plus a wave of retirements and job churn, some of which can be directly attributed to the burden placed on medical personnel during the worst of the pandemic. These higher personnel costs are putting a dent into the cost structures of hospitals, nursing homes, and other healthcare providers.

BOX 4. EMERGING MARKET DEBT

EM Sovereign Debt, as measured by the JP Morgan EMBI Global Diversified Index, was up 4.1% in the first half of 2023 on the back of spread tightening. At quarter end, the Index had a current spread of around 450 basis points, where the gap between the investment and high yield segments of the index is at historical highs. The investment grade component of the Index is at 153 basis points and is trading well below its long-term average, while the overall high yield component remains near its all-time high. This bifurcation results in investors now having to take more risk in high yield to generate returns in an increasingly uncertain macroeconomic environment. We remain cautious as any exogenous shock such as from a US recession would result in spread widening that could more than offset the current carry benefits.

Moving on to local currency EM debt, as measured by the JP Morgan GBI-EM GD Index, it has emerged as one of the top-performing asset classes in fixed income this year up 7.8% for the year in USD terms. Although yields peaked in Q4 2022, they remain close to multi-year highs. Real yields in local currency EM debt currently stand at historically high levels, both in absolute terms and relative to developed markets. Looking ahead, several broader trends that have supported the asset class should remain intact such as increasing growth differentials favoring emerging markets, peaking inflation, and potential room for monetary easing.