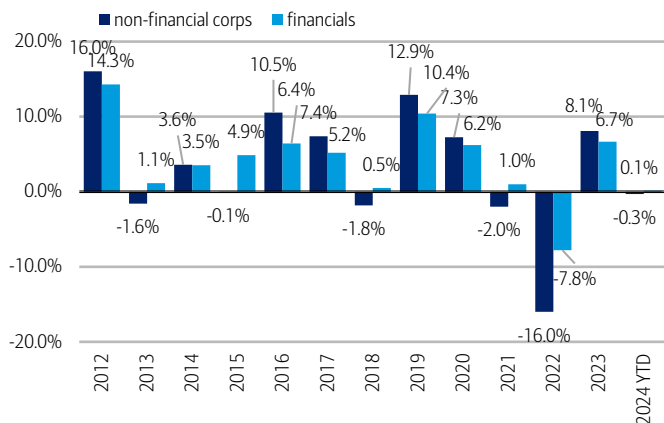
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Financials vs Corporates

EM non-financial Corporates historically performed in line with EM Financials until 2022. However, in 2022 non-financial corps significantly underperformed vs. Financials returning -16% vs. -7.8% respectively. 2023 performance continued to be in line for both segments.

Exhibit 11: Financials slightly lagged the rest of the index in 2023

TRR % by year for EM Financials vs. the rest of the EM Corporate index

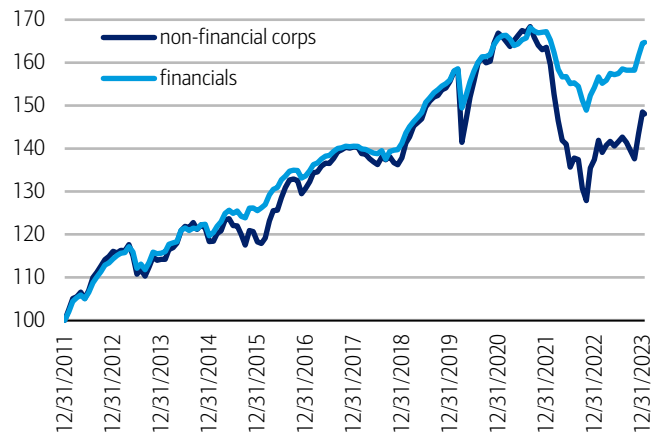


Source: BofA Global Research, ICE Data Indices LLC

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Exhibit 12: Financials diverged in 2022 vs the rest of the index

Evolution of \$100 invested in EM Fins and Corps starting in 12/31/2011



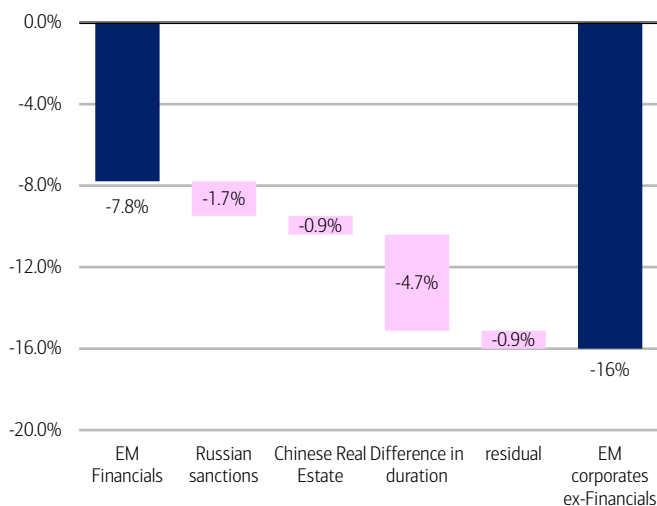
Source: BofA Global Research, ICE Data Indices LLC

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Outstanding face value has declined for both EM Financials and EM Corporates at a similar pace since 2022. This is despite higher defaults for Corporates, the lower maturity of the Financials space—making the sector more defensive in a volatile rate environment—and the relative outperformance of the sector in 2022.

Exhibit 13: TRR attribution of 2022 underperformance of Corps vs. Fins

Corporates underperformed mostly due to duration differences but also higher exposure to high-default areas like Russia and Chinese Property.

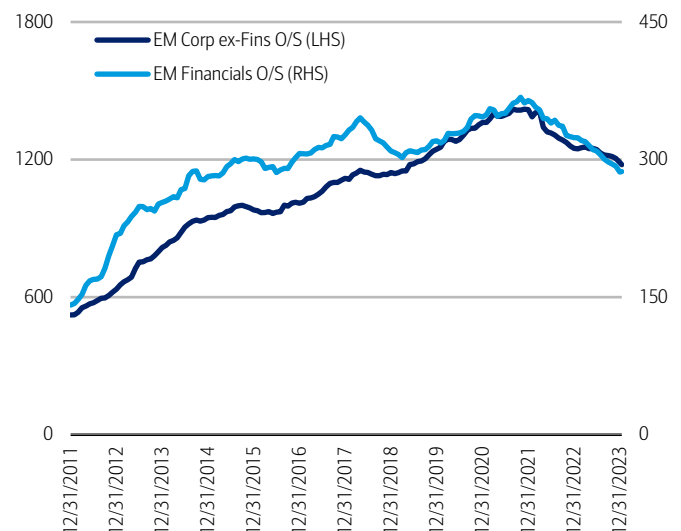


Source: BofA Global Research, ICE Data Indices LLC

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Exhibit 14: Financials O/S fell at the same pace despite outperformance

Face Value Outstanding (O/S) USD \$bn



Source: BofA Global Research, ICE Data Indices LLC

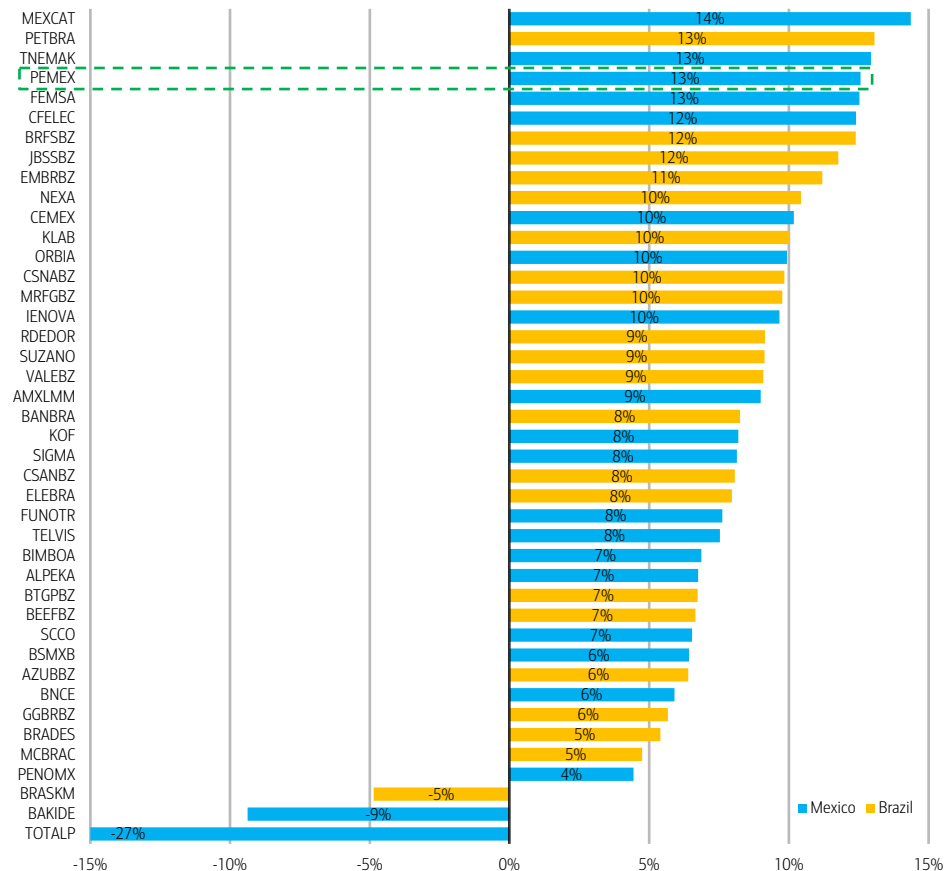
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Mexico outperformed vs. Brazil, driven by Pemex

As the two largest markets for corporates in LatAm, a common question is whether Mexico or Brazil corporates will outperform. Mexico's corporate international bonds returned +10.3% in 2023 vs. 7.5% for Brazil, which was in line with the index. Mexico's outperformance was partially driven by the larger weight of outperforming Quasis: Pemex +13% in 2023, +12%, and MEXCAT +14%. These three Quasis represent 53% of Mexican Corporates Face Value outstanding. Excluding these three Quasis, Mexican corporates returned +8.0%.

Exhibit 15: Mexico's corporates outperformed Brazil's, driven by Pemex (+13% TRR in 2023)

Weighted average TRR % in 2023 by ticker. Showing only tickers with >\$1MM outstanding



Source: BofA Global Research, ICE Data Indices LLC.

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Appendix – list of common abbreviations

% chg	percent change
4Q	Fourth Quarter
AT1	Additional Tier 1 Capital
T2	Tier 2 Capital
AUM	Assets Under Management
CB	central banks
CEEMEA	Central Eastern Europe, Middle East, Africa
chg	change (simple difference)
CoCos	Contingent Convertibles
EBITDA	Earnings before Interest, Tax, Depreciation, Amortization
EM	Emerging Markets
Fed	The Federal Reserve
GCC	Gulf Cooperation Council
GFC	Global Financial Crisis
HG	High Grade
HY	High Yield
IG	Investment Grade
LatAm	Latin America
LHS	Left Hand Side
LTM	Last Twelve Months
MTD	Month to Date
NY	New York
OAS	Option Adjusted Spread
RHS	Right Hand Side
Turns of leverage	Multiples (of LTM Leverage)
US	United States
USD	United States Dollar
YTW	Yield to Worst
Quasis	Quasi Sovereign Corporations
TRR	Total Rate of Return

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