



- Global markets set new records ([link](#))
- Strong economic data could push US markets even higher ([link](#))
- New US fiscal support will be largest in the world ([link](#))
- China grows 18.3% annualized in first quarter ([link](#))
- European corporate results lifted by strong demand from China ([link](#))
- Growing Italian budget deficit could rekindle market headwinds ([link](#))

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

Global markets extend record rally

Equity indexes continue to set new records all over the world. Strong economic data, robust corporate earnings and the prospect of further fiscal stimulus have all combined to boost investor confidence and strengthen risk appetite. China is the major exception, with markets in the red this year due to tightening measures from the authorities. With the vaccine rollout picking up speed and many economies reopening, global prospects could improve even further. Although markets were spooked earlier in the year by a spike in US interest rates, rates have fallen significantly since their peak on March 31, removing another threat. Thursday saw a significant further decline in US Treasury yields, with contacts attributing the move to new sanctions on Russia, strong demand from Japanese investors whose new fiscal year has just begun, as well as bets that the Treasury selloff was overdone.

Key Global Financial Indicators

Last updated: 4/16/21 8:00 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		4170	1.1	2	5	49	11
Eurostoxx 50		4016	0.6	1	4	43	13
Nikkei 225		29683	0.1	0	0	49	8
MSCI EM		54	0.9	0	0	53	5
Yields and Spreads			bps				
US 10y Yield		1.56	-1.2	-9	-5	94	65
Germany 10y Yield		-0.28	0.9	2	6	19	29
EMBIG Sovereign Spread		344	2	-6	-11	-265	-7
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		56.9	0.0	1	0	7	-2
Dollar index, (+) = \$ appreciation		91.5	-0.2	-1	0	-9	2
Brent Crude Oil (\$/barrel)		67.0	0.1	6	-2	141	29
VIX Index (% change in pp)		16.6	0.0	0	-3	-24	-6

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

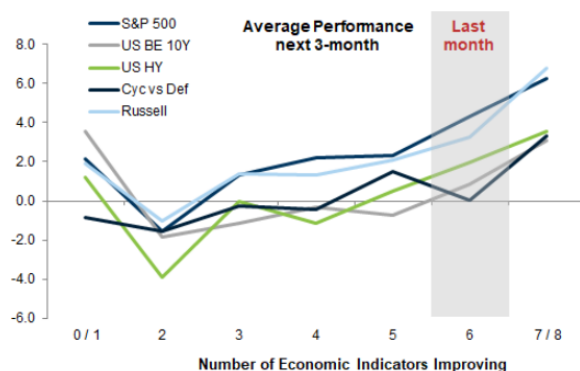
United States

[back to top](#)

A series of strong economic reports have raised hopes that the current market rally can be sustained. Analysts at Goldman tracked eight variables that tend to lead the ISM Manufacturing report by several months and found that six of the eight have gained over the previous three months. This is quite rare, having occurred only 20% of the time since 2003. Historical market data show that risk assets tend to do very well during such episodes. Equities are the best performers, with the S&P 500 rising 83% of the time over the next three months when six of the eight indicators do better. According to consensus forecasts, US GDP will fully recover by the middle of 2022, reaching levels forecasted before the pandemic. In this scenario, markets could keep the rally going for quite a while.

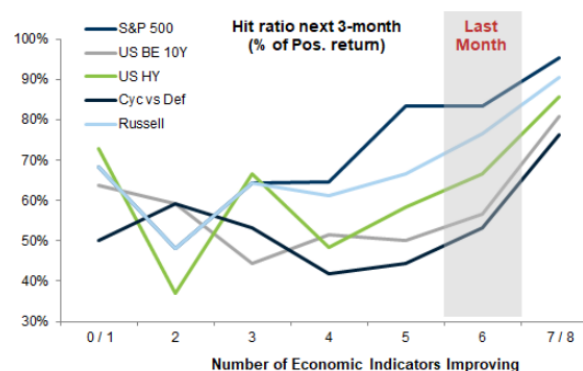
Exhibit 5: Subsequent average performance for risky assets tends to be positive when indicators are improving ...

Data since 2003. Vol adjusted returns



Source: Datastream, Goldman Sachs Global Investment Research

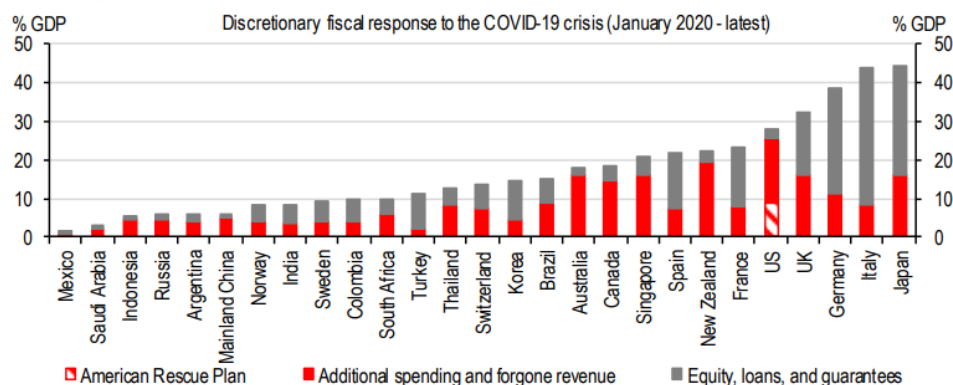
Exhibit 6: ... and they have usually registered positive returns, in particular for equity



Source: Datastream, Goldman Sachs Global Investment Research

The US fiscal stimulus will be largest in the world in terms of new spending, although the total stimulus is fourth largest. Moreover, much of the stimulus will come as actual spending, rather than the guarantees and quasi-fiscal support seen in Japan or the euro area, which may never be used. As a result, the positive impact on GDP will be bigger than any other country, which could in turn propel markets even higher. If all or part of President Biden's infrastructure plan ends up getting passed, the impact could be even greater.

US stimulus is large on a global scale – and stands out when it comes to additional spending



Source: IMF Fiscal Monitor. Note: Equity, loans and guarantees includes: Equity injections, asset purchases, loans, debt assumptions, including through extra-budgetary funds and Quasi-fiscal operations (non-commercial activity of public corporations on behalf of government).

This morning, Morgan Stanley reported record quarterly earnings, although the Archegos hit has weighed on the stock price. Net income was \$4.1bn (consensus \$3.1bn), more than double the level in

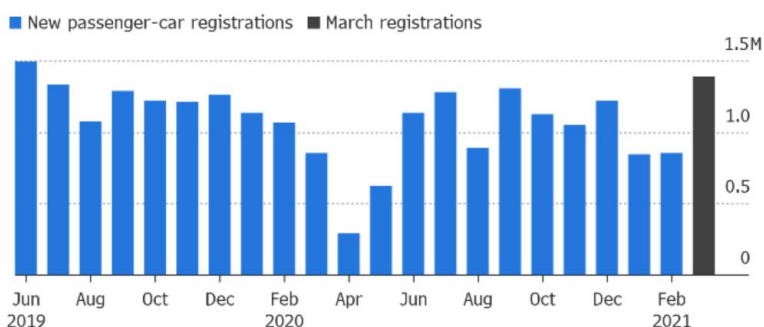
1Q20 and the highest in the bank's history. Revenues of \$15.7bn (consensus \$13.9bn) were driven by sharply increasing wealth management assets under management, more than doubling of investment banking revenues and (unlike other US banks) higher net interest income. Results include contributions from purchases of Eaton Vance and E*Trade. Importantly, the bank also suffered a \$911mn loss related to Archegos. The stock is down 1% in pre-market trading.

Europe

[back to top](#)

European equity indices were up around 0.6% with German Dax outperforming (+1.0%). The automobile sector (+2.0%) was in focus today after German luxury car manufacturer Daimler's (+3.0%) earnings came significantly above consensus estimates due to strong demand from China. The broader sector was also lifted by the large jump in new car registrations in Europe.

Europe's monthly car sales surge to the highest since mid 2019

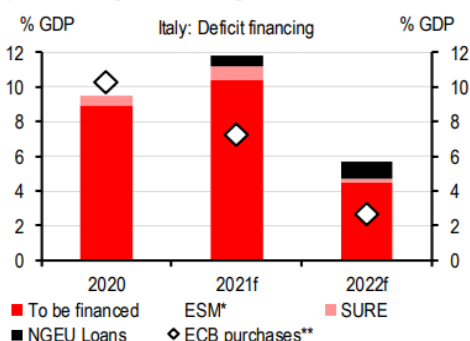


Source: European Automobile Manufacturers' Association

Bloomberg

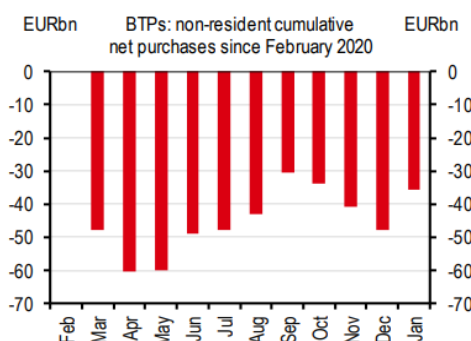
The recently announced expansion of Italy's fiscal deficit to 11.8% of GDP for 2021 could create risk to public finances without consolidation measures, according to analysts at HSBC. The updated deficit of 11.8% of GDP compares with 7% of GDP in the autumn projections and 8.8% of GDP in the IMF's April WEO update. The deficit puts Italy on the top of the list among euro area countries both in terms of deficit and public sector debt. Italy's sovereign debt is now projected to reach about 160% of GDP. **Furthermore, the increased borrowing needs and potential risk of delays to EU Recovery Fund disbursements may require larger purchases by the ECB to contain Italian spreads from excessive widening.** These developments could also make Italian bonds more exposed to the tapering of ECB QE purchases later in 2021.

Chart 1: After the latest deficit expansion, ECB asset purchases might not be enough to cover net issuance...



Source: HSBC, Il Sole 24 Ore. Notes: * Italy so far has not expressed the intention to request the ESM credit facility. ** Based on the policy announced so far, with PEPP expiring in March 2022 and APP remaining at EUR20bn per month.

Chart 2: ...while foreign investors have not yet returned in full to the BTPs market

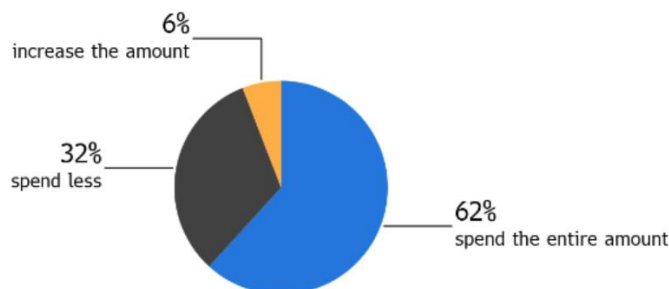


Source: HSBC calculations based on Bank of Italy

Analysts expect the ECB to slow its purchases under the Pandemic Emergency Purchases Program (PEPP) in July according to a survey by Bloomberg. The majority of the economists expect conclusion of the PEPP program by March 2022 with the central bank giving notice at the December meeting. While more than half of respondents expect the purchase envelope to be used in full, about a third think that the ECB will not spend the full package.

Pandemic Purchase Plan: 1.85 Trillion Euros

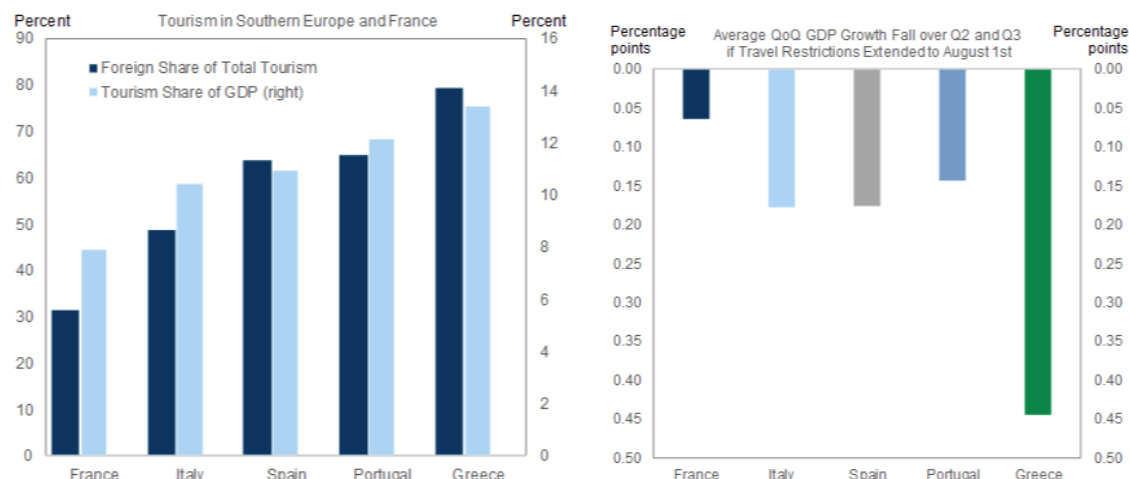
Economists predict the ECB will have to...



Source: Bloomberg survey of economists conducted April 9-15

Bloomberg

Southern Europe could lose up to 0.5pp of quarterly GDP growth if travel bans are extended throughout the summer according to Goldman Sachs analyst estimates. Greece is seen as most exposed to a tourism ban scenario especially if such restrictions are imposed in the UK, Germany or France. As August remains the peak tourism month for most countries, a delayed reopening scenario where travel is allowed by the end of July, would reduce growth impact to just 0.25pp of GDP.



Other Mature Markets

[back to top](#)

Japan

Prime Minister Suga is meeting President Biden today in Washington, DC. This will be the U.S. president's first in-person meeting with a foreign leader since his January inauguration. The discussion is expected to include issues such as the situation in the Taiwan Strait, global supply chains, and a U.S.–Japan infrastructure initiative. Japanese markets held steady, with the TOPIX not far from a new record close.

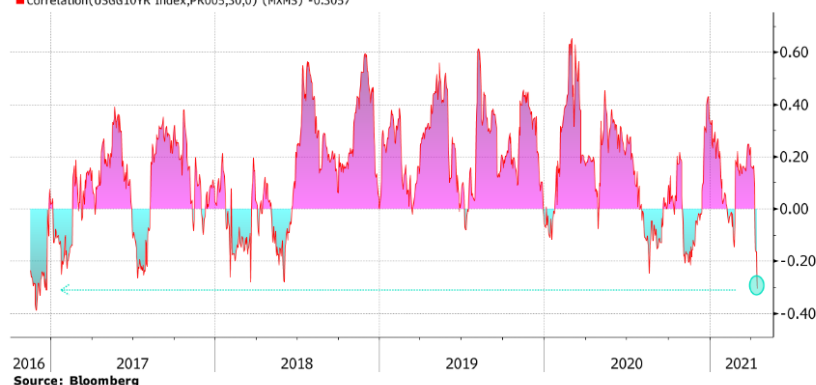
Emerging Markets [back to top](#)

The rising US tide lifted all boats as most local markets posted gains, while currencies were more mixed. **China's 2021Q1 real GDP growth was slightly below expectations.** Real GDP grew 0.6% q/q, decelerating from 2.6% in 2020Q4, below an expected 1.4% increase. Annualized Q1 growth was 18.3% (vs. the 18.5% forecast). The yield on the Ukrainian U.S. dollar bond due 2022 fell 14 bps to 4.24% as President Biden signaled interest in a stable and predictable relationship with Russia. Bloomberg points out that the correlation between Asian emerging market equities and US Treasury yields has fallen to its lowest level since 2016. The rationale is that expectations of a strong US economic rebound make US assets and dollar denominated assets more generally more attractive to investors than emerging market assets denominated in local currencies. Some asset managers have reported that they are cutting back on their allocations to emerging Asia.

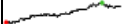






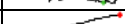
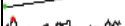




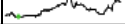
Growing Apart

Correlation between Asia EM stocks and U.S. bond yields touches lowest since 2016

■ Correlation(USGG10YR Index,PR005,30,0) (MXMS) -0.3057



Key Emerging Market Financial Indicators

Last updated: 4/16/21 8:03 AM	Level		Change				
	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		54.21	0.7	0	0	53	5
MSCI Frontier Equities		30.86	0.6	2	4	41	9
EMBIG Sovereign Spread (in bps)		344	2	-6	-11	-265	-7
EM FX vs. USD		56.91	0.1	1	0	7	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.52	0.0	0	0	9	0
Indonesian Rupiah		14565	0.3	0	-1	7	-4
Indian Rupee		74.36	0.8	1	-2	3	-2
Argentine Peso		92.72	-0.1	0	-2	-29	-9
Brazil Real		5.62	-0.1	1	0	-7	-8
Mexican Peso		19.93	0.0	1	3	21	0
Russian Ruble		75.85	0.7	2	-4	-2	-2
South African Rand		14.27	-0.7	2	4	32	3
Turkish Lira		8.06	-0.6	1	-7	-14	-8
EM FX volatility		9.96	0.0	-0.6	-0.6	-1.4	-0.8

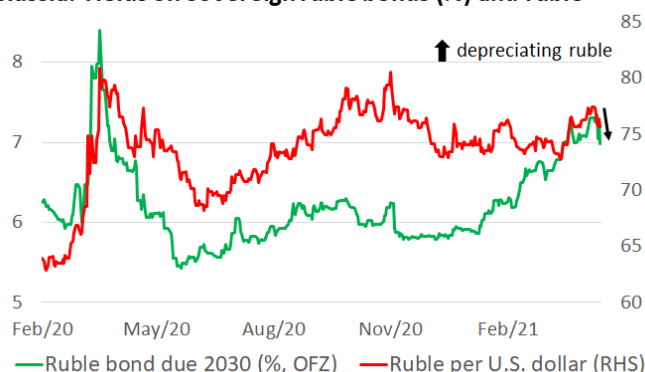
Colors denote tightening/easing financial conditions for observations greater than ± 1.5 standard deviations. Data source: Bloomberg.

Russia

Local sovereign yields fell 30 bps and the ruble (+0.8% to 75.8 per U.S. dollar) gained after US president Biden said that he is not looking to kick off a cycle of escalation and conflict with Russia. The Russian government reportedly still plans to participate in a presidential summit with the US, which is

expected to take place in Europe later in 2021. **Contacts report significant demand for Russian debt from Russian banks and non-US asset managers following yesterday's announcement of new US sanctions despite increased concerns of the impact of the new sanctions on operational risk and market liquidity.** As part of the sanctions, the U.S. Treasury will prohibit U.S. financial institutions from participating in the primary market for ruble or non-ruble denominated Russian sovereign bonds issued after June 14. Investors seeking Russian exposure are front-loading bond purchases ahead of the June 14 deadline. Equities (+0.6%) traded higher.

Russia: Yields on sovereign ruble bonds (%) and ruble



Source: Bloomberg and IMF


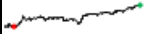




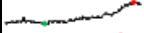

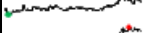






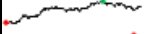

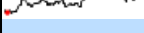
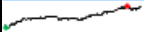


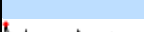
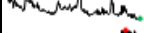

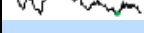
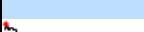
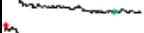

List of GMM Contributors

Global Markets Analysis Division, MCM Department

Nassira Abbas <i>Deputy Division Chief</i>	Reinout De Bock <i>Economist</i>	Natalia Novikova <i>IMF Resident Representative in Singapore</i>
Antonio Garcia-Pascual <i>Deputy Division Chief</i>	Mohamed Diaby <i>Economist (EP)</i>	Dmitri Petrov <i>Financial Sector Expert</i>
Evan Papageorgiou <i>Deputy Division Chief</i>	Dimitris Drakopoulos <i>Financial Sector Expert</i>	Thomas Piontek <i>Financial Sector Expert</i>
Jose Abad <i>Financial Sector Expert</i>	Deepali Gautam <i>Research Officer</i>	Patrick Schneider <i>Research Officer</i>
Sergei Antoshin <i>Senior Economist</i>	Rohit Goel <i>Financial Sector Expert</i>	Juan Solé <i>Senior London Representative</i>
John Caparusso <i>Senior Financial Sector Expert</i>	Sanjay Hazarika <i>Senior Financial Sector Expert</i>	Jeffrey Williams <i>Senior Financial Sector Expert</i>
Liumin Chen <i>Research Assistant</i>	Frank Hespeler <i>Senior Financial Sector Expert</i>	Dmitry Yakovlev <i>Senior Research Officer</i>
Yingyuan Chen <i>Financial Sector Expert</i>	Henry Hoyle <i>Financial Sector Expert</i>	Akihiko Yokoyama <i>Senior Financial Sector Expert</i>
Han Teng Chua <i>Economic Analyst</i>	Phakawa Jeasakul <i>Senior Economist</i>	Xingmi Zheng <i>Research Assistant</i>
Fabio Cortés <i>Senior Economist</i>	Sonia Meskin <i>Financial Sector Expert</i>	

Disclaimer: This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in this document.

Global Financial Indicators

Last updated: 4/16/21 8:01 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4170	1.1	2	5	49	11
Europe		4016	0.6	1	4	43	13
Japan		29683	0.1	0	0	49	8
China		3427	0.8	-1	1	21	-1
Asia Ex Japan		94	0.6	0	-1	51	5
Emerging Markets		54	0.9	0	0	53	5
Interest Rates			basis points				
US 10y Yield		1.56	-1.2	-9	-5	94	65
Germany 10y Yield		-0.28	0.9	2	6	19	29
Japan 10y Yield		0.09	0.3	-2	-1	8	7
UK 10y Yield		0.75	1.6	-2	-3	45	56
Credit Spreads			basis points				
US Investment Grade		92	0.2	2	-10	-97	-3
US High Yield		334	-0.8	9	-23	-394	-45
Europe IG		50	-0.3	-1	3	-35	2
Europe HY		244	-0.7	-2	2	-252	2
Exchange Rates			%				
USD/Majors		91.52	-0.2	-1	0	-9	2
EUR/USD		1.20	0.1	1	1	11	-2
USD/JPY		108.8	0.0	-1	0	1	5
EM/USD		56.9	0.0	1	0	7	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		67	0.1	6	-2	141	29
Industrials Metals (index)		149	0.1	3	4	58	12
Agriculture (index)		53	0.5	3	1	50	11
Implied Volatility			%				
VIX Index (% change in pp)		16.6	0.0	-0.1	-3.2	-23.5	-6.1
US 10y Swaption Volatility		74.8	0.6	-2.5	-10.3	-7.9	14.6
Global FX Volatility		7.3	0.0	-0.3	-0.7	-2.3	-0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		118	-0.8	1	-2	-143	-1
Italy		102	-0.2	-1	6	-129	-9
Portugal		67	-0.8	9	13	-77	7
Spain		66	-0.5	-2	1	-64	4

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

[back to top](#)

Emerging Market Financial Indicators

Last updated: 4/16/2021 8:08 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.52	0.0	0.5	0	9	0		3.3	-0.3	-5	-10	77	-1
Indonesia		14565	0.3	0.0	-1	7	-4		6.7	2.5	15	-13	-122	59
India		74	0.8	0.5	-2	3	-2		6.4	2.7	6	-16	-22	43
Philippines		48	0.1	0.4	1	5	-1		4.0	-0.1	15	25	-112	36
Thailand		31	-0.1	0.8	-1	5	-4		1.9	0.0	-2	-12	38	59
Malaysia		4.13	-0.1	0.2	0	6	-3		3.2	-0.6	4	-11	14	67
Argentina		93	-0.1	-0.4	-2	-29	-9		46.2	22.2	4	114	-892	-992
Brazil		5.62	-0.1	1.1	0	-7	-8		8.2	-9.6	5	64	234	265
Chile		701	1.1	1.1	3	22	1		3.4	-11.3	13	26	24	69
Colombia		3619	1.0	0.5	-2	8	-5		6.2	-8.2	9	27	-27	110
Mexico		19.92	0.1	1.2	3	21	0		6.5	-12.2	4	20	-44	87
Peru		3.6	0.2	-0.8	2	-6	0		4.7	0.8	12	14	14	113
Uruguay		44	0.1	-0.4	1	-1	-4		7.4	1.8	-2	15	-550	14
Hungary		301	-0.3	-0.1	3	8	-1		2.0	-5.6	-12	-12	23	44
Poland		3.80	0.2	0.3	2	10	-2		0.8	-3.2	-8	-6	-20	20
Romania		4.1	0.2	0.6	0	9	-3		2.7	1.0	9	4	-153	-5
Russia		75.8	0.8	2.2	-4	-2	-2		6.8	4.2	-17	25	26	109
South Africa		14.3	-0.7	2.4	4	32	3		9.8	-9.2	-16	-24	-106	18
Turkey		8.06	-0.5	1.4	-7	-14	-8		17.6	-9.4	-30	281	369	445
US (DXY; 5y UST)		92	-0.1	-0.6	0	-8	2		0.81	-0.5	-5	-2	46	45

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		4966	0.3	-1	-1	29	-5		199	0	-2	-9	30	-9
Indonesia		6086	0.1	0	-4	31	2		158	0	-9	-25	-5	-29
India		48832	0.1	-2	-2	55	2		173	3	13	9	-173	22
Philippines		6495	-0.7	-1	1	12	-9		83	0	-9	-17	13	-22
Malaysia		1608	0.0	0	-1	14	-1		113	0	-2	-3	9	3
Argentina		47093	0.0	-5	-5	57	-8		1459	0	19	8	-570	91
Brazil		120701	0.0	2	6	55	1		253	0	0	-16	58	3
Chile		4942	0.0	0	1	30	18		126	0	-6	-16	-14	-18
Colombia		1322	0.0	0	-2	10	-8		207	0	-4	-15	44	2
Mexico		48514	0.0	1	1	44	10		348	0	-9	-34	55	-12
Peru		21285	0.0	-2	-5	47	2		133	0	-4	-3	22	1
Hungary		42900	0.6	-2	-3	33	2		65	0	-6	-15	-42	-31
Poland		60130	-0.3	1	2	35	5		-22	0	-4	-11	-54	-21
Romania		11164	0.3	-1	3	41	14		199	8	14	6	-166	-4
Russia		3590	0.5	3	0	43	9		159	0	-5	-3	19	-7
South Africa		68574	1.1	2	2	42	15		357	0	-4	-35	25	-23
Turkey		1410	0.1	1	-10	46	-5		421	0	-5	-47	34	-24
Ukraine		527	0.0	0	2	5	6		479	0	12	-21	127	-12
EM total		54	0.8	0	0	53	5		421	0	17	-10	97	128

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

[back to top](#)