

Local Markets lead the way in 2022

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With the impact of the COVID-19 pandemic receding and inflation becoming a key concern for global financial markets, central banks in emerging countries from Brazil to South Korea to South Africa began raising interest rates in 2021. Going into 2022, the adjustments made across many EM governments last year had international investors confident that these countries were well positioned for economic growth and had done enough to stifle further inflation.

And even though the US Federal Reserve expectedly followed suit in the first quarter, the higher yields have already led global fixed income investors to switch from hard currency bonds to EM local currency bonds in record numbers. Data gathered by MarketAxess illustrates the size of the inflow into local currency bond trading. For the first quarter, our platform posted a 22% YOY growth in total trading volume to a record \$64 billion for all EM local currency bonds, extending the recovery that had started at the beginning of 2021. In addition to a record quarter, we posted a record month of \$26 billion and a record day of \$4.5 billion in just local market trading activity.

Latin America remains our top region, with Mexican Peso bonds (MXN) retaining the spot as the most actively-traded local market globally at \$11.3 billion, while Brazilian Real bonds (BRL) takes second place after posting a 26% YOY increase to \$8.9 billion. Among the 28 local currencies covered by our platform, there has also been impressive growth outside of Latin America, with South Africa Rand bonds (ZAR) and Polish Zloty bonds (PLN) gaining 33% and 53% YOY respectively.

At the same time, Asian local markets, a relatively newer area for MarketAxess and slower adopter of electronic trading solutions, have continued to build on the breakthrough last year when they grew to account

for about a quarter of total global local market volume. Singapore Dollar bonds (SGD), Malaysia Ringgit bonds (MYR) and Indonesian Rupiah bonds (IDR) are now among the most actively traded local markets on the platform. Such development reaffirms our views that global investors now consider exposure to Asian bonds to be crucial because of their attractive yields and the region's more stable economic outlook.

These encouraging growth numbers on our platform coincide with several major developments in the broader market that could significantly impact local currency fixed income trading in the long run. On the positive side, J.P. Morgan in January added Egyptian government bonds back to its Emerging Market Bond Index (GBI-EM), nearly a decade after they were taken off. The inclusion, which came after years of effort by the Egyptian government to fulfil the bank's requirement, could mean a significant expansion of investor base for the bonds as the index is tracked by many global funds as a benchmark for fixed income investment.

Yet while investors welcome Egyptian bonds' return to the GBI-EM, the removal of Russian debt from most global bond indexes following the country's invasion of Ukraine sent further shocks through the global financial market. With various coupon payments from Russian OFZs nearing default, some analysts have indicated that bonds in India, the Middle East, and Southeast Asia are likely to benefit. Russian OFZs, which have historically accounted for almost 7% of the global LM index, were diluted to zero as of the end of March. At the same time, we have seen a pick-up in Asian local market currencies on the MarketAxess platform in March, with Asia assets accounting for almost 30% of the local market flow.

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While feeling excited by the increase in adoption of electronic platforms by investors trading local currency bonds, as a technology innovator, we are also deeply focused on investing in new solutions to meet the needs of different markets. For example, in the past few years we have built many trading tools and protocols to improve the efficiency of large-sized local currency bond transactions on our platform, and the results have been impressive. For 1Q, total volume of local market block trading, (deals larger than \$5 million), were up over 39% YOY. More significantly, our client's adoption of electronic solutions for flows \$25 million and greater grew 112% YOY to \$12.3 billion, while Request-for-Market (RFM) trading increased 48% to a record \$17 billion during the first quarter.

Even within each local market, we are also constantly improving our products and technology for our clients: the launch of our Switch Trading protocol last year allows clients to execute net risk contingent with a single dealer; the IRC workflow simplifies the trading of Korean Treasury Bonds, which was the first of its kind and helped drive the 300% growth in KTB trading on our platform; our China solution for both Bond Connect and CIBM Direct allow users to access the \$14-trillion onshore debt market. All these were steps that we have taken towards building a more comprehensive global Local Market product offering and we will continue to build on in the future.



For more information on our Local Markets offering, please visit us at marketaxess.com/trade/emerging-markets



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