- **Pension plans boost US corporate bond rally** (link)
- **Strong corporate earnings could further strengthen US economy** (link)
- **US Treasury issues report on currency manipulation** (link)
- **China rebounds as authorities reassure on asset management company** (link)
- **Indian markets in retreat as virus crisis intensifies** (link)

US | Europe | Other Mature | Emerging Markets | Market Tables

Global markets fluctuate near record levels

The MSCI All World Equity Index set a new record last week, buoyed by unexpectedly strong economic data from the US and China. New equity records were set in Europe, the US, and other markets. Markets were also boosted last week by a marked decline in interest rates, easing a key threat to asset valuations. However, the virus situation grew worse as weekly new infections hit 5.2 million, the worst since the onset of the pandemic. India is now the leading hotspot for the virus, with 275K new cases reported yesterday. This morning, European stocks are mixed and US equity futures are slightly lower. Bitcoin trading has stabilized after the crypto-asset fell over 7.5% on Sunday. Bitcoin's plunge came on news that the US Treasury may be considering an investigation into the possible role of these assets for money laundering. The recent massive rally in crypto-assets has drawn worldwide scrutiny.

Key Global Financial Indicators

Last updated: 4/19/21 8:02 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		4185	0.4	1	7	46	11
Eurostoxx 50		4033	0.0	2	5	40	14
Nikkei 225		29685	0.0	0	0	51	8
MSCI EM		54	0.3	1	0	50	5
Yields and Spreads				bps			
US 10y Yield		1.58	0.4	-8	-14	94	67
Germany 10y Yield		-0.23	3.6	7	7	25	34
EMBIG Sovereign Spread		337	-7	-10	-12	-278	-13
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		56.9	0.1	1	-1	7	-2
Dollar index, (+) = $ appreciation		91.1	-0.5	-1	-1	-9	1
Brent Crude Oil ($/barrel)		66.7	-0.1	5	3	137	29
VIX Index (%, change in pp)		17.2	0.9	0	-4	-21	-6

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

The ECB meeting on Thursday is the highlight of the coming week, with most expecting the central bank to reiterate that its asset purchases will continue at a more rapid rate through June. The Bank of Canada meets on Wednesday, and many expect it to begin to tighten policy in the face of a much faster than expected recovery in the economy by tapering bond its purchases. Other central bank meetings include the Russian central bank on Friday. Earnings season is in full swing, with reports due from companies such as Netflix, China Mobile, Intel, Volvo, and Hyundai, among many others. Coca Cola just reported stronger than expected numbers. German politics are in focus as the race to succeed Chancellor Merkel heats up. The US will host a global climate summit with 40 countries on Thursday. The economic data calendar is relatively light.

United States

In the wake of their extremely strong Q1 earnings, US banks have hit the bond market with a vengeance to raise new funds. No sooner did JP Morgan launch a $13 bn offering on Thursday, an all-time high for a bank bond sale, when they were upstaged by Bank of America on Friday with an even bigger $15 bn bond sale. According to contacts at various syndicate desks, investor interest is very strong.

US pension plans have ramped up their purchases of corporate bonds, providing a strong tailwind for the market. As liability driven investors (LDIs) who seek to meet their long term pension obligations by purchasing equivalent maturity long term cash flows, they are a key source of demand for longer maturity corporate bonds. Flow of funds data show that they bought $265 bn in 2020, versus $226 bn in 2019 and $142 bn in 2018, according to Goldman. The market rally accompanying the rebound from the pandemic has sharply increased pension plans' funding ratios, with the average ratio for private pension plans up at 90.3% in Q1 2021, the best since 2007. Historically, improved funding ratios are associated with increased bond purchases. In recent weeks, pension plans took advantage of the rise in interest rates to increase their purchase volumes in order to lock in higher yields.

Exhibit 3 : Private pension plans have increased their purchases of corporate bonds in recent quarters
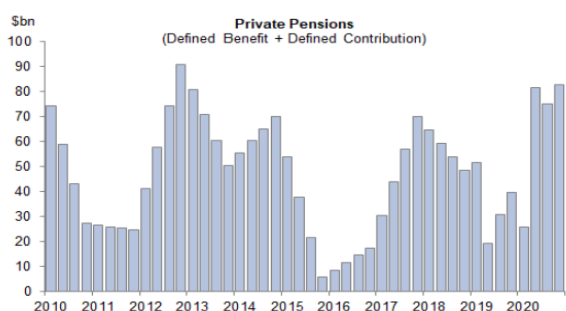
Source: Federal Reserve Board, Haver Analytics, Goldman Sachs Global Investment Research

Exhibit 4 : The typical pension glide path suggests that, as the funded ratio improves, the allocation to fixed income should also increase

Annual year-end periods shown; the funding ratio is defined as the market value of pension plan assets divided by the projected benefit obligation
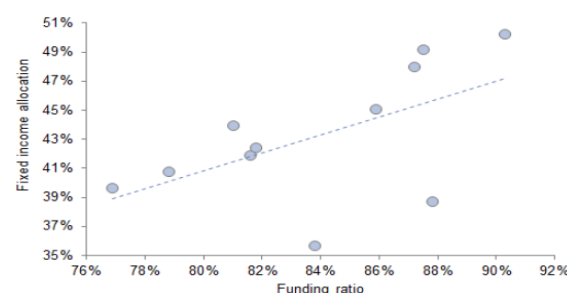
Source: Milliman, Goldman Sachs Global Investment Research

Investment grade (IG) non-financial corporations (NFCs) in the US are expected to see strong profit growth in 2021, with Q1 earnings already coming in well ahead of analyst forecasts. As the rollout of vaccinations picks up pace and the economic rebound accelerates, IG NFCs will ramp up spending of the cash reserves built up through record corporate bond sales over the past year. The large fiscal stimulus from the Federal government is likely to strengthen this trend, according to analysis by Barclays, and the majority of the spending is likely to happen in Q2. Areas for spending include capital expenditures, debt repayment, stock buybacks, dividends and mergers and acquisitions. The analysts highlight capital expenditure as an area of special interest for companies, bases on studies of corporate earnings forecasts. Higher capital expenditures are likely to be very positive for the overall economy.

FIGURE 5. **Investment Grade Non-financial EBITDA Growth Estimate Y/Y**
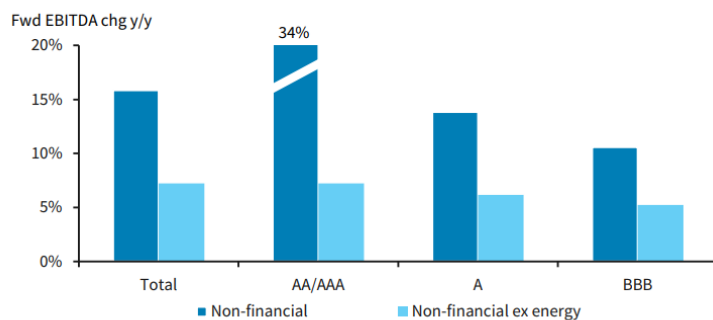

Source: Factset, Bloomberg, Barclays Research

Europe   back to top

In **corporate credit markets**, high-yield and investment grade spreads have held steady today, at 244 bps for HY and 50 bps for IG. Issuance has remained on pace with pre-Covid averages, and analysts do not expect a surge in issuance similar to the one spurred by the pandemic last year.

Supply: No 'dash for cash' this year
iBoxx € Corp eligible issuance, cumulative, in €bn
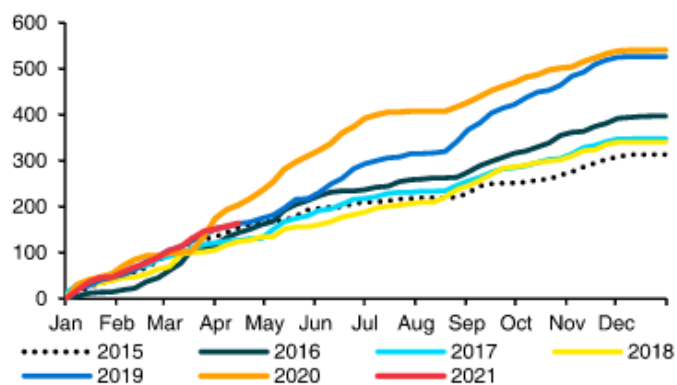
Source: Markit, Bloomberg, Commerzbank Research

European economies continue to exhibit very depressed levels of economic activity compared to pre-Covid levels. As the cross-country divergence in infections and lockdown measures grows, the UK is showing the strongest one-week improvement, while France and Italy have fallen the most.

GS Reopening Scale (Europe), % change vs. pre-Covid baseline (week ending April 11)
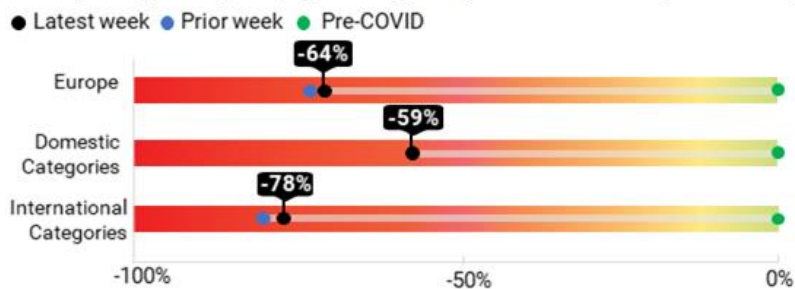
Source: Goldman Sachs Global Investment Research

Other Mature Markets   back to top
Japan
**Equities fell -0.2% on net.** Osaka's governor said that the prefecture will make a request to the central government on Monday to declare a state of emergency. Tokyo's governor also said that she has instructed officials on Sunday to consider a state of emergency to curb infections in Tokyo. Separately, Japanese exports jumped the most since 2017 in March, up 16.1% yoy, led by exports of cars, plastics, semiconductors, and chip-making equipment, beating the consensus forecast of +11.4%.

Japan needs exports to help drive its recovery
■ Japan Merchandise Trade Exports YoY NSA – Last Price

Source: Ministry of Finance
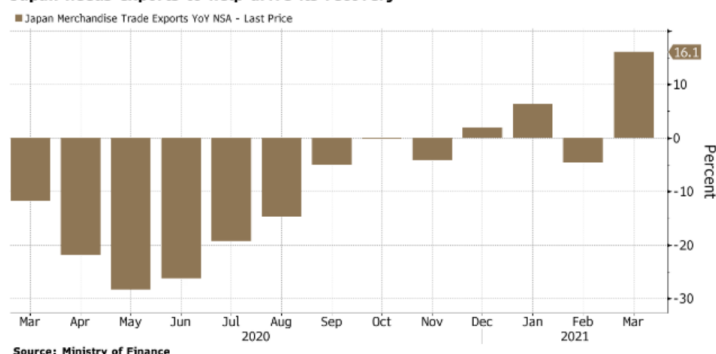
Emerging Markets   back to top
Local markets were mixed, with India standing out with a big loss as the virus crisis intensified in that country. Economists expect the Central Bank of Russia to deliver a 25 bps hike on Friday's meeting while contacts note that markets have already priced in a 50 bps increase. **S&P confirmed Romania's rating at BBB- while revising the outlook to stable**. The move came as a positive surprise and reflects recent fiscal consolidation efforts. The Ministry of Finance of Georgia (BB/BB/Ba2) placed a $500mn 5-year international bond amid $2 bn of investor interest.

Key Emerging Market Financial Indicators

Last updated:	Level		Change				YTD
4/19/21 8:04 AM	Last 12m	index	1 Day	7 Days	30 Days	12 M	YTD
Major EM Benchmarks			%				%
MSCI EM Equities		54.35	0.4	1	0	50	5
MSCI Frontier Equities		30.80	-0.2	1	4	40	9
EMBIG Sovereign Spread (in bps)		337	-7	-10	-12	-278	-13
EM FX vs. USD		56.98	0.1	1	-1	7	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.51	0.2	1	0	9	0
Indonesian Rupiah		14548	0.1	0	-1	6	-3
Indian Rupee		74.88	-0.7	0	-3	2	-2
Argentine Peso		92.80	-0.1	0	-2	-29	-9
Brazil Real		5.57	0.4	3	-1	-4	-7
Mexican Peso		19.85	0.3	1	3	21	0
Russian Ruble		76.24	-0.7	1	-3	-1	-3
South African Rand		14.24	0.5	2	3	32	3
Turkish Lira		8.08	-0.1	1	-11	-14	-8
EM FX volatility		9.98	0.3	-0.4	-0.4	-1.4	-0.8

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

US Treasury Currency Report
The Taiwanese dollar appreciated after Taiwan Province of China was not designated as a currency manipulator by the US Treasury. The US Treasury however moved it from the watchlist to the separate list

of those meeting all three criteria under a 2015 US law used to identify potentially unfair currency practices. The US said that it would begin engaging with Taiwan to address the issue. The US Treasury meanwhile removed the currency manipulation designation for Vietnam, which was added last December under the Trump administration. China remained on the watchlist, alongside Japan, Korea, India, Malaysia, Singapore, and Thailand.

EM Fund Flows

Inflow in EM equity funds registers strong growth, while bonds flows decline. Weekly fund flows into EMs came in at $4.3 bn, primarily driven by equity flows of $3 bn, up 59% sequentially. According to a JP Morgan report, equity funds in Asia ex-Japan had an inflow of $1.7 bn ($0.5 bn last week), while EMEA and Latin American equity funds witness net outflows. Bond flows into EMs dried up during the week (-28%) and came in at $1.3 bn, of which $ 1.1 bn were in hard currency bonds. With this, the YTD fund flows into EMs stand at $109.3 bn.

Exhibit 1: Weekly Cross-Asset Flows
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		4.3	109.3
EM Bonds		1.3	32.1
Hard Ccy		1.1	14.3
Local Ccy		0.2	17.8
EM Equities		3.0	77.2
US HG		6.5	87.3
US HY		0.6	-3.2
Global Equities		9.5	170.0
EM Bond and Equity ETFs		1.1	39.4
EM Bond ETFs		0.5	4.1
EM Equity ETFs		0.7	35.3
Non-resident EM flows*		-0.3	-26.7
EM Local Bonds		-0.2	-9.2
EM Equities		-0.1	-17.5

*Using high frequency non-resident EM portfolio flow data where available. Source – All charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

Exhibit 2: Annual EM bond and equity fund flows
USD billion
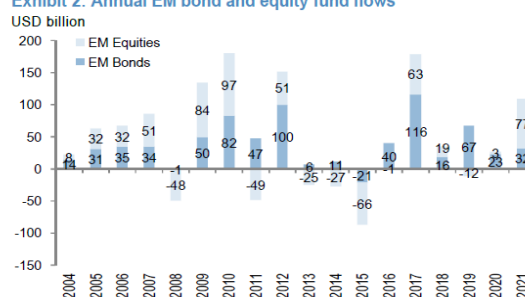
China

Equities (Shanghai +1.5%; Shenzhen +2.4%) rose, the biggest gain in three weeks. Foreign investors' purchase of Chinese onshore equities via the mainland China-Hong Kong SAR stock link exceeded CNY16 bn (US$2.5 bn) in the morning trading session and was the highest value since January 8 on a daily basis, according to Bloomberg. **Separately, China's financial regulator said on Friday that China Huarong Asset Management Co. was operating normally and had ample liquidity.** This marked the first comment by the authorities since the company missed a deadline to report earnings on March 31. In the statement, the regulator also mentioned that the state-owned firm is actively cooperating with its auditor and will complete its annual report as soon as possible. One of Huarong's dollar bond – the 3.375% note maturing in May 2022 – rebounded to 85 **cents** from the low of 65 cents. Analyst expects Huarong to be supported by the central government if needed given the company's policy priorities.


China Huarong's bonds rally from record lows

■Huarong's 3.375% dollar bond due 2022 ■Huarong's 5% dollar bond due 2025

Source: Bloomberg
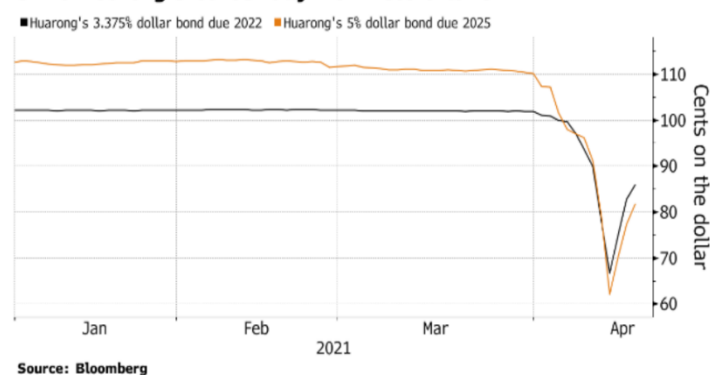
Chile

The central bank (BCCh) indicated that policy rate hikes could happen before complete withdrawal of emergency measures, as per the minutes of it 1Q2021 monetary policy meeting (released on 15th April). The BCCh further clarified that the unconventional policies adopted last year in the form of bond-purchase programs, credit line facilities like FCIC etc. are of "defined amount and durations." These would end over time, and not be a qualifying condition to normalization of conventional monetary policy. Many analysts think that BCCh is likely to start normalizing monetary policy by the end of 2021.

Central Bank of Chile (BCCh): Liquidity injections and drain (bn USD)

Source: BCCh
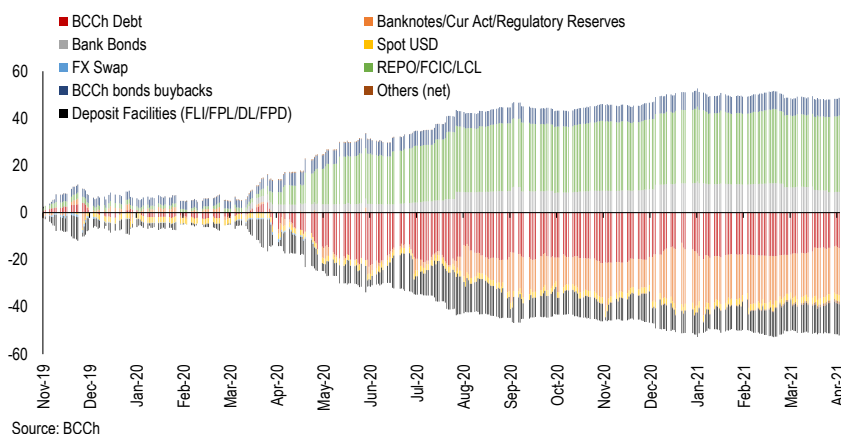
India

Equities fell -2.1% and the Indian rupee weakened -0.6% on rising virus spread. Daily virus infections hit a record high of 273,810 and public health experts are worried that a new and possibly more virulent variant could be spreading across the nation, according to Bloomberg. Delhi will impose a week-long lockdown from April 19 night. **Separately, Indian rupee bond sales by Indian companies dropped to INR34.4 bn ($463 mn) in April, marking the slowest start since 2008,** according to Bloomberg. This could be due to new regulations that took effect from April 1 that strengthen the role of trustees for secured bonds backed by assets. For example, the rules require trustees to evaluate and ensure that assets backing bonds are at all times adequate to discharge the interest and principal amount. They also need to provide 'due diligence certificates' to the issuer at the time of filing a draft offer agreement and before the notes are listed.

India Sensex declined with the rupee amid worsening virus crisis

Source: Bloomberg
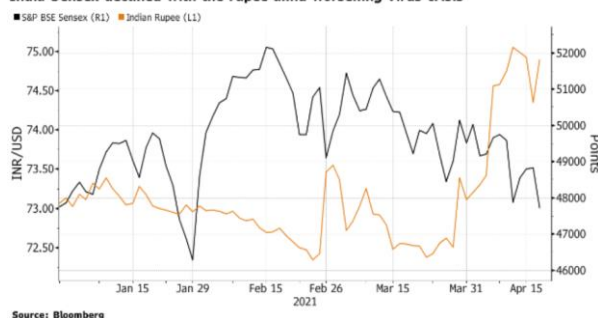
Rupee bond sales by Indian companies slump on tighter diligence rules

Source: Bloomberg
April 1 to April 16 period considered for each year

Bloomberg
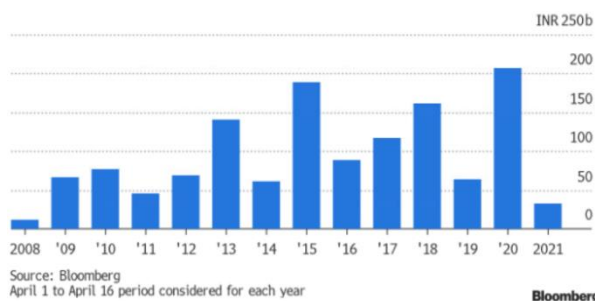
List of GMM Contributors

Global Markets Analysis Division, MCM Department

Nassira Abbas
Deputy Division Chief

Antonio Garcia-Pascual
Deputy Division Chief

Evan Papageorgiou
Deputy Division Chief

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

Fabio Cortés
Senior Economist

Reinout De Bock
Economist

Mohamed Diaby
Economist (EP)

Dimitris Drakopoulos
Financial Sector Expert

Deepali Gautam
Research Officer

Rohit Goel
Financial Sector Expert

Sanjay Hazarika
Senior Financial Sector Expert

Frank Hespeler
Senior Financial Sector Expert

Henry Hoyle
Financial Sector Expert

Phakawa Jeasakul
Senior Economist

Sonia Meskin
Financial Sector Expert

Natalia Novikova
IMF Resident Representative in Singapore

Dmitri Petrov
Financial Sector Expert

Thomas Piontek
Financial Sector Expert

Patrick Schneider
Research Officer

Juan Solé
Senior London Representative

Jeffrey Williams
Senior Financial Sector Expert

Dmitry Yakovlev
Senior Research Officer

Akihiko Yokoyama
Senior Financial Sector Expert

Xingmi Zheng
Research Assistant

Global Financial Indicators

Last updated: 4/19/21 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		4181	0.4	1	7	45	11
Europe		4033	0.0	2	5	40	14
Japan		29685	0.0	0	0	51	8
China		3478	1.5	2	2	22	0
Asia Ex Japan		94	0.2	1	0	48	5
Emerging Markets		54	0.3	1	0	50	5
Interest Rates			basis points				
US 10y Yield		1.58	0.4	-8	-14	94	67
Germany 10y Yield		-0.23	3.6	7	7	25	34
Japan 10y Yield		0.09	-0.6	-2	-3	6	7
UK 10y Yield		0.77	0.1	-2	-7	46	57
Credit Spreads			basis points				
US Investment Grade		94	2.3	5	-8	-96	-1
US High Yield		333	-0.2	2	-30	-380	-47
Europe IG		50	0.2	-1	2	-35	2
Europe HY		245	1.3	-3	1	-260	4
Exchange Rates			%				
USD/Majors		91.13	-0.5	-1	-1	-9	1
EUR/USD		1.20	0.4	1	1	11	-1
USD/JPY		108.1	-0.6	-1	-1	0	5
EM/USD		57.0	0.1	1	-1	7	-2
Commodities			%				
Brent Crude Oil ($/barrel)		67	-0.2	5	3	137	29
Industrials Metals (index)		149	1.0	4	2	56	12
Agriculture (index)		53	0.7	5	3	51	11
Implied Volatility			%				
VIX Index (%, change in pp)		17.2	0.9	0.3	-3.8	-21.0	-5.6
US 10y Swaption Volatility		77.4	-0.3	-0.2	-10.5	-1.1	17.2
Global FX Volatility		7.2	0.0	-0.2	-0.5	-2.3	-0.9
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		112	-4.7	-5	-10	-152	-8
Italy		101	0.0	-2	5	-126	-10
Portugal		64	-1.6	6	12	-79	4
Spain		64	-1.2	-4	0	-65	3

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: 4/19/2021 8:07 AM	Exchange Rates — Level — Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Local Currency Bond Yields (GBI EM) — Level — Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.51	0.2	0.6	0	9	0		3.3	-0.6	-6	-10	78	-2
Indonesia		14548	0.1	0.3	-1	6	-3		6.6	-9.2	7	-23	-143	50
India		75	-0.7	0.2	-3	2	-2		6.4	1.6	5	-13	-18	44
Philippines		48	0.0	0.4	1	5	-1		4.0	3.8	19	34	-101	40
Thailand		31	-0.1	0.8	-1	4	-4		1.9	-0.2	0	-11	37	59
Malaysia		4.12	0.1	0.2	0	6	-3		3.2	-1.0	3	-9	22	66
Argentina		93	-0.1	-0.4	-2	-29	-9		46.3	5.3	57	85	-656	-987
Brazil		5.57	0.3	2.9	-1	-5	-7		8.1	-17.1	-24	52	230	248
Chile		704	-0.5	1.1	3	21	1		3.4	-5.1	3	20	21	64
Colombia		3603	0.4	1.4	-1	10	-5		6.2	-1.1	-5	25	-6	109
Mexico		19.85	0.3	1.5	3	21	0		6.5	4.1	-4	10	-37	91
Peru		3.6	-0.2	-0.2	2	-6	0		4.7	1.0	6	15	18	114
Uruguay		44	-0.1	-0.2	1	-2	-4		7.4	-2.1	-5	9	-542	12
Hungary		299	0.7	0.2	3	8	-1		2.0	-0.8	-14	-11	27	43
Poland		3.78	0.3	0.7	3	10	-1		0.9	1.9	-7	-4	-17	21
Romania		4.1	0.4	0.9	0	9	-3		2.7	0.0	6	4	-147	-5
Russia		76.2	-0.7	1.4	-3	-1	-3		6.7	-11.3	-30	15	26	98
South Africa		14.2	0.6	2.4	3	32	3		9.8	0.9	-19	-21	-93	19
Turkey		8.08	-0.1	1.0	-11	-14	-8		17.4	-10.7	-42	285	341	434
US (DXY; 5y UST)		91	-0.5	-1.1	-1	-9	1		0.83	0.0	-5	-5	47	47

	Equity Markets — Level — Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG) — Level — Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		5087	2.4	3	2	32	-2		199	0	-2	-9	30	-9
Indonesia		6053	-0.6	2	-5	32	1		158	0	-9	-25	-5	-29
India		47949	-1.8	-3	-4	52	0		163	-10	2	1	-175	12
Philippines		6460	-0.5	-1	0	13	-10		83	0	-9	-17	13	-22
Malaysia		1600	-0.5	-1	-2	13	-2		113	0	-2	-3	9	3
Argentina		47664	0.0	-2	-3	60	-7		1459	0	19	8	-570	91
Brazil		121114	0.0	3	4	53	2		253	0	0	-16	58	3
Chile		4988	0.0	1	3	31	19		126	0	-6	-16	-14	-18
Colombia		1317	0.0	0	-1	10	-8		207	0	-4	-15	44	2
Mexico		48727	0.0	2	4	40	11		348	0	-9	-34	55	-12
Peru		21194	0.0	-2	-5	46	2		133	0	-4	-3	22	1
Hungary		42640	-0.9	-1	-3	29	1		65	0	-6	-15	-42	-31
Poland		60126	0.0	1	4	33	5		-22	0	-4	-11	-54	-21
Romania		11176	0.2	0	3	41	14		194	-5	10	5	-166	-9
Russia		3595	-0.1	2	3	42	9		159	0	-5	-3	19	-7
South Africa		68263	-0.6	3	4	39	15		357	0	-4	-35	25	-23
Turkey		1393	-1.1	1	-9	42	-6		421	0	-5	-47	34	-24
Ukraine		527	0.0	0	2	5	6		479	0	12	-21	127	-12
EM total		54	0.4	1	0	50	5		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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