GEMS Corporate Credit Year Ahead

Year Ahead 2024: Testing the tightrope to total returns

We expect returns of +7.5% in EM IG and +10% in EM HY

We expect positive returns in 2024 anchored by: attractive starting yields of +7.1% for the EMCB index, boosted +1.3% by a supportive BofA rates forecast, lifted +0.3% by slightly tighter spreads, and reduced by -0.5% due to credit losses on moderating expected defaults. We project 2024E credit spreads to be flat for EM IG, and -28bps tighter for EM HY, driven by moderating spread levels in the two conflicts in CEEMEA that drove spreads wider in 2023.

High and falling rates set EM Corp up for success in 2024E

Returns were below expectations in 2023YTD, as rising interest rates reduced the total returns for the index by -3.4% to +2.8%.   We view this is as a positive for 2024. What USD rates took away on the way up can be returned on the way down as rates start normalizing in 2024, all the while maintaining the higher yields of the asset class.

Relative spreads attractive: EM now cheap vs. US

At the beginning of 2023, EM IG spreads were tight to US IG but LatAm and CEEMEA IG corporates are now cheap vs. US IG: LatAm IG is now at 214bps or +93bps over US IG, which is at 87% of the 12-month range, whereas CEEMEA IG is at 153bps or +46bps over US IG (82% of the 12mo range). Asia/Pacific IG is relatively tight at 133bps or +12bps wide to US IG (43% of 12mo range). EM HY is also relatively wide in LatAm and CEEMEA at 550-570bps vs. ca. 400bps for US HY (ca. 80% of 12mo range).

HY Defaults to fall to 3.1% in 2024E from 4.3% LTM

We expect the 2024E EM HY default rate excluding Chinese HY Property and Argentina, to be 3.8% for CEEMEA HY, 3.9% for LatAm HY and 0.6% for Asia HY. This leads to 3.1% default rate for the index, lower than 4.3% LTM as of 10/31 and lower than the avg. default rate since 2010 of 3.7%. This projection is supported by lower-than-average EM distressed debt (13% of HY Face Value vs. 17% average since 2011) and by thinning the pool of default candidates due to above-average defaults in ‘22-‘23.

We expect issuance of $254bn in 2024; +20% vs. 2022

We expect gross issuance in line with 2023 levels ($217bn as of 11/16). Issuance could accelerate towards the end of the year if uncertainty around rates subsides with issuers accessing the market more confidently as the Fed embarks on a rate-cutting trajectory.

Labeled bonds grow index share; now 13% by FV, 67% IG

Many issuers in EM are accelerating their sustainability goals, increasing disclosures, and considering issuing labeled bonds in 2024. Labeled bonds now amount to US$219bn or 13% of the EM Corporate index. In 9M23, EM labeled bond supply was +10% YoY to US$55.8bn, higher than the +3% YoY growth in the overall EM bond market. The growth came mainly from deals in EEMEA, where supply was up 175% YoY (to US$23.7bn) after low issuance last year.

Refer to important disclosures on page 35 to 37.

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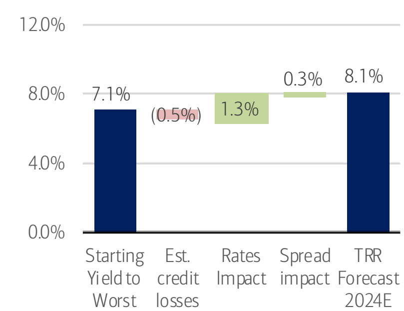
Exhibit 1: 2024E TRR attribution
TRR supported by a high starting yield



Source: BofA Global Research, ICE Data Indices, LLC
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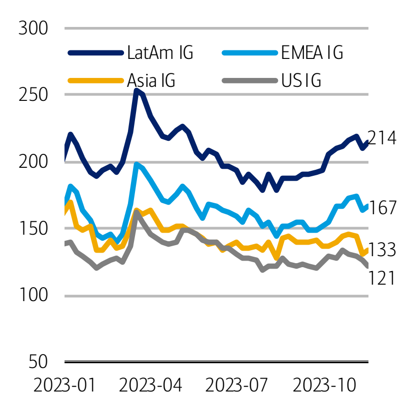
Exhibit 2: IG spreads by region vs US
LatAm IG and CEEMEA IG relative spreads to US IG have widened YTD



Source: BofA Global Research, ICE Data Indices, LLC
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See appendix for list of abbreviations

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EM Corporates in 2024

EM Corporates are finishing 2023 with strong prospects: solid fundamentals, stabilizing rates and commodity outlooks, high starting yields, and finally wide spreads relative to US, depending on the region. And yet, EM Corporates will have to walk a tightrope to reach the long-anticipated mid- or high-single digit returns that the asset class has not experienced since 2020.

No shortage of election-related uncertainty for EM Corps in 2024:

- Argentina's presidential election is heading to a run-off on Nov. 19th 2023. Our sovereign analysts expect both candidates would pursue a reduction in the fiscal deficit (at perhaps a different pace) and both would have to deal with a very challenging fiscal situation, including the CB's negative net international reserves.
- Mexico's presidential elections on 2 June 2024 are very important for the Quasi-sovereigns Pemex and CFE, the credit profile of which depend on the level of sovereign support and investors will be closely following the new government policies.
- Indonesia has presidential elections in Feb 2024. Despite election uncertainty, we have confidence that policy will remain supportive for corporates. Our economists forecasting 5.1% growth in 2024.
- US elections in November could also impact EM, with EM investors keep a close eye on US policy direction around trade, support for Ukraine, Venezuela sanctions and US-China relations.

Commodity outlook moderately supportive in 2024E. Metals prices have generally been resilient given the macro headwinds. Out of the metals that are important for EM, copper is essential to the energy transition and tight markets are expected in 2024. The metal should continue seeing supply issues next year. Precious metals can be supported by a potential end to the hiking cycle next year. For Lithium, some production discipline is needed to rebalance the market. Iron ore inventories remain low, but price could be pressured in 2H24 on rising supply from major producers. Pulp prices are expected to be slightly down in 2024 given ramp-up of new projects in LatAm. Main risks for prices include weak growth in China or either a US hard landing or rising rates and strong USD.

Fundamentals to remain solid across EM. EM corporate fundamentals slightly weakened in the first half of 2023, but remain very solid, with net leverage at decade lows in 2Q23. In 2024, our credit analysts expect a slight softening of corporate in most sectors in LatAm and CEEMEA, and a slight improvement to fundamentals in Asia/Pacific.

China slowdown not as bad for global EM corps as was initially feared. The housing slowdown in China has not been as impactful to the rest of EM via lower commodity demand, as some feared. Housing construction has continued, as completing pre-sold housing is seen as a priority and there has been strong investment in sectors like energy transition technologies and EVs, supporting demand for commodities. That said, in 2023, financial stress caused by the HY property crisis spread to IG developers and local government balance sheets. While the government has the capacity to reallocate liabilities and restore confidence, the growth drag from property is unlikely to be resolved in the medium term. Our economists expect 4.8% GDP in 2024E in China.

Refinancings required in 2024 higher in Asia. Asia corporate debt outstanding has structurally lower duration compared to LatAm that has the longest duration across regions. Asia index duration is lower at 4.1yrs vs 5.6yrs for LatAm, and Asia issuers tend to issue shorter maturity bonds, mostly in the 3-5yr range, vs 5 to 10+yrs for LatAm. As a result, 22% of Face Value is coming due for Asia issuers in 2024, vs 11% for LatAm.

Spread forecast: flat for IG & tighter HY

In our base case for 2024 we expect total returns of +8.1% (7.5% for EM IG and 10.0% for EM HY). The largest driver of the return forecast is the high starting yield of 6.1% for the IG index and 10% for the HY index. Our house forecast for lower US rates (10yr at 4.25% vs. 4.43% currently) also provide a boost.

On the credit quality spectrum, we prefer higher credit quality (BBs over Bs, BBBs over BBs, etc.), as risks to growth remain. Our economists expect a soft landing, which is our base case. However, the odds of slower global growth are now higher than their cycle-average, given the unknown impact of interest rates to existing pockets of leverage in developed markets that are increasingly stressed under a protracted high interest rate environment. The impact on EM Credit of a global growth slowdown would be asymmetric: a risk-off move with higher spreads and lower rates benefit IG, that has longer duration and lower spread sensitivity when credit spreads move higher. Therefore, we think that a slight lean towards IG makes sense in this environment.

We see EM corporate spreads slightly tightening from current levels in 2024E: -7bps at the index level, flat for EM IG, -28bps for EM HY ex-Chinese HY Real Estate. CEEMEA HY is the segment we forecast the largest spread tightening of -57bps, as we see spreads receding in Ukraine and Israel.

Downside risks to our forecast are higher rates; slower than expected global growth, lower demand for commodities in exporting countries. Regional and country-specific risks are: escalation of the conflict with Israel/Hamas; any adverse changes to SOE support following elections in Mexico and South Africa; elections in Venezuela with implications on US sanctions; and how Panama handles the mining contract renegotiation.

The drivers of the forecast are: (a) the current yield minus expected defaults at +6.5%, then (b) a boost of +1.3% from a supportive house rates forecast (425bps for 10-yr at 2024YE) and finally (c) a boost of +0.3% from the forecasted slight spread tightening (flat for IG, -28bps for HY). Assuming the rates forecast materializes, EM spreads would have to widen 150bps in IG and 250bps in HY to see a 0% index total return for the year.

Exhibit 3: We expect +8.1% EM Corporate index total return for 2024E

Breakdown of return forecast for EM Corporates, excluding Chinese HY Real Estate

As of 16 Nov 2023	EM Corporates			IG			HY			
	EMCB Total*	IG	HY*	LatAm IG	EMEA IG	Asia IG	LatAm HY	EMEA HY	Asia HY*	Chinese HY ppty**
Current Spread (bps)	257	152	554	214	167	131	573	552	503	3,972
LTM min (bps)				181	144	131	524	491	461	2,084
LTM max (bps)				262	213	200	650	643	896	6,365
Retracement				41%	33%	0%	39%	40%	10%	44%
YE23 Target (bps)	250	152	526	212	159	135	554	495	500	
Difference (bps)	-7	0	-28	-2	-8	4	-19	-57	-3	
Duration (yrs)	4.8	5.2	3.9	6.8	5.7	4.2	4.5	3.1	2.5	1.4
Tsy Change (bps)	-29	-29	-32	-25	-27	-31	-30	-33	-35	
Total Yld Chg (bps)	-37	-29	-60	-27	-35	-27	-49	-90	-38	
Capital Gain/Loss (bps)	177	147	231	184	202	115	220	275	95	
Yield to Worst (%)	7.1	6.1	10.0	6.8	6.0	5.9	10.3	9.7	9.8	43.9
Price ($)	89.6	90.2	87.9	88	89	91	85	91	90	56.7
Coupon (%)	4.3	3.7	6.1	4.6	3.4	3.2	6.1	5.7	5.3	5.7
Face Value (US$bn)	1,489	1,091	398	172	244	674	208	121	69	9
Default Rate (% mkt weight)*			3.1	0.0	0.0	0.0	3.9	3.8	0.6	57.0
Credit Loss (bps)			171	0	0	0	254	258	40	
Total Return, 2024 (%) F	8.1	7.5	10.0	8.6	8.0	7.1	10.0	9.8	10.3	-6.0

Source: BofA Global Research, ICE Data Indices, LLC

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We expect $244bn of Issuance in 2024

In 2024 we expect issuance to be stronger in the second half of the year, especially as the USD rates trajectory and expectations for Fed cuts become clearer. As we publish this report, we currently have seen US$217bn of corporate issuance in 2023.

Where have we seen substantial new issuance?

Corporate issuance has significantly ramped up in South Korea vs the 5yr average for at +$18bn, Saudi Arabia corporates +$8bn, and Multilaterals +$3bn. On the other hand, Chinese corporate issuance is $132bn lower than the 5yr average due to lack of issuance in the HY property sector, as well as preference for cheaper local financing alternatives for Chinese IG issuers.

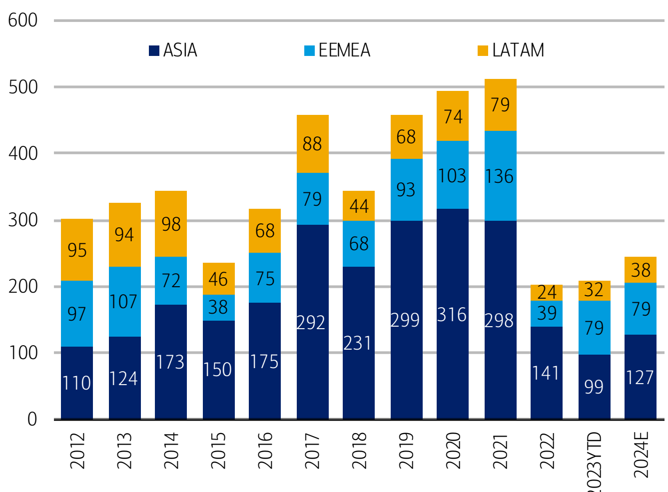
In LatAm we expect $35 to $40bn of issuance in 2024, which is in line with our projection for 2023YE. Out of that amount, we expect about ca. 30% coming from Brazil corporates, 15% from Mexico corporates, 20% coming from Financials, and 30-35% from all other corporates. This assumes Pemex remains out of the market.

In CEEMEA we expect ca $79bn of issuance in 2024, with about $22bn coming from Saudi Arabia and $19bn from UAE. Saudi Arabian corporates, including the Public Investment Fund, have been ramping up issuance compared to past years in a push to diversify the economy and finance planned large-scale projects.

In Asia/Pacific we expect ca $127bn of corporate issuance in 2024. We expect new issuance for non-financials corporates to come from: Korea IG corps where the USD funding cost are expected to be lower or comparable with onshore alternatives, Asian tech companies in the semiconductor supply chain, and Indonesian Quasis.

Exhibit 4: New issuance – historical and forecast for 2024

We expect 2024E issuance in line with 2023E



Source: BofA Global Research, Bloomberg

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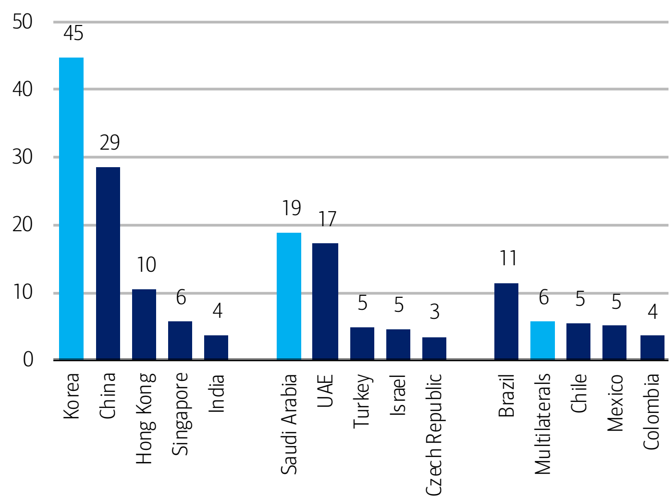
Exhibit 5: Issuance by country for major markets – 2023YTD

South Korea, Saudi Arabia, Multilaterals issuance higher than 5yr avg



Source: BofA Global Research, Bloomberg

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EM labeled issuance up +10% YoY

EM labeled bond supply growth driven by EEMEA

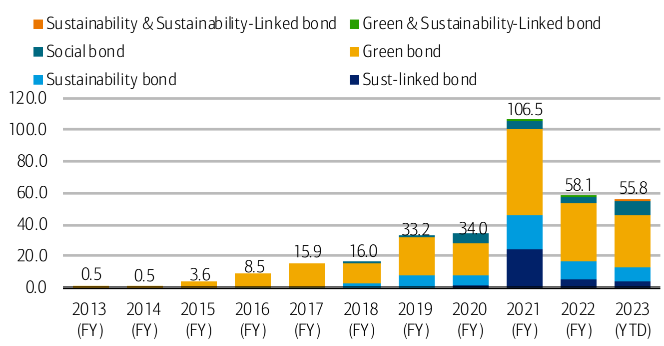
- For 9M23, EM labeled bond supply grew +10% YoY to US$55.8bn, a growth rate above the +3% YoY seen in the overall supply in EM bond market of US$186.7bn for the same period. The growth of labeled bonds was driven by a higher number of labeled transactions in EEMEA which totaled US$23.7bn in 9M23 (+175% YoY), after low issuance last year due to the conflicts in Europe.

- Asia was the biggest bond issuer in EM with 50% of the labeled offerings in 9M23 (vs. 70% in 9M22). EEMEA is the second biggest bond issuer with 42% (vs. 17% in 9M22) and LatAm with 8% in 9M23 (vs. 13% in 9M22).

- Labeled bonds were 30% of overall EM bond supply in 9M23 (vs. 28% in 9M22) and account for 13% of the BofA ICE broad EMCB index. Investment-grade issuers are 67% of labeled outstandings. South Korea surpassed China as the largest labeled issuer, now accounting for 23% of the EM labeled o/s (from 21% in 9M22), followed by China at 21% (vs. 25% in 9M22) and Brazil at 7% (vs. 9% in 9M22).

- Green bonds represented 59% of the labeled bond supply in 9M23, followed by social bonds (16% in 9M23), sustainability bonds (16% in 9M23) and sustainability-linked bonds (8% in 9M23). New instruments with combined characteristics such as sustainability notes & sustainability-linked bonds (SSLBs) and green notes & sustainability-linked bonds (GSLBs) were 6% of the supply in 9M23.

Exhibit 6: EM labeled bond issuance by instrument (US$ bn – historical)
EM labeled bond issuance totaled US$55.8bn in 9M23



Source: BofA Global Research, Bloomberg, Bond Radar

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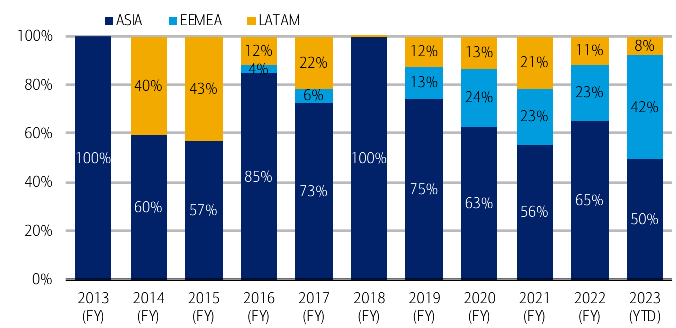
Exhibit 7: EM labeled bonds issuance by region (% of total)
Asia was 50% of EM labeled bonds issuance in 9M23, followed by EEMEA (42%) and LatAm (8%)



Source: BofA Global Research, Bloomberg, Bond Radar

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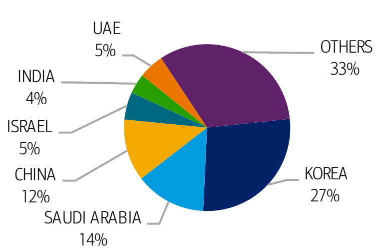
Exhibit 8: EM labeled bonds issuance by country (% of total) – 9M23
South Korea, Saudi Arabia and China were the top issuers



Source: BofA Global Research, Bloomberg, Bond Radar

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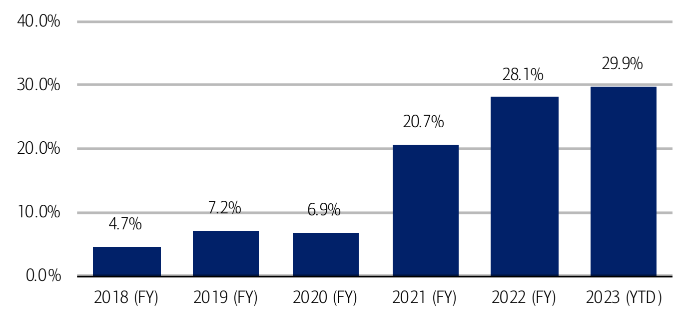
Exhibit 9: EM corps – labeled bonds as % of total new issue
Labeled bonds accounted for 29.9% of EM bond supply in 9M23



Source: BofA Global Research, Bloomberg, Bond Radar

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Default rates to decline to 3.1% in 2024

Our base case is that 2023 HY default rates by count will moderate to 3.1% from 4.3% LTM as of 10/31/2023. Our projection excludes expected concentrated defaults in Chinese HY Real Estate. We also don't include any potential distressed exchanges in Argentina. The market is currently pricing in potential debt exchanges (which are usually at par) and the results could be very binary: for provinces, if the CB completely restricts access to USD, then only four out of fourteen would have enough USD liquidity to repay their bonds in 2024.

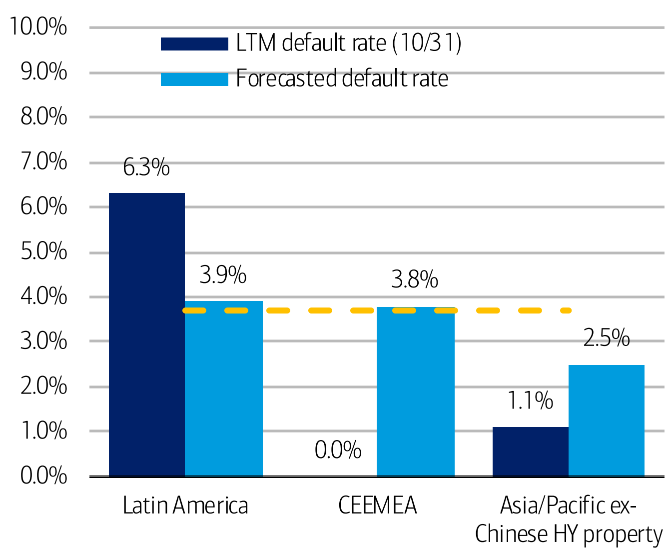
From a top-down perspective, defaults tend to correlate with (a) the amount of issuers with weak fundamentals and upcoming maturities, (b) the likelihood that business operating environment in a country becomes very restrictive or unstable, leading to a cluster of defaults, and (c) significant macro shocks. We arrived at our forecast based on a bottoms-up approach across our analyst coverage, which is also consistent with the macro outlook.

In LatAm ex-Argentina, the default rate is likely to moderate at 3.9% vs. 6.3% in 2023 YTD. There is now -29% less distressed debt in LatAm vs the start of 2023. Our default watchlist is also thinner vs. last year and includes: three Telecoms, two NBFIs, one Miner.

In CEEMEA, defaults are likely to normalize at 3.8% from 0% YTD as of October, near the EM long-term average after a year of zero index defaults. In 2024, it is probable that we see a couple of issuers restructure in Ukraine, and we also have one telecom issuer on our watchlist.

In Asia/ Pacific ex-Chinese HY Real Estate we expect the 2024E default rate for Asia HY excl. China property to remain low at 2.6%/0.6% by count/amount, respectively. In our base case, Vedanta will complete the liability management by end of 2023, and therefore will not be included in our 2024 default candidate. In China HY industrial, we expect 1-2 issuers to face some repayment uncertainties in 2024. Outside China, 3 Indonesia HY property companies with near term maturities are included in our potential default candidates for 2024. For China HY property, we expect the default risk to remain high in 2024 and the default rate to range from 45% to 65%.

Exhibit 10: 2024E default rate forecast vs. LTM default rates
LTM Default rates by count. Asia/Pacific excludes Chinese HY Property



Source: BofA Global Research, ICE Data Indices, LLC

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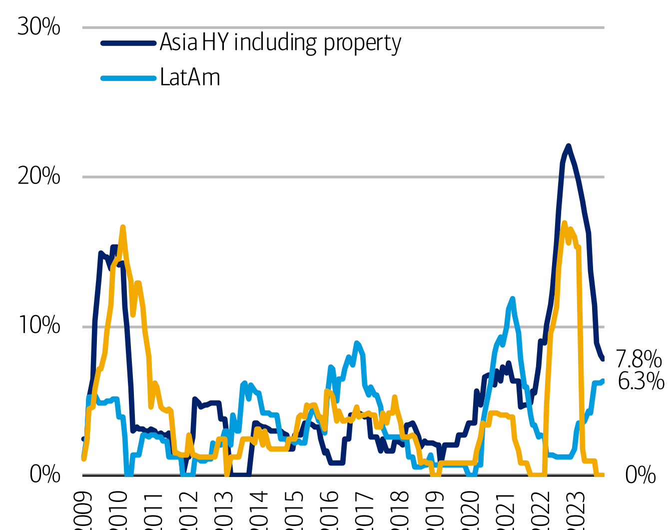
Exhibit 11: LTM regional default rates by count
LTM regional default rates by count as of 10/31



Source: BofA Global Research, ICE Data Indices, LLC

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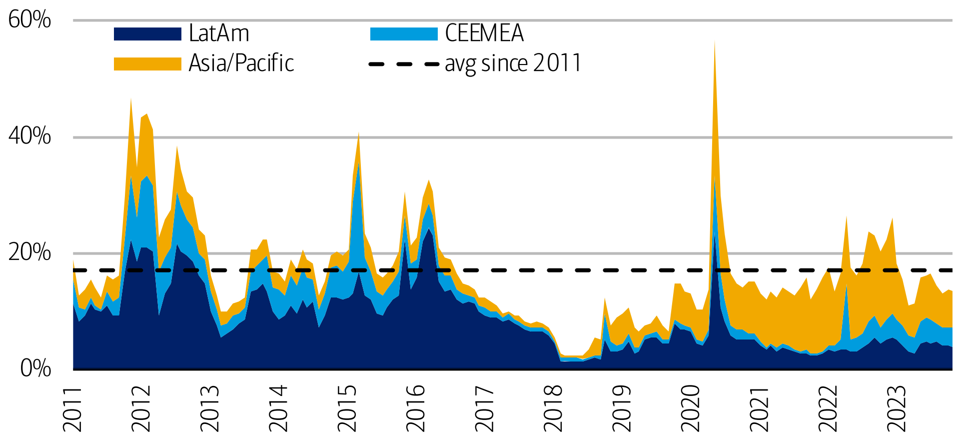
Distressed universe is below 5-yr average

Distressed EM Corporates have $53 in Face Value (distress is defined as OAS>1,000bps). Distressed bonds account for 13% of HY Face Value, which is lower than the long-term average of 17% since 2011. There is a large, distressed concentration in Chinese Real Estate, then in Ukrainian and Argentina corporates. Under our base case of a US soft landing, it's likely that distressed face value slightly falls from current levels in 2024, as some currently distressed bonds may restructure in Ukraine or Argentina.

Exhibit 12: EM distressed (OAS >1,000bps) to EM HY Face Value
EM distressed share of EM HY Face Value at 13%, below 17% long-term avg since 2011



Source: BofA Global Research, ICE Data Indices, LLC

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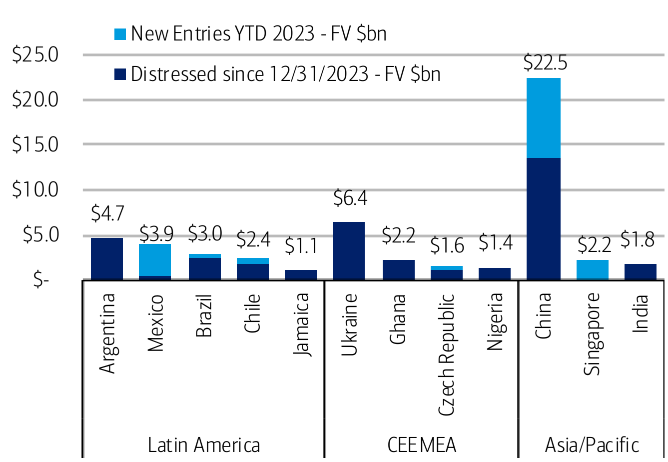
In 2023 YTD, $18.5bn entered distress (OAS>1,000bps) and about $4bn exited distress due to tightening / calls. Chinese corporates added $8.9bn to the distressed index in 2023YTD, mostly in Real Estate, including $4.6bn from IG or split-rated Real Estate firms such as Vanke and Longfor. In Mexico, the $3.6bn increase was driven by Total Play and Braskem Idesa.

Exhibit 13: EM Corporate Distressed Universe, by Country
The largest countries by distressed amount are China, Ukraine, Argentina



Source: BofA Global Research, ICE Data Indices, LLC

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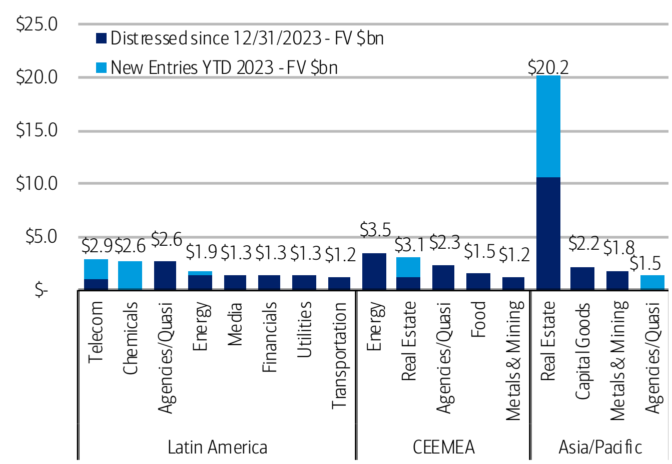
Exhibit 14: EM Corporate Distressed Universe, by Sector
Real Estate most distressed in Asia, in LatAm Telecom and Chemicals



Source: BofA Global Research, ICE Data Indices, LLC

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For a deeper dive in the EM Corporate distress universe, please refer to our recent strategy report: Distressed update - Real Estate stress spreads outside of Chinese HY Property, 23 Oct '23.

Rising Stars and Falling Angels

We saw limited transitions to/from IG in 2023. YTD Fallen Angels were 0.3% of EM IG and were mostly Real Estate firms in CEEMEA and Asia. YTD Rising Stars were 0.6% of EM HY and were sector-diverse issuers in LatAm and CEEMEA.

Exhibit 15: Limited Fallen Angels YTD, in CEEMEA and Asia, mostly in Real Estate
YTD Downgrades from IG to HY (composite rating)

Region	Name	Issuer	Current Rtg*	2022YE Rtg*	Country	Sector	Coupon	Maturity	YTW	Price	OAS
CEEMEA	MBKPW 0.97% 26's EUR	Mbank SA	/BBB-/BB+	/BBB-/BBB-	Poland	Financials	1.0	9/21/26	7%	82.3	437
	GWILN 2.95% 26's EUR	Globalworth Real Estate Inv. Ltd.	WR/BBB-/BB+	Baa3/BBB-/BBB-	Romania	Real Estate	3.0	7/29/26	13%	77.7	1,001
	GWILN 3% 25's EUR	Globalworth Real Estate Inv. Ltd.	WR/BBB-/BB+	Baa3/BBB-/	Romania	Real Estate	3.0	3/29/25	14%	86.5	1,064
APAC	YXREIT 2.65% 26's	Yuexiu REIT MTN Co Ltd.	Ba1/BBB-/	Baa3/ /	Hong Kong	Real Estate	2.7	2/2/26	12%	82.8	673
	PINGRE 3.45% 26's	Pingan Real Estate Capital Ltd.	Ba2/ /	Baa3/ /	China	Real Estate	3.5	7/29/26	25%	59.5	1,998
	PINGRE 3.25% 25's	Fuqing Inv. Mgt. Ltd.	Ba2/ /	Baa3/ /	China	Real Estate	3.3	6/23/25	31%	66.1	2,647
	GLPSP 3.88% 25's	Global Logistic Properties Ltd	WR/BB/	WR/BBB-/BBB-	Singapore	Real Estate	3.9	6/4/25	41%	60.1	3,569

Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg. * Moody's/S&P/Fitch

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Exhibit 16: Limited Rising Stars YTD, in CEEMEA and LatAm
YTD Downgrades from HY to IG (composite rating)

Region	Name	Issuer	Current Rtg*	2022YE Rtg*	Country	Sector	Coupon	Maturity Dt	YTW	Price	OAS
LatAm	SFCCN 5.3% 28's	Sagicor Financial Co Ltd.	/BB+/BBB	/BB-/BB+	Barbados	Financials	5.3	5/13/28	7%	93.2	235
	INRCON 3.25% 28's	InRetail Consumer	Baa3/BBB-/BB+	Baa3/BBB-/BB+	Peru	Food	3.3	3/22/28	7%	85.5	257
	GNFPSO 5.2% 34's	Guara Norte Sarl	Baa3/BBB-/	Baa3/BB+/	Brazil	Energy	5.2	6/15/34	8%	86.9	358
CEEMEA	INTLWT 5.95% 39's	ACWA Power Mgt	BBB3	BB1	UAE	Utilities	5.9	12/15/39	6%	94.6	204
	CCOLAT 4.5% 29's	Coca-Cola Icecek AS	BBB3	BB1	Türkiye	Food	4.5	1/20/29	7%	87.5	287

Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg. * Moody's/S&P/Fitch

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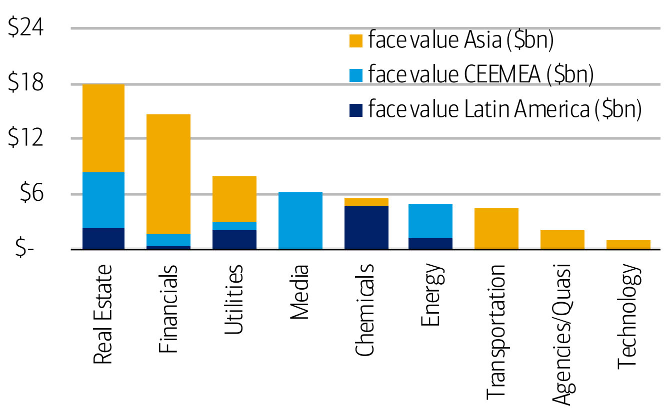
Looking forward to 2024, Sectors with high concentrations of IG-rated bonds that trade at BB+ levels or wider and are therefore pricing in some Falling Angel potential are: Real Estate in China, Financials in Asia, Real Estate in Eastern Europe, Utilities in India and Mexico, a technology issuer in South Africa, Chemicals in Brazil, Kazakh Energy.

Exhibit 17: Face Value of BBB bonds trading wider than BB+ by sector
Chinese Real Estate and Financials are the two largest concentrations



Source: BofA Global Research, ICE Data Indices, LLC

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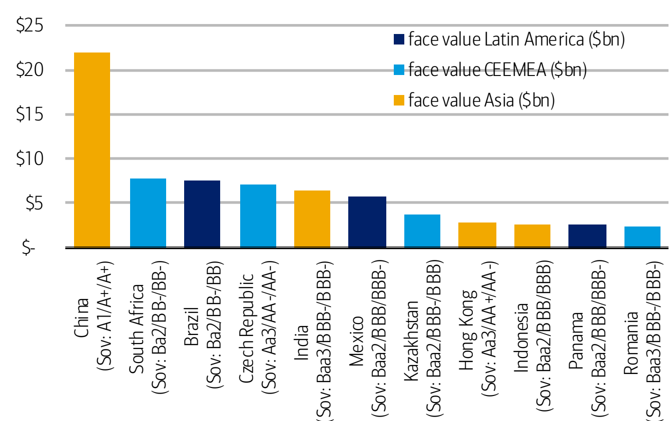
Exhibit 18: Corporate BBB bonds trading wider than BB+ by country
Sovereign rating shown in parentheses (Moody's/ S&P/ Fitch)

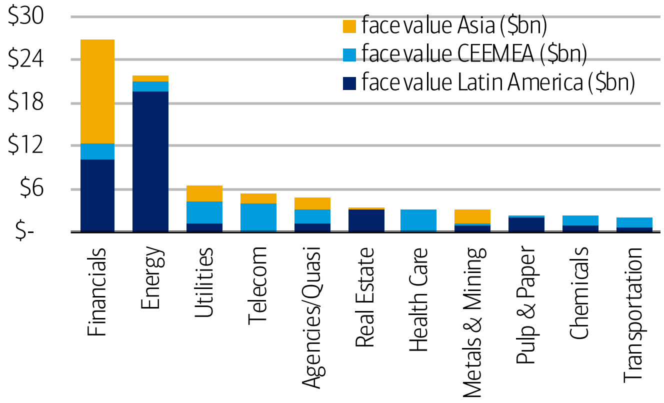


Source: BofA Global Research, ICE Data Indices, LLC

BofA GLOBAL RESEARCH

Sectors with high concentrations of HY-rated bonds that trade at BBB- levels or tighter are Financials in LatAm and Asia/Pacific, Brazil, with most Petrobras bonds trading tighter than EM BBB- average and Oman (sovereign rating: Baa2/BB+/BB+).

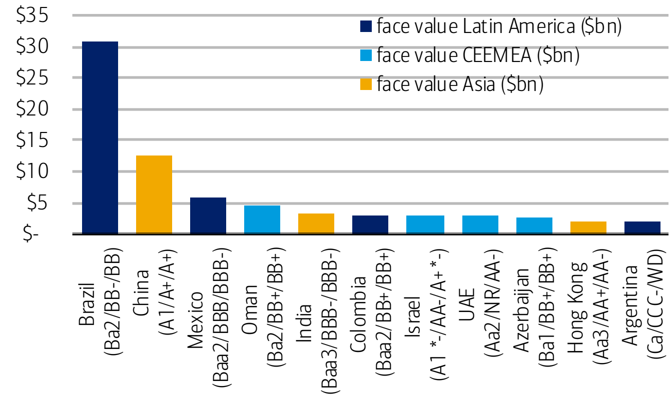
Exhibit 19: Corporate BB bonds trading wider than BBB- by sector
BB Financials trade tighter



Source: BofA Global Research, ICE Data Indices, LLC

BofA GLOBAL RESEARCH

Exhibit 20: Corporate BB bonds trading wider than BBB- by country
Brazil stands out with Petrobras trading tighter to EM BBB-



Source: BofA Global Research, ICE Data Indices, LLC

BofA GLOBAL RESEARCH

Will sovereign rating actions trigger Falling Angels in '24?

Out of the major EM markets, Panama has a low distance to HY, rated Baa3/BBB/BBB- by Moody's/S&P/Fitch and on a negative outlook by the latter two. The market has priced in some downgrade potential as Panama's BBB corporate bonds have widened +75bps YTD and now trade 25bps inside LatAm BB+ corps that are flat YoY. Panama has a relatively small index share $8.8bn outstanding, or 2.7% of the LatAm corporate index.

On potential Rising Stars, Oman is the perhaps closest to IG, rated Ba2/BB+/BB+, with a positive outlook by Moody's. All of Oman's corporates are rated Ba2/BB+ by Moody's and Fitch, and trade at 214bps, with room to tighten -60bps towards Middle East BBB- spread levels at 154bps. A sovereign upgrade is more likely in late 2024 as Moody's has Oman 2 notches below IG. Oman also has a small index share with $4.5bn outstanding or 1.4% of the CEEMEA corporate index.

Exhibit 21: Selected major markets for EM Corporates with sovereign BBB rating
Out of IG major markets, Panama is closest to BB rating, and 2/3 of rating agencies have a neg. outlook

	Sov. Rating			Sov. Rating Outlook			Corporates			
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	O/S ($bn)	of which BB1/BB2	of which BBB2/BBB3	w. avg Spread
Mexico	Baa2	BBB	BBB-	Stable	Stable	Stable	141	50%	24%	447
Peru	Baa1	BBB	BBB	Neg	Neg	Neg	18	7%	55%	361
Panama	Baa3	BBB	BBB-	Stable	Neg	Neg	9	23%	69%	309
Hungary	Baa2	BBB-	BBB	Stable	Stable	Neg	8	15%	85%	272
Kazakhstan	Baa2	BBB-	BBB	Pos	Stable	Stable	10	0%	100%	270
India	Baa3	BBB-	BBB-	Stable	Stable	Stable	61	17%	66%	313
Indonesia	Baa2	BBB	BBB	Stable	Stable	Stable	48	3%	86%	221

Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 22: Selected major markets for EM Corporates with sovereign BB rating
Out of HY major markets, Oman is closest to BBB rating, and is on positive outlook by Moody's

	Sov. Rating			Sov. Rating Outlook			Corporates			
	Moody's	S&P	Fitch	Moody's	S&P	Fitch	O/S ($bn)	of which BB2/BB1	of which BBB2/BBB3	avg Spread
Brazil	Ba2	BB-	BB	Stable	Pos	Stable	100	41%	38%	331
Colombia	Baa2	BB+	BB+	Stable	Stable	Stable	28	64%	11%	451
Morocco	Ba1	BB+	BB+	Stable	Stable	Stable	20	0%	36%	376
Oman	Ba2	BB+	BB+	Pos	Stable	Stable	5	100%	0%	198
South Africa	Ba2	BB-	BB-	Stable	Stable	Stable	28	21%	60%	332

Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg

BofA GLOBAL RESEARCH

Net Issuance negative in Latam & Asia

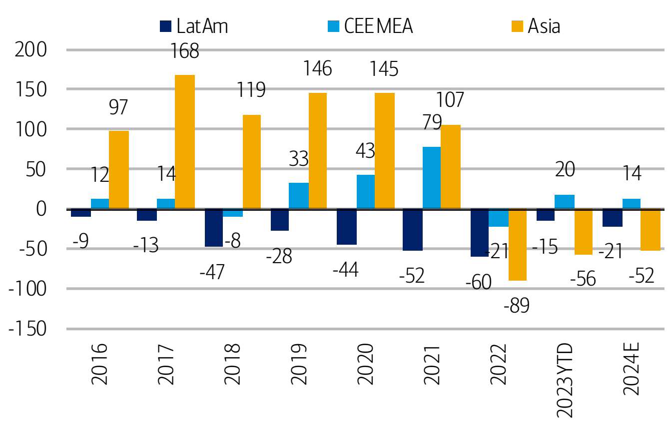
Maturities and Coupons. Maturities, coupons, calls, and tenders should return to investors US$326bn in 2024. We expect US$226bn from maturities, US$71bn from coupons, and just US$29bn from calls and tenders. The sectors that have the largest payments due in 2024 as % of Face Value are: Materials in Asia ($14bn / $45bn), Real Estate in Asia ($16bn / $58bn) and Financials in Asia ($61bn / $242 bn).

Liability management exercises produced US$24bn of calls, tenders, and repurchases in 2023 YTD. Calls and tenders are to remain low compared to before the Fed started raising rates, as higher yields pushed calls out of the money. LatAm corporates account for 24% of the Global EM Corp Face Value performed 63% of the liability management exercises, and as a result amortizations now represent only 14% of next-twelve-month payments out of Global EM Corporates.

Net Supply, calculated as Gross supply less principal, coupons and calls/tenders is expected to be negative in LatAm and Asia, but positive in CEEMEA as we expect issuance in the region to remain resilient.

Exhibit 23: Net supply forecast by region

Net supply is Gross Supply less principal maturities, coupons, calls / tenders



Source: BofA Global Research, ICE Data Indices, LLC

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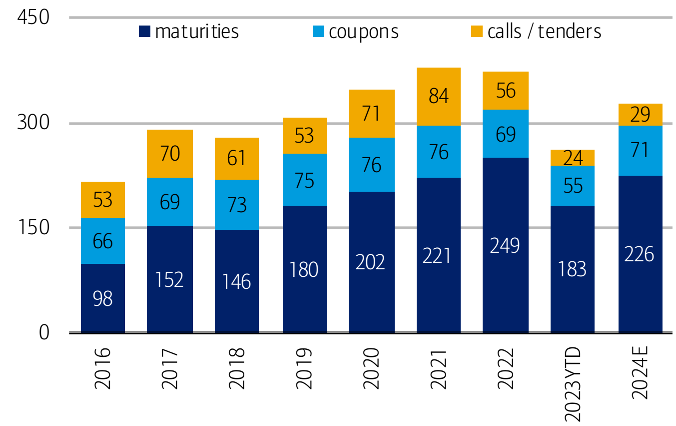
Exhibit 24: Corporate Maturities, Coupons, Calls & Tenders

We expect calls and tenders roughly in line with 2023



Source: BofA Global Research, ICE Data Indices, LLC

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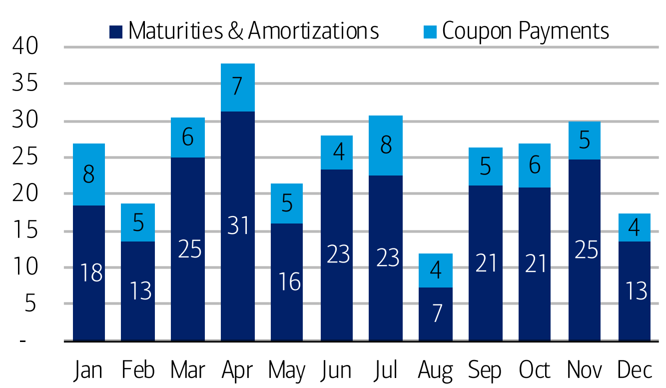
Exhibit 25: Global EM Maturity and Coupon payments

We expect a higher share of payments in March, April, July



Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg

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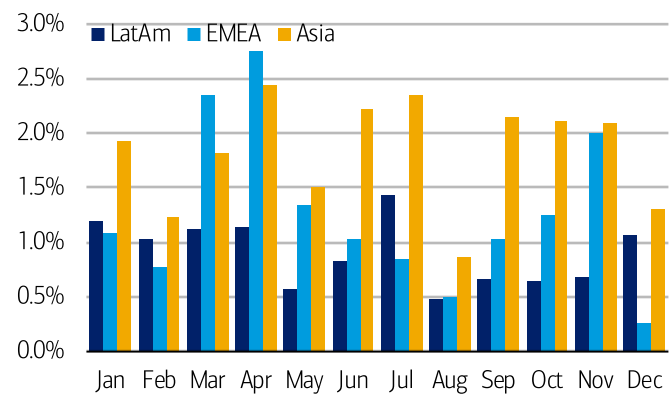
Exhibit 26: 2024 Maturity and Cpn pmts as % of Face Value by month

FV % returned in 2024: LatAm 11%, EMEA 15%, Asia 22%



Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg

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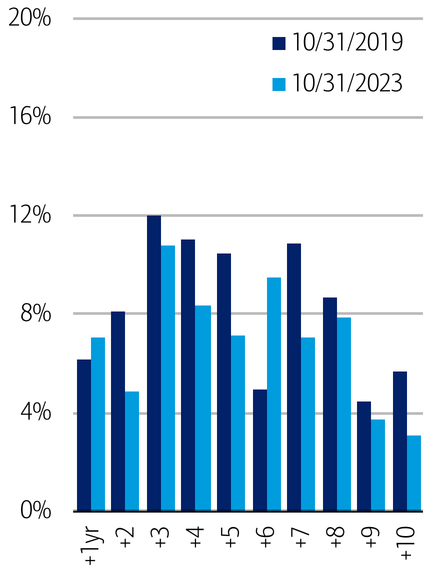
Maturity profile: Asia w/most maturities

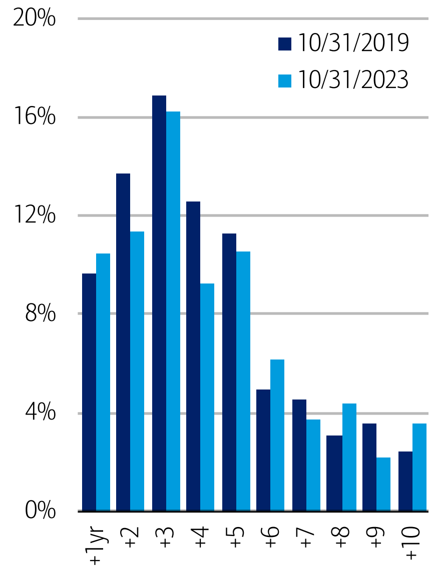
Maturity profiles are steeper in Asia, with the principal due in the next 12 months at 19% of Face Value, moderate in CEEMEA with NTM principal at 10% of FV and more spread out in LatAm at 7%. The sectors that have a higher percentage of maturities due to amount outstanding are Materials in Asia, Real Estate in Asia, and Financials in Asia.

Exhibit 27: LatAm maturities as % of Face Value, by year from today, vs 4yrs ago
LatAm corporate maturities are spread out



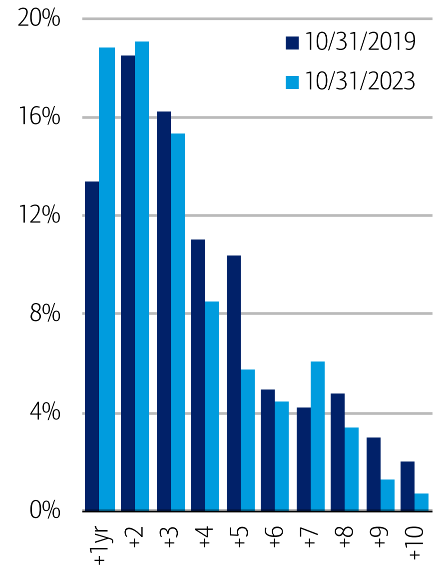
Source: BofA Global Research, ICE Data Indices, LLC.
BofA GLOBAL RESEARCH

Exhibit 28: CEEMEA maturities as % of Face Value, by year from today, vs 4yrs ago
CEEMEA maturities longer now vs 2019



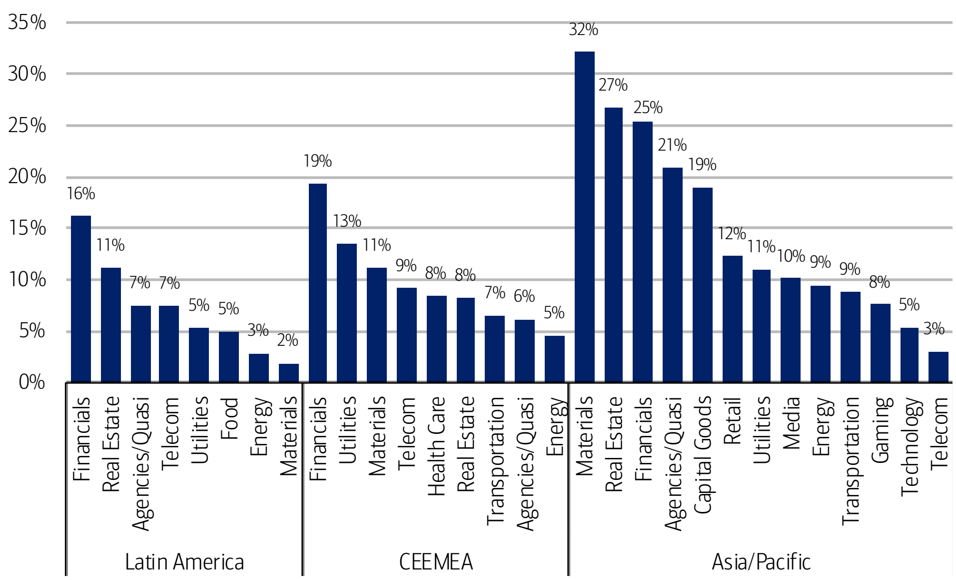
Source: BofA Global Research, ICE Data Indices, LLC.
BofA GLOBAL RESEARCH

Exhibit 29: Asia maturities as % of Face Value, by year from today, vs 4yrs ago
In Asia, 52% of O/S matures in the next 3yrs



Source: BofA Global Research, ICE Data Indices, LLC.
BofA GLOBAL RESEARCH

Exhibit 30: 2024 Maturities by Sector and Region as % of Face Value
Maturities are steeper in Asia/Pacific, and more spread-out in LatAm and CEEMEA

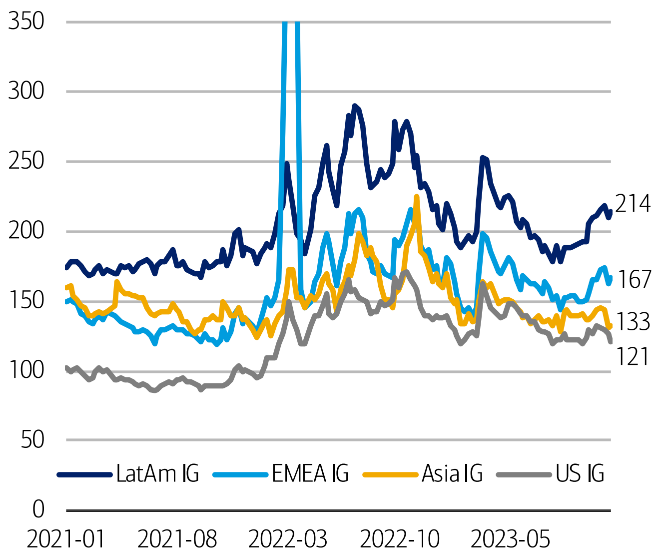


Source: BofA Global Research, ICE Data Indices, LLC. Showing sectors with >$10bn in Face Value
BofA GLOBAL RESEARCH

EM vs. DM spreads finally look attractive

At the beginning of 2023, EM IG spreads were tight to US IG but LatAm and CEEMEA IG corporates that are now fair vs. US IG: LatAm IG is now at 214bps or +93bps over US IG, which is at 87% of the 12-month range, whereas CEEMEA IG is at 153bps or +46bps over US IG, which is 82% of the 12-month range. This could lead to higher cross-over demand for EM IG bonds in these regions given the attractive all-in yields of 6.7% for LatAm IG and 5.9% for CEEMEA IG.

Exhibit 31: EM IG spreads are wide to US IG in LatAm, CEEMEA
EM IG and US IG Corporate spreads by region (bps)



Source: BofA Global Research, ICE Data Indices, LLC

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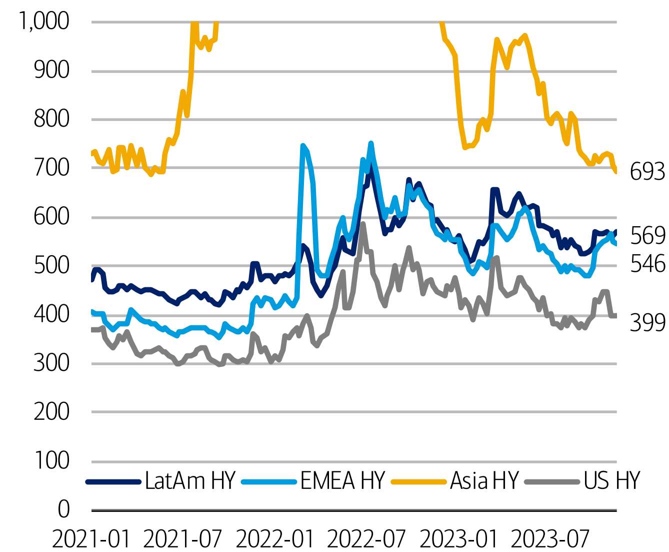
Exhibit 32: EM HY spreads are fair to US HY
EM HY and US HY Corporate spreads by region (bps)



Source: BofA Global Research, ICE Data Indices, LLC

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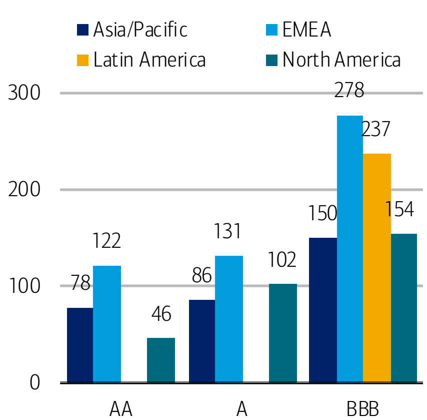
Some sectors that have widened YTD vs US comps in the same sector and with the same rating, are LatAm BB Financials (+118bps), LatAm A-rated Metals & Mining (Codelco, +103bps), CEEMEA BB Energy (incl. Israel Energy +158bps). In EM IG, BBB Energy, Materials, and Utilities are wider than DM comps, with regional variation.

Exhibit 33: Energy IG - EM spreads vs. US
CEEMEA and LatAm BBB Energy wide to US



Source: BofA Global Research, ICE Data Indices, LLC

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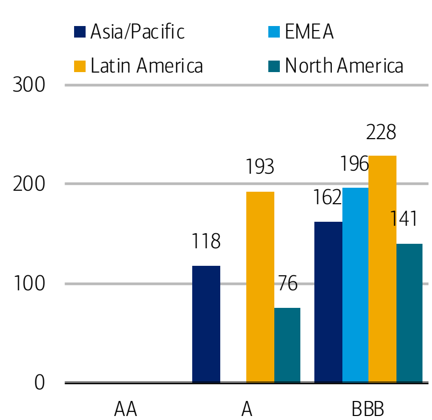
Exhibit 34: Materials IG - EM spreads vs. US
LatAm IG Materials wide to US



Source: BofA Global Research, ICE Data Indices, LLC

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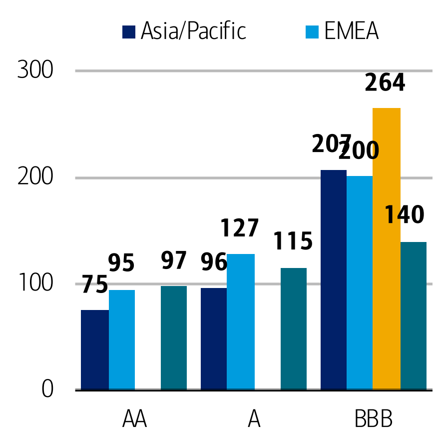
Exhibit 35: Utilities IG - EM spreads vs. US
EM BBB Utilities wide to US



Source: BofA Global Research, ICE Data Indices, LLC

BofA GLOBAL RESEARCH

Global Economy to grow +2.8% in 2024

Our economists forecast Global GDP to grow at 2.8% in 2024E from 3.0% in 2023E. The US is expected to go through a soft landing in 2024—a period of positive but below-trend growth— with US GDP expected to slow to 1.4% in 2024E from 2.4% in 2023E. Our economists project growth to remain relatively low in the Euro zone, with 0.9% growth projected for 2024E with uncertainty around energy prices likely to be a drag for consumption.

In Asia ex-Japan, the worst is behind us. Our economists see improvement in South Korea's GDP to 2.3% in 2024E from 1.4% in 2023E, after the recent recovery in exports. In China, our strategists believe that the government is committed in preventing growth from slowing further and our economists expect 4.8% growth in 2024E from 5.3% in 2023E.

LatAm growth lower, but positive. Latin America growth is expected to slow in Mexico and Brazil but remain positive at 1.8% and 2.2% respectively for 2024E. On the other hand, economists project a pickup in growth in Colombia (+2.1% in 2024E), Chile (+2.0% in 2024E), and Peru (+2.6% in 2024E).

Exhibit 36: Growth expected to slow in LatAm and Asia but pick up in CEEMEA
GDP and FX projections by country for countries with significant corporate bonds outstanding

	Real GDP growth % 2022	Real GDP growth % 2023E	Real GDP growth % 2024E	FX Forecast (vs. USD, 2024 year-end)	2024 FX % change from spot	Spot Rate, as of 11/17/2023
GEMs	4.2	4.2	4.2			
GEMs (ex. China)	3.7	2.4	2.3			
Global	3.5	3.0	2.8			
United States	1.9	2.4	1.4			
Euro Area	3.4	0.5	0.5	0.95	3.8%	0.92
EM Asia *	**4.0**	**5.0**	**3.8**			
China	3.0	5.3	4.8	7.4	2.6%	7.2
India	6.7	6.5	5.7	83.0	-0.3%	83.3
Korea	2.6	1.4	2.3	1300	0.3%	1,296
Hong Kong	-3.5	3.4	2.1	7.8	0.4%	7.8
Indonesia	5.3	5.0	5.1	15,500	0.5%	15,416
CEEMEA *	**2.1**	**0.8**	**3.7**			
Czech Republic	2.4	-0.2	1.6	24.5	0.0%	24.5
BofA	5.6	4.0	3.4	30.0	4.6%	28.7
Ukraine	-29.1	4.5	7.7	40.0	10.3%	36.3
Saudi Arabia	8.7	-0.6	4.1	3.8	0.0%	3.8
South Africa	1.9	0.7	1.5	19.0	3.5%	18.4
LatAm *	**4.1**	**2.2**	**1.9**			
Brazil	2.9	3.0	2.2	5.0	1.1%	4.9
Mexico	3.9	3.4	1.8	17.7	2.8%	17.2
Colombia	7.3	1.4	2.1	4050	-1.0%	4,093
Chile	2.4	-0.3	2.0	900	1.5%	886
Peru	2.7	-0.4	2.6	3.80	1.0%	3.76
Argentina	5.2	-1.1	-2.0	663	87.3%	354

Source: BofA Global Research estimates. *Regional aggregations weighted by EM Corporate Credit index weights to appropriately weight countries with a higher share of corporate bonds outstanding.

BofA GLOBAL RESEARCH

2023 hurt most by US rates

The ICE/BofA Emerging Markets Corporate Bond Plus index returned +2.8% YTD, a performance weaker than the 7% index yield at the beginning of the year.

- The largest total return detractor was an increase in treasury rates (+42bps for 5yr maturities and +57bps 10yr Treasuries).
- Defaults detracted -0.4% from the index's performance.
- Spread changes accounted for -0.1%.

Index losses due to defaults were relatively limited to 0.4% despite the face value of the defaulted bonds YTD being 1.26% of the total indexes face value. The reason is that for many defaulted names default was already priced-in and in a quarter of the cases the bonds appreciated YTD prior to their exclusion from the index. Defaulted bonds that surprised the market—such as Americanas, Light, and Unigel—performed worse, losing between -43% and -76% of their value.

As a silver lining, out of all the reasons that could have led to lower returns, higher rates would be our preference. Defaults tend to lead to permanent credit losses. Higher spreads imply credit stress and increased probability of default. Higher rates, on the other hand, not only have the potential to moderate as the economic trajectory in the US clarifies but also lead to an increase in yields—without implying higher defaults—increasing the expected return of EM Corporates.

Exhibit 37: Performance attribution of the EM Corporate plus index in 2023YTD
Higher rates was the primary driver for lower YTD returns (as of 11/16/2023)

Source: BofA Global Research, ICE Data Indices, LLC

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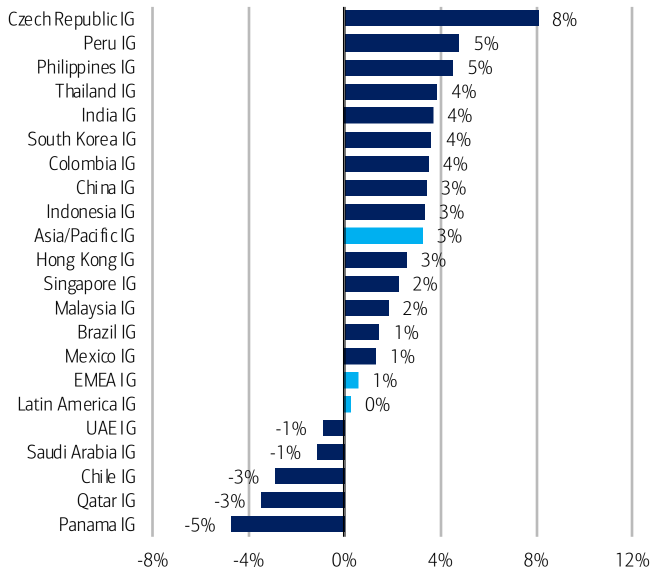
Exhibit 38: EM IG Corp Total Returns by country YTD (%)
Positive returns, higher in Asia IG. Excluding countries w/<$5bn O/S.



Source: BofA Global Research, ICE Data Indices, LLC

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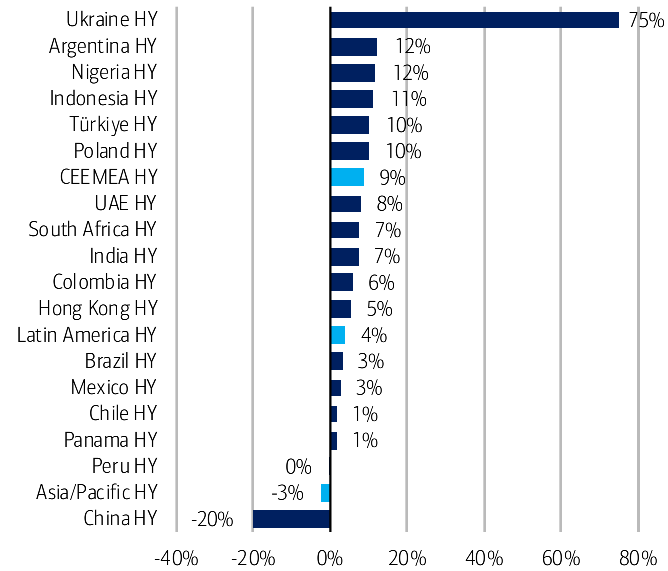
Exhibit 39: EM HY Corp Total Returns by country YTD (%)
Ukraine, Argentina HY outperformed. Excluding countries w/<$5bn O/S.



Source: BofA Global Research, ICE Data Indices, LLC

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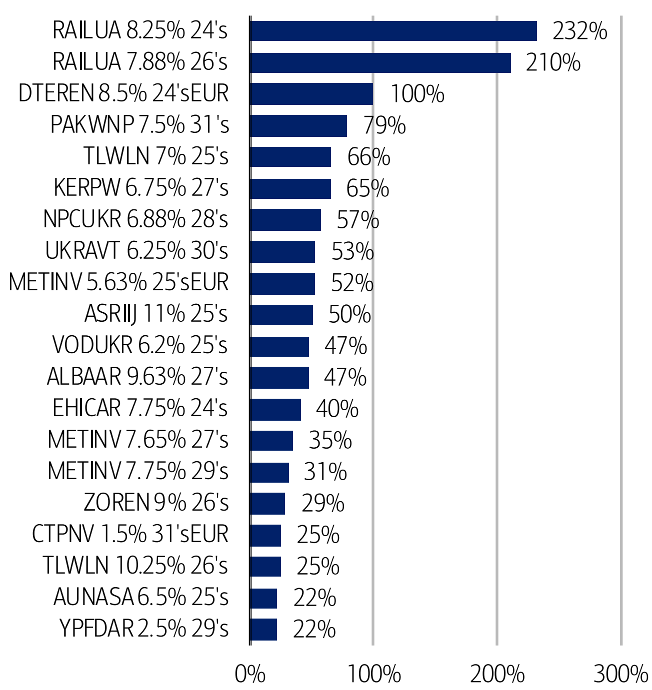
Exhibit 40: Top performing bonds YTD excluding defaulted
Top performing bonds YTD by TRR, EM Corporate Plus Index



Source: BofA Global Research, ICE Data Indices, LLC

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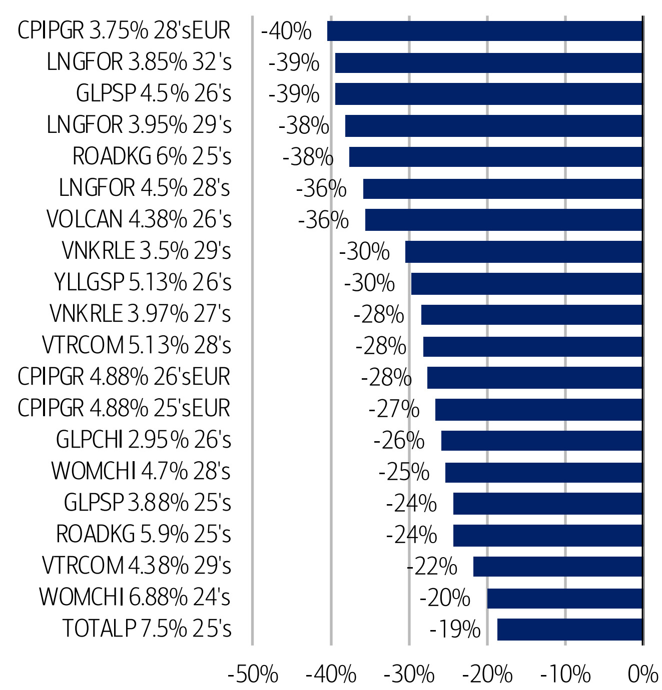
Exhibit 41: Bottom performing bonds YTD excluding defaulted
Bottom performing bonds YTD by TRR, EM Corporate Plus Index



Source: BofA Global Research, ICE Data Indices, LLC

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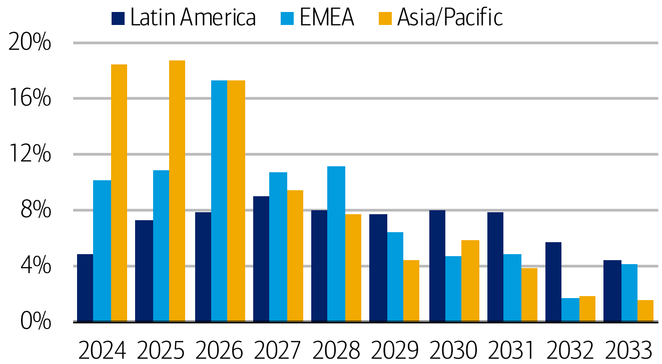
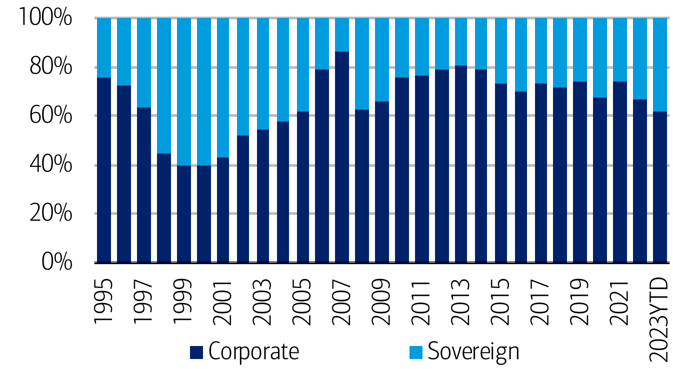
Exhibit 42: EM Corp maturity distribution (as % of region total)
Asia/Pacific maturities shortest, LatAm maturities longest



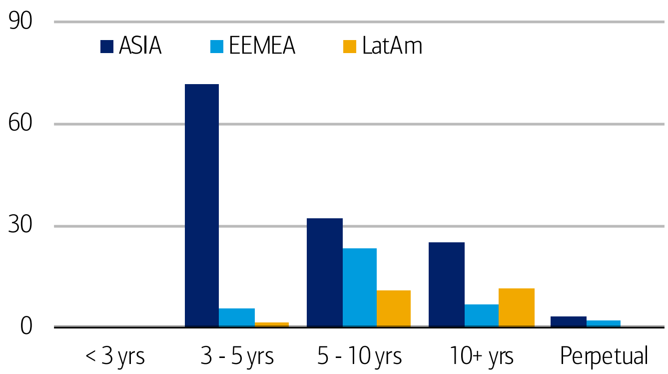
Source: BofA Global Research, ICE Data Indices, LLC
BofA GLOBAL RESEARCH

Exhibit 43: EM Corporate vs. Sovereign issuance
Corporates represented 62% of international EM bond issuance YTD



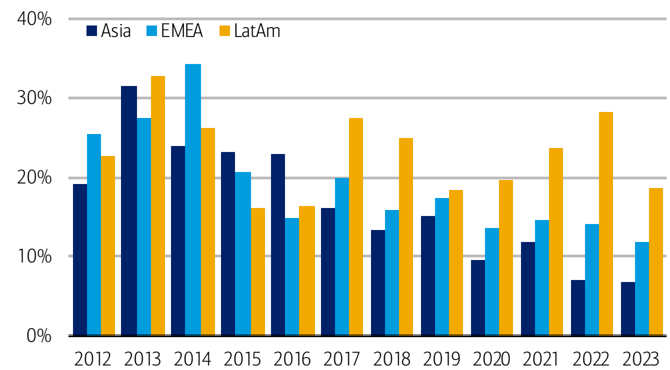
Source: BofA Global Research, ICE Data Indices, LLC
BofA GLOBAL RESEARCH

Exhibit 44: EM Corporate Issuance by Tenor YTD (USD $bn)
Asia Issuance mostly in 3-5yr range, CEEMEA in 5-10yr range, LatAm >5yrs



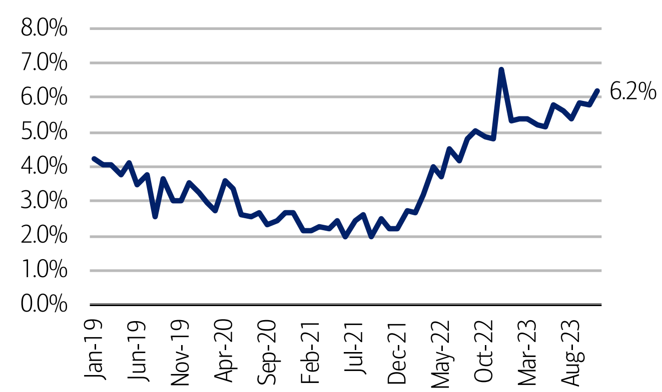
Source: BofA Global Research, ICE Data Indices, LLC
BofA GLOBAL RESEARCH

Exhibit 45: Corporate 1st time issuers as a % of total by region
The Percentage of first time issuers remained suppressed in 2023



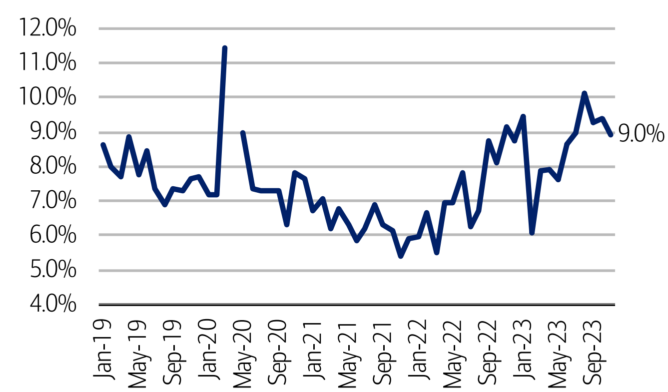
Source: BofA Global Research, ICE Data Indices, LLC
BofA GLOBAL RESEARCH

Exhibit 46: EM IG Corp. Issuance (avg. coupon by month, %)
Average EM IG Coupon steadily increased to 6.2% in November



Source: BofA Global Research, ICE Data Indices, LLC
BofA GLOBAL RESEARCH

Exhibit 47: EM HY Corp. Issuance (avg. coupon by month, %)
Average EM HY Coupon averaged 8.6% YTD 2023



Source: BofA Global Research, ICE Data Indices, LLC
BofA GLOBAL RESEARCH

Top credit events

LatAm credit events

Brazilian corporate restructurings - several companies announced restructuring plans in 2023 including 1) Americanas (filed for bankruptcy after disclosed supplier finance liabilities of BRL 20bn), 2) telecom Oi (bankruptcy filing), 3) airline Gol (distressed exchange), 4) airline Azul (distressed exchanged), 5) power company Light (bankruptcy filing), 7) Unigel (missed interest payment), and 8) Intercement (standstill).

Samarco reached agreement with bondholders – the company filed for judicial recovery plan after reaching agreement with creditors. The company will issue up to $3.5bn of new unsecured notes due 2031.

Chile's new lithium national policy - new lithium policy announced in April 2023 expanded the role of the State in Chile's lithium market. Codelco is initially the entity responsible for representing the government in the lithium contracts before the creation of the national lithium company in the future. The first case to be negotiated is that of SQM, Chile's largest lithium producer whose contracts expire in 2030.

Pemex gets largest government support in its history: In the past 4.5 years, Pemex has received nearly US$80bn in support in different forms from the Mexican government, including a reduction in its profit sharing tax to just 30% from 65% when AMLO came to office. Nonetheless, its bonds continued to trade 300-500bps over Mexican sovereign spreads.

Argentina's Vaca Muerta Oil & Gas Production surges. Production in 2022 grew by 62% and is now estimated to be about 290,000 bpd or about 50% of the country's total production and 70% of its crude oil exports. Natural gas production is estimated to reach 174mm m3/day by 2030.

U.S. lifts sanctions against Venezuela & PDVSA. In Oct-23, the U.S. government lifted a series of sanctions on Venezuela including the ability to trade its external bonds and the ability of U.S. companies to buy and sell oil from Venezuela. The nominal face value of Venezuelan and PDVSA bonds is about US$60bn.

UAW labor strike resolved with minimum impact to Auto Parts. U.S. union UAW's 1-month labor strike against Ford, GM and Stellantis was resolved. While the strike threatened to impact OEM production volumes, LatAm auto parts like Nemak did not report meaningful volume impacts in 3Q23 results.

El Niño declared, affecting Utilities throughout LatAm. Weather pattern officially declared in June. Set to strengthen in 2H23. Already creating dry conditions in Colombia and Peru where electricity spot prices spiking. Chile, however, expected to benefit from better hydrology via its hydro power-heavy energy matrix.

Petro attempts to take over Utilities regulator, rejected by court. In 1H23, Colombia's president declared he would personally take over the Utilities regulator (CREG). Colombia's supreme court later nullified the decree.

Falabella on negative watch for downgrade to HY. Both S&P and Fitch placed the BBB- ratings on negative watch for 90 days following the publication of rather weak 2Q23 results. The Chilean retailer struggled since 2022 with weak top-line given a deceleration in the Chilean economy and weak consumer discretionary spending.

Mexican non-bank financials continue to struggle. Early in 2023, Findep (unsecured personal lending) carried a debt exchange with good acceptance (64%) paying a portion in cash and exchanging for a new 2028 bond with a coupon increase. Leasing company Mega offered a debt exchange on the 2025 bonds that didn't reach the minimum 50% acceptance. Leasing company Tangelo (Mexarrend) defaulted in 1Q on its 2024 bond.

CEEMEA credit events

Ukrainian corporates continue to pay, with only one exception so far. Despite the ongoing war, only Naftogaz has restructured its debt in 2023. Only three index constituents with maturities in 2024: Kernel ($300mn), MHP ($350mn) and DTEK (€325mn). MHP undertook a liability management exercise in Oct-23 to reduce its 2024 maturity (from $500mn to $350mn, and it has secured $480mn in funding from the EBRD, IFC and DFC (4Q23) to strengthen liquidity.

Progress on sustainability in EM, but still room to improve: In our issuer survey, 79% of companies have published an ESG or sustainability policy. Only 43% reported making a public commitment to reach net zero. The regional difference on net zero was significant: only 20% of Asian issuers have such a commitment, outpaced by EEMEA issuers (50%) and LatAm issuers (42%). Most issuers reported that they have published specific, measurable sustainability targets and timelines – in fact, the figure was 62% compared to 42% in 2022. Of course, this still leaves 38% of responding issuers with either no targets or targets without timelines for achievement.

Women – standing up to be counted. Women in emerging markets are increasing their presence at universities (where they often outnumber men) and in the labor force. From 2000 to 2021, women's participation in the EM labor force increased 4pp to 51.8% of all women (includes the top 25 countries in ICE BofA EM corporate bond index). They are 41% of the EM workforce, yet under 20% of boards in those same countries. Still, we found 28 issuers from EEMEA, 23 from LatAm and 39 from Asia who each have at last 30% women on their boards.

Asia credit events

Another year of delayed earnings release in China asset management companies (AMC) sector: Similar to 2022, in 2023, China Great Wall (GRWALL, not covered) delayed its annual results again, but it was longer this time. Up until Oct'23, it has not announced the previous year's results. While, in 2022, the company released the previous year results at end-Aug. Further, in 2023, according to a Bloomberg report, China government is likely considering transferring ownership of GRWALL and the other two AMCs from the Ministry of Finance to Central Huijin. We believe overall it shows the uncertainties in the China AMC sector.

Moody's downgraded China Huarong and changed Asia HY composite substantially. On 14 April, Moody's downgraded China Huarong's issuer credit rating to Baa3 from Baa2, with the key driver of the lower standalone assessment now at caa1 vs. b3 earlier. The credit rating of the senior bonds from China Huarong International was also downgraded to below investment grade of Ba1 from Baa3. The rationale being the deterioration in Huarong's profitability, capital, and asset quality in 2022. While, Moody's concluded the review with a stable outlook, as it expects Huarong to maintain its business operations with adequate liquidity over the next 12-18 months. As a result of the downgrade, ~USD10.15bn of USD11.95bn HRINTH USD bonds would be negatively impacted, given Moody's rating of Baa3 previously vs Ba1 now. This has made HRINTH complex an important composite in Asia HY, with peers like Macau gaming, India renewables, etc.

Evergrande, the once largest HY USD bond issuer in Asia, proposed to restructure its offshore debts via schemes of arrangement in late Mar 2023. Its scheme meetings were initially scheduled to be held in Aug. But it later cancelled the scheme meetings and scrapped its debt restructuring plan due to its weaker-than-expected sales and its principal subsidiary, Hengda Real Estate Group Co., Ltd., being investigated. Also, its chairman, Mr. Hui Ka Yan, has been subject to mandatory measures in accordance with the law due to suspicion of illegal crimes.

Sunac proposed to restructure its offshore indebtedness via a scheme of arrangement in late Mar 2023. Its scheme was approved by the requisite majorities of scheme creditors in September. As a result, Sunac has become one of few large HY developers making good progress in debt restructuring.

Default of COGARD: Country Garden, China's largest developer by contracted sales in 2022 in China, failed to pay US$15.4mn coupon on its USD with its 30-day grace period in Sept-23. This should constitute "an event of default" and likely trigger "cross default" on all of COGARD offshore bonds totaling about US$11bn. COGARD has engaged CICC (China International Capital Corporation Hong Kong Securities Ltd) and Houlihan Lokey as its financial advisors and Sidley Austin as its legal advisor, to formulate a holistic solution. On 10th Nov, Reuters reported that COGARD aims to have offshore debt restructuring plan by year end 2023. The default has significantly impacted COGARD's physical sales contracted sales in Oct'23 were down 81% YoY to RMB6.3bn, vs -28% for the top 100 developers according to China Real Estate Information Corp (CRIC).

Vanke's USD bonds (Moody's: Baa2/ S&P: BBB/ Fitch: BBB) hit their YTD lows in late Oct. The significant decline was driven by investors' concern on reduced support from its state-owned enterprise (SOE) shareholder (i.e., Shenzhen Metro), its access to the onshore bond market, and its sales performance. Investors were impressed by the supportive attitude of Shenzhen SASAC & Shenzhen Metro towards Vanke. Vanke's USD bonds have seen a recovery on the back of an investor call with a positive spillover effect on the rest of the sector. Since end-Oct, bonds of weaker IG developers, namely LNGFOR (non-SOE) and CHJMAO (with weak standalone fundamentals), have improved while bonds of performing HY developers, such as Gemdale, Greentown (except its '24 bond), Shui On, and Yanlord, have increased.

Adani Event: In Jan'23 a research report on Adani Group alleging stock manipulation, fraud and other charges led to a 10-20 point drop in the Adani bonds and Group's listed shares dropped 15-40%. The Group issued a denial. Rating agencies changed rating outlook to negative for various Group entities given corporate governance concerns. The Securities and Exchange Board of India (SEBI) initiated inquiries on Adani's governance concerns The content of the reports is not yet announced in public, various media articles reported that SEBI report included some irregularities in disclosure. The Groups' listed shares found support from US-based GQG partners which acquired USD 1.9bn from the Adani family in Mar'23, followed by USD1bn in Adani Enterprises and Adani Green in Jul'23, and USD1.1bn into Adani Power in Aug'23. Adani Group's USD bonds have gradually recovered over the course of the year with shorter-dated 2024s now trading at 0-2 cash points lower than before the report was released , though longer-dated bonds are 6-12 points lower in cash price terms.

Corporate country stance positioning

Because of the strong correlation between sovereign and corporate performance we outline country "stances" on how policies being implemented will have an impact on the corporate sector in the respective countries.

Exhibit 48: Corporate country stance positioning for 2024E
Corporate country stance positioning and commentary by region

Country	Stance	Commentary
LatAm		
Argentina	Marketweight	MW on 13% yield, corps trading inside sov, potential election catalyst balanced by capital controls, inflation risks
Brazil	Marketweight	2024E GDP growth at 2.2%. Improving sentiment after credit crunch in 2023. Risks include fiscal uncertainty, China Growth, rates.
Chile	Underweight	GDP to recover to 2.0%, improved electricity env. on hydrology, Argie nat gas. Key risks: new constitution uncertainty, copper demand.
Colombia	Overweight	Decreasing political uncertainty, improving public finances, Energy co's maintaining production, Utilities awaiting tariff adj.
Mexico	Overweight	Higher-than-expected growth, strong remittances, increased FDI have led to investor interest. Pemex and CFE key investor focus in 2024E.
Peru	Marketweight	Growth to rebound in 2024E, key infrastructure coming online, political environment stabilizing.
CEEMEA		
Kazakhstan	Marketweight	Wide to EM IG, but the country has a small index weight, relatively weak corporate transparency, and geopolitical risk.
Qatar	Underweight	Sustained oil & gas prices positive for corporate topline and financials liquidity. LNG to provide moderate economic boost. Valuations are fair.
Saudi Arabia	Marketweight	Fundamentals remain strong: net cash positions for Quasis, stable leverage elsewhere. Fair valuations in IG, small spread pickup vs. peers.
Türkiye	Overweight	Corporates have solid balance sheets and we expect positive FCF to continue. Room for outperformance on a total return and excess return basis.
UAE	Marketweight	Macro backdrop to remain supportive, valuations look fair. Key risks: geopolitics, reversal in Real Estate cycle combined with tourism slowdown.
Ukraine	Marketweight	GDP to grow 4.5% in 2023E and 7.7% in 2024E. Top performer in 2023YTD, but key risk is intensity and longevity of conflict with Russia.
South Africa	Overweight	Corporate balance sheets broadly sound. Focus on Transnet in 2024. Room for spread tightening in 2024. Key risks: Commodity prices, SOE stability.
Broader Africa	Marketweight	Cautiously positive economic outlook for SSA ex SOAF. Corporates overall better positioned than sovereigns. Risks: growth, reforms, sov debt, rates.
ASIA		
China	Marketweight	2024E GDP 4.8%. Prefer IG to HY for defensiveness. In IG we like China Tech, low-price long-end SOEs. China industrial HY stabilizing.
Hong Kong	Marketweight	Mild deterioration in credit fundamentals. Negative net supply given deleveraging efforts. Prudent capex, good access to bank loans.
India	Overweight	Robust growth amidst challenging external environment. In IG we like Financials to Corps. In HY we prefer Utilities. Key risks: high oil price, US rates.
Indonesia	Overweight	Policy confidence, manageable election risks. Sanguine macro with2024E GDP growth 5.1%. Corp have delevered and diversified funding.
South Korea	Marketweight	Improving macro picture with export recovery in 2024. Property sector risk well-contained. Korean companies to remain active in tapping USD market.
Macau	Overweight	Improving fundamentals, solid gross gaming revenue, and deleveraging could lead to positive rating actions. Supportive technicals. Limited reg risk.
Malaysia	Underweight	Healthy medium-term growth prospects, controlled inflation via interventions, high oil price tailwind. However, valuations look rich.
Singapore	Underweight	Challenging growth environment, expensive valuation. Rich Financials, little upside for corporates.
Thailand	Marketweight	Growth to improve in 2024 and inflation pressure to ease. Tourism recovery slow. Expect stable corporate fundamentals in 2024.

Source: BofA Global Research

BofA GLOBAL RESEARCH

Country Corporate Stances

Brazil corporate market: Marketweight stance

Sovereign credit rating: Ba2/BB-/BB (Stable/Positive/Stable)

- GDP growth forecast at 3.0% for '23YE and 2.2% for '24YE
- Internal risks include fiscal uncertainty and political noise
- External risks are: Chinese growth deceleration and monetary tightening
- OAS: 325bps / YTW: 8.0% / Duration: 5.3 years

After credit crunch in early 2023, there is an improving sentiment toward Brazilian assets. Local debt markets are also beginning to recover. Positive sentiment has been boosted by the revision of S&P outlook on Brazil's sovereign BB- rating to positive from stable in June 2023 and Fitch's upgrade of Brazil's rating to BB (from BB-)

The government has implemented a new fiscal rule in 2023, providing an anchor to fiscal accounts and lowering concerns of unsustainable fiscal deficits under Lula's administration. The corporate sector could be hurt if there are higher taxes Changes to IOC and federal tax credits proposed on Aug 31st were received negatively.

The Basic industry sector dominates the Brazilian bond market with 320 of the total Brazil corporate index (EBRZ) followed by the energy sector with 22% and Consumer Goods with 19%. Petrobras represents 59% of the energy sector and 14% of the total corporate index in Brazil. Banking and financial services represents 11.8% of the country's index. About 62% of the Brazil index is comprised by high-yield issuers with investment grade names (#8 corporates) with 38% of the total.

Argentina corporate market: Marketweight stance

Sovereign ratings: Ca/CCC-/CCC (Stable/Neg/NR)

- FX controls remain in place, and corporates have implemented numerous exchanges.
- BofA expects -1.1% contraction in GDP in 2023 and -2.0% in 2024E.
- Argie corps are the best performing LatAm market YTD with +12% in total returns.
- Corporates trade well inside the sovereign driven by better payment track-record.
- YTW 12.7% / OAS 831bps / Duration 2.8 years

Argentina's economic environment remains very challenging with inflation expected to reach 180% in 2023, negative net international reserves, and FX controls remain in place. So far, the corporates in general have successfully carried debt exchanges, and have accessed the local debt market, in ARS and USD-linked issuances, even if for smaller amounts and shorter tenors than the offshore market would offer. The FX restrictions were extended to provinces in June, but so far haven't been enforced as some provinces (including Cordoba and Mendoza) successfully appealed to local courts.

Argentina's presidential election will head to a run-off between Sergio Massa and Javier Milei on Nov.19. Our sovereign analysts expect both candidates would pursue a reduction in the fiscal deficit, although the pace of adjustments could be different, with Massa perceived to favor a more gradual reduction in the fiscal deficit. Milei has proposed dollarizing the economy, although there are doubts regarding the feasibility with the Central Bank having negative net international reserves.

We remain marketweight the corporate bonds, which yield 13%, and believe that the corporate bonds trading well inside the sovereign is justified by better historical performance from corporates, and as the market assumes a debt restructuring from the sovereign in coming years. An important risk for the corporate sector remains that access to USD to repay debt becomes even stricter considering negative net international reserves.

Chile corporate market: Underweight stance

Sovereign credit rating: A2/A/A- (Stable/Negative/Stable)

- BofA forecasts +2.0% GDP in 24E; copper price downside risk on slowing China.
- Constitutional reform process prolonging uncertainty
- Improved electricity environment on better hydrology, Argie natgas exports
- SQM/Codelco negotiation has high visibility; HY telcos under scrutiny.
- OAS: 284bps / YTW: 7.6% / Duration: 6.8 years.

Our underweight stance reflects tighter valuations for Chilean corporates, ongoing constitutional uncertainty, and potential downside to global copper prices if there were to be a greater China economic slowdown. Copper accounts for 10% of Chile GDP; Asia accounts for 25% of copper exports. On the other hand, Chile benefits from strong credit metrics and low debt/GDP (39.7% E by Fitch). Chile remains the highest rated sovereign in Latin America. Chilean corporate spreads are relatively tight to global peers with the same rating, at least those within IG, considering their longer duration.

The new constitutional draft is expected to be much more moderate than the previously proposed version. Key themes include frameworks for mining concessions, as well as water and property rights. Vote expected on 17-Dec-23; a recent Cadem poll showed a large majority of the population is willing to reject it.

Chile's electricity operating output has improved on better hydrology particularly if El Niño strengthens in 4Q23-1Q24, increased natural gas imports from Argentina and lower LNG prices. A few credit stories are likely to dominate headlines throughout 2024. These include weaker telecoms such as WOMCHI and VTR, and the negotiations between SQM and Codelco over the future of lithium rights and contracts within Chile.

Colombia corporate Market: Overweight stance

Sovereign rating: Baa2/BB+/BB+ (Stable, Stable, Stable)

- BofA Forecasts GDP growth of 1.7% for 2023E; and 2.4% for 2024E
- Petro is a lame-duck President, unable to pass controversial reforms.
- Twin deficits have decreased and debt to GDP has moderated to 55%
- Inflation & interest rates also declining while investments increasing.
- Energy companies are maintaining production; utilities awaiting tariff adj.
- OAS: 444 bps/ YTW 9.2%; Duration 4.4 yrs

Colombia's IG index returned 2.9% for 2023 through Nov. 10th, compared to -0.5% for LatAm IG as a whole and XX% for 2022. Colombia HY returned 4.9% for the same period, compared to +3.2% for LatAm HY.

President Gustavo Petro has been unable to implement many of his more radical policies, after an important tax reform on the energy sector was implemented in late 2022. Reforms in healthcare, pension, labor and education will be limited.

Public finances improved in 2023, with lower fiscal and current account deficits, lower inflation, interest rates and increased FDI (foreign direct investment). Consequently, BofA is increasing its GDP forecast for 2024 to 2.4%.

The energy sector continues to operate normally, with Ecopetrol reaching record production and private players maintaining existing production levels. A gradual unwind of fuel subsidies is positive for the government and for Ecopetrol but could hit inflation.

El Niño could lead to more food and energy inflation. For bondholders, key concerns are reforms in the electricity sector and support or the oil & gas sector after the 2022 tax reform.

Industry concentrations of ICE BofA Colombia IG & HY index come from energy (54%), the financial sector (28%) and utilities at 17%.

Mexico corporate market: Overweight stance

Sovereign rating: Baa2/BBB/BBB- (Stable/Stable/Stable)

- BofA Forecasts GDP growth of 3.4% for 2023E; and 1.8% for 2024E
- Near shoring a key driver of economic growth driven by agriculture & industry
- New President in 2024 will face budget challenges & energy sector constraints.
- Fiscal policy has been conservative until now as spending pre-election picks up
- OAS: 444bps/ YTW 9.0%; Duration 6.2yrs
- Mexico ex-Pemex OAS: 291bps/ YTW: 7.6%, Duration 6.8yrs)

The higher-than-expected 2023 GDP growth, higher remittances and increased FDI (Foreign Direct Investment) have led to greater investor interest in Mexico. This is despite AMLO's idiosyncratic policies towards certain sectors such as electricity, energy and airports.

During 2022-2023, we saw 4 out of 6 Mexican non-bank financial firm default, but we see limited additional downside in 2024 since most institutions with external bonds have already defaulted or are in the process of restructuring.

A key investor focus will be Pemex & CFE and the increasing government support required to keep these companies afloat, particularly Pemex, which has received close to US$80bn in govt. since AMLO took office. All eyes are on the possible policies of the leading Presidential candidates.

Mexico corporates performed in line with LatAm performance in 2023, both with total returns of 1.5%. On the IG side, returns were 0.6% (vs. -0.5% for Latam IG) while HY returns were 2.3% (vs. 3.2% for LatAm HY). PEMEX is 39% of the Mexico corporate index and 70% of Mexico's HY index and its total returns were +2.7% YTD. Energy is the largest sector in the Mexico index at 46%, followed by Telecom (9%) and Utilities (8%).

Peru corporate market: Marketweight stance

Sovereign rating: Baa1/BBB/BBB (Negative, Negative, Negative)

- BofA Forecasts GDP growth of -0.4% for 2023E; and 2.6% for 2024E
- Political protests have subsided, inflation & interest rates are declining.
- Several large infrastructure projects coming online will boost economy
- Mining sector has been a boost to economy during 2023
- Deficits still relatively low and Debt/GDP still low at 55%.
- OAS: 358 bps/ YTW 8.5%; Duration 4.3 yrs

After a tough 2022, some degree of political stability returned to the Peruvian market during 2023. Although all three rating agencies have Peru with a negative outlook none have moved to downgrade the company in 2023. After what our economists expect to be negative growth in 2023 due to the Coastal El Niño, growth is expected to rebound to 2.7% in 2024.

A few important infrastructure investments could also have a positive impact on growth including the 2nd line of the Lima Metro (27 stations, 35 km, 600,000 passengers per day), and the Chinese backed Chancay Port that can handle large containerships that can't dock elsewhere in South America. Lima's airport is also expected to double capacity and a series of mining projects have been identified.

The ICE BofA Peru's index returned +2.9% in 2023 YTD after returning -12.4% in 2022. We have a marketweight stance on Peruvian corporates given a less volatile economic and political environment in Peru. Energy accounts for 30% of Peru Corporate debt outstanding, followed by Financials at 22% of the ICE BofA Peru index, are followed by metals & mining at 8% and utilities/energy at 16%.

Qatar corporate market: Underweight stance

Sovereign credit rating: Aa3/AA/AA- (Positive/Stable/Positive)

- IMF expects GDP to slowdown to 2.2% in 2024 from 2.4% seen in 2023
- Qatari corps have lagged UAE and GEM A-rated corps, spreads relatively tight
- Key risks include geopolitics, banking system's large exposure to the local real estate sector and a structural higher reliance on offshore wholesale funding
- OAS: 113bp / YTW: 6.1% / Duration: 6.1 years.

The positives for Qatar corporates are that sustained elevated oil & gas prices should support QatarEnergy's topline and have a positive effect on the Qatari banking system liquidity. LNG expansion to be less transformative but will still boost Qatar's real GDP growth and fiscal surpluses. We expect Qatari quasi-sovereign corporates to maintain very strong fundamentals (0.9x net leverage) and Qatari banks have strong capital ratios (14.6% CET1). NPL coverage is strong though and has improved to 164%. Concentration to the real estate sector remains high (except at QNB). The shift to Basel 3.5 on Jan. 1st 2024 could result in some manageable capital erosion.

We think valuations are fair at current spread levels, but relatively tight across EM IG. We could see Qatari corp credits benefiting from a rally in rates in 2024 (based on our house view). Technicals remain supportive given the solid commodity backdrop and the lack of issuance (only $350mn in 2023 YTD; we pencil $2bn of issuance in 2024). Geopolitics is the main risk to spreads going into 2024 given recent events in Israel.

Qatari banks & corporates have generated a negative return for the second year in a row at -5.8% YTD in 2023 due to rates moves. It has lagged both GEM A rated corps (-0.5%), UAE IG corps (-2.9%). The Qatari Eurobond universe remains dominated by QatarEnergy, QNB and Ooredoo which combined represent 2/3rd of the Qatar IG Corp index (EQAI).

UAE corporate market: Marketweight stance

Sovereign credit rating: Aa2/NR/AA- (Stable/NR/Stable)

- IMF expects GDP to accelerate to 4.0% in 2024 from 3.4% seen in 2023
- Valuations look fair here; commodity and macro backdrop remain supportive
- Key risks include geopolitics, any reversal in the Dubai real estate cycle combined with lower tourist arrivals, M&A activity at some quasi-sovereigns
- OAS: 123bp / YTW: 6.0% / Duration: 5.5 years.

Structural reform efforts and high oil prices are positive for the UAE economy. Helped by geopolitical developments in Russia and China and by a weaker outlook in Europe, Dubai's global status gained pace in 2023. Dubai's fiscal position has improved materially these last 2 years and the Emirate recently started to repay $5.5bn of a legacy $20bn bailout loan raised 15 years ago from Abu Dhabi and the UAE Central Bank.

Abu Dhabi and Dubai corporate fundamentals are broadly sound and leverage metrics have sustained a downward trend. While Emirates REIT $400mn sukuk due in Dec. 2024 remains a potential "amend & extend" candidate, we don't foresee any liquidity issues in 2024. The Dubai residential property sector is enjoying a strong demand backdrop which we expect to slowdown in 2024 after 3 years of strong growth which we see as unsustainable. UAE banks remain sound, particularly capital (average CET1 of 14.3%) and liquidity (average LDR of 82%). We expect NIMs to improve thanks to the higher rates environment (on corp. floating loans repricing and the sizable CASA deposits of the banks) and a better volume growth (which accelerated to mid-single digit area lately).

UAE banks and corporates have returned -2.0% YTD in 2023, underperforming EEMEA IG Corporates (+0.9%) but also Global EM A-rated corporates (-0.5%). Valuations look fair here but the macro backdrop and market technicals remain supportive and some idiosyncratic names still offer spread tightening potential. The main risk remains a material regional escalation of the Israel-Hamas conflict.

Saudi corporate market: Marketweight stance

Sovereign credit rating: A1/A/A+ (Positive/Stable/Stable)

- GDP growth +4.1% est in 2024 after an expected 0.6% contraction in 2023E
- Valuations look fair for Saudi IG corporates which offer some spread pick up to similarly rated EM peers (incl. UAE and Qatari credits)
- Risks: geopolitical tensions, elevated bond / sukuk supply, ESG technicals
- OAS: 148bp / YTW: 6.5% / Duration: 7.2 years

Saudi IG corporate fundamentals remain very strong as many of the large quasi-sovereigns have net cash positions or low leverage while leverage has stabilised at others (2.9x at SEC, 2.4x at Almarai). Within high yield issuers, we still don't sense a clear commitment for deleveraging despite higher funding cost (3-month SAIBOR on which all SAR credit facilities are based is up to 6.3%). We don't expect any liquidity issue from HY issuers in 2024

Within banks, loan growth remains healthy in low teens driven by non-subsidised mortgage growth and PIF projects funding activity. Liquidity conditions have stabilised, though at tighter levels which should drive a healthy pipeline of debt capital transactions. Banks' profitability has RoE in low teens while problem assets remain low (NPL below 2.0%) and capital buffers are solid (average CET1 over 16%).

We expect robust Eurobond / sukuk issuance from Saudi corps in 2024 near $22bn in total (vs. $19bn realised in 2023). Issuance is likely to be driven by PIF (which may tap the market 2x a year), a few regular issuers as well as some debut issuers.

Saudi corporates and banks have returned -4.0% in 2023 YTD, underperforming similarly rated UAE Corp index (-2.0%), GEM A-rated index (-0.5%) or Hong Kong IG Corp index (+0.4%). We note that only 6% of the $57bn outstanding from KSA corporates are HY.

South Africa corporate market: Overweight stance

Sovereign credit rating: Ba2/BB-/BB- (Stable/Stable/Stable)

- Real GDP growth of 1.5% expected in 2024 after a 0.7% growth in 2023E
- Scarcity of BBs helps technicals; quasis still not out of the woods.
- Key risks: commodity outlook, SOEs financial sustainability
- OAS: 365bp / YTW: 8.2% / Duration: 5.2 years

South African corporate issuers have broadly sound balance sheets with an average net leverage of 2.2x; vs. 1.6x average for EEMEA issuers and moderate short term debt (9.2% of total debt). Eskom (11.2x net leverage) and Prosus (negative EBITDA) drive average leverage higher as net leverage stands at just 0.5x at the three SA mining issuers (though rising with all three generating negative FCF). Eskom continues to generate a negative FOCF (pre bail-out) of R19bn, the debt relief plan is supportive and covers for the funding needs over the next 3 years.

In 2024, we expect a greater focus on Transnet which carries high ST debt & has experienced operational issues. Mining companies are likely to benefit from favourable commodity prices but greenfield capex and M&A remain some of the main risks. Finally, within banks, Standard Bank will be the next one to watch with a call decision by the end of April on its $400mn Tier2.

South African corporates and banks have returned 0.3% YTD, slightly lagging behind the Global EM BB-rated corporate index (EM3B) which has a longer average duration though. Within these SA credits, IG credits returned -2.8% YTD while HY credits returned +4.2%. We see room for spread tightening at a few corporates and believe that technicals remain supportive for the asset class given the geographic diversification it offers, the track record of support to the SOEs and the strong balance sheet of the mining companies.

Africa broad corporate market: Marketweight stance

Sovereign credit rating: B3 / B- / B (Nigeria), Caa2 / CCC+ / CC (Ghana)

- GDP growth for Sub-Saharan Africa of 3.3% in 2023E & 4% in 2024E as per IMF
- Corporates (ex SOAF) focused on TMT, Basic Industries, Energy and Banking.
- Key risks: slower than expected growth, a slowdown in reform efforts, much higher refinancing rates, increased debt distress at the sovereign level.

The economic outlook for Africa's 54 countries is cautiously positive going into 2024: growth is expected to accelerate again after slowing in 2023. Inflation should fall into the lower double digits, and the IMF notes that "public finances are gradually being put on a more sustainable footing." Risks noted by the IMF include still-high inflation, currency depreciation in the region, and continued debt distress for some countries.

The pandemic (2020-2021), then Russia's invasion of Ukraine (2022), and the resulting inflationary shock have had a significant impact on the African continent. Fortunately, corporate issuers have proven better positioned than some sovereigns, in our view. Pressure on already tight government budgets effectively closed markets to sovereign issuers in 2023. Looking ahead, we see only three USD corporate bond maturities outside South Africa in 2024, for a total of $1.46bn (Puma Energy, OCP and Ecobank) – we count an additional $2.5bn in maturities from South African names (bonds from Gold Fields, MTN, and Sasol). The IMF notes that maintaining macroeconomic stability and preserving policy credibility are critical for sustained economic development.

Türkiye corporate market: Overweight stance

Sovereign credit rating: B3/B/B (Stable/Stable/Stable)

- GDP growth expected to decelerate to 3.4% in 2024E from 4.0% in 2023E
- Corporate fundamentals resilient; 2024 to see gradual normalization for banks
- Key risks: macro challenges, low FX reserves, FX volatility, geopolitics, lower exports
- OAS: 371bps / YTW: 8.6% / Duration: 2.3 years.

The slowdown in domestic demand should become more visible in 4Q23. We see risks from the recent oil price increase which will weigh on the current account (CA) deficit this winter as inflation momentum remains strong. Since May elections, net reserves excluding swaps have increased $5bn while gross reserves rose by $26bn driven by an increase in bank swaps (+$21.7bn). The current account deficit in august was still sizable at $57bn on a 12-month basis. We see inflation at 70% at year-end and expect the peak at 78% in May 2024. We forecast year-end inflation in 2024 at 40%.

Turkish corporates continue to maintain solid balance sheets. Combined, the 15 corporate issuers have generated $2.2bn of FCF post dividends in the last 12 months with net leverage (excl. Koc Holding) at only 1.1x. Short term debt is 33% of total debt. We expect this to continue in 2024. Meanwhile, 2024 will be transition year for banks. These are likely to see a better core margins as various constraining regulations are eased. FX liquidity remains broadly sound as deposit dollarisation declines but remains high while capital and reserve coverage is decent in our view. Current NPL ratio of 1.6% is unsustainable and we expect to see asset pressures driven by retail customers.

Turkish corps have tightened much too fast with Türkiye 5YR CDS back to Sept. 2021 levels. However, we see room for outperformance in 2024 both on excess and total return basis. Geopolitics and supply are some of the risks which could derail such scenario. Turkish banks and corporates have returned 8.1% YTD in 2023 Average spread over sovereign have tightened and are now fair at c.70bp for banks' senior credits while corporate SoS saw some upward pressure lately (now at 140bp vs. a LTM low of 65bp and LTM average of 144bp).

Kazakhstan corporate market: Marketweight stance

Sovereign credit rating: Baa2 / BBB- / BBB

- Real GDP growth for 2024 is expected at 4.0% vs 4.8% in 2023 and 2.9% in 2022
- Key risks: weak fiscal balances in 2023, high exposure to oil prices
- OAS: +282bps / YTW 7.7% / Duration: 5.65 years

Our marketweight stance on corporates in the country is driven in part by Kazakhstan's small weighting in EM and relatively weak transparency. Kazakhstan is just 0.9% of EM IG.

Kazakhstan has about $10bn in corporate bonds outstanding, the lowest amount in over a decade. All bonds are investment-grade rated (for the first time ever). KMG, the largest issuer, has $5.75bn in bonds outstanding, with four other issuers splitting the remaining $4.2bn. The average spread on the index is OAS+282bps, about 50bps wider than the average EM BBB (4.75 years duration).

Kazakhstan's fiscal performance deteriorated in 1H23 even though credit sustainability remains strong (the National Oil Fund has $60bn). The country's budget has an oil price breakeven of about $85/bbl, so lower oil has a meaningful negative impact. While most of 2022 saw Brent above $85/bbl, that was not the case for 1H23. The authorities have announced a VAT hike in 2025, from 12% to 16%. This should generate about KZT 2.5tn (about 2% of GDP) and reduce the use of Oil Fund for fiscal purposes.

Kazakhstan is still exposed to regional geopolitical market risk related to Russia's 2022 invasion of Ukraine. Russia is still Kazakhstan's biggest trading partner, especially consumer goods imports. In addition, 70-80% of Kazakhstan's oil exports continue to flow through Russia. These saw various disruptions in 2022, but fewer in 2023.

Ukraine corporate market: Marketweight stance

Sovereign credit rating: Ca / CCC / CC

- Ukraine GDP to grow by 4.5% in 2023 and 7.7% in 2024 after -29% in 2022.
- The key risk in Ukraine is the intensity and longevity of the conflict with Russia.
- Corporates have remained current on their payments except Naftogaz.
- DTEK Renewables, Kernel ($300mn) & MHP ($350mn) have 2024 maturities.
- OAS: >4,000bps / YTW 43.6% / Duration: 2.0 years (excludes DTEKUA 7.0% 2027)

We expect there will be clear winners and losers in 2024 (divided as payers and bond restructurers). Ukraine has about $8.7bn in corporate bonds including $1.45bn in DTEKUA 7.0% 2027 PIKs, which are not in the index. Three bonds have maturities in 2024: DTEK (€280mn), Kernel ($300mn) and MHP ($350mn). Naftogaz restructured its bonds earlier in 2023 and now has maturities starting in 2026.

Ukraine should be able to access external financing to cover fiscal needs during the conflict and most of the post-war reconstruction effort. A restructuring of Ukraine's debt could facilitate similar moves from some corporates, in our view.

The cabinet approved the 2024 budget draft, which is based on some UAH 1,560bn ($43bn) in revenue net of grants and transfers as well as UAH 3,108bn ($86bn) in total spending. Such projections assume 5% real GDP growth and avg. inflation of 10.8%. These figures imply a budget deficit of 20% of GDP (vs an expected 27% of GDP in 2023). The deficit is large due to very high defence spending (net of defence spending, the budget is in net surplus of UAH 145bn, or about $4bn/2% of GDP).

The 2024 budget envisages some $42bn in external financial assistance, although the bulk of that is yet to be secured. Budgeted projections appear to include another €18bn in EU Macro Financial Assistance (same as 2023), $12bn in assistance form the US, $5.6bn from the IMF, and $5.1bn from other sources. (For more information, please see Ukraine Viewpoint from 28 Sept 2023.)

China corporate: Marketweight stance

Sovereign credit rating: A1/A+/A+ (Stable/Stable/Stable)

- China real GDP growth for 2024 is expected to slow down to 4.8% from 5.1% (est)
- Prefer IG over HY for defensiveness.
- Within IG, we like China tech, long-end Chinese SOE traded well below par.
- Within HY, we like China industrial HY on stabilizing growth & improving fundamentals. We continue to remain cautious on China property sector.
- OAS: 226bps/ YTW: 7.01%/ Duration: 3.76 years

China's post-reopening recovery in 2023 has been bumpier than expected. Economic growth slowed sharply in 2Q, triggering doubts on the future growth trajectory in the absence of meaningful stimulus. Since mid-Aug, policy easing, rate reductions, down-payment ratio and mortgage rate cuts, relaxation of home purchasing curbs and an increase in fiscal deficit, helped cushion the downturn. We expect policy makers will step up their easing efforts to keep growth on track. With the expectation of incremental policy support, our economists expect China to grow at 4.8% in 2024 and 4.6% in 2025.

The upcoming stimulus will not be big enough to result in a V-shape recovery in the property sector, but we do expect sales/price to stabilize near current levels. This will benefit more SOE developers than POE developers. We expect POE developers to continue to struggle with liquidity issue in the near-term. We expect SOE developers to perform well but technical could remain weak for the sector. We have a neutral view

Stable growth should support China's sovereign rating and the fundamental recovery of most Chinese non-property credits. For Chinese corporate IG, net supply is expected to remain negative as they raise money in the onshore market at cheaper costs. These factors underpin our Overweight stance on China IG tech sector. However, we are neutral on Chinese SOEs as valuation is in line or even tighter than US IG credits. That said, some of the long-end SOE paper traded well below par might benefit from potential liability management given SOE's deep pockets and strong economic incentives.

Hong Kong: Marketweight stance

Sovereign credit rating: Aa3/ AA+/ AA- (Stable/ Stable/ Stable)

- Mild deterioration in Hong Kong companies' credit fundamentals
- Negative net supply given deleveraging efforts
- more prudent expansion/ capex plans, and/ or good access to bank loan market
- Inexpensive relative valuation of Hong Kong IG corp bonds
- OAS: 176bp/ YTW: 6.37% / Duration: 4.46 years

Fundamentals: High interest rates, China's economic slowdown, and US-China tensions are key headwinds, which have weakened the reopening-driven recovery in Hong Kong. Increased mortgage rates may lead the residential property market to remain weak. Hong Kong corporates generally have sufficient financial headroom to weather such headwinds, but they may see a mild deterioration in their credit fundamentals. We draw comfort from their established relationships with banks in Hong Kong.

Bond supply: We expect HK corps to see US$1.3-3.9bn net redemptions in 2024, considering more conservative capex plans and good access to the bank loan market.

Relative Valuation: Hong Kong IG corporates still trade wider than other IG corporates in Asia, such as in Singapore, Malaysia corporates, and China SOE. We thus think the less favorable fundamentals trend of Hong Kong IG corporates has been largely priced in. We do prefer A to BBB as the former will be more resilient to the tough macro environment and offers better relative value versus rest of Asia. For Hong Kong banks who mainly issued capital bonds in USD, we expect to see USD2bn new issue in 2024 to cover the refinancing need of USD 1.7bn. The asset quality of the banks should be still under pressure due to their mainland China exposure, but the risk should be largely mitigated by the higher profit margin and solid capital base build up in 2023.

India corporate: overweight stance

Sovereign credit rating: Baa3/BBB-/BBB- (Stable/Stable/Stable)

- Robust growth amidst challenging external environment;
- Key risks: Higher oil price, inflation and faster pace of Fed rate hikes
- Within IG, prefer Financials to Corps. Within HY, renewables our preferred pick
- India IG OAS: 188bps/ YTW: 6.43%/ Duration 4.78 years
- India HY OAS: 589bps/ YTW: 10.57%/ Duration 2.46 years

We project India's real GDP growth to remain strong at 5.8% in FY25 (Apr'24 to Mar'25), though moderating from 6.3% in FY24 (Apr'23 to Mar'24). Although slower global growth is to weigh on India's economic growth, we expect agriculture and manufacturing growth to drive overall GDP growth.

Credit fundamentals for India corps should be largely stable given strong domestic demand with key major uncertainty being the national election in 2024. IG rated SoE names should be stable in general, though oil companies will be vulnerable to oil price volatility. For telecom sector, we expect stable to improving fundamentals supported by higher cashflow generation though partially offset by elevated 5G capex. For HY corps, renewable sector is likely to see improving credit profile supported by improving receivables. While maturities pick-up in 2024, we expect net supply to be limited given adequate and cheaper onshore funding and chunky HY maturity to be potentially addressed through liability management.

Valuation is overall fair. But the positive macro and strong technical should be supportive of the valuation. Within IG, we do find financials more attractive than corporates. Within HY, renewables remain our top pick given its improving fundamentals.

Indonesia corporate: overweight stance

Sovereign credit rating: Baa2/BBB/BBB (Stable/Stable/Stable)

- Strong macro policy confidence with manageable risks from elections in early 2024.
- Key risks: commodity prices, China demand slowdown and aggressive Fed hikes
- Indo IG OAS: 200bps/ YTW: 6.93%/ Duration 6.84 years
- Indo HY OAS: 421bps/ YTW: 9.32%/ Duration 2.16 years

BofA economics team maintain 5% GDP growth for 2023 given their relatively cautious outlook for 2H23 in the backdrop of upcoming Presidential election in Feb'24. However, the macro policy confidence remains strong from a medium-term perspective (5.1%/5.2% growth in 2024/2025).

Looking ahead in 2024, we expect corporate fundamentals to remain stable supported by sanguine macro with limited impact from higher rates as corporates have de-levered and diversified into bank/onshore funding. Quasi-sovereign credits are expected to maintain stable linked to macro drivers. Looking at private corporates, Freeport Indonesia remains well placed to withstand any commodity price headwinds given its low cost of production, healthy free cash generation and lower capex after the planned commissioning of smelters in 2024. Lastly, Tower Bersama's (TBIG) non-renewals of contracts is to stabilize in 2024, which should support its credit profile. With limited maturities in 2024 and manageable capex in general, we expect supply to be limited. For HY property, 2024 marketing sales is to be supported by stable macro-outlook, continued bank appetite for mortgage lending and industry support measures. Liability management remains a key event to watch out with increasing domestic bank loan appetite for developers. Outlook for coal sector is relatively muted given margin pressure on the back of lower selling price and higher royalty payments.

Indonesia IG remains among the widest trading IG complex and the biggest BBB-rated pocket within Asia. We expect Indonesia IG to offer a good combination of both carry and spread tightening potential. On the other hand, we are MW Indonesia HY segment.

South Korea corporate: Marketweight stance

Sovereign credit rating: Aa2/AA/AA- (Stable/Stable/Stable)

- Improving macro picture in 2024 led by export recovery
- Property sector risk well contained, and the sentiment has improved in 2023
- Bank T2 and BBB corporates look attractive, but the rest are expensive
- Korean companies likely to remain active in tapping USD bond market
- OAS: 118bps/ YTW: 5.85%/ Duration: 3.0 years

BofA's GDP forecast for Korea in 2023 and 2024 would be 1.4% and 2.4%, respectively, generally slower than realized growth of 2.6% in 2022. One of the drivers of the higher growth in 2024 is the export recovery, especially in semiconductor exports, confirms the worst is behind us. The narrower contraction in Sept. reflects not only the more favorable base but the strength in recovery momentum, as seen in the strong rise in per-day exports.

We expect 2024 and 2025 to be better years for growth and credit bond issuers. While the property market was under the spotlight in 2023 due the headwinds, our economics team found the property market gained more momentum in recovery, with mortgage loan growth rebounding on a YoY basis since May'23, leading to a narrower contraction in total household loan growth.

The BoK is highly guarded against the worsening household debt situation. In addition to keeping financing cost relatively tight, the central bank could look to further strengthen its debt-service ratio (DSR) regulations, along with the necessity of preparing a capital buffer to keep the financial system sound, as indicated in the 1H23 Financial Stability report. We expect credit fundamentals of Korean corps to improve, thanks in part to a recovery in the semiconductor market. Valuation of Korean corp bonds (especially that of A-rated ones) looks inexpensive compared to other IG bonds in Asia.

Macau corporate: Overweight stance

Sovereign credit rating: Aa3/NR/AA (Stable/NR/Stable)

- Improving fundamentals with solid gross gaming revenue (GGR) and deleveraging, which could lead to positive credit rating actions.
- Limited new supply supporting technical; reduced regulatory risk after successful renewal of gaming licenses and junket crackdown
- Attractive relative valuation versus US peers and India renewables
- OAS: 471bps/ YTW: 8.35%/ Duration: 3.17 years

We maintain overweight stance on Macau corporates. Fundamentally, we expect Macau issuers to generate free cash inflows in 2024 and to pay down total debt/revolvers, of which funding cost is linked to either LIBOR or HIBOR. Meanwhile, we see low likelihood for gaming operators to resume dividend payout in 2024. Therefore, leverage shall continue to improve, which could lead to positive credit rating actions. Looking at the maturity schedule, the sector has US$1.35bn/US$3.8bn maturity in 2024/2025. We believe issuers have sufficient sources to repay bonds, and supply risk to our market at current yield level should be limited. Besides operational cash flow, they could seek liquidity from undrawn bank facilities and shareholder loans. We see convertible bond (CB) as an option as well. Also importantly, we believe regulatory risks have been largely removed after the completion of gaming license renewal in Dec'22 and as GGR now is much cleaner after several rounds of tightening of anti-money laundering policies (since May'16) and after the junket crackdown in 2022. Lastly, valuation for Macau bonds remains attractive versus U.S. sector peers as well as India renewables. All things considered, we maintain our overweight stance on Macau corporates.

Malaysia corporate: Underweight stance

Sovereign credit rating: A3/A-/BBB+ (Stable/Stable/Stable)

- Healthy medium-term growth prospects, with inflation controlled by interventions; high oil price is a tailwind.
- Low likelihood of new supply due to no USD bond maturity in 2024; unattractive valuation within Asia post outperformance YTD.
- OAS: 113bps/ YTW: 5.87%/ Duration: 7.24 years

For Malaysia, BofA economics expects GDP growth of 4.0%/4.6% in 2023/2024 (versus a high base at 8.7% in 2022). This is compared with 3.9% / 4.8% GDP growth in 2023/2024 guided by Malaysia government. BofA economic team also expects Bank Negara Malaysia (BNM) to stay on an extended pause. With core inflation stays above historical average, the hurdle for a policy rate cut remains high at this stage.

Meanwhile, as the Malaysian government derives c.20% of its total revenue from petroleum-related sources, we see high oil price as a tailwind. BofA projects Brent at US$90/bbl in 2024 and believes the downside to oil prices may be limited. A stronger-than-expected oil price may bring higher EBITDA for oil names, especially Petronas. We don't expect any new USD bond supply given no USD bond maturity in 2024 and lower funding costs in the MYR bond market. However, valuation looks rich with spread already 30bps inside last 5yr average.

Singapore: Underweight stance

Sovereign credit rating: Aaa/AAA/AAA (Stable/Stable/Stable)

- Challenging growth environments with expensive valuation
- The capital bonds from banks trading at the tightest level among Asia peers
- The corporate also generally had little upside despite high credit rating.
- IG OAS: 90bps/ YTW: 5.38%/ Duration: 4.77years

Given the headwinds of external demands as well as a slower than expected domestic growth, Singapore is likely to see only 0.7% growth in 2023. Our economic team expects the growth to increase to 2.3% in 2024, and CPI inflation to come down to 3.2% in 2024 from 5.0% (est) in 2023. Despite higher growth rate from low base, the forward-looking indicators for our economics team remain mixed, and together with the uncertain global outlook, points to a bumpy growth recovery path ahead. For monetary policy, our economics team expects MAS to keep the monetary policy unchanged in 2024, but more durable slope steepening of its FX policy band may be needed if upside risks to its core inflation forecasts are seen materializing and growth recovery turns more entrenched before 2H24.

In terms of the USD bonds from Singapore banks, in 2023 there has been no capital bond issued but USD 650mn was redeemed. The technical support on the capital bond has become to be stronger amid low supply. At currently valuation at new tight, we see very little upside going into 2024 despite solid fundamental.

Thailand: Marketweight stance

Thailand Sovereign credit rating: Baa1/BBB+/BBB+ (Stable/Stable/Stable)

- Growth moment to improve in 2024 and inflation pressure easing
- Banks' restructuring balance remains high at 7-12% in 3Q23, but the capital bonds have priced in a lot of positives in the future
- Thailand OAS: 181bps/ YTW: 6.4%/ Duration: 6.79 years

In 2023, one of the pillars of Thailand economy, the tourism sector, only saw very slow recovery as shooting incident slowing Chinese tourist arrivals. However, the team found a positive surprise on the exports showing a solid recovery, with Sept. export up 2.1% YoY and 4.9% MoM. The key drivers are agricultural products, particularly rice, agro-industrial products, oil-related exports, and gold exports. We expect the export recovery to drive growth in 2024, with higher growth rate of +3.4% (vs. +2.8% estimated in 2023). In terms of inflation, the downward trend was found in recent months, primarily driven by government subsidies on electricity and a slowdown in the growth of food and non-alcoholic beverage prices. Our economics team expects CPI inflation to further go down to 1.0% in 2024 from 1.6% in 2023. We expect the local rates to remain unchanged in the base case, but see potential easing given the low underlying inflation.

Meanwhile, we expect Thai corporates to see stable fundamentals in 2024, with oil prices staying at relatively high level. BofA projects Brent at US$90/bbl in 2024 and believes the downside to oil prices may be limited. We see low likelihood of credit rating change. While PTT Global Chemical is placed with negative outlook by Moody's, we believe PTT Group remains committed to maintain IG rating across the group with past track record of parent support (parent loan, working capital support, etc.) to avoid downgrade. Lastly, there is no US$ maturity from Thai IG corps in 2024 and new supply risk is limited in our view. In terms of valuation, Thai IG corporates trade at an average spread of 189bps, right around 5-year historical average level, which in our view is fair.

In terms of banks, going into 2024, we think the fundamentals should be overall stable, but we see uncertainties in the asset quality part. In 2023, the restructuring loan, a.k.a. the comprehensive debt restructuring (CDR), remains elevated at still 7-12% of total loan. And the forbearance loan programme should expire going into 2024. Thus, we expect to see higher NPL ratios of banks. In terms of valuation, we think senior looks about fair at 130bps for low BBB, while T2 looks expensive at 220bps, which is tighter than Hong Kong bank T2 despite the lower rating.

Appendix

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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