



- Global M&A volumes on pace to set new annual record ([link](#))
- US breakeven inflation rates move higher amid strong flows to TIPS funds ([link](#))
- Real yields fall to new lows in the U.S. and Germany ([link](#))
- Chinese equities extend sharp declines ([link](#))
- Latin American bank equities expected to improve as lending picks up pace ([link](#))

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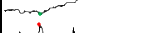
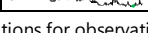
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Risk appetite subdued amid Chinese regulatory uncertainties

Risk sentiment has remained on edge as equity markets in China and Hong Kong have continued to slide on uncertainty around regulatory interventions. Chinese and Hong Kong equities fell another 3 to 4% overnight with the weakness weighing on other Asian risk assets as most bourses closed with declines and regional currencies were weaker against the US dollar. Major indices in Europe and US equity futures are also lower this morning, although declines remain comparatively smaller. Despite a mild uptick in volatility to start the week, US equities continued to grind higher yesterday. The S&P 500 closed near its intraday high with a slightly pro-cyclical tilt as upside was driven by the energy sector ahead of earnings announcements from key oil and gas firms and amid a so far better-than-expected Q2 corporate earnings season. As broader risk appetite has softened, advanced economy sovereign bond yields have slowly drifted lower with the 10-year US Treasury yield still hovering around 1.25%. The recent move lower in rates has been notably driven by real rates, which have reached new lows in both the US and Germany. As a result, the US Treasury 10-year breakeven inflation rate is now at 2.39%, its highest in over a month.

Key Global Financial Indicators

Last updated: 7/27/21 8:08 AM	Level Last 12m Latest	Change from Market Close				YTD
		1 Day	7 Days	30 Days	12 M	
Equities		%				%
S&P 500	 4422	0.2	4	3	37	18
Eurostoxx 50	 4084	-0.5	3	-1	24	15
Nikkei 225	 27970	0.5	0	-4	23	2
MSCI EM	 52	-1.9	-2	-7	18	0
Yields and Spreads		bps				
US 10y Yield	 1.26	-3.2	4	-27	64	34
Germany 10y Yield	 -0.43	-0.9	-2	-27	6	14
EMBIG Sovereign Spread	 353	1	-5	22	-93	3
FX / Commodities / Volatility		%				
EM FX vs. USD, (+) = appreciation	 56.4	-0.1	0	-2	1	-3
Dollar index, (+) = \$ appreciation	 92.7	0.0	0	1	-1	3
Brent Crude Oil (\$/barrel)	 74.7	0.2	8	-2	72	44
VIX Index (% change in pp)	 18.5	0.9	-1	3	-6	-4

Colors denote tightening/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Mature Markets

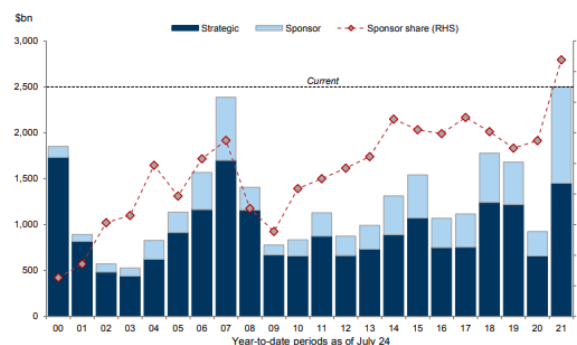
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United States

US stocks inched up and closed back at record highs on Monday, as investors await earnings this week from corporate heavyweights, including from Big Tech, and the Fed's policy meeting later in the week. Contacts noted that the pipeline of earnings could set the tone, but focus will also remain on resurging U.S.-China regulatory tensions. Six of the 11 primary S&P 500 sectors ended in green, with energy up 2.5 percent, leading the gainers. The Nasdaq Golden Dragon China Index, a gauge of 98 US-listed China tech stocks, closed down 7 percent on Monday (following the 8.5% decline on Friday). Amidst muted trading volumes, 10-year yields rose by 2 bps yesterday driven by a 5 bps rise in 10-year breakeven inflation rates as real yields touched fresh lows ahead of the FOMC meeting. The 10-year breakeven inflation rate is now up almost 15 bps in the last five trading sessions, which has coincided with robust weekly flows to the inflation bonds. Demand for Treasury's three-month bill auction today was also robust, despite the fact that the securities mature sometime in the CBO's window for when the government will run out of cash. **Economic data releases continued to be on the weaker side this morning**, with durables goods orders rising by 0.8% m/m in June, missing consensus expectations of a 2.2% rise (but on an upwardly revised 3.2% jump in May). Underneath the headline figure, core capital goods orders, a barometer of business investment that excludes aircraft and military hardware, increased 0.5% for a second month.

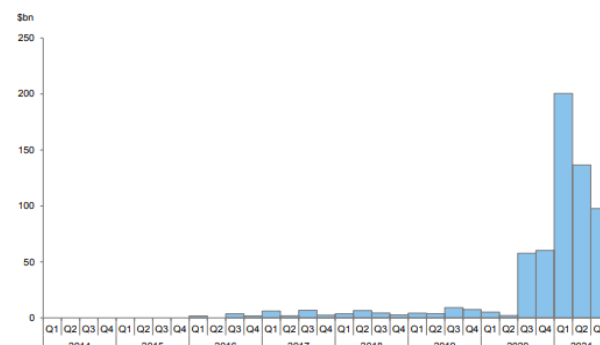
The V-shaped recovery in global announced M&A volumes – which began in 3Q2020 following an exceptionally weak 1H2020 – remains on track to set a new annual record in 2021, per Goldman analysts. As of July 24th, \$2.5 trillion worth of deals have been announced by North American and European acquirers – the strongest start to the year on record. Within the type of deals, almost 42 percent of the year-to-date M&A activity has been driven by sponsor-related deals – by far, the highest sponsor share of the past two decades. Over the past two quarters, acquisitions involving the Special Purpose Acquisition Companies have declined from the 1Q2021 peak, possibly due to increased scrutiny related to the accounting treatment of warrants – per Goldman analysts.

Exhibit 1: \$2.5 trillion of M&A has been announced so far this year, narrowly edging out 2007 for the strongest start to the year on record
Year-to-date announced M&A captures strategic and sponsor deals (\$100 million or more, at announcement) by acquirers in North America or Europe



Note: Year-to-date periods are as of July 24, 2021.
Source: Dealogic, Goldman Sachs Global Investment Research

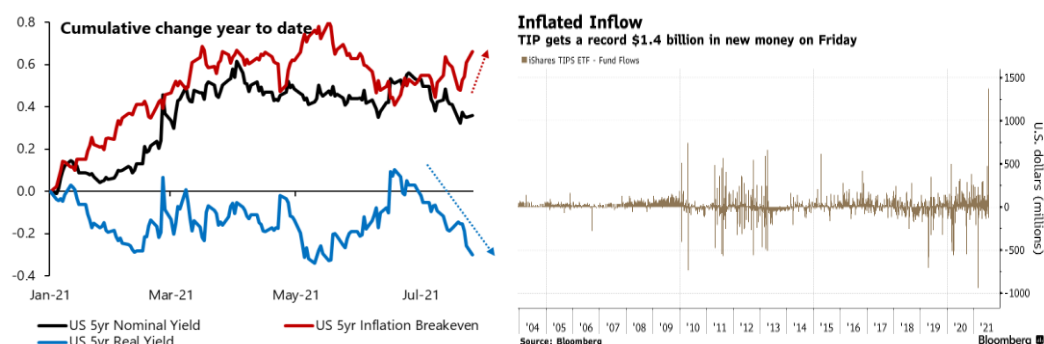
Exhibit 2: Acquisitions involving SPACs have declined from the 1Q2021 peak, but still remain elevated by historical standards
Acquisitions involving Special Purpose Acquisition Companies (SPACs) or Blank Check Companies (BCCs) by North American and European acquirers (deals valued at \$1 billion or larger at announcement)



Note: 3Q2021 is as of July 24, 2021.
Source: Dealogic, Goldman Sachs Global Investment Research

Ten-year inflation breakeven rates rose by 5 bps on Monday, as real yields touched fresh lows ahead of the FOMC meeting. The sharp decline in real yields reflects investor concerns about growth expectations. 10-yr (5-yr) inflation breakeven is now up almost 15 (20) bps in the last five trading sessions, indicating a pickup in inflationary expectations. This has also coincided with strong inflows to the inflation-hedged ETFs. Bloomberg highlighted that a tweak to BlackRock's model portfolios has triggered a record inflow for the biggest inflation-hedged ETF. The \$31 bn iShares TIPS Bond ETF absorbed nearly \$1.4 bn

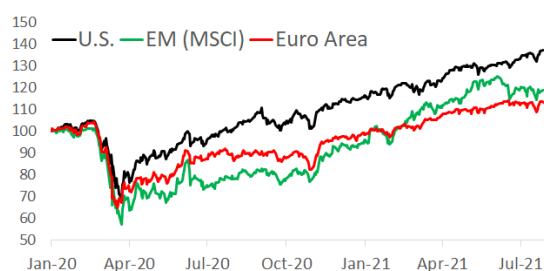
on Friday. The same day, \$1.3 bn was pulled from the \$16 bn iShares U.S. Treasury Bond ETF – also the most ever. In an emailed statement, BlackRock confirmed it recently made some asset allocation changes to reposition its model portfolios for inflation protection and adjusting sector exposures.



Euro area

Equities (-0.5%) fell alongside waning global risk sentiment, with bank stocks (-1%) underperforming. The euro (-0.1%) edged lower. **10-yr bund yields (-2 bps at -0.42%) edged lower.**

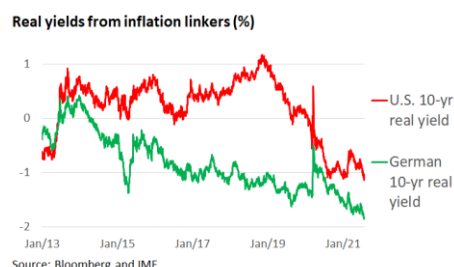
Equities: U.S. Outperformance (1 Jan 2020: 100)



Source: Bloomberg and IMF

10-yr spreads over bunds were little changed after ECB GC member Panetta called for the Next Generation EU recovery instrument (NGEU) to be made a permanent part of the policy toolbox as it creates critical fiscal policy space akin to a federal budget in other economies and embeds an institutional commitment to transform the EU economies using European funding. EU fiscal rules remain suspended for the 2022 budgets which will be presented and approved in the autumn.

German 10-year real yields implied by inflation-linked securities fell to new record lows. U.S. real yields have also traded at record lows as contacts expect that growth will slow in 2022 and speculate that higher post-pandemic debt levels in advanced countries and limited investment spending may imply a lower R-star.



Source: Bloomberg and IMF

United Kingdom

The British pound was little changed as the U.K. recorded the 6th consecutive day of falling cases.

Cases fell for a 6th consecutive day yesterday, with about 26k cases reported yesterday compared to about 40k last Monday. **Analysts at Citi point to 3 potential reasons for the drop in cases:** 1/ widespread vaccinations and anti-bodies may be providing herd immunity), 2/ cases may have started to fall sharply because of reasons such as warmer weather, the end of the school term or the end of increased rates of socializing associated with the Euro Cup and 3/ a reduction in testing rates.

Japan

Long-end JGB yields rose (10-year: +0.5 bp; 30-year: +1.0 bp) following the increase in U.S. Treasury yields overnight, that has since reversed this morning. **Equities gained** (NIKKEI: +0.5%). **Japanese yen appreciated** (+0.2%) as investors sought safety amid weak risk sentiment stemming from losses in Chinese equities and the continued spread of the virus in Asia. Bank of Japan (BOJ) Governor Kuroda said that **it is important for the BOJ to maintain market neutrality in supporting green finance.**

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Latin American equities closed mostly higher yesterday, posting gains in Mexico (+1.3%), Peru (+1.1%), Argentina (+1.1%) and Brazil (+0.8%). Except for the Colombian peso (-1%), currencies appreciated. Mexico's markets profited from a lower than expected June print in the unemployment rate (4% vs. market consensus of 4.5%) and expectations that GDP growth accelerated in the second quarter of 2021. **Most Asian equities declined, -3.0% on net.** The selloff of Chinese stocks continued with significant losses (China's CSI 300: -3.5%; Hong Kong SAR: -4.2%). Meanwhile, stock prices rose in the Philippines (+2.4%) on the news that Moody's affirmed the sovereign rating at Baa2- with stable outlook. **Most Asian currencies depreciated**, while the Korean won appreciated (+0.4%) on the news that North Korea and South Korea agreed to restore relations. In Hong Kong SAR, a court handed down guilty verdicts in the first trial under the National Security Law. **EMEA bourses slipped**, with the largest drops in South Africa (-0.9%), Poland (-0.6%), and Bulgaria (-0.6%). Currencies weakened to the US dollar by about 0.1% to 0.3%. **The Hungarian National Bank is expected to raised interest rates 15 to 30 bps later today.**

Emerging Market Bond Issuance

Emerging market bond issuance stood at almost \$20 bn last week. Chile was the largest sovereign issuer last week at \$5.8 bn, while Chilean utilities adding another \$1.2 bn. Various Chinese corporates and financials issued an additional \$4.3 bn. The Indonesian government issued \$2.2 bn in sovereign debt, while corporates from Hong Kong SAR brought \$1.3 bn of new securities to the market. The remaining volume spread over issuers from Asia, Eastern Europe, and Latin America.

Sector	Last week	The week before	YTD
	USD bn	USD bn	USD bn
Corporate	8.7	8.2	249.3
Sovereign	8.5	1.4	139.2
Financial	1.8	0.6	85.8
Agency	-	0.6	22.4
Muni/Local Gov't	0.6	0.2	8.1
Supra	-	-	9.2
Total	19.6	11.0	514.0

Source: Bond Radar, Bloomberg.

China and Hong Kong SAR

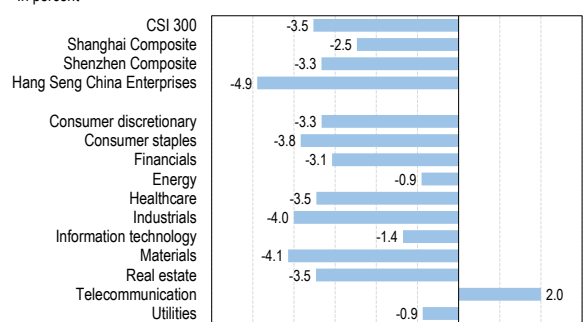
Chinese equities extended their heavy losses (CSI 300: -3.5%; Hang Seng China Enterprises: -5.1%).

Market concerns about the growing risk of regulatory crackdowns continued weighing on sentiment. Some analysts noted that it is very difficult for markets to find an anchor given regulatory uncertainty. In the past week, regulatory clampdowns have focused on private tutoring, food delivery and property management services. Earlier this month, Beijing has required Chinese firms seeking overseas listings to undergo cybersecurity reviews following its action against Didi (after its U.S. IPO) due to data security concerns. Some analysts view that healthcare could be the next target. While the selloff pressures were largely broad-based, investors rotated from stocks with robust growth in recent years to stocks deemed safer from regulatory crackdowns; stocks that have ties with government spending, are aligned with national long-term goal (e.g., semiconductor, 5G) and are in well-regulated sectors (e.g., banking) outperformed.

The market decline extended to local sovereign debt and currencies, in part driven by unverified rumors that U.S. funds are offloading assets in China and Hong Kong SAR. The rumors were connected to speculations that the U.S. authorities may restrict investment in these two jurisdictions. Government bond yields increased (China's CGB: +3.8 bps; Hong Kong SAR: +4.5 bps; at 10-year). RMB depreciated (onshore: -0.3%; offshore: -0.4%); Hong Kong dollar also depreciated (-0.03%) though remaining relatively close to the strong side to the band. With China's market selloff, 10-year U.S. Treasury yields declined 3.7 bps during Asia's trading session. Evergrande's share price fell (13.4%) after deciding against a special dividend payout. The company's board chose to cancel the proposal being made to show investors that the firm remains sufficiently strong to meet its payment obligations. Separately, S&P downgraded Evergrande by two notches to B-. Tencent's share price dropped (9.0%) after relinquishing its exclusive music copyrights following an antitrust investigation.

Equity Total Return: Daily Change

In percent



Source: Bloomberg.

Sudden Weakness

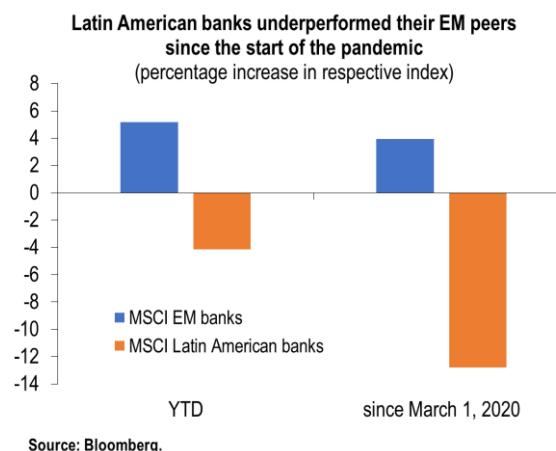
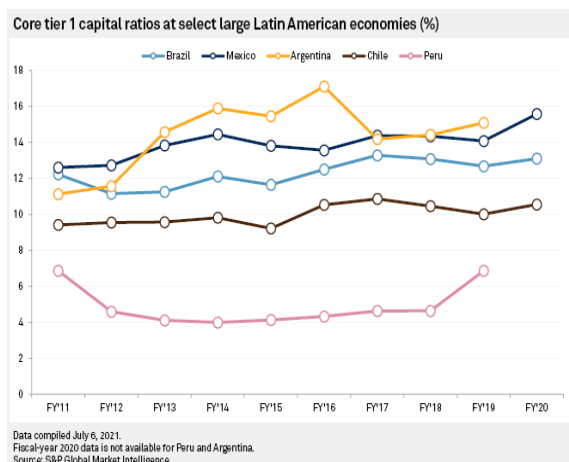
China's yuan breaches through key 6.5 per dollar level



Source: Bloomberg

Latin American Banks

Bank buffers are expected to shrink as lending is expected to pick up pace. According to S&P analysts, the risk buffers of major Latin American banks increased during the Covid-19 pandemic, with liquidity coverage, CET1 and tier 1 capital ratios currently well above regulatory requirements. With the region's banks hit less than expected by the pandemic, eyes now turn to the impact of such ample buffers on profitability. Economic revival is expected to go hand in hand with lower buffers, as loan growth picks up and the bank deposits accumulated over the past year shrink when clients repurpose previous savings to consumption and investment. Such renewed growth could support the equity prices of Latin American banks which have underperformed the broader EM bank index since the onset of the pandemic.



Tunisia

The Tunisian president Kais Saied has introduced a curfew while denying his last measures amounted to a coup. Equities in Tunis stabilized and traded sideways today after falling 0.7% yesterday.






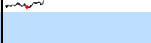
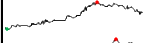





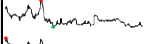








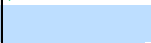



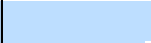


Zimbabwe

Inflation dropped to double digits for the first time since mid-2019. July inflation printed at 56.4% y/y, markedly down from 107% in June. Governor Mangudya emphasized the importance of pursuing price stability and expects inflation to even drop to below 25% by the end of 2021.

This monitor is prepared under the guidance of Nassira Abbas (Deputy Division Chief), Antonio Garcia-Pascual (Deputy Division Chief) and Evan Papageorgiou (Deputy Division Chief). Fabio Cortes (Senior Economist), Reinout De Bock (Economist-London representative), Sanjay Hazarika (Senior Financial Sector Expert), Henry Hoyle (Financial Sector Expert), Tom Piontek (Financial Sector Expert) and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Jose Abad (Financial Sector Expert), Sergei Antoshin (Senior Economist), John Caparusso (Senior Financial Sector Expert), Liumin Chen (Research Assistant), Yingyuan Chen (Financial Sector Expert), Han Teng Chua (Economic Analyst), Mohamed Diaby (Economist, EP), Dimitris Drakopoulos (Financial Sector Expert), Deepali Gautam (Research Officer), Frank Hespeler (Senior Financial Sector Expert), Phakawa Jeasakul (Senior Economist), Sonia Meskin (Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Dmitry Petrov (Financial Sector Expert), Patrick Schneider (Research Officer), Juan Solé (Senior London Representative), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Xingmi Zheng (Research Assistant). Magally Bernal (Senior Administrative Assistant) and Andre Vasquez (Staff Assistant) are responsible for word processing and production of this monitor.

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Global Financial Indicators

Last updated: 7/27/21 8:08 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4425	0.2	2	3	37	18
Europe		4084	-0.5	3	-1	24	15
Japan		27970	0.5	0	-4	23	2
China		3381	-2.5	-4	-6	5	-3
Asia Ex Japan		88	-2.5	-3	-8	17	-2
Emerging Markets		52	-1.9	-2	-7	18	0
Interest Rates			basis points				
US 10y Yield		1.26	-3.2	4	-27	64	34
Germany 10y Yield		-0.43	-0.9	-2	-27	6	14
Japan 10y Yield		0.02	0.6	1	-3	0	0
UK 10y Yield		0.56	-0.8	0	-22	45	37
Credit Spreads			basis points				
US Investment Grade		91	0.5	-4	2	-40	-4
US High Yield		331	2.1	-12	17	-215	-48
Europe IG		47	0.3	-2	0	-13	-1
Europe HY		237	2.5	-8	7	-124	-6
Exchange Rates			%				
USD/Majors		92.66	0.0	0	1	-1	3
EUR/USD		1.18	0.0	0	-1	0	-3
USD/JPY		110.1	-0.3	0	0	4	7
EM/USD		56.4	-0.1	0	-2	1	-3
Commodities			%				
Brent Crude Oil (\$/barrel)		75	0.2	8	-2	72	44
Industrials Metals (index)		160	-1.1	3	3	44	21
Agriculture (index)		59	0.9	2	10	64	23
Implied Volatility			%				
VIX Index (% change in pp)		18.5	0.9	-1.2	2.9	-6.2	-4.3
US 10y Swaption Volatility		78.0	0.0	9.4	10.9	25.9	17.9
Global FX Volatility		6.8	0.0	-0.2	0.3	-1.5	-1.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		107	-0.6	-3	5	-51	-13
Italy		106	0.8	-4	-2	-42	-6
Portugal		63	0.4	-2	1	-22	3
Spain		70	0.3	3	7	-13	9

Colors denote **tightening**/**easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Emerging Market Financial Indicators

Last updated: 7/27/2021 8:11 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.					
China		6.50	-0.3	-0.3	-1	8	0		3.0	-7	-20	0	-25
Indonesia		14493	-0.1	0.2	0	0	-3		6.3	1	-12	-62	22
India		74	-0.1	0.2	0	0	-2		6.4	0	4	54	50
Philippines		50	-0.1	-0.1	-3	-2	-5		4.4	5	11	63	72
Thailand		33	-0.2	-0.5	-3	-4	-9		1.7	-6	-18	25	34
Malaysia		4.23	0.0	-0.2	-2	0	-5		3.2	0	-7	75	67
Argentina		97	-0.1	-0.2	-1	-25	-13		44.7	36	-29	-120	-1149
Brazil		5.19	-0.2	0.7	-5	-1	0		8.6	19	26	336	298
Chile		760	0.3	0.1	-3	1	-6		4.4	14	-1	183	159
Colombia		3908	-1.0	-1.4	-5	-6	-12		6.8	5	-2	157	172
Mexico		20.05	-0.1	0.5	-1	9	-1		7.1	15	8	115	147
Peru		3.9	0.4	1.0	-1	-10	-7		5.4	-17	-4	145	183
Uruguay		44	-0.1	0.4	-1	-3	-3		7.9	5	2	-114	66
Hungary		304	0.6	0.2	-3	-3	-2		2.2	3	-8	77	72
Poland		3.89	0.1	0.3	-3	-4	-4		1.0	-1	-32	21	40
Romania		4.2	0.0	0.4	-1	-1	-5		3.0	0	24	-66	28
Russia		73.7	-0.1	0.9	-2	-3	1		6.8	-20	-7	140	110
South Africa		14.9	-0.4	-1.7	-4	11	-1		9.7	-8	0	-34	10
Turkey		8.56	0.0	0.2	2	-20	-13		17.6	3	28	632	449
US (DXY; 5y UST)		93	0.0	-0.4	1	-1	3		0.70	2	-22	42	34

	Equity Markets							Bond Spreads on USD Debt (EMBIG)					
	Level		Change (in %)				YTD	Level		Change (in basis points)			YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M	
								basis points					
China		4751	-3.5	-7	-10	4	-9		212	0	10	-22	-17
Indonesia		6097	-0.2	1	3	19	2		184	-9	18	-74	-16
India		52579	-0.5	0	0	37	10		157	7	16	-81	6
Philippines		6523	2.4	-1	-6	10	-9		113	-10	25	-36	1
Malaysia		1515	0.1	0	-2	-6	-7		140	3	18	-40	5
Argentina		65531	1.1	5	1	33	28		1571	-35	16	-601	215
Brazil		126004	0.8	1	-1	21	6		279	-9	32	-74	20
Chile		4147	0.0	-3	-5	2	-1		156	-1	17	-49	0
Colombia		1256	0.2	1	-2	6	-13		280	6	33	9	65
Mexico		50898	1.3	4	1	35	16		354	-7	20	-145	-3
Peru		18749	1.1	3	-1	6	-10		170	2	11	-4	41
Hungary		46924	-0.1	-1	-3	34	12		141	-8	10	-39	-8
Poland		66750	-0.7	1	-2	28	17		36	0	6	-3	8
Romania		11921	-0.4	1	0	39	22		192	-10	16	-79	-11
Russia		3755	0.1	1	-2	30	14		181	-11	17	-47	2
South Africa		67251	-1.2	2	2	19	13		349	-4	35	-171	-35
Turkey		1356	0.5	1	-3	13	-8		477	-7	23	-117	30
Ukraine		525	0.0	0	-1	5	5		519	3	27	-123	26
EM total		52	-2.0	-2	-7	18	0		368	-6	17	-48	30

Colors denote **tightening/easing** financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

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