



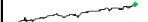



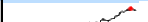


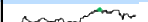



- The prospect of another taper tantrum remains the biggest tail risk for investors while inflation risks have receded ([link](#))
- Banks launch Q1-20 earnings season with strong results from JP Morgan, Goldman Sachs and Wells Fargo ([link](#))
- Italy announces new fiscal stimulus plans ([link](#))
- Reserve Bank of New Zealand kept its monetary policy unchanged, as expected ([link](#))
- China set to reform local government financing vehicles ([link](#))
- Market turmoil surrounding China Huarong Asset Management intensifies ([link](#))
- [Special feature on the drivers of the advanced economy bond yields \(attached\)](#)

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Markets focus turns into the nascent corporate earnings season

US equity futures signaled a positive opening as the earnings season kicked off, with JP Morgan, Goldman Sachs and Wells Fargo reporting strong results this morning. In early trading, Goldman Sachs shares rose but JP Morgan stock fell, reportedly driven down by comments from CEO Jamie Dimon that loan demand was still challenged. European equity markets were marginally higher supported by positive earnings from Germany's SAP. Elsewhere, government bond yields and credit spreads were little changed across the major advanced economies. Investor reaction to announcement of higher borrowing plans in Italy was rather muted as markets have already repriced to reflect the €45 bn borrowing figure. In emerging markets, most local equity markets gained and currencies appreciated to the dollar.

Key Global Financial Indicators

Last updated: 4/14/21 8:18 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4142	0.3	2	5	46	10
Eurostoxx 50		3979	0.3	1	4	36	12
Nikkei 225		29621	-0.4	0	0	52	8
MSCI EM		53	0.4	-2	-1	48	3
Yields and Spreads			bps				
US 10y Yield		1.63	1.3	-5	0	88	71
Germany 10y Yield		-0.30	-0.5	3	1	8	27
EMBIG Sovereign Spread		346	4	-5	-8	-252	-4
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.6	0.2	0	0	5	-2
Dollar index, (+) = \$ appreciation		91.8	-0.1	-1	0	-7	2
Brent Crude Oil (\$/barrel)		64.8	1.8	3	-6	119	25
VIX Index (% change in pp)		16.7	0.0	-1	-4	-21	-6

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

United States

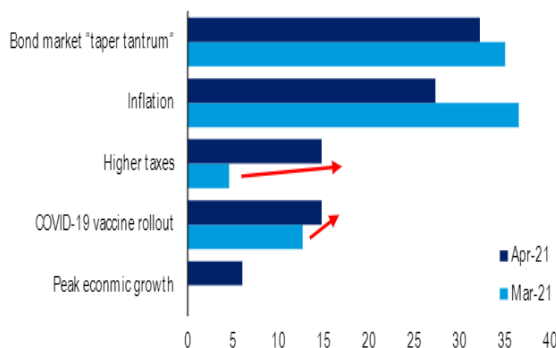
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Equities gained despite the negative vaccine news, with the S&P 500 up 0.3% yesterday. The Nasdaq 100 gained 1.1%, having outperformed over the last month. Treasury yields slipped lower, with the 10- and 30-year yields down 5 and 4 bps respectively, leaving the 10-year at 1.62%.

Inflation has receded as the biggest tail risk for investors, but taper tantrum remains front and center, with higher taxes also gaining steam. In Bank of America's fund manager survey, higher taxes have moved up the list of tail risks, with about 15% of investors now highlighting it following President Biden's proposed tax-financed infrastructure plan, and the discussion in OECD policy circles of a global minimum tax. Investors also altered their view of Treasury rates, with nearly 50% viewing 2% 10-year yields as a key marker for equity downside, and another 25% eyeing 1.75%.

Exhibit 3: COVID-19 is no longer the biggest 'tail risk'

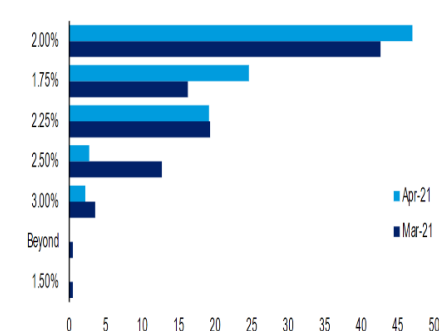
What do you consider the biggest 'tail risk'?



Source: BofA Global Fund Manager Survey

Exhibit 12: 2.1% on the 10-year Treasury could be the level of reckoning for stocks

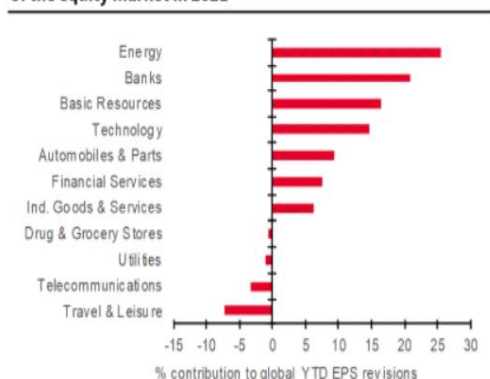
What level on the 10-year Treasury yield will cause a +10% correction in stocks?



Source: BofA Global Fund Manager Survey

Cyclical rotation remains in play, but market sentiment may be shifting. Ahead of the earnings season, energy, banks, autos, resources contributed about 75% of the upward revision in global EPS estimates YTD, as those sectors were seen as benefitting the most from accelerating growth. Positioning still favors cyclical sectors and emerging markets, but over the last month the change has favored higher growth sectors like tech, healthcare, and telecoms. Also, small caps have underperformed more recently, as **the tech heavy Nasdaq has outperformed**. Analysts have suggested this renewed flight to the safety of big tech names might reflect uncertainty with how reopening will play out, particularly given the rapid recovery in valuations among the more cyclical names, which might demand earnings match expectations in the first half of the year.

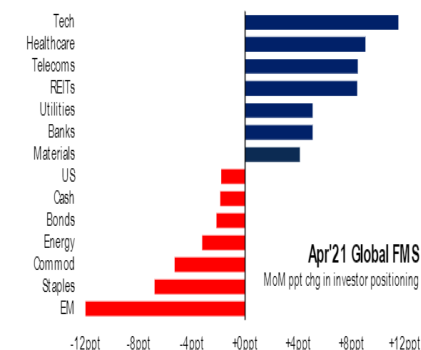
Global earnings momentum being driven by the cyclical parts of the equity market in 2021



Source: SG Cross Asset Research/Equity Quant, Factset, I/B/E/S

Exhibit 2: ...but investors are back into tech and out of EM this month

Month on Month change in FMS investor positioning



Source: BofA Global Fund Manager Survey

Banks launched the Q1-20 earnings season with strong results from JP Morgan, Goldman Sachs and Wells Fargo. JP Morgan reported net income of \$14.3 bn, 46% above consensus on above-expected revenues combined with a \$5.2bn release of loan-loss reserves. Revenues were driven mainly by robust markets performance; the net interest income fell y/y on compressed net interest margin. Goldman Sachs's Q1 earnings amounted to 58% of fully-year consensus earnings and 41% of full-year profit. Trading revenue jumped 47% (vs. +25% at JP Morgan); and the bank reported \$3.1 bn of equity investment gains. Wells Fargo's net income also came in 46% above analyst consensus on revenues above consensus and loan-loss provisions below consensus. In early trading, Goldman Sachs shares (+1.7%) rose strongly but JP Morgan stock (-0.5%) fell.

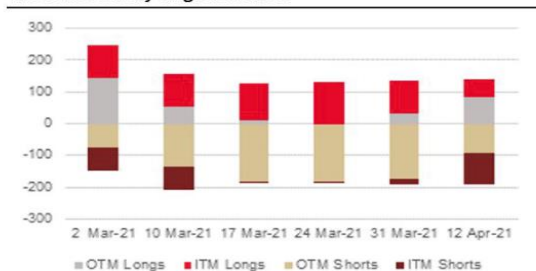
Europe

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European equity markets traded marginally higher with the STOXX 600 benchmark up 0.2%. Technology shares were outperforming, mostly driven by Germany's SAP (+4.0%) after the company raised 2021 guidance following better than expected Q1 earnings. The euro (+0.1%) and the sterling (+0.2%) were holding on to yesterday's gains against the dollar.

Italian bonds were steady as the government announced plans to borrow additionally up €45 bn to finance new deficit spending. Contacts note that the figure was in-line with market expectations from the recent press reports and the spread-widening has already priced-in the increased bond supply. **Investors have recently turned more cautious on Italy as evident from a build-up in short futures positioning** although contacts note that this is more likely to reflect hedging of long bond position after recent bond auctions rather than speculative positioning.

Open interest in 10y BTP future (IK), split into in-the-money and out-of-the-money longs and shorts



Source: Bloomberg and SG Cross Asset Research / Rates

Euro area nominal yields have stabilized over the last month, but interest rate option markets have continued to price in higher yields. Contacts note elevated client demand for options to position for higher rates in 6-months or longer to reflect the view of a strong recovery in 2021H2 following vaccinations. Some analysts also argue that the recent drop in measures for the real rate in the euro area, driven by higher measures for inflation in swaps markets, is unwarranted and could reverse quickly as nominal rates could increase when the ECB does not maintain its current pace of QE purchases beyond Q2 this year.



Eurozone industrial production declined by 1% m/m in February as supply-chain bottlenecks affected production in Germany and France. The automotive sector output saw large declines as analysts note that production was held back by chip shortages. Contacts note that industrial growth momentum in Q1 may not be strong enough to cushion Eurozone GDP against lockdown related output losses in the service sector even as survey-based indicators signaled more upbeat dynamics in March.

Other Mature Markets

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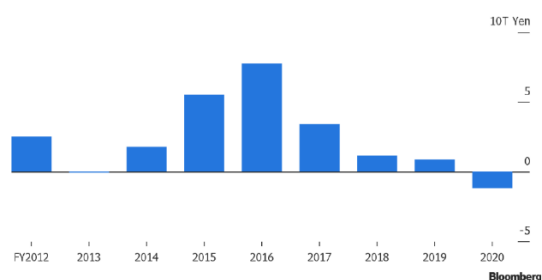
Japan

Japanese life insurers' decisions on buying/selling US Treasuries are closely watched by traders.

The combined assets of Japanese life insurers amounted to \$3.6 tn, a quarter of which are in foreign securities. Large selling by Japanese investors in February, reportedly contributed to the increase in US Treasury yields. Markets are closely watching Japanese life insurers' annual strategies that will come out this month. Some analysts expected that Japanese life insurers may return to be net buyers in FY2021 (starting from April). Currently, the return generated from currency-hedged U.S. treasuries investment looks attractive compared with JGB yields. One analyst, however, noted that investors may wait until the US Treasury yield curve steepens further before stepping up their purchases. In other news, **Bank of Japan (BOJ) Governor Kuroda said that the BOJ will persistently continue its easing policy** until the inflation objective is achieved. The BOJ will continue ensuring market stability and supporting corporate financing. The Japanese yen appreciated marginally (+0.1%); long-end JGB yields declined (10-year: -1.4 bps; 30-year: -2.0 bps); equities fell (NIKKEI: -0.4%).

Receding Appetite

Japan's lifers were net foreign bond sellers for first time in seven years in FY2020



Killer Crossover

Yen-hedged Treasury yields back above some local alternatives

■ 10-year Treasuries yen-hedged on 4/12/21 ■ Japan 30-year yield



New Zealand

The Reserve Bank of New Zealand (RBNZ) kept its monetary policy unchanged as expected. The RBNZ held its cash rate at 0.25%, maintained its Large Scale Asset Purchase Program up to NZ\$100 bn (\$71 bn), and reiterated its readiness to lower the cash rate further if required. The RBNZ expects to see accelerating inflation, albeit on a temporary basis, noting that the economic outlook remains highly uncertain and that medium-term inflation and employment would likely remain below its remit targets in the absence of prolonged monetary stimulus. The RBNZ also provided an initial assessment on house prices. It viewed that monetary easing is playing a role in lifting house prices; however, other factors such as constrained housing supply, land use regulations and tax policies are also influencing house prices. The **New Zealand dollar appreciated (+0.8%); long-end government bond yields declined (10-year: -5.1 bps; 20-year: -5.3 bps); equities gained (+0.7%).**

Corn

Corn prices (+1.4%) rose again this morning supported by strong Chinese demand, weather concerns and a squeeze on global agriculture supplies. Open interest in corn futures advanced in each of the previous two weeks, clawing back from earlier declines. Generic corn futures have risen 22% YTD. The U.S. Department of Agriculture said earlier this week that farmers last week had 4% of crops planted,







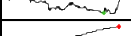



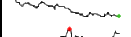

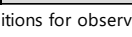

slightly less than the 5%-6% expected. Lingering concerns about drought hitting the US farm belt later this year and dryness in Brazil are adding to supply concerns.

Emerging Markets

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Asian stock markets generally advanced, gaining 1.3% on net, led by Indonesian (+2.1%), Hong Kong (+1.4%) and Chinese (CSI 300: +0.8%). Share prices dropped in Singapore (-0.2%). **Asian currencies appreciated**, led by Korean won (+0.8%) and Singaporean dollar (+0.4%). **Most long-end government bond yields declined**, led by Hong Kong SAR (-7.3 bps) and Philippines (-5.5 bps) at the 10-year tenor. **In Indonesia**, 10-year government bond yield increased (+22.2 bps) as the government offered higher yields to sell its bonds. **In EMEA**, Russian equities (+0.7%) and the ruble (+0.3%) edged higher after US president Biden proposed a summit meeting to discuss the full range of issues facing the US and Russia. Ukraine's hryvnia (+0.7%) also benefited, with the country's US dollar bond yields dropping as much as 40 bps. The Turkish lira (+0.6% to 8.1 per \$) and equities (+1.8%) gained ahead of the first policy rate meeting of governor Kavcioglu tomorrow. **Swap rates have traded lower in several emerging markets in April**. 10-year swap rates traded 23 bps lower in South Africa, 22 bps in Hungary and 15 bps in Poland (compared to a drop of 10 bps in 10-yr U.S. rates) as analysts argue that inflation is likely to peak in April-May in these countries. In contrast, Russian 10-year swap rates rose 44 bps. In **Latam**, stock markets saw small movements on Tuesday, with Brazil up by 0.4% and Argentina down by 0.9%. Currency and 10-year government bond markets were also relatively quiet.

Key Emerging Market Financial Indicators

Last updated: 4/14/21 8:23 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		53.45	0.8	-2	-1	48	3
MSCI Frontier Equities		30.68	0.2	1	3	38	8
EMBIG Sovereign Spread (in bps)		346	4	-5	-8	-252	-4
EM FX vs. USD		56.58	0.2	0	0	5	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.53	0.2	0	0	8	0
Indonesian Rupiah		14603	0.0	-1	-1	7	-4
Indian Rupee		75.14	0.3	-1	-4	2	-3
Argentine Peso		92.62	-0.1	0	-2	-29	-9
Brazil Real		5.71	0.2	-2	-2	-9	-9
Mexican Peso		20.12	-0.1	0	3	16	-1
Russian Ruble		75.73	0.3	2	-4	-4	-2
South African Rand		14.46	0.3	1	3	27	2
Turkish Lira		8.10	0.3	1	-7	-16	-8
EM FX volatility		10.15	0.0	-0.5	-0.4	-0.9	-0.6

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

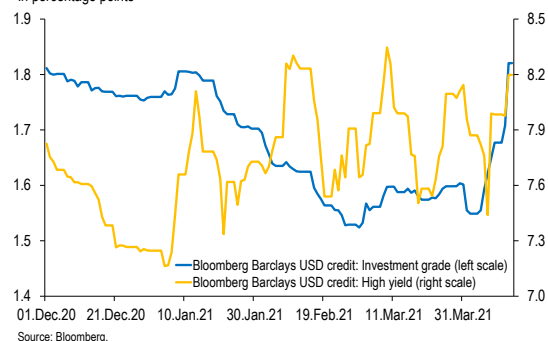
China

China is set to reform local government financing vehicles (LGFVs). The State Council yesterday issued a high-level policy document, which strictly prohibits the use of 'hidden debt'—i.e., borrowing via LGFVs—for new investment projects. LGFVs that are unable to repay debt should be restructured or liquidated. Analysts viewed that this policy statement could further weaken investors' faith in implicit support for state-linked entities. **Market turmoil surrounding China Huarong Asset Management intensified.** Investors interpreted government silence on the embattled AMC as a lack of state support. The selloff in Huarong's bonds deepened, with its notes set for another day of record lows. Its perpetual dollar bond fell 9.7 cents on the dollar to 61.2 cents. The market turbulence started to affect fundraising for even blue-chip

firms, with Tencent reportedly holding off marketing a planned \$4 bn dollar bond deal. Meanwhile, the impact on the local corporate bond market has been more muted. The **RMB appreciated (+0.2%); equities gained (CSI 300: +0.8%); interbank repo rates remained broadly stable.**

Option-Adjusted Spreads of Chinese USD Bonds

In percentage points



Singapore

The Monetary Authority of Singapore (MAS) kept its key policy settings unchanged as expected. The slope, width and center of its currency band remained unchanged. The slope is currently at zero, implying that the MAS does not seek current appreciation, the stance that was adopted at the outset of the pandemic last year. The MAS expected to see economic growth above the upper end of the official 4%-6% forecast range after a strong expansion in Q1. However, core inflation will likely remain in the 0%-1% range this year, a reflection of output remaining below potential. The **Singapore dollar appreciated (+0.4%); equities declined (-0.2%); government bond yields declined (1-year: -0.4 bp; 10-year: -3.1 bps).**

Singapore Monetary Policy History



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Global Financial Indicators

Last updated: 4/14/21 8:17 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4147	0.3	2	5	46	10
Europe		3979	0.3	1	4	36	12
Japan		29621	-0.4	0	0	52	8
China		3417	0.6	-2	0	22	-2
Asia Ex Japan		93	0.5	-2	-1	47	4
Emerging Markets		53	0.4	-2	-1	48	3
Interest Rates			basis points				
US 10y Yield		1.63	1.3	-5	0	88	71
Germany 10y Yield		-0.30	-0.5	3	1	8	27
Japan 10y Yield		0.09	-1.4	-1	-3	6	7
UK 10y Yield		0.78	-0.1	1	-4	44	58
Credit Spreads			basis points				
US Investment Grade		91	-0.5	2	-10	-93	-4
US High Yield		336	-1.4	11	-18	-373	-44
Europe IG		51	-0.2	0	4	-26	3
Europe HY		249	-0.4	0	5	-200	7
Exchange Rates			%				
USD/Majors		91.79	-0.1	-1	0	-7	2
EUR/USD		1.20	0.1	1	0	9	-2
USD/JPY		108.9	-0.1	-1	0	2	6
EM/USD		56.6	0.2	0	0	5	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		65	1.8	3	-6	119	25
Industrials Metals (index)		146	1.1	0	2	54	10
Agriculture (index)		52	1.1	2	0	46	9
Implied Volatility			%				
VIX Index (% change in pp)		16.7	0.0	-0.5	-4.0	-21.1	-6.1
US 10y Swaption Volatility		76.9	0.1	-0.6	-11.3	-3.3	16.8
Global FX Volatility		7.3	0.0	-0.5	-0.7	-1.8	-0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		120	-0.9	2	7	-111	0
Italy		104	-0.6	2	11	-113	-8
Portugal		68	10.4	12	18	-64	8
Spain		68	-0.4	1	4	-55	6

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

Data source: Bloomberg.

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Emerging Market Financial Indicators

Last updated: 4/14/2021 8:23 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	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.53	0.2	0.2	0	8	0		3.3	-3.0	-4	-8	74	0
Indonesia		14603	0.0	-0.7	-1	7	-4		6.6	5.4	5	-19	-144	56
India		75	0.3	-0.8	-4	2	-3		6.3	0.0	0	-17	-33	40
Philippines		48	0.1	0.2	0	4	-1		4.1	25.3	26	42	-96	47
Thailand		31	0.5	0.1	-2	4	-4		1.9	0.0	-5	-9	29	59
Malaysia		4.13	0.2	0.1	0	5	-3		3.2	5.0	5	-3	-2	69
Argentina		93	-0.1	-0.4	-2	-29	-9		45.9	19.4	-63	125	-1205	-1021
Brazil		5.71	0.2	-1.6	-2	-9	-9		8.4	15.8	16	84	233	285
Chile		708	0.5	1.2	2	20	0		3.5	6.2	12	26	15	69
Colombia		3667	-0.2	-0.7	-3	6	-7		6.3	-2.0	-1	37	-81	119
Mexico		20.12	-0.1	0.5	3	16	-1		6.6	1.6	-2	36	-50	103
Peru		3.6	-0.4	0.0	2	-7	0		4.7	1.8	7	10	-4	108
Uruguay		44	0.1	-0.1	1	-2	-4		7.4	-0.9	1	18	-597	16
Hungary		300	0.2	0.9	3	7	-1		2.1	0.1	-5	-1	13	55
Poland		3.81	0.3	1.2	1	8	-2		0.9	-3.6	-6	-7	-26	23
Romania		4.1	0.0	0.6	-1	7	-3		2.6	-1.0	1	0	-165	-11
Russia		75.7	0.3	1.6	-4	-4	-2		6.9	-0.9	6	43	45	123
South Africa		14.5	0.3	0.8	3	27	2		10.1	-0.9	-16	-5	-103	42
Turkey		8.10	0.3	0.8	-7	-16	-8		17.8	-2.1	-1	316	478	466
US (DXY; 5y UST)		92	-0.1	-0.7	0	-7	2		0.85	1.5	-2	1	43	49

	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	1 Day	7 Days	30 Days	12 M	
								basis points						
China		4981	0.8	-2	-1	31	-4		199	0	-2	-9	30	-9
Indonesia		6050	2.1	0	-4	31	1		158	0	-9	-25	-5	-29
India		48544	0.0	-1	-4	58	2		169	6	16	9	-183	18
Philippines		6523	1.0	-1	0	10	-9		83	0	-9	-17	13	-22
Malaysia		1598	0.0	0	-1	15	-2		113	0	-2	-3	9	3
Argentina		47679	-0.9	-5	-3	55	-7		1459	0	19	8	-570	91
Brazil		119297	0.4	2	4	49	0		253	0	0	-16	58	3
Chile		4902	0.0	1	0	25	17		126	0	-6	-16	-14	-18
Colombia		1313	0.0	-2	-3	8	-9		207	0	-4	-15	44	2
Mexico		47504	0.3	-1	-1	37	8		348	0	-9	-34	55	-12
Peru		21436	0.6	0	-6	48	3		133	0	-4	-3	22	1
Hungary		42432	-1.0	-4	-3	25	1		65	0	-6	-15	-42	-31
Poland		59955	0.9	0	1	30	5		-22	0	-4	-11	-54	-21
Romania		11182	0.2	-1	4	35	14		190	6	1	0	-187	-13
Russia		3561	1.0	2	1	35	8		159	0	-5	-3	19	-7
South Africa		67681	0.9	1	-1	36	14		357	0	-4	-35	25	-23
Turkey		1398	1.4	-1	-10	42	-5		421	0	-5	-47	34	-24
Ukraine		530	0.0	2	2	6	6		479	0	12	-21	127	-12
EM total		53	0.8	-2	-1	48	3		421	0	17	-10	97	128

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

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